Center for Health

Health Care Reform

Updates and HealthFlex Response

2014 HealthFlex Mini-Summit

General Board
Pension and Health Benefits
Caring For Those Who Serve

Agenda

- UMC Clergy Employer Question
- Employer Shared Responsibility/Employer Reporting
- Affordability
- Other Reporting Requirements
- Excepted Benefits
- ACA* 2014 Refresher—Major Reforms
- Exchanges for Individuals—Marketplaces, Tax Credits
- Conference Strategies
- HealthFlex Support

*** ACA: Affordable Care Act (Patient Protection and Affordable Care Act, PPACA)**

Who Is Clergy's Employer?

UMC Clergy Employer

- IRS Final Rule for ACA Employer Shared Responsibility Provision (February 12, 2014)
  - Did not directly respond to Church Alliance (UMC) question on "Who is the employer"
- Church Alliance comment letter to Proposed Rule for Employer Shared Responsibility (March 18, 2013)
  - Sought application of "pay or play rule" at **local** level **(i.e., local church)** in all denominations
  - Urged "**good faith**" standard

IRS Response

Churches and conventions and associations of churches (e.g., annual conferences, denominations) may use a **"reasonable, good faith interpretation"** of the Tax Code to determine who is an "applicable large employer" under Employer Mandate

1. Treating appointed clergy as "employee" of local church that pays their salary and issues their W-2 should be **reasonable, good faith interpretation**

2. Treating local churches as separate employers from the conference and from each other (generally) seems **reasonable, good faith interpretation**

Employer Shared Responsibility

Employer Shared Responsibility

- Also called “Employer Mandate” or “pay or play” rule
- **Delayed** (July 2013) → **January 1,2015**
- Applies only to **large employers**
  - **Applicable** large employer averages 50 or more full-time equivalent employees (FTEEs)
- Small employers (<50 FTEEs)—exempt

The rule **should not** apply to most churches.

Employer Shared Responsibility

Large employers must provide "**affordable coverage**" with "**minimum value**" to:

- Full-time employees (FTEs) (**30+** hours/week)
  - —**Includes** employees on paid leave
  - —**Excludes** certain seasonal employees
- Dependent children (up to age 26) of FTEs
- … Or else pay a penalty

Spouse coverage not required

Small employers: **Exempt**

Final Rule Highlights (February 2014)

Mid-Sized Employers (50-99 FTEEs)

Delayed → **January 1, 2016**

- Subject to: employer certifying to IRS

Large Employers (100+ FTEEs)

Transition rules → Easier compliance for 2015

- **2015:** Cover **70%** of FTEs in health plan
  - 2016: Cover **95%** of FTEs
- **2015:** Deduct **80** FTEs from "no coverage" penalty
  - 2016: Deduct **30** FTEs

Counting Employees
Employer Shared Responsibility Rule

Employee Type	Rule or Accommodation
Full-time employees (FTEs)	30 hours/week (130 hours/month)
Part-time employees (PTEs) (< 30 hours/week)	Added to FTE count to determine: *Is employer subject to Rule?* Aggregate hours worked ÷ 120
Paid-leave employees (vacation, jury duty, disability, leaves of absence)	Added to FTE count to determine: *Is employer subject to Rule?*
Seasonal employees	Employer not subject to Employer Mandate ("Rule") if exceeds 50 FTEEs solely due to seasonal employees for less than 120 days of a year
Variable-hour employees	Complex rules

Employer Aggregation

"Controlled Group" rules Code §414(c) apply—
"lumping together" closely affiliated employers

Local Churches

- Day care centers
- Schools and after-school programs
- Summer camps

Annual Conferences

- Summer camps
- Agencies, boards, etc.
- Foundations
- Possibly also: Schools, hospitals, retirement homes over which conference may have control for board appointments

Employer Aggregation

Rule for churches: "reasonable, good faith interpretation"

Common control exists where:

- Organizations share EIN*
- Organizations share **80%** of board members/trustees
- One organization provides **80%** of operating funds for another
- **Organizations** share some common management

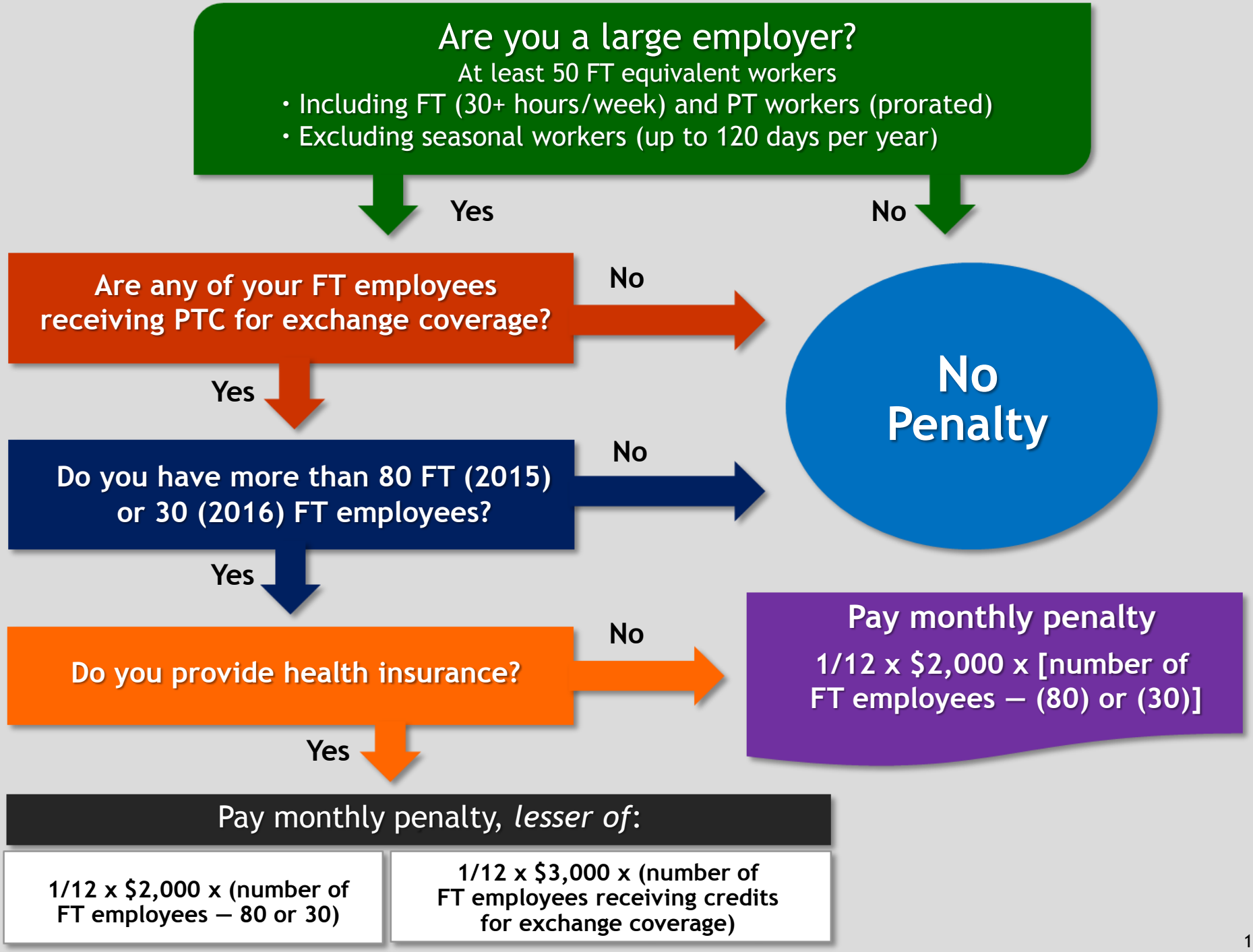
*** EIN: Employer identification number**

Penalties

- **No Coverage:** At least one FTE qualifies for PTC*
  - **Penalty 2015 = $2,000 per FTE (minus first 80 FTEs)**
  - **Penalty 2016 = $2,000 per FTE (minus first 30 FTEs)**
- **Inadequate Coverage:** Employer offers coverage ***and*** at least one FTE qualifies for a PTC
  - Penalty = **$3,000** per FTE *receiving* a PTC (limited to "no coverage" penalty amount)
- Penalties adjusted for inflation **after 2014**

Part-time employees count toward determining applicability of the rule—but **not** counted for penalty accrued.

*** PTC: Premium tax credit**


Are you a large employer?
At least 50 FT equivalent workers
• Including FT (30+ hours/week) and PT workers (prorated)
• Excluding seasonal workers (up to 120 days per year)
Yes
No
Are any of your FT employees receiving PTC for exchange coverage?
No
Yes
No Penalty
Do you have more than 80 FT (2015) or 30 (2016) FT employees?
No
Yes
Pay monthly penalty
1/12 x $2,000 x [number of FT employees — (80) or (30)]
Do you provide health insurance?
No
Yes
Pay monthly penalty, lesser of:
1/12 x $2,000 x (number of FT employees — 80 or 30)
1/12 x $3,000 x (number of FT employees receiving credits for exchange coverage)

Employer Reporting

Employer Coverage Reporting

Applicable large employers* must report covered full-time employees to IRS (Code §6056)

- **Required for 2015 calendar year**
  - **Even if not subject to Employer Mandate until 2016**
- Submit *Form 1095-C* for each covered FTE (with single *Form 1094-C*) by **February 28, 2016** (electronically by **March 31, 2016**)
- Provide statement to each covered FTE by **January 31, 2016**

HealthFlex (or CBOP) will **not** likely perform this reporting for churches.

*** Applicable large employer: 50+ full-time equivalent employees**

Employer Certification (2015)

- Mid-sized employers (50-99 FTEEs) must certify their eligibility for extra year's delay
- Certification required for 2015
  (with 2015 reporting of covered FTEs)
  1. Employer has 50-99 FTEEs in 2014
  2. Has not cut staff to have fewer than 100 FTEEs (February 9 – December 31, 2014)
  3. Has not/will not drop or reduce health coverage (February 9, 2014 – Dec 31, 2015)
- Final rule with details—**March 5, 2014**

Employer Coverage Reporting

§6056 Report must include:

- ✓ Name, address, EIN* of employer
- ✓ Contact person at employer
- ✓ Certification that employer offered coverage to FTEs and dependent children
- ✓ FTEs for each month
- ✓ FTEs' share of premium of lowest-cost plan
- ✓ Name, address, TIN* (SSN*) of each FTE (not dependents or spouses)

* EIN: Employer identification number; TIN: taxpayer identification number; SSN: Social Security number

Affordability

Three "Affordability" Rules
Employee's Cost for Premium

ACA has several definitions of "**affordable**"

1

<9.5% of MAGI for individual coverage

- Employer avoids employer mandate penalty ("pay or play")
- **Safe Harbor**: <9.5% of W-2 wages (known to employer) for individual coverage

2

>8% of MAGI for individual coverage

- Employee avoids individual mandate penalty
- Determined separately for spouse, dependent children

3

>9.5.% of MAGI for individual coverage

- Employer plan is **unaffordable**
- **Employee is eligible for PTC!**

Affordability Safe Harbors

Safe harbors for affordability under Employer Shared Responsibility Rule

- **W-2 Wages—**Employee contribution for self-only coverage in lowest-cost plan: **less than 9.5% of W-2 wages**
- **Rate of Pay—**For any month, employee share of monthly cost for self-only coverage in lowest-cost plan: **less than 9.5% of 130 hours multiplied by employee's hourly rate of pay**
- **FPL*—**For any month, employee share of monthly cost of self-only coverage of lowest-cost plan: **less than 9.5% of 1/12 of FPL** for a single individual

*** FPL: Federal poverty level**

Tax Credit Eligibility

- Employee's required contribution (share of premium) for **self-only** (individual) coverage under employer plan cannot exceed **9.5%** of **household income (MAGI*)**
  - If employee contribution exceeds 9.5% of **MAGI**, can opt out → choose exchange coverage and PTC
- Dependent coverage affordability "glitch"
  - Cost to cover dependents "**affordable**" as long as it does not cost the employee more than 9.5% of MAGI to cover **self-only**

*** MAGI: Modified adjusted gross income**

Note: Employers often have no information about employees' household income.

Conference Affordability Approaches

Clergy (employee) contribution for **self-only** coverage

Of conference minimum salary

Similar to “rate of pay” safe harbor

Of federal poverty level (FPL) for 2014

9.5% of $11,670 = $92.39 per month

Other Reporting Requirements

Reporting Health Coverage

Minimum Essential Coverage (MEC) Reporting (Code §6055)

HealthFlex **should be able** to report for all plan participants and dependents

- Required for 2015 coverage (annually thereafter)
- Plan must submit *Form 1095-C* (coming soon) to IRS (**February 28, 2016 or March 31 (electronically)**)
- Plan must provide statement to covered individuals by **January 31, 2016**

Reporting Health Coverage

§6055 Report must include:

- ✓ Name, address and EIN of reporting entity
- ✓ Name of each person with MEC
- ✓ Name of "responsible person" (primary participant)
- ✓ TIN* (SSN)* of each covered person
- ✓ Calendar months each person was covered

*** TIN: Taxpayer identification number; SSN: Social Security number**

W-2 Reporting

Employers required to report value of health coverage on employees' W-2s

- **January 2013** on secular, large employer W-2s
- Temporary exemption remains for:
  - Employers in church plans (unless church plan is subject to ERISA)
  - Small employers (fewer than 250 W-2s)
  - Multi-employer (union) plans
- IRS may end the exemption upon 6 months' notice
  - No earlier than 2014 (**more likely: 2015 tax year**)

Excepted Benefits

Excepted Benefits

- "Excepted benefits" plans (generally)
  - Vision plans
  - Dental plans
  - Employee assistance programs (EAPs)
  - Wrap-around plans (new; December 23 regulations)
  - Stand-alone HRAs—if limited to excepted benefits
- Separate insurance policy if insured; or
- Separate contract and participant's separate election, if self-funded

Excepted Benefits

Excepted benefits plans—**not subject** to ACA market reforms

- E.g., no annual limits, no lifetime limits, preventive services, essential health benefits

PRO	Employees covered by excepted benefits plans are eligible for ACA premium tax credit
CON	Excepted benefits coverage does not satisfy Individual Mandate (e.g., mandatory coverage for most people)

Flexible Spending Accounts (FSAs)

- **Permissible** if qualify as excepted benefits
  - Not subject to ACA market reforms
- **Qualified if**:
  - **Offered with an employer group health plan**
  - Contributions do not exceed **2x** employee salary deferral

FSAs should not be offered to employees who are not offered group health plan coverage.

ACA 2014 Refresher—Major Reforms

Reminder—ACA 2014

- Individual Mandate
  - Individual insurance market reforms
- Health Insurance Marketplace ("exchanges")
  - Government assistance for modest income → premium tax credits (PTCs)
- Employer Shared Responsibility Rule
  - "Pay or play" or "Employer Mandate"
  - **January 2015** (100+ FTEEs)
  - **January 2016** (50-99 FTEEs)
- Expanded Medicaid (some states)

ACA Enrollment

As of March 14, 2014

Open enrollment period: >90% lapsed

ACA expanded enrollment	**8.3 - 11.1 million**
Expanded Medicaid enrollees	**4.4 - 6.1 million**
Marketplaces enrollees	**3.9 - 5.0 million**

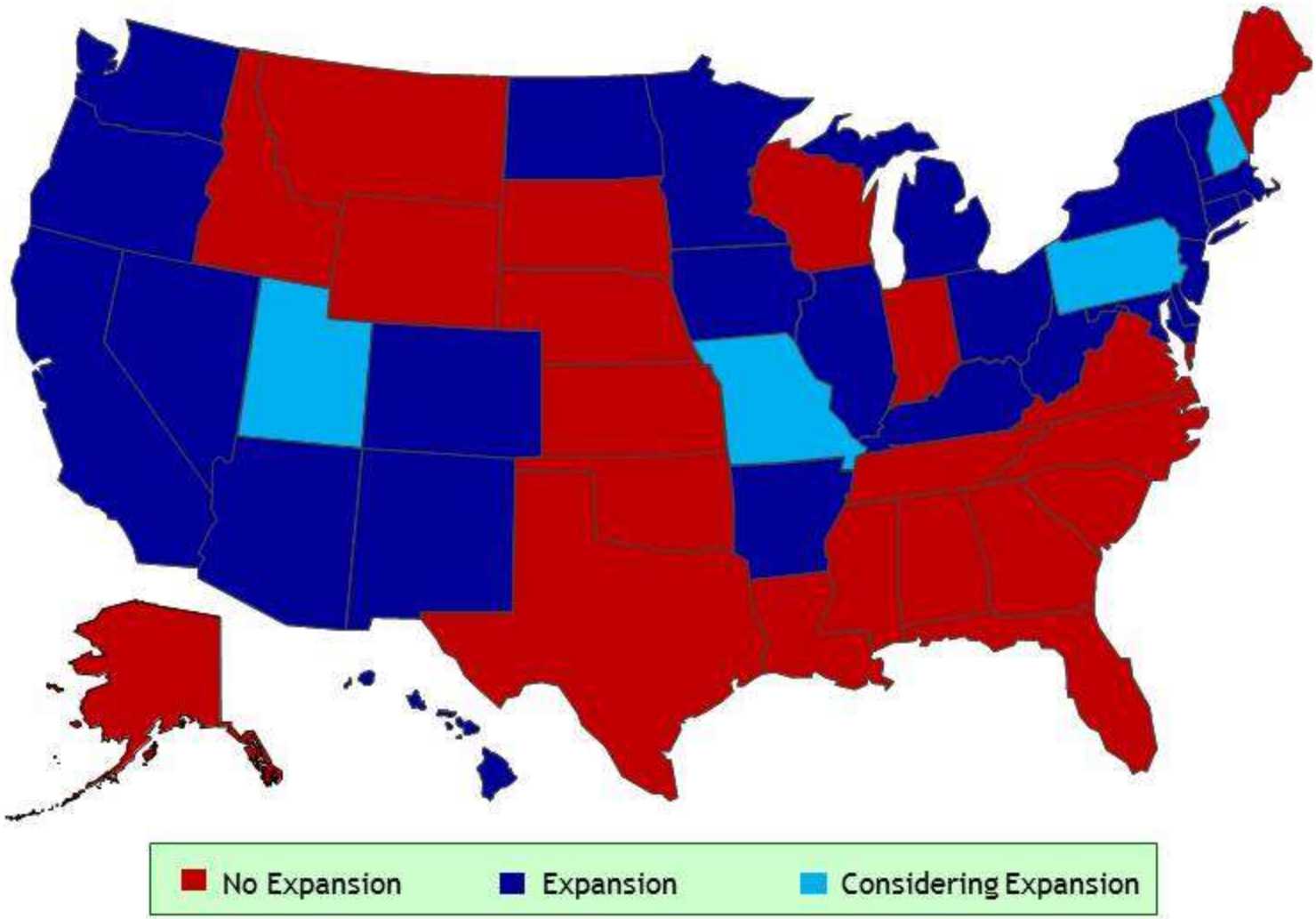
Kentucky: A "Red State" success

ACA Enrollments: 300,000+

- Marketplace QHPs: 60,000
- Expanded Medicaid: 240,000

Where States Stand on the ACA's Medicaid Expansion

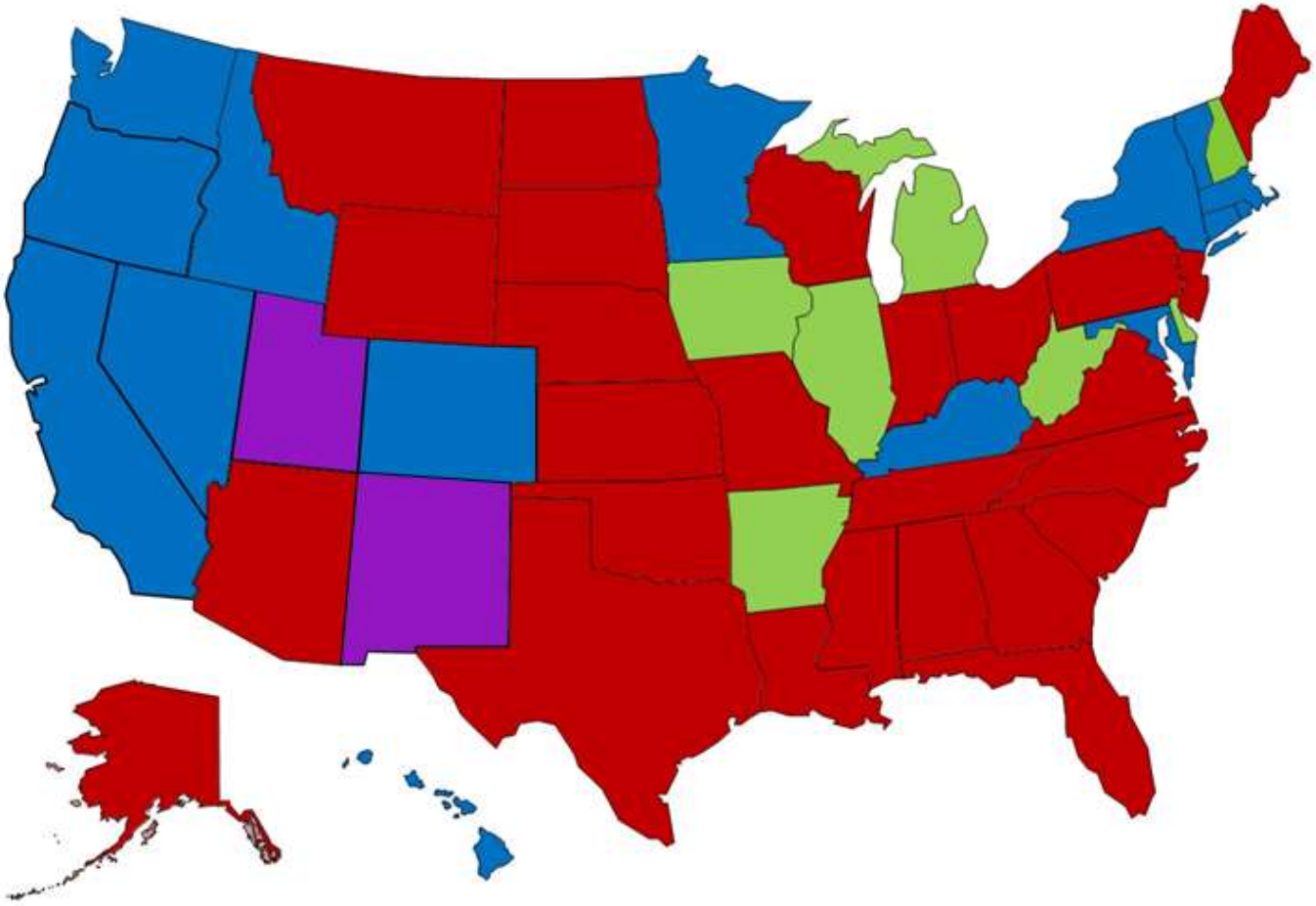
December 2013



Exchanges (Marketplaces)

Status of State Exchanges

December 2013



- State Exchange
- Partnership Exchange
- No State Exchange (Federal Exchange)
- Split Exchange

Exchange Enrollments

State-Based Marketplace		
California: 925,000	HHS target: 1.3 million	71%
Colorado: 88,000	HHS target: 92,000	96%
Connecticut: 62,000	HHS target: 33,000	188%
New York: 299,000	HHS target: 218,000	137%

Partnership Marketplace		
Arkansas: 27,000	HHS target: 62,000	44%
Illinois: 114,000	HHS target: 143,000	80%

Federally-Facilitated Marketplace		
Texas: 295,000	HHS target: 619,000	48%
Florida: 442,000	HHS target: 457,000	97%
Missouri: 74,000	HHS target: 118,000	63%

Exchange Plans

	Bronze	Silver	Gold	Platinum	Group Plans
Actuarial Value	58-62%	68-72%	78-82%	88-92%	≥ 60%
Covered Services	Essential health benefits and preventive services	Essential health benefits and preventive services	Essential health benefits and preventive services	Essential health benefits and preventive services	Preventive services (need not cover Essential health benefits)
Essential Health Benefits	No annual limits	No annual limits	No annual limits	No annual limits	No annual limits (on covered EHBs)
2014 Deductible Maximums	$2,000 Individual $4,000 Family	$2,000 Individual $4,000 Family	$2,000 Individual $4,000 Family	$2,000 Individual $4,000 Family	None
2014 Out-of-Pocket Maximums	$6,350 Individual $12,700 Family	$6,350 Individual $12,700 Family	$6,350 Individual $12,700 Family	$6,350 Individual $12,700 Family	$6,350 Individual $12,700 Family

Silver plan used to determine any government subsidies through the exchange

PTC Eligibility Requirements

Two main* requirements
(both required to be "PTC-eligible")

1. **MAGI**
   - Between 100% and 400% of federal poverty level (FPL)

2. **Inadequate or no employer coverage**
   - No employer coverage
   - Employer coverage is less than "minimum value"
   - Employer coverage is not "affordable" to employee

* Other requirements include *not* being:
- Incarcerated
- Covered by Medicare, Medicaid or other govt. coverage: CHIP, TRICARE, etc.
- Married, filing separately

PTC Eligibility: % of FPL (2014)

Household Income (MAGI)				
% FPL	Single	Family of 2	Family of 3	Family of 4
100%	$11,670	$15,730	$19,790	$23,580
138%	$16,105	$21,707	$27,310	$32,540
150%	$17,505	$23,595	$29,685	$35,370
200%	$23,340	$31,460	$39,580	$47,160
250%	$29,175	$39,325	$49,475	$58,950
300%	$35,010	$47,190	$59,370	$70,740
400%	$46,680	$62,920	$79,160	$94,320
>400%	$46,681	$62,921	$79,161	$94,321

For families/households with more than 4 persons, add $4,020 for each additional person.

MAGI (Code §36B)

- Modified adjusted gross income (MAGI)
  - Taxpayer's adjusted gross income (AGI) (Code §62)
  - *Form 1040* line 37 (last line of Page 1)
- Increased by:
  - Foreign income
  - Tax-exempt interest
  - Non-taxed Social Security benefits
- Clergy housing/parsonage **not included**
- Employee 401(k)/403(b)/FSA contributions reduce MAGI
- Certain "above-the-line" deductions reduce MAGI

PTC Impact on Premium

Clergyperson age 50, Spouse age 50, MAGI $40,000

State	Bronze Plan w/o PTC	Bronze Plan with PTC	Silver Plan w/o PTC	Silver Plan with PTC
CO	$756	$130	$894	$268*
GA	$558	$158	$668	$268
IL	$388	$92	$564	$268
MO	$500	$102	$666	$268
NY	$552	$156	$698	$268
TX	$370	$110	$528	$268
WA	$630	$108	$790	$268
WI	$500	$110	$682	$268

* Equal to 8.05% of MAGI

Conference Strategies

Conference Strategies

Considerations

- *The Book of Discipline* ¶639.7
- Judicial Council Decisions 674, 866, 935 and 1014
- ACA Employer Shared Responsibility Rule
- State's (or states') embrace of ACA
- Appointment process and itineracy concerns
- Equity of health coverage
- Tax implications
- Unintended consequences (e.g., increased DAC*)

* DAC: Denominational average compensation

Conference Strategies
Status Quo

PROS	Mandatory plan for clergy possible
	Maintains ease of appointment
	No “disruptive change” for covered participants
CONS	Forgoes cost savings in exchange plans with tax credits
	May cause more tension with local churches (seeking cost savings)
	Plan costs continue to rise
	New ACA burdens (fees, reporting, taxes, etc.)

Conference Strategies
Baby Steps

- Encourage Marketplace enrollment for continuation (COBRA) participants and clergy on unpaid leaves (where conference plan is costly)
- Allow access to Marketplace for pre-65 retirees— purchase with non-taxed employer dollars or federal PTC
  - "Retiree-only" stand-alone HRAs allowed, **but** PTC not allowed
- Change dependent coverage eligibility

PROS	Some cost savings related to certain beneficiaries
	Conference/church/clergy familiarization with Marketplaces
CONS	Cost savings of PTCs not fully realized
	Some administrative complexities

Conference Strategies Dependent Coverage Changes

- If spouse, dependent children (or both) are offered employer coverage (i.e., are eligible to enroll); **and**
- If cost for **employee-only** (individual) coverage is **less than 9.5%** of MAGI
  - **Then:** spouse and dependents are **not eligible for PTC**
    - Rule applies even if cost to employee for covering spouse/dependents is very high
- Applicable large employers (50+ FTEEs*) must offer coverage to dependent children up to age 26

Even without PTC, full premium exchange coverage may be less costly than conference coverage

*** FTEEs: Full-time equivalent employees**

Dependent Coverage Changes
"UPS" Option

Conference ceases covering spouses and dependents at conference/plan level

PROS	No spouses or dependents would have affordable coverage
	PTCs available for many families, based on MAGI (cost savings to clergy/churches/conferences)
CONS	Equity concern for families that do not qualify for PTCs (MAGI too high) • They pay full premium on exchange with **after-tax $** • Compensation may have to be increased

Conference Strategies
Private Exchange Option

PROS	Clergy remain in uniform plan
	Mandatory plan for clergy possible
	Defined contribution approach may reduce liabilities
	Socializes participants to consumer approach (i.e., ACA Marketplaces)
	May be fully-insured or self-funded (if through GBOPHB)
CONS	Forgoes premium tax credits
	Affordability may still shift some to ACA Marketplaces
	Some regulatory uncertainty remains
	Some administrative burden (e.g., collecting marginal premium)

Conference Strategies
Affordability Option

- Maintain required full-time clergy coverage, but increase required individual contributions…
- **Clergy for whom coverage is not "affordable" (cost exceeds 9.5% of MAGI) seek exchange coverage**

PROS	Captures savings of premium tax credits to low-paid clergy and families
	May be able to support clergy in Marketplaces with "excepted benefits" and other wrap-around coverage
CONS	May create appointment frictions and equity concerns
	May require way to offset increased health plan premium contribution for clergy remaining in the plan • Other nontaxable benefits • Taxable compensation

Conference Strategies
Local Church Option

- Allow local churches to "opt out" of conference plan (for full-time clergy)…
- **Clergy at churches opting out→ no employer coverage**

PROS	Lower-paid can seek exchange coverage and tax credits
CONS	Appointment frictions and equity concerns
	Disruptions to conference plan "risk pool" • Diminution in size • Change in risk profile
	Problem for churches with multiple clergy? • Some would want to remain in the plan; some would not

Dependent Coverage Changes
Local Church Option

Conference allows local churches to "adopt" conference plan for clergy-only

PROS	Each local church chooses whether to adopt clergy-only coverage or clergy-plus-family coverage through the conference
	Potential to maximize cost savings
CONS	Administrative burden for conference
	New appointment friction?

Conference Strategies
Exit Option

Terminate health plan entirely

PROS	Significantly reduce conference administrative costs
	Rely on Marketplaces for individuals—most local churches
	Rely on SHOP[1] for applicable large employers in conference (e.g., large churches, conference office)
CONS	Increase taxable salary for some or all • **Unintended consequences**→ Increases CAC and DAC; increases CRSP-DC[2], CPP[3] and UMPIP[4] contributions based on compensation • **Unintended distortions** → Uniform salary increases may have disparate impacts for single v. married v. family; PTC eligibility
	Add/increase other non-taxable benefits (UMPIP, UMLifeOptions)

[1] SHOP: Small Business Health Options Program
[2] CRSP-DC: Clergy Retirement Security Program-Defined Contribution
[3] CPP: Comprehensive Protection Plan
[4] UMPIP: United Methodist Personal Investment Plan

HealthFlex Support

HealthFlex Plan Sponsor Coverage Options

1. Remain “all in” HealthFlex/group coverage
2. Move “all in” to public exchange
3. ***Split Population:*** Some in HealthFlex; some move to public exchange

HealthFlex Strategic Response

- Align with shifting health care landscape
- Streamline plans:
  - Alignment with public exchange “metal” plans
  - Continue migration toward participant consumerism/responsibility
  - Avoid future excise (Cadillac Plan) tax impact
- Prepare for potentially two separate populations
- Continue evaluation and alignment of rating methodology with evolving population

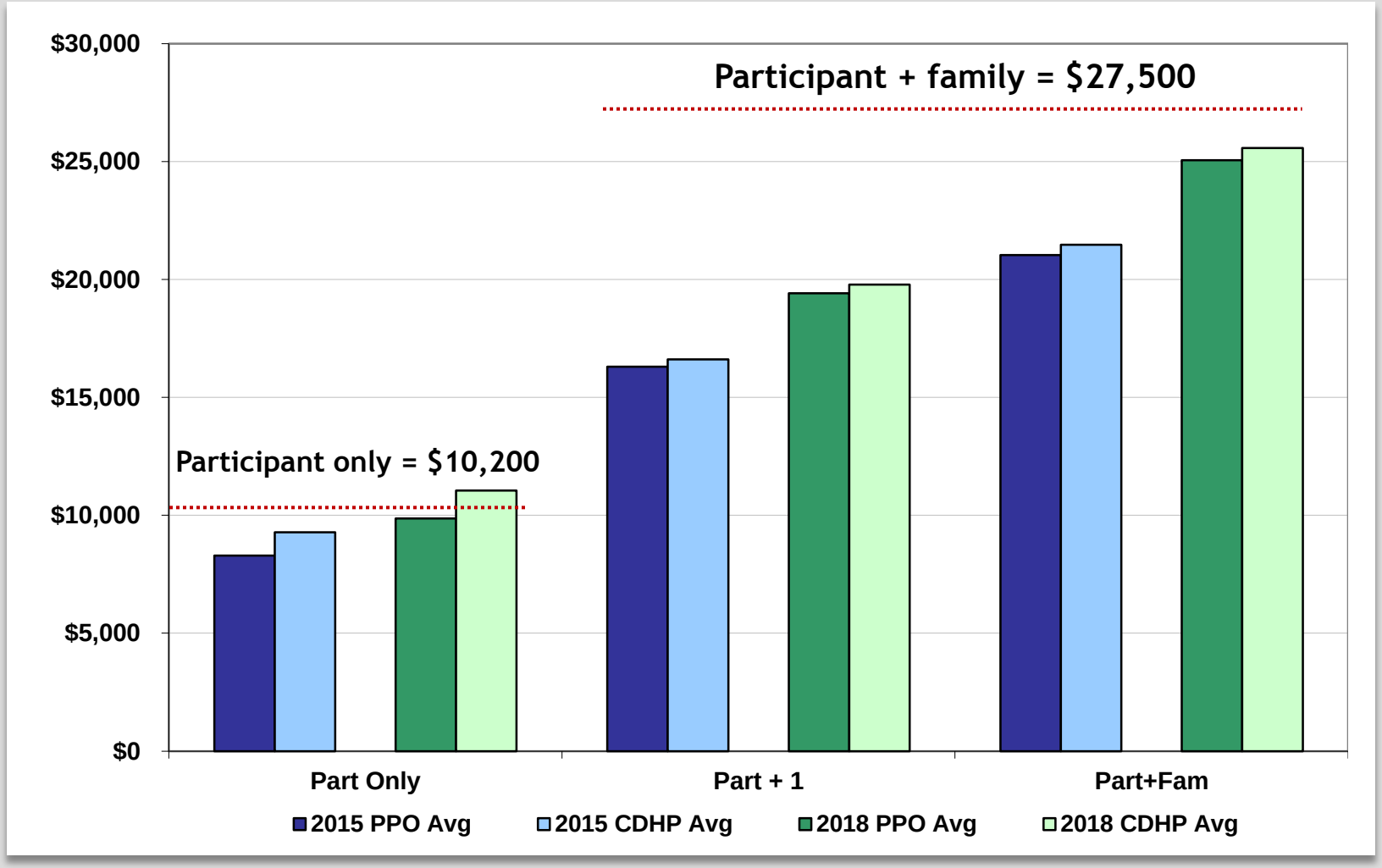
Potential Plan Offerings
Alignment with Public Exchange

2015 – 2017					
B750	B1000	CDHP (C2000)	Silver CDHP (70%)	Bronze CDHP (60%)	HDHP
HRA funding optional	HRA funding optional	HRA: $1,000/$2,000	HRA: $250/$500 $3,000/$6,000 deductible	HRA funding optional $3,500/$7,000 deductible includes Rx	$2,500/$5,000 deductible OOP max: $6,250/$12,500
					HSA: $500/$1,000
Eliminate in 2016			Add in 2015	Add in 2015	Add in 2016

Actuarial Equivalency

Gold	Gold	Gold	Silver	Bronze	Silver

Avoid 2018 Excise Tax
Projection of 2015 Rates to 2018



Public Exchange and HealthFlex
Benchmark Plan Comparison

Benefit	Silver Exchange Plan	HealthFlex Equivalent
Actuarial value	70%	70%
Covered services	Essential and preventive benefits	Essential and preventive benefits, **plus** vision, wellness, etc.
Essential benefits	No dollar limits	No dollar limits
2014 deductible maximums	HSA rules $2,000 (I) $4,000 (F) (in-network)	$3,000 (I) $6,000 (F) (in-network)
2013 cost sharing maximums— will be indexed to 2014 levels	Up to $6,250 (I) $12,500(F) (in-network)	Up to $6,250 (I) $12,500 (F) (in-network)

*** Silver plan used to determine any government subsidies through exchange**

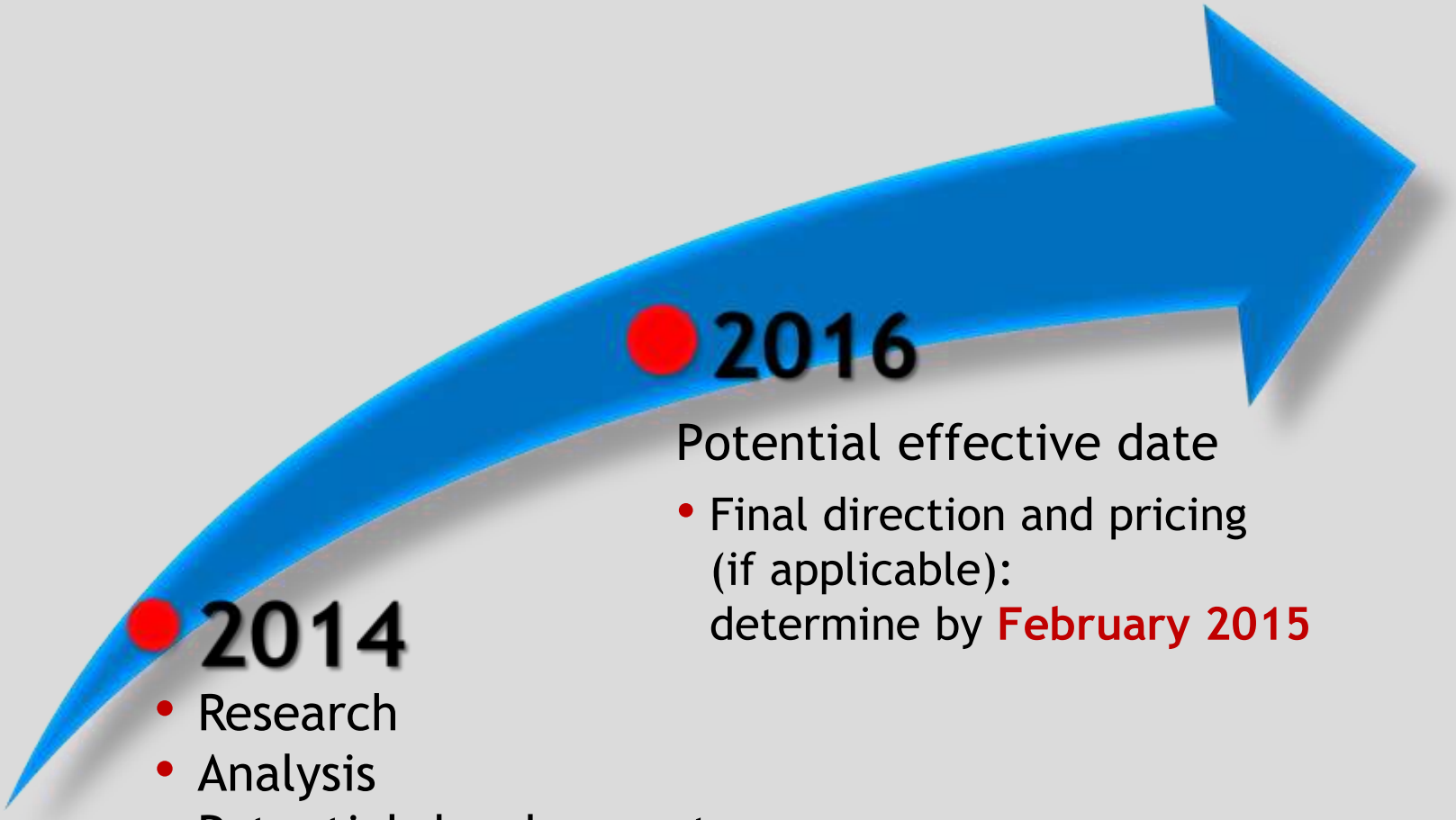
Public Exchange and HealthFlex
Benchmark Plan Comparison

Benefit	Silver Exchange Plan	HealthFlex Equivalent
Networks	Narrower— some narrower than others	Broad, nationwide networks
Premium differential by age	Premium can vary up to 3x between oldest and youngest	Same participant premium regardless of age
Wellness, incentives, basic vision	Not included	Included
Optional dental, vision materials	Not included	Included for groups by election
Premium comparisons (sample)	**Participant + 1** coverage: Age 50: $580-$900 64 years: $980-1400	**Participant + 1** coverage: All ages: $1080

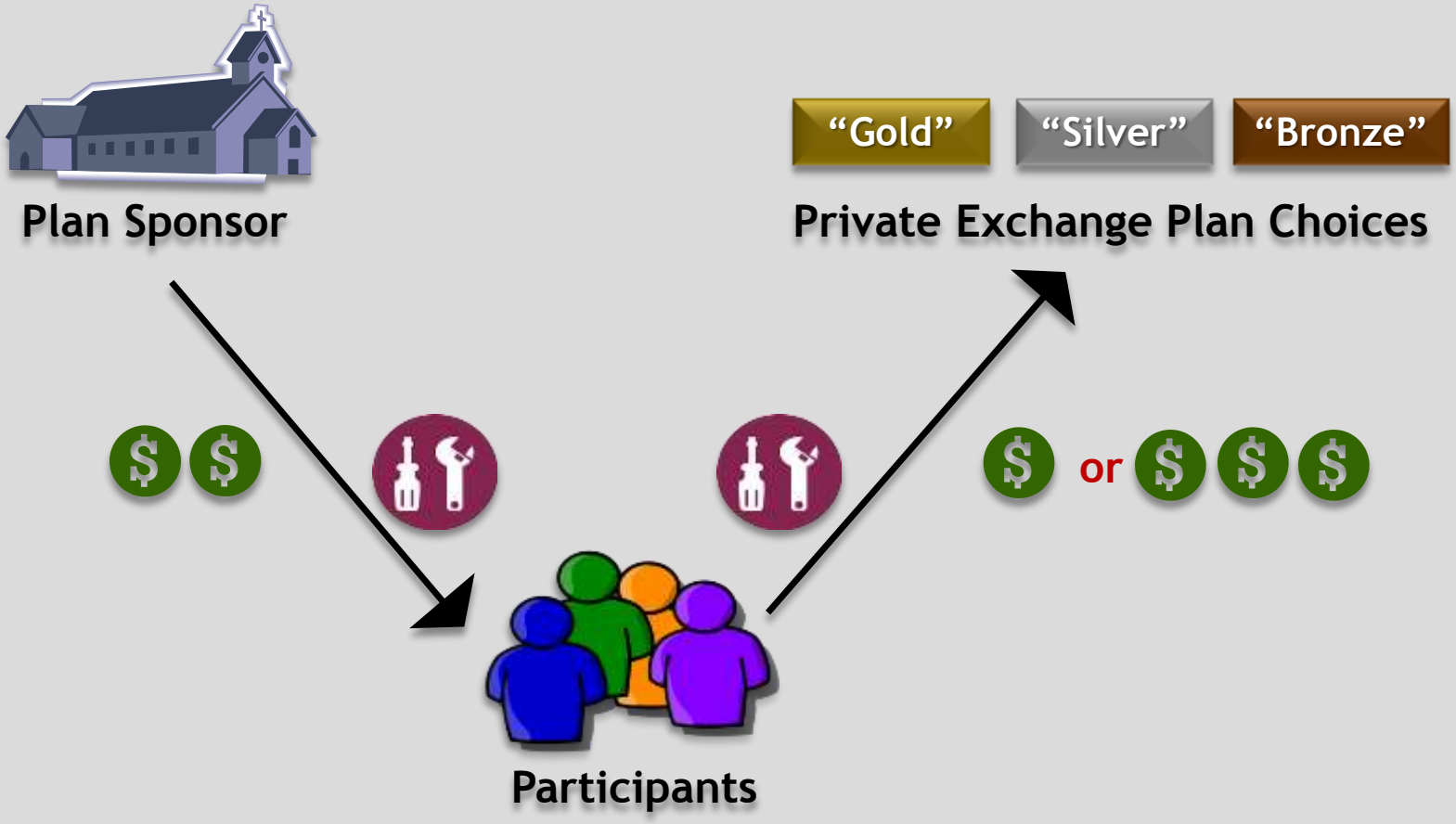
"Wraparound" Products
Potential Future Opportunity

- Excepted benefits: wellness programs, dental and vision plans
  - Aligns with UMC vitality goals
- **2014:** Research, analysis, potential development
- **2016:** Potential effective date
  - Final direction and pricing (if applicable): determine by **February 2015**

Private Exchanges
Potential Future Opportunity



Private Exchanges
Conceptual Framework



Private Exchanges
Potential Benefits

Plan sponsor

- Defined contribution offers cost containment and sustainability
- Greater parallels for managing two groups via public and private exchanges—may ease appointment tensions

Participant

- Chooses won "right sized" coverage
- Potential opportunity for HRA savings for future years or retiree

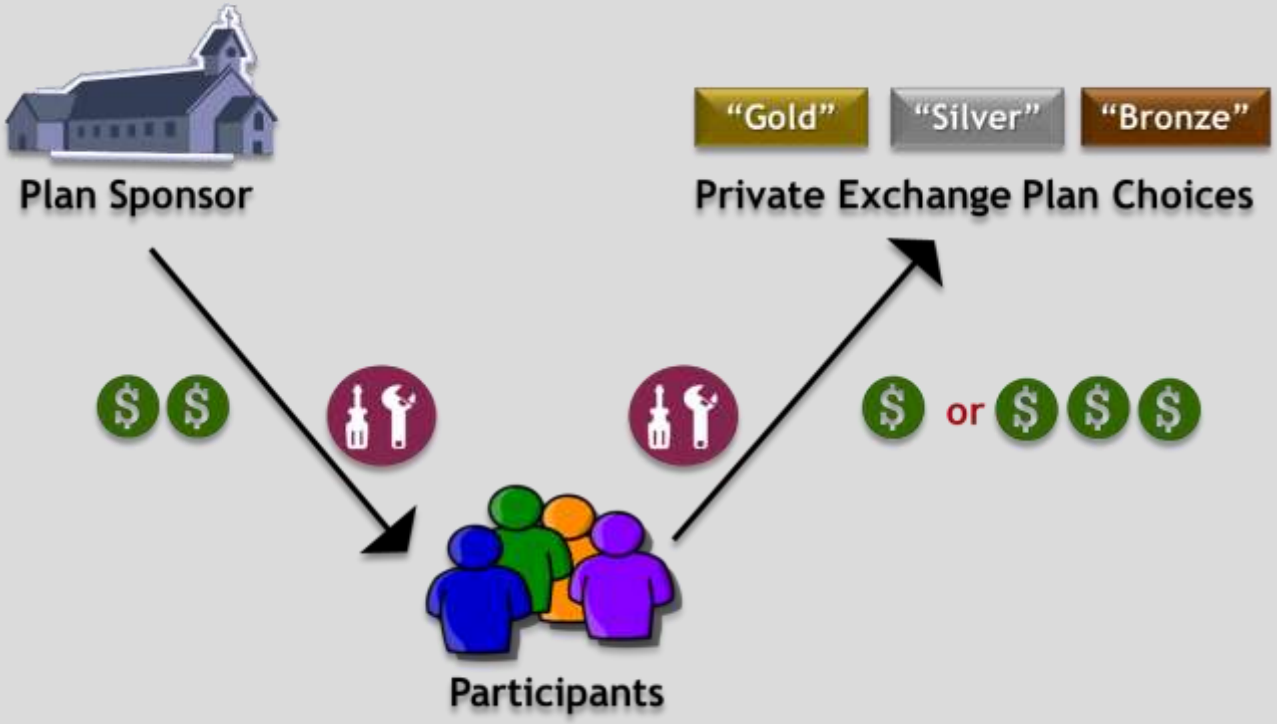
Both

- Pricing efficiencies

Private Exchange Models

- **Different than retiree "connector" model**
- **Group**
  - Self-insured **or** fully-insured
  - Single **or** multiple carrier
  - Integrated health reimbursement account (HRA)
- **Individual**
  - Fully-insured
  - Multiple carrier
  - No integrated HRA (post-tax dollars)

Private Exchanges
Conceptual Framework



Aggregate eligibility managed by Center for Health

Incremental additional cost per participant → conferences collect from local churches

HealthFlex Plan Sponsor Coverage Options

1. Remain “all in” HealthFlex—group coverage; consumer plans, aligned with public exchange
   - Potential “all in” HealthFlex private exchange (2016)
2. Move “all in” to public exchange; potential wraparound products; exploring parameters for return if desired
3. *Split Population:* some HealthFlex, some public exchange; potential wraparound products for public exchange population

Center for Health