Health Care Reform Overview

HealthFlex Summit
August 23-24, 2012
Agenda

• Affordable Care Act—Quick Refresher
• Near-Term Deadlines
• Long-Term Outlook—Rules for 2014
• Illustrative Examples—How It All Works
Affordable Care Act (ACA)

- Patient Protection and Affordable Care Act (PPACA or ACA)—March 23, 2010
  - Incremental plan and insurance market changes: 2010-2013
  - Major reforms: 2014
- Supreme Court upholds ACA in *NFIB v. Sebelius*—June 28, 2012
- Political uncertainty remains
  - Full repeal unlikely
Near-Term ACA Provisions

<table>
<thead>
<tr>
<th>Provision</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of Benefits and Coverage (SBC)</td>
<td>2013</td>
</tr>
<tr>
<td>Health FSAs limited to $2,500</td>
<td>2013</td>
</tr>
<tr>
<td>Notice of exchange eligibility</td>
<td>2013</td>
</tr>
<tr>
<td>Comparative Effectiveness Research Fee</td>
<td>2013</td>
</tr>
<tr>
<td>Quality of care reporting</td>
<td>2013</td>
</tr>
<tr>
<td>Nondiscrimination rules: Code §105(h)</td>
<td>2014</td>
</tr>
</tbody>
</table>

1 Initially in Fall 2012 annual enrollment materials
2 Fees apply to self-insured plans
Changes Ahead

2014
- Exchanges, subsidies and market reforms
- Risk-adjustment fees\(^1\) for exchanges
- Report health coverage value on Form W-2\(^2\)

2015
- Large employer (200+) auto-enrollment

2017
- Exchanges for large employers (100+)

2018
- Cadillac plan tax

---

\(^1\) Applies to self-insured plans

\(^2\) Earliest possible: January 2014 Form W-2 for 2013 tax year (self-insured church plans and small employer) under Notice 2011-28
2014: Four Interwoven Parts to Achieve Near-Universal Coverage

- Individual Mandate
  - Individual insurance market reforms

- Health Insurance Exchanges
  - Government assistance for modest income → premium tax credits (PTCs)

- Employer Shared Responsibility
  - “Pay or play” or employer mandate

- Expanded Medicaid
Medicaid Expansion

- ACA expands traditional Medicaid (varies by state) to cover all individuals at or below 138% of federal poverty level (FPL)
- Medicaid expansion would cover most Americans below the federal subsidy threshold (100% FPL)
Where States Stand on the ACA’s Medicaid Expansion

- Red: No Expansion
- Pink: Leaning Toward No Expansion
- Blue: Expansion
- Blue with light overlay: Leaning Toward Expansion
- Gray: No Decision
Mandate and Market Reforms

• “Minimum essential coverage” (MEC) or pay excise tax
  – 2014: Greater of $95 or 1% of income
  – 2015: Greater of $325 or 2% of income
  – 2016: Greater of $695 or 2.5% of income
  – Indexed after 2016

• Does not apply to those with income below $9,350 (single) or $18,700 (married, filing jointly)
Mandate and Market Reforms

- Insurers cannot deny or cancel coverage due to health condition ("guaranteed issue") or exclude pre-existing conditions
- Community-rating: Oldest, sickest covered person cannot be charged more than three times the premium for youngest, healthiest covered person
Exchanges

• Competitive, regulated marketplaces for individuals and small employers to obtain health insurance
  – Exchange plan premiums subsidized with PTC for individuals with household income* between 100% and 400% of FPL

• Individuals with Medicare, Medicaid or “affordable” employer coverage: excluded from exchange subsidies

* Household income = modified adjusted gross income (MAGI)
Who Can Access Exchanges?

• U.S. citizens and legal residents (not incarcerated)

• Small employers\(^1\) (<100 employees)

• Large employers\(^1\) (100+ employees)
  – After 2017
  – At state discretion

\(^1\) Employees of employers adopting Exchange plans as group plans are not PTC-eligible.
Who Qualifies for PTCs?

Individuals purchasing a qualified health plan (QHP) on an exchange who are **not**:

- Covered by Medicare or Medicaid
- Covered by other government coverage, e.g., CHIP, TRICARE, VA, etc.
- Offered an **affordable** employer plan that covers minimum value
- Enrolled in an employer plan (even if not an “affordable” plan)
Minimum Value

Employer plan must pay 60% of total costs of plan (actuarial determination)

- Employees whose employer plan does not cover minimum value can opt out and seek PTCs for exchange coverage

HealthFlex plans should easily satisfy this requirement
‘Affordable’ Coverage

- Employee’s required contribution (share of premium) for participant-only (single) coverage under employer plan cannot exceed 9.5% of household income* (MAGI)
  - Safe harbor (proposed): Employer may use W-2 compensation—only for purposes of employer mandate
  - If employee contribution exceeds 9.5% of household income, employee can opt out; choose exchange coverage and PTC

- Uncertainty remains: applicable rule for dependent coverage

* Employers often have no information about employees’ household income
‘Affordable’ Coverage—UMC

- 9.5% of UMC median compensation (minus housing)
  - $44,100 UMC median clergy compensation ($56,795) less housing ($12,695)
  - $4,190 annually—$349 monthly

Many conferences have structured premiums so clergy pay little for single coverage, but pay much for dependent coverage.
Health Insurance Exchanges

- State-based (or regional) single risk pool
  - Many states not ready; federal exchange will step in

- Only “insurance companies” may offer coverage
  - HHS* Final Exchange Rule: suggests future guidance may cover church plans
  - Church Alliance effort → allow church plans (October 31, 2011 comment letter)

* U.S. Department of Health and Human Services
Health Insurance Exchanges

- Guaranteed issue, no pre-existing condition denials
- Premium rate variation limits
  - Age: 3:1
  - Tobacco use: 1.5:1
  - Family size and geography
- Exchange Plans (Qualified Health Plans or QHPs)
  - Platinum: 90%
  - Gold: 80%
  - Silver: 70%
  - Bronze: 60%
### Exchange Plans

<table>
<thead>
<tr>
<th></th>
<th>Exchanges</th>
<th>UMC Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bronze</strong></td>
<td><img src="image" alt="Bronze" /></td>
<td>PPO B750</td>
</tr>
<tr>
<td><strong>Silver</strong></td>
<td><img src="image" alt="Silver" /></td>
<td><img src="image" alt="Silver" /></td>
</tr>
<tr>
<td><strong>Gold</strong></td>
<td><img src="image" alt="Gold" /></td>
<td><img src="image" alt="Gold" /></td>
</tr>
<tr>
<td><strong>Platinum</strong></td>
<td><img src="image" alt="Platinum" /></td>
<td><img src="image" alt="Platinum" /></td>
</tr>
</tbody>
</table>

#### Actuarial value
- **Bronze**: 60%
- **Silver**: 70%
- **Gold**: 80%
- **Platinum**: 90%
- **PPO B750**: ~80%

#### Covered services
- **Essential and preventive benefits**
- **Essential and preventive benefits**
- **Essential and preventive benefits**
- **Essential and preventive benefits**
- **Essential and preventive benefits; and more (vision, wellness, etc.)**

#### Essential benefits
- **No dollar limits**
- **No dollar limits**
- **No dollar limits**
- **No dollar limits**
- **No dollar limits**

#### 2014 deductible maximums
- **HSA rules**
  - [minimum of $1,200 (I), $2,400 (F)]
  - [minimum of $1,200 (I), $2,400 (F)]
  - [minimum of $1,200 (I), $2,400 (F)]
  - [minimum of $1,200 (I), $2,400 (F)]
  - $750 (I), $1,500 (F) (in-network) (No Greater than $2,000 (I), $4,000 (F))

#### 2013 cost sharing maximums
- **Up to $6,250 (I) $12,500 (F)**
- **Up to $6,250 (I) $12,500 (F)**
- **Up to $6,250 (I) $12,500 (F)**
- **Up to $6,250 (I) $12,500 (F)**
- **Up to $3,500 (I) $7,000 (F) (in-network)**

Silver plan used to determine any government subsidies through the exchange
Exchange PTCs

- Households* with MAGI 100-400% of FPL receive PTC to purchase exchange coverage

<table>
<thead>
<tr>
<th>FPL 2014 (est.)</th>
<th>Individual</th>
<th>Family of 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>$11,850</td>
<td>$24,450</td>
</tr>
<tr>
<td>400%</td>
<td>$47,400</td>
<td>$97,800</td>
</tr>
</tbody>
</table>

* PTCs not available to employees of plan sponsors adopting exchange plans as employers
Exchange PTCs

- Premium paid by individual/household limited to 2%–9.5% of household income
  - Limit regardless of actual total premium for exchange plan coverage
- Subsidies are “premium tax credit”
- Claimed on individual’s tax return (April following the applicable tax year)
Exchange PTCs

- **Refundable** if exceeds federal income taxes
  - Timing/cash flow issue for those needing the assistance

- **Advanceable** during tax year
  (up to 16 months before return is filed)

- **Assignable**—payable directly to health insurance company or exchange plan
Illustrative Exchange Premiums

<table>
<thead>
<tr>
<th>% FPL</th>
<th>Single</th>
<th>Family of 4</th>
<th>% of MAGI</th>
<th>Single</th>
<th>Family of 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>138%</td>
<td>$16,353</td>
<td>$33,746</td>
<td>3.00%</td>
<td>$41</td>
<td>$84</td>
</tr>
<tr>
<td>150%</td>
<td>$17,775</td>
<td>$36,681</td>
<td>4.00%</td>
<td>$59</td>
<td>$122</td>
</tr>
<tr>
<td>200%</td>
<td>$23,701</td>
<td>$48,907</td>
<td>6.30%</td>
<td>$124</td>
<td>$257</td>
</tr>
<tr>
<td>250%</td>
<td>$29,626</td>
<td>$61,134</td>
<td>8.05%</td>
<td>$199</td>
<td>$410</td>
</tr>
<tr>
<td>300%</td>
<td>$35,551</td>
<td>$73,361</td>
<td>9.50%</td>
<td>$281</td>
<td>$581</td>
</tr>
<tr>
<td>400%</td>
<td>$47,401</td>
<td>$97,815</td>
<td>9.50%</td>
<td>$375</td>
<td>$774</td>
</tr>
<tr>
<td>&gt;400%</td>
<td>&gt;$47,401</td>
<td>&gt;$97,815</td>
<td>No Max.</td>
<td>$650</td>
<td>$1,950</td>
</tr>
</tbody>
</table>
How PTC Works

UMC minister (Rev. Sam) making median compensation:

- Median: $56,795
- Housing allowance: $12,695
- MAGI*: $44,100

*MAGI* Modified adjusted gross income (MAGI)
PTC Example 1—Rev. Sam

- No employer coverage
- Chooses the Silver Plan through state exchange
- Cannot be denied due to pre-existing exclusion
- Qualifies for PTC based on income (<400% FPL)
PTC Example 1—Rev. Sam

- Premium for Silver Plan: $7,800 ($650/month)
- opts for advanced PTC
- Pays $350/month premium
- HHS pays Silver Plan insurance company $300/month
  - Rev. Sam’s PTC: $3,600
PTC Example 2—Rev. Cathy

- Rev. Cathy has the same salary and housing as Rev. Sam
  - *Plus* non-working spouse and two children

- **Employer coverage** through local church
  - Pays $100/month for participant (self) coverage
  - Pays $900/month for dependent coverage
PTC Example 2—Rev. Cathy

- Employer (church) offers Rev. Cathy “affordable coverage”
  - She pays $100/month → lower than 9.5% MAGI ($349/month)
  - Rev. Cathy’s PTC: $0—not eligible

Uncertain: Would Rev. Cathy’s dependents be eligible for PTCs in an exchange?
PTC Example 3—Rev. Louis

- Rev. Louis has the same salary and housing as Rev. Cathy and Rev. Sam
  - *Plus* non-working spouse and two children
- **Employer coverage** through local church
  - Pays $350/month for participant (self) coverage
  - Pays $400/month for dependent coverage
PTC Example 3—Rev. Louis

- Employer (church) does not offer Rev. Louis “affordable coverage”
  - He pays $350/month → higher than 9.5% of MAGI ($349/month)
- Chooses Silver Plan through state exchange
- Qualifies for PTC based on income
  - Exchange will verify with Rev. Louis’ employer that coverage is not affordable
  - Will assess a penalty if applicable
Example 3—Rev. Louis’ PTC

- Premium for Silver Plan: $23,400 ($1,950/month)
- Opts for advanced PTC
- Pays $230/month premium
- HHS pays Silver Plan insurer $1,720/month
  - Rev. Louis’ PTC: $20,640
Reconciliation

• Advanced PTC payments received in 2014
  – Rev. Sam: $3,600
  – Rev. Cathy: $0
  – Rev. Louis: $20,640

• Revs. Sam, Cathy and Louis file tax returns for 2014 (April 2015)

• Actual PTC qualification calculated with Form 1040

• Based on tax return, individual’s actual PTC may be lower than advanced PTC payments received

Individual must repay any overpayment to IRS
What If?

Rev. Louis’ spouse unexpectedly nets $18,000 income in 2014

- Rev. Louis’ MAGI is higher than expected: $62,100 vs. $44,100
- *Actual PTC*: qualifies for $18,480
- *Advanced PTC*: received $20,640
- May owe IRS up to $2,160
  - PTC repayment limited if under 400% FPL ($1,500 for Rev. Louis example)
Employer Mandate

50+ employees

• Employer must provide “affordable coverage” with “minimum value”
  – Or pay penalty

Should not apply to most churches
Employer Mandate

• “Large employer” for penalty purposes: averages 50+ full-time equivalent employees
  – Full-time = 30 hours per week
  – Full-time equivalents (i.e., aggregated part-timers) are counted to determine whether employer is subject to the penalty

• Controlled group rules Code §414(c) apply
  – Uncertainty for churches under current law
Employer Penalty

• If employer offers no coverage and at least one FTE qualifies for PTC
  – Penalty: $2,000 per FTE (excluding the first 30 FTEs)

• If employer offers coverage and at least one (even if only one) FTE qualifies for a PTC
  – Penalty: $3,000 per FTE receiving a PTC (limited to “no coverage” penalty)

• Penalties adjusted for inflation after 2014

Part-time employees (PTEs) count toward determining applicability of penalty—but not penalty accrued
Three Illustrative Stories

How ACA rules impact three UMC employers

1. Typical local church
2. Large local church
3. Large employer, e.g., nursing home or small college
Typical Local Church

- Small employer: 3 FTEs
  - 1 full-time clergy
  - 1 full-time lay employee; 2 part-time lay employees
  - Covers clergy in HealthFlex and FTE in a local Blue Cross plan; does not cover part-time employees

- If offer *no* coverage
  - Penalty = $0 (exempt from penalty)

- If offer coverage
  - Annual premium = $16,000

- **Potential savings: $16,000**
Church Considerations

- Clergy may view negatively
  - May pay more for coverage, especially if church currently pays 100% of clergy’s premium
  - Exchange plan may be viewed as inferior
- Mandatory vs. voluntary conference health plan
- Appointment concern for clergy and cabinets
- Exchanges provide guaranteed issue access for PTEs
- Exchanges may provide access for uncovered dependents
Large Local Church

- 55 FTEs
  - 6 full-time clergy; 4 half-time clergy
  - 30 full-time lay employees; 34 part-time lay employees

- If offer *no* coverage
  - Penalty = $12,000 (36*-30 = 6 x $2,000)

- If offer coverage
  - Annual premium = $350,000

- Potential savings: $338,000

* Part-time employees not counted in assessing penalty
Church Considerations

- PTEs: Exchanges provide guaranteed issue access
- Lower-paid employees may be better off
- Higher-paid employees may not qualify for PTCs on exchanges
  - May reduce church budget savings if salaries must increase (with increased FICA obligations for non-clergy employees)
  - Clergy will pay more SECA on higher salary
- Clergy may view “no coverage” negatively
  - May pay more for coverage, especially if church currently pays 100% of premium
  - Exchange plan may be viewed as inferior
Large Employer

- Nursing home or small college: 215 FTEs
  - 200 full-time lay employees
  - 30 part-time lay employees

- If offer **no** coverage
  - Penalty = $340,000 (200*30 = 170 x $2,000)

- If offer coverage
  - Annual premium = $2,700,000

- Potential savings: $2,360,000

* Part-time employees not counted in assessing penalty
Employer Considerations

- $340,000 penalty is “money for nothing”
- Higher-paid employees may not be PTC-eligible
  - Higher salaries to non-PTC eligible employees (and accompanying higher pension and FICA tax costs) may reduce cost savings substantially
- Employee demographics are key (income and family size)
- Recruitment and retention concerns if don’t offer employer-sponsored health plan
Various Employer Options

• **Continue Coverage**
  – Provide affordable employer plan and avoid penalty

• **Rely on Exchanges**
  – Terminate plan
  – Pay applicable penalty (none for small employer)
  – Employees to Exchanges

• **Middle Road**
  – Increase contribution for self-only coverage >9.5% of income
  – Pay smaller penalty for some employees who seek Exchange coverage with PTCs
Who Is UMC Employer?

Good-faith argument: employer is local church

- Clergy are self-employed for FICA/SECA purposes under federal law
- *The Book of Discipline* ¶142
- Tax Court case: *Weber v. Commissioner*
  - UMC clergy are “employees” for income tax and benefits purposes
  - Applied *common law test*
  - More factors of common law test point to local church