Health Care Reform – What now?

December 5, 2012

Presenters:
George Gonser
Gary Gustafson
About Spring

- Formed in 2004 through a MBO of the Insurance & Financial Services business of Watson Wyatt
- Headquartered in Boston, MA
- Multidisciplinary employee benefits and risk management professional services firm
Presenters

**Gary Gustafson, CEBS**, is a consultant with Spring. During his more than 16 years in benefits consulting, he has lead and managed projects for many organizations, both large and small, in industries as diverse as retail, manufacturing, oil and gas, overnight shipping, and airlines. He specializes in benefit strategy, wellness, benefit plan renewals, and a host of other benefit-related topics. Prior to joining Spring, Gary was a consultant at Fidelity Investments and Mercer. He has written and published several articles on health care and managed care. Gary holds the CEBS designation and is a Fellow of the International Society of Certified Employee Benefit Specialists, where he currently serves as the Vice President of the Boston Chapter.

**George W. Gonser Jr., MBA, CDHC** is the CEO of Spring Insurance Group. George has over 20 years of experience in the employee benefit, information technology, consulting and insurance industry. Prior to joining Spring, George was the CEO of MDS Insurance Services Inc. and Vice President at the Chickering Group. George sits on various consulting, business and insurance advisory committees, boards and councils and is a frequent writer and speaker on insurance, health care and health care reform related topics nationwide. In late 2011, George was appointed to the Massachusetts Health Insurance Connector Authority board by Governor Deval Patrick to help Massachusetts insurance professionals, individuals and businesses navigate the myriad of challenges regarding health care reform on a state and national level.
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Strategy Considerations
The Election Results Create a Clear Path Forward

Democrats

- House:
  - 233 Republicans
  - 195 Democrats

- Senate:
  - 45 Republicans
  - 53 Democrats
  - 2 Independents

States:

- 30 Republican Governors
- 20 Democratic Governors
The Post-Election Environment is Fraught with Significant Challenges

- Political stagnation and lack of consensus may continue despite rhetoric professing bipartisanship
- Fiscal Cliff pending creating fear in the markets
- Deficit spending and fiscal issues will impact policy and spending decisions
- Profound lack of confidence in the political process will pervade the next term unless bipartisanship becomes reality
- Regulation will continue on the healthcare, employers and the benefits industry
- Companies able to access money, but investing only in very safe bets if at all
- Decline in middle class spending power an ongoing issue
- Consumers continue to feel vulnerable about employment, retirement, and healthcare coverage

CFOs expressed overwhelming support for three government actions to address current economic conditions:

1. Simplify the business tax code (97%)
2. Balance the U.S. budget (92%)
3. Reduce regulations (90%)

Merrill Lynch CFO Forum Oct 2012

Source: (Carolyn Kaster / AP Photo)
The Fiscal Cliff – Why it matters?

- $1.2 trillion in spending cuts over 10 years
  - Half from defense spending
  - Half from discretionary spending
- $500 billion (3-4% of GDP) in tax hikes and spending reductions in 2013
- Result:
  - 20% of population would pay AMT
  - Medicare payments to providers reduced 27%
  - Sequester: $65 billion in spending cuts to all federal programs through 9/30/2013

"This isn't something we're going to wait until the last day of December to get it done. We have a plan. We're going to move forward on it."

Source: CNN

Harry Reid (D-Nev.)
Senate Majority Leader
Health Care Issues Play a Major Role in the U.S. Economy

**Exchange Enrollment**
- Only half of the states that choose to establish their own exchange will be ready for plan enrollment by fall 2013

**Medicare Changes**
- Congress remains divided and Medicare will be modified through cost-sharing, benefits and/or age. Economic pressures will force entitlement reforms

**Medicaid Expansion**
- At least 8 or more states will not expand their Medicaid programs. This will have a significant impact on insurance coverage

**Health Care Reform’s Future**
- Employers, providers, and carriers will face additional taxes, administrative requirements, and regulation

*Source: Leavitt Partners Analysis October 2012*
Door Remains Open for Additional Litigation

- Approximately, a dozen cases are making their way through the court system challenging portions of the ACA
- Liberty University et al v. Geithner et al (Sent back to 4th Circuit by SCOTUS)
  - Questions the constitutionality of the employer mandate
  - Asserts that the law unfairly compels taxpayers and employers to subsidize abortions and contraception
Exchanges will be a Big Deal

“With incomplete regulations and unrealistic deadlines, states and the federal government will struggle to have a health insurance exchange ready for open enrollment on Oct. 1, 2013, that is not beset with major complications for the insurance market and the respective residents of the states.”

- Letter to HHS Secretary Kathleen Sebelius

Source: American Medical News 11/26/2012
Exchanges: Red vs Blue

- 16 Default to Federal Exchange
- 6 Planning for Partnership Exchange
- 11 Undecided
- 18 Declared State-based Exchange

Source: Kaiser Family Foundation; Current as of 11/19/12
Tactical Checklist
Medicare Tax: High Income Earners will Pay More

Medicare Tax

• Impacts: Individuals $200k+; Couples $250k+
• How much: 0.9% Additional Medicare Tax
• How much: 3.8% Investment Income Tax

Employer Impact

• Must withhold the 0.9% Medicare Tax
• May want to communicate the tax to effected employees
• No employer requirement for the Investment Income Tax
## Pending Taxes and Fees: No Small Deal

<table>
<thead>
<tr>
<th>Comparative Effectiveness Research Fee</th>
<th>Health Insurance Industry Fee</th>
<th>Transitional Reinsurance Tax</th>
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<tbody>
<tr>
<td>• Payable July 2013</td>
<td>• Begins 2014</td>
<td>• Payable 2014 – 2016</td>
</tr>
<tr>
<td>• $1 PMPY in year one;$2 in year two</td>
<td>• Fee on all insured plans</td>
<td>• EST Per participant Fee:</td>
</tr>
<tr>
<td>• Indexed to 2019</td>
<td>• Includes dental/ vision</td>
<td>• 2014: $60 - $90</td>
</tr>
<tr>
<td>• Insured: Built in (most likely)</td>
<td>• 2-2.5% initially</td>
<td>• 2015: $40 - $60</td>
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<td>• ASO: Employers are responsible</td>
<td>• 3-4% of premium increasing</td>
<td>• 2016: $25 - $35</td>
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<td></td>
<td>in future years</td>
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- **Transitional Reinsurance Tax**
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    - 2014: $60 - $90
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  - Insured: Built in
  - ASO: Employers are responsible
Implementation Timeline - 2012

Provision

- Women’s Preventive Care
- Comparative Effectiveness Research Fees
- Medical Loss Ratio Rebates
- Summary of Benefits
- Summary of Material Modification

Action

- Check plan designs to confirm plans cover each required benefit
- Ensure payments are made for 2012 starting in 2013
- Contact your fully-insured health plans to confirm any rebates that may be due
- Work with carriers to define which party will produce and fulfill the SBCs
- Communicate changes to plan designs 60 days prior to the effective date of the change
Implementation Timeline - 2013

Provision

- Report health care costs on W-2 Forms
- Cap Flexible spending accounts $2,500
- Medicare Part A Tax Increase
- Notice of Exchanges

Action

- Confirm payroll / W-2 vendor is prepared to report health care costs
- Revise plan documents and educate employees
- Work with payroll vendor to ensure the proper withholding for high income earners January 1, 2013
- Send out notice of Exchanges to Employees March 1, 2013
Implementation Timeline - 2014

**Provision**
- Essential Health Benefit Limits
- Transitional Reinsurance Program
- Pre-existing Conditions
- Auto Enrollment

**Action**
- Ensure plans cover essential health benefits with no annual limit or lifetime maximum
- Work with health plans and TPAs to understand the cost of this tax (additional regulation pending)
- Confirm all plans have eliminated pre-existing condition exclusions
- Educate employees and confirm administrative systems can accommodate auto enrollment
Implementation Timeline - 2018

Provision

Excise “Cadillac” Tax

Action

Understand your health care costs in 2018

Develop a strategy now
What do I do now?

Short-term

- Plan for the future now – think 2018 and beyond
- Ensure compliance – the waiting is over!
- Understand cost drivers today – supply-side and demand-side
  - Supply: Networks – Examine highly efficient networks
  - Demand: Plan Design – Consider alternatives such as value-based designs, consumer directed health plans, and wellness incentives

Long-term

- Create a roadmap that will allow you to be in the driver seat
- Examine the impact of the Excise tax and prepare now
- Educate employees and management constantly about the new reality
- Ensure you have the right partners in place
- Evaluate alternative funding strategies to avoid unnecessary cost
Questions

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