



Center for Health

Health Care Reform

Part 1: Strategic Issues

HealthFlex Summit
October 21, 2014



General Board

Pension and Health Benefits

Caring For Those Who Serve

Agenda 1

- ACA* Rollout/Implementation Update
- Outcome in 2014
- Outlook for 2015
- Marketplace Plans
- Market Pressure and Strategic Thinking
- Conference Strategies

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

ACA Rollout/Implementation

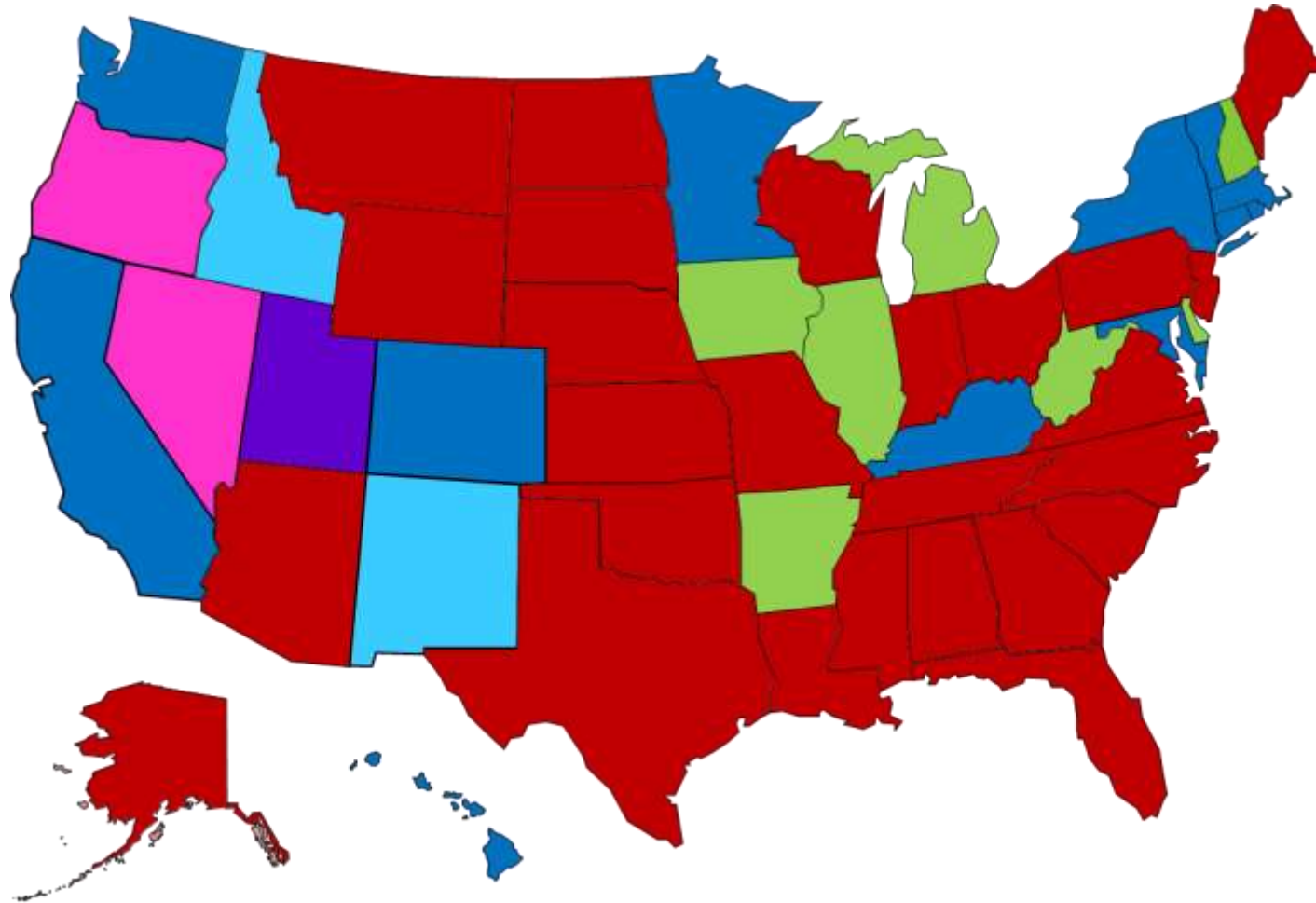
Reminder—ACA 2014

- 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**)

* FTEEs: Full-time equivalent employees

Status of State Exchanges

September 2014



■ State Exchange

■ State Exchange Using Federal Exchange Support in 2015

■ Partnership Exchange

■ Federal Exchange (No State Exchange)

■ State SHOP/Federal Exchange

■ State Exchange Used Federal Exchange Support in 2014

Federal Exchange Litigation

Halbig v. Burwell** and *King v. Burwell*

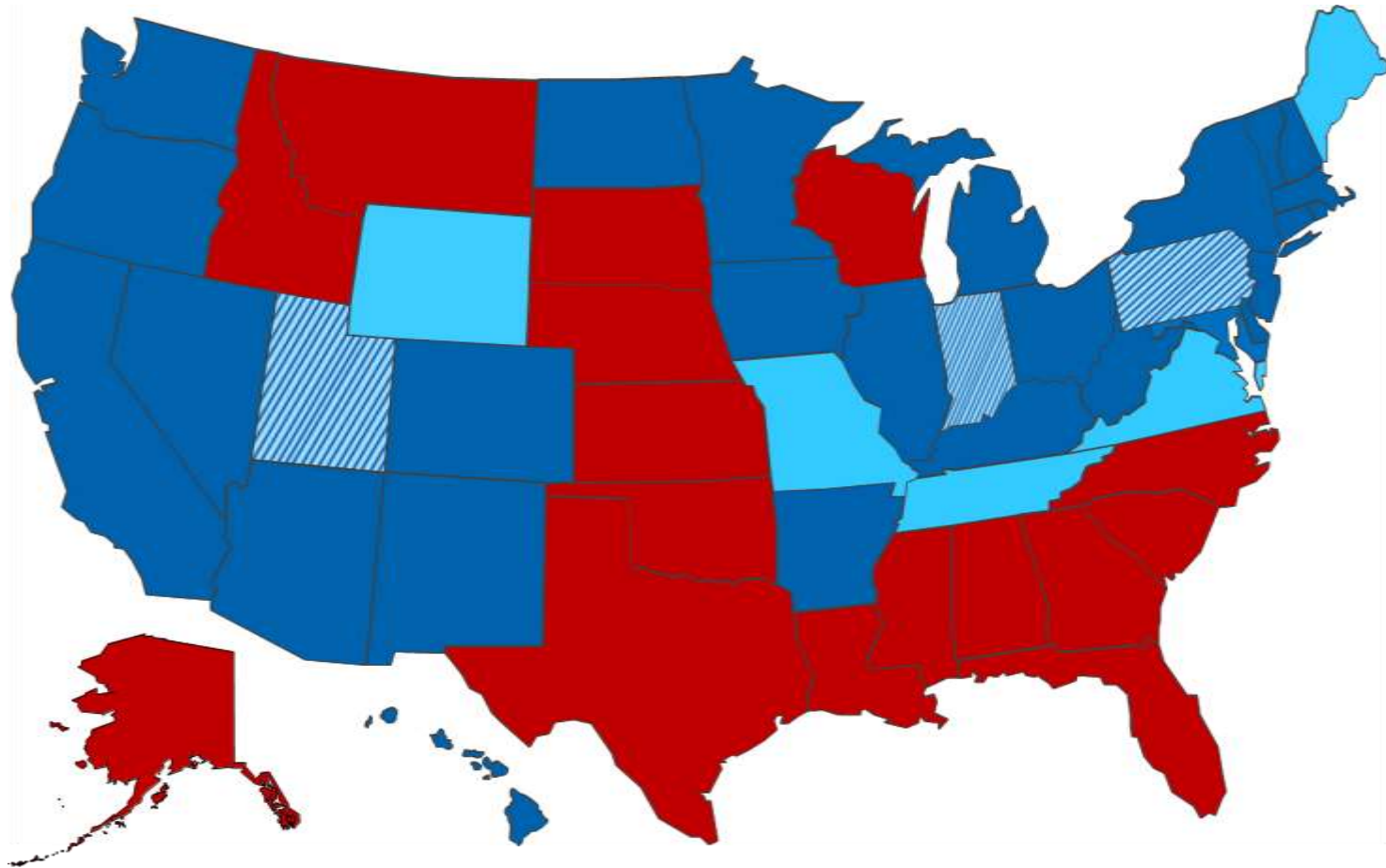
Challenged availability of premium tax credits (PTCs) through **federally-facilitated exchange (FFE)** and **partnership Marketplaces (“exchanges”)**

- **4th Circuit: *King v. Burwell***
 - PTCs: Available through **all** exchanges
- **D.C. Circuit: *Halbig v. Burwell***
 - Three-judge panel: PTCs are only available for exchanges “established by a **state**”
 - Whole court (*en banc*) agreed to rehear the case in December (vacating three-judge panel’s ruling)

* **Sylvia Burwell: Secretary, U.S. Department of Health and Human Services (HHS)**

Where States Stand on the ACA's Medicaid Expansion

September 2014



No Expansion **Expansion** **Expansion Pending** **Considering Expansion**

Tax Credits

Premium Tax Credits

- Exchange plan premiums subsidized with federal assistance:
 - **Premium tax credit (PTC)**
 - Individuals and families with **household income* between 100-400%** of federal poverty level (FPL)

100% of FPL		400% of FPL	
\$11,670 (Single)	\$23,580 (Family of 4)	\$46,680 (Single)	\$94,320 (Family of 4)

- State and federal exchanges eligible for PTCs
 - Subject to ongoing federal court litigation challenge

* **Household income: Modified adjusted gross income (MAGI)**

PTC Eligibility Requirements

Two main requirements*
(Both required to be “PTC-eligible”)

1

MAGI

- Between 100% and 400% of federal poverty level

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:

- 1) incarcerated
- 2) covered by Medicare, Medicaid or other govt. coverage: CHIP, TRICARE, etc.
- 3) 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.**

Premium Tax Credit

Form 8962

- PTC Calculation
- Advanced PTC Reconciliation

Form 8962 Premium Tax Credit (PTC) OMB No. 1545-0074
 2014
 Department of the Treasury Internal Revenue Service Attach to Form 1040, 1040A, or 1040NR. Information about Form 8962 and its separate instructions is at www.irs.gov/form8962.
 Mark this box on your return Your social security number Related (see instructions)

Part 1: Annual and Monthly Contribution Amount

1 Family Size: Enter the number of exemptions from Form 1040 or Form 1040A, line 62, or Form 1040NR, line 7a 1

2a Modified AGI: Enter your modified AGI (see instructions) 2a b EMV total of your dependent's modified AGI (see instructions) 2b

3 Household Income: Add the amounts on lines 2a and 2b 3

4 Federal Poverty Line: Enter the federal poverty amount as determined by the family size on line 1 and the federal poverty table for your state (see instructions). Check the appropriate box for the federal poverty table used: a Alaska b Puerto Rico c Other 48 states and DC 4

5 Household Income as a Percentage of Federal Poverty Line: Divide line 3 by line 4. Enter the result rounded to a whole percentage. For example, for 1,542 enter as 154.2 (See instructions for special rules.) 5

6 Is the result entered on line 5 less than or equal to 400%? (See instructions if the result is less than 100%.)
 Yes. Continue to line 7.
 No. You are not eligible to receive PTC. If you received advance payment of PTC, see the instructions for how to report your Excess Advance PTC Repayment Amount. 6

7 Applicable Figure: Using your line 5 percentage, locate your applicable figure on the table in the instructions. 7

8a Annual Contribution for Health Care: Multiply line 3 by line 7. 8a b Monthly Contribution for Health Care: Divide line 8a by 12. Round to whole dollar amount. 8b

Part 2: Premium Tax Credit Claim and Reconciliation of Advance Payment of Premium Tax Credit

9 Did you share a policy with another taxpayer or get married during the year and want to see the alternative calculation? (see instructions)
 Yes. Skip to Part 4, Shared Policy Allocation, or Part 5, Alternative Calculation for Year of Marriage. No. Continue to line 10. 9

10 Do all Forms 1099-A for your tax-qualified health coverage for January through December with no changes in monthly amounts shown on lines 21-22, column A and B?
 Yes. Continue to line 11. Complete your annual PTC. Skip lines 12-23. No. Continue to lines 12-23. Complete and continue to line 24. 10

Annual Calculation	A. Premium Amount (Form 1099-A, line 23A)	B. Annual Premium Amount of S-CSP (Form 1099-A, line 23B)	C. Annual Contribution Amount (Line 8a)	D. Annual Maximum Premium Assistance (Subtract C from B)	E. Annual Premium Tax Credit Allowed (Smaller of A or D)	F. Annual Advance Payment of PTC (Form 1099-A, line 23C)
11 Annual Total:						
Monthly Calculation	A. Monthly Premium Amount (Form 1099-A, line 21-22, column A)	B. Monthly Premium Amount of S-CSP (Form 1099-A, line 21-22, column B)	C. Monthly Contribution Amount (Amount from line 8b or alternative monthly contribution)	D. Monthly Maximum Premium Assistance (Subtract C from B)	E. Monthly Premium Tax Credit Allowed (Smaller of A or D)	F. Monthly Advance Payment of PTC (Form 1099-A, line 21-22, column C)
12 January						
13 February						
14 March						
15 April						
16 May						
17 June						
18 July						
19 August						
20 September						
21 October						
22 November						
23 December						
24 Total Premium Tax Credit: Enter the amount from line 11E or add lines 12E through 23E and enter the total here 24						
25 Advance Payment of PTC: Enter the amount from line 11F or add lines 12F through 23F and enter the total here 25						
26 Net Premium Tax Credit: If line 24 is greater than line 25, subtract line 25 from line 24. Enter the difference here and on Form 1040, line 65; Form 1040A, line 45, or Form 1040NR, line 16. If you elected the alternative calculation for marriage, enter zero. If line 24 equals line 25, enter zero. Skip here. If line 25 is greater than line 24, issue this line blank and continue to line 27 26						

2014 Outcomes

ACA Enrollment

As of October 2014	Open Enrollment Period
ACA expanded enrollment	16.9 – 19.8 million
Expanded Medicaid enrollees	7.0 – 9.9 million
Marketplaces enrollees	9.9 million (7.4 million current mid-August)

How many paid for Marketplace plans? 8.9 million (approx. 94%)

Off-Marketplace QHPs* 8.0 million (est.)

PTC-eligible 87% (est.)

Previously uninsured 57% (est.)

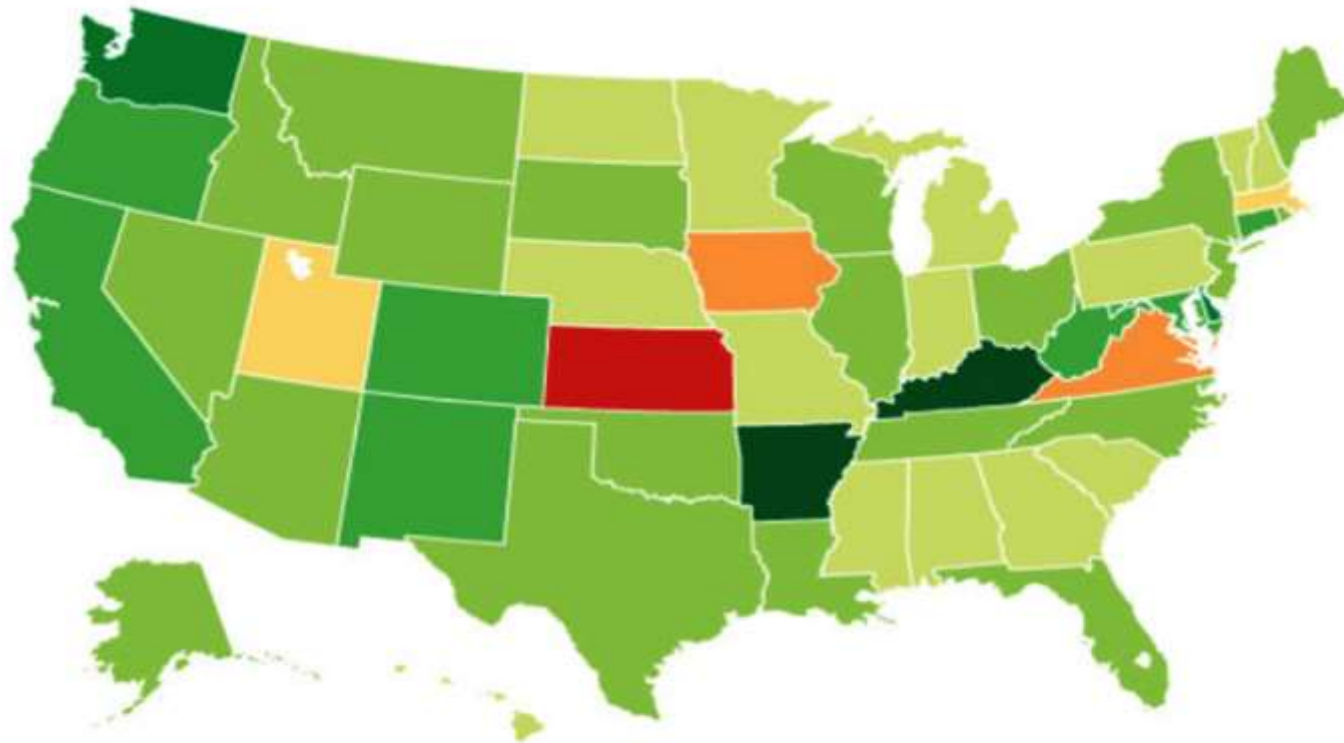
* QHPs: Qualified health plans

ACA Impact on Uninsured



Source: Gallup

Change in Uninsured Rates



Change in uninsured, 2013 to midyear 2014 (percentage points)



Source: Gallup

Lower Uninsured Rates

State Category	% Uninsured 2013	% Uninsured 2014 (Mid-year)	Change in Uninsured %
States with expanded Medicaid and state or partnership exchange	16.1	12.1	-4.0
States with only one of the above or neither	18.7	16.5	-2.2%

Greatest Drops in Uninsured

State	% Uninsured 2013	% Uninsured 2014 (mid-year)	Change in Uninsured (%)	Reduction in Uninsured
Arkansas	22.5	12.4	-10.1	45%
Kentucky	20.4	11.9	-8.5	42%
Delaware	10.5	3.3	-7.2	69%
Washington	16.8	10.7	-6.1	36%
Colorado	17.0	11.0	-6.0	35%
W. Virginia	17.6	11.9	-5.7	32%
Oregon	19.4	14.0	-5.4	28%
California	21.6	16.3	-5.3	25%
New Mexico	20.2	15.2	-5.0	25%
Connecticut	12.3	7.4	-4.9	40%

Source: Gallup

2015 Outlook

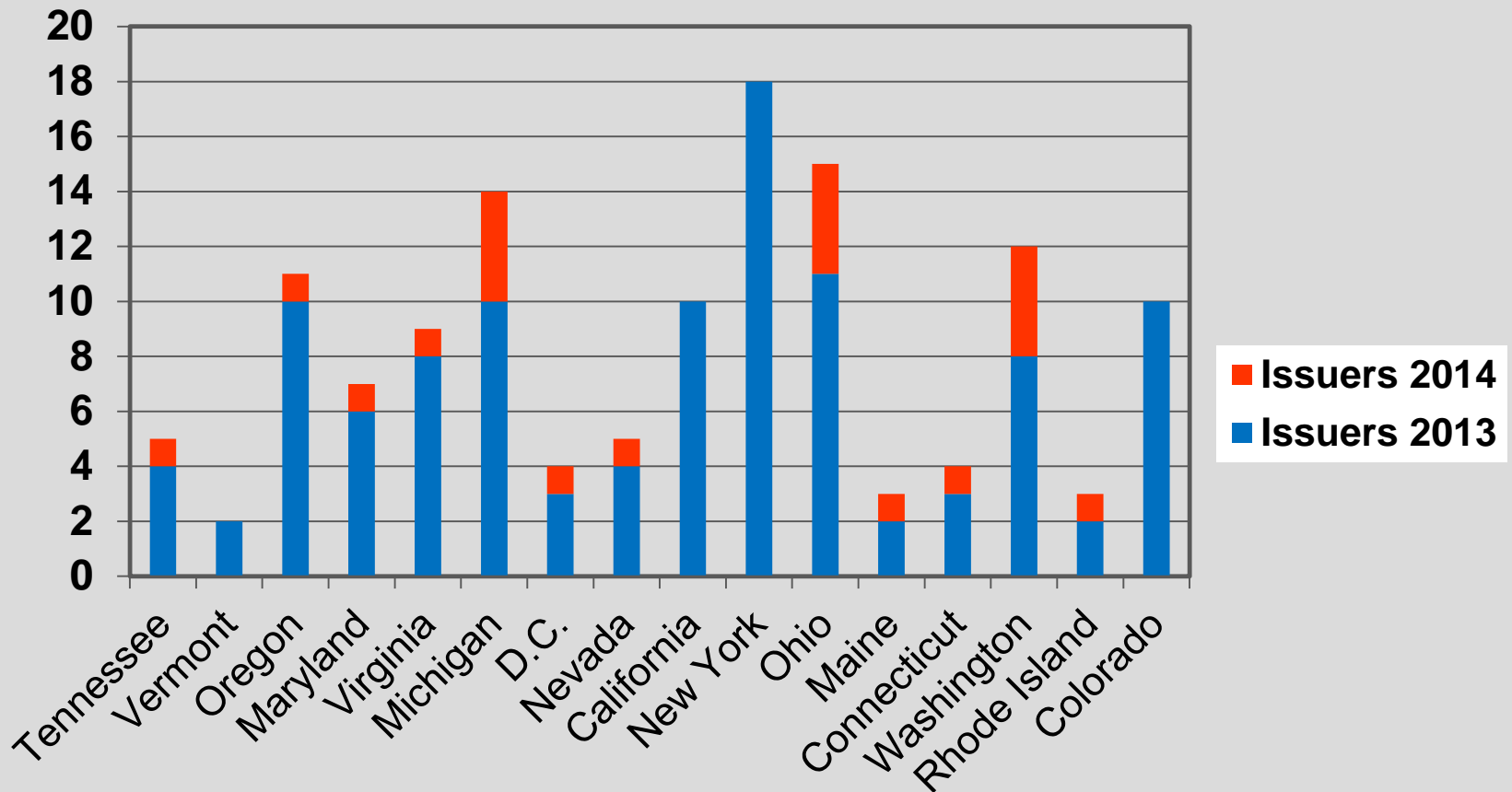
Medicaid Expansion

January 2014 → 24 States
Expanded Medicaid

January 2015 → 3 More States
(Total 27)

4 more states seriously examining expansion.

Marketplace Competition



Source: McKinsey & Co.

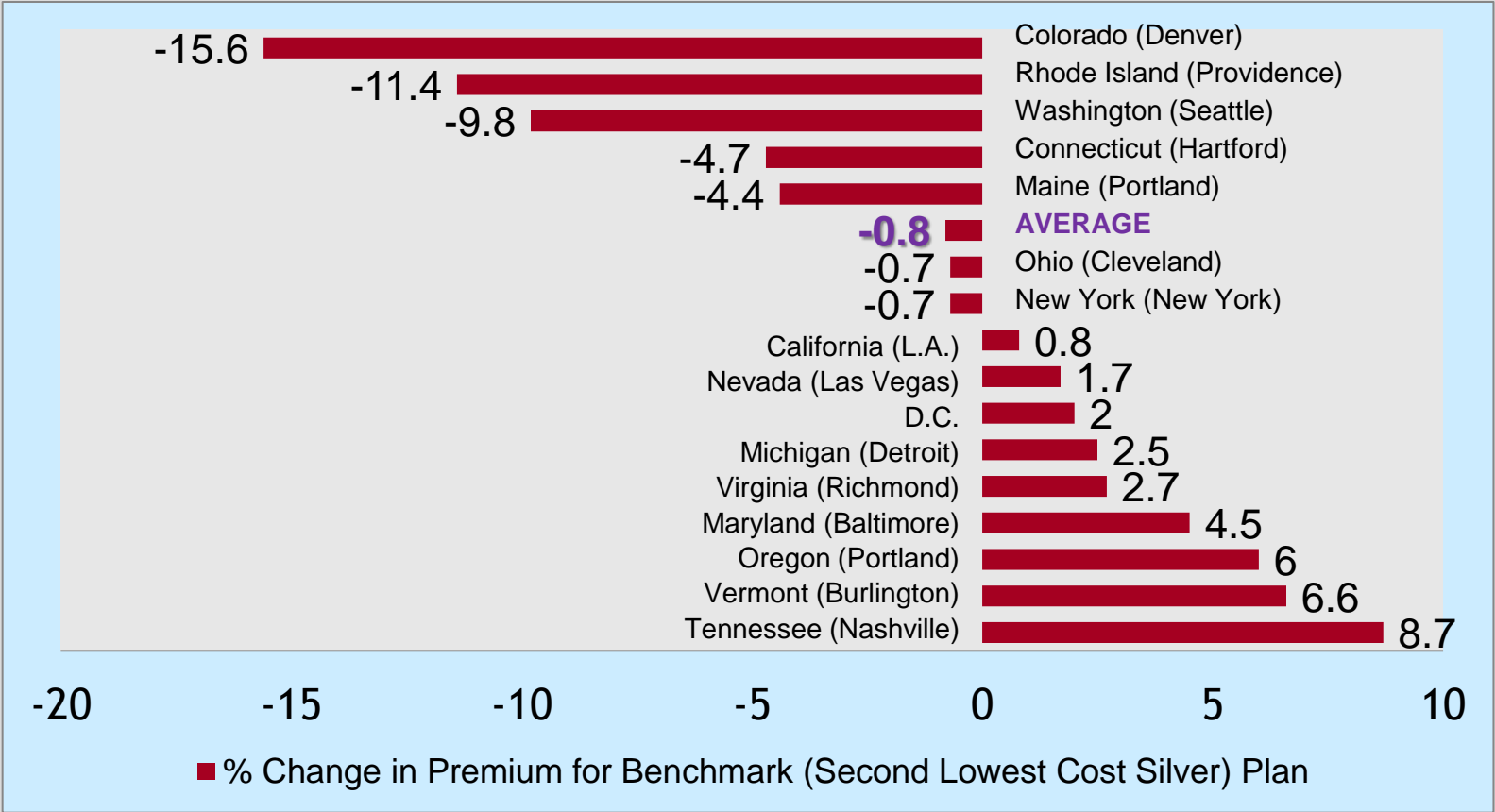
Marketplace Competition (Example)

Illinois

Year	No. of Issuers	Total Plans	Individual Marketplace	SHOP*
2014	8	165	120	45
2015	10	504	306	198

* SHOP: Small Business Health Options Program

2015 ACA Premiums



Source: Kaiser Family Foundation

Exchange (Marketplace) Plans

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

Exchange Plans Concerns

- High out-of-pocket costs
 - Silver Plan: 30% cost-sharing for insured
 - Silver Plan average OOP: \$5,764
 - Platinum Plan average OOP: \$1,855
- Narrow networks
 - Example: No “diagnostic radiologists” in-network in any Chicago-region ACA plan

Cost-Sharing Reductions

Second Government Subsidy: Reduces Out-of-Pocket Costs of Silver Marketplace Plan

- **Limited to those between 100% and 250% FPL**

MAGI	Actuarial "Value"	Deductible	Max Out-of-Pocket	Doctor Visit Co-pay	Hospital Co-pay
100% — 150% FPL	94% "Silver" Plan	\$0	\$1,000	\$10	\$100
151% — 200% FPL	87% "Silver" Plan	\$250	\$2,000	\$15	\$250
201% — 250% FPL	73% "Silver" Plan	\$1,000	\$4,000	\$30	\$1,500
≥ 250% FPL	70% Silver Plan	\$2,000	\$5,500	\$30	\$1,500

How Narrow Are Networks

Number of Providers Per 100,000 Residents By Specialty Area
A Comparison of Exchange Bronze Plans Versus Leading PPO

Provider Per 100,000 Residents *	Exchange Plans	PPO Private Plans
Cardiologists	13.6	39.0
Oncologists	4.7	10.5
Orthopedists	13.0	25.1
Dermatologists	4.7	9.0
Obstetrics-Gynecology	19.4	34.9
Gastroenterologists	7.4	13.7

* Represented as a total, per specialty area, across all 9 states. Data on county populations are based on Census records

Source: National Center for Policy Analysis and American Enterprise Institute

Harder to Maintain Status Quo

Strategic Pressures

- Price competition from ACA Marketplaces
- Increasing ACA compliance and regulatory burdens on maintaining group plans
- Changing nature of health plans
 - Pre-existing exclusions, medical underwriting—eliminated
 - Industry shift to defined contribution model
- Looming Cadillac Plan Tax

ACA Compliance Burdens

- PCORI Fees
- ACA Transitional Reinsurance Fees
- Employee Protections
- Noncompliance Penalties—§4980D
 - \$100/day per affected individual (\$36,500 per year)
- Plan reporting, employer reporting, HPID*
- Others still coming:
 - Nondiscrimination—§105(h)
 - Plan transparency and quality reporting

*HPID: Health plan identifier number

Excise Tax Penalties

- Code §4980D
 - **\$100 per day** per “affected individual”— can accumulate quickly
 - **Applies to church plans**
- ACA provisions—already in place
 - SBC*, no pre-existing condition exclusions, no annual/lifetime limits, dependent child coverage, preventive health coverage, health plan reporting, claims and appeals, patient protections

Penalties for violations—plan sponsor

* SBC: Summary of benefits and coverage (standardized)

Non-Discrimination Rule

Could present a significant challenge for churches

Highly compensated employee (HCE) defined differently than for retirement plans

- Highest-paid 25% of all employees
 - **Every employer has HCEs** (even a small church)
- Penalties for non-compliance are different
 - **Self-funded:** Health benefits of HCE become taxable
 - **Insured:** Excise tax (**\$100/day per HCE**), civil money penalty, or a civil action to compel nondiscrimination
- Enforcement of Section 105(h): “on hold” pending further IRS guidance → **Late 2014 (Est.)**
- Strange legislative and regulatory history...

Cadillac Plan Tax—2018

Assessed on **cost of coverage**
for plans in excess of certain thresholds



40% excise tax on plan's cost in excess of:

- **\$10,200 for individual coverage**
 - **\$27,500 for family coverage**
-



Increased threshold for plans that cover pre-Medicare retirees or high-risk jobs

- **\$1,650 individual or \$3,450 family**
-



Adjusted for inflation (CPI*)+1% (2018-2020); CPI-only after 2020

* **CPI: Consumer Price Index**

Cadillac Plan Tax

- Waiting for regulations to define “cost”
 - Premium cost for fully-insured plans
 - “COBRA cost” for self-insured plans
 - **Plus:** FSA/HRA/HSA* contributions
- Church Alliance will advocate for church plans
 - “Actuarial value” vs. premium cost vs. church contribution
 - Age demographics

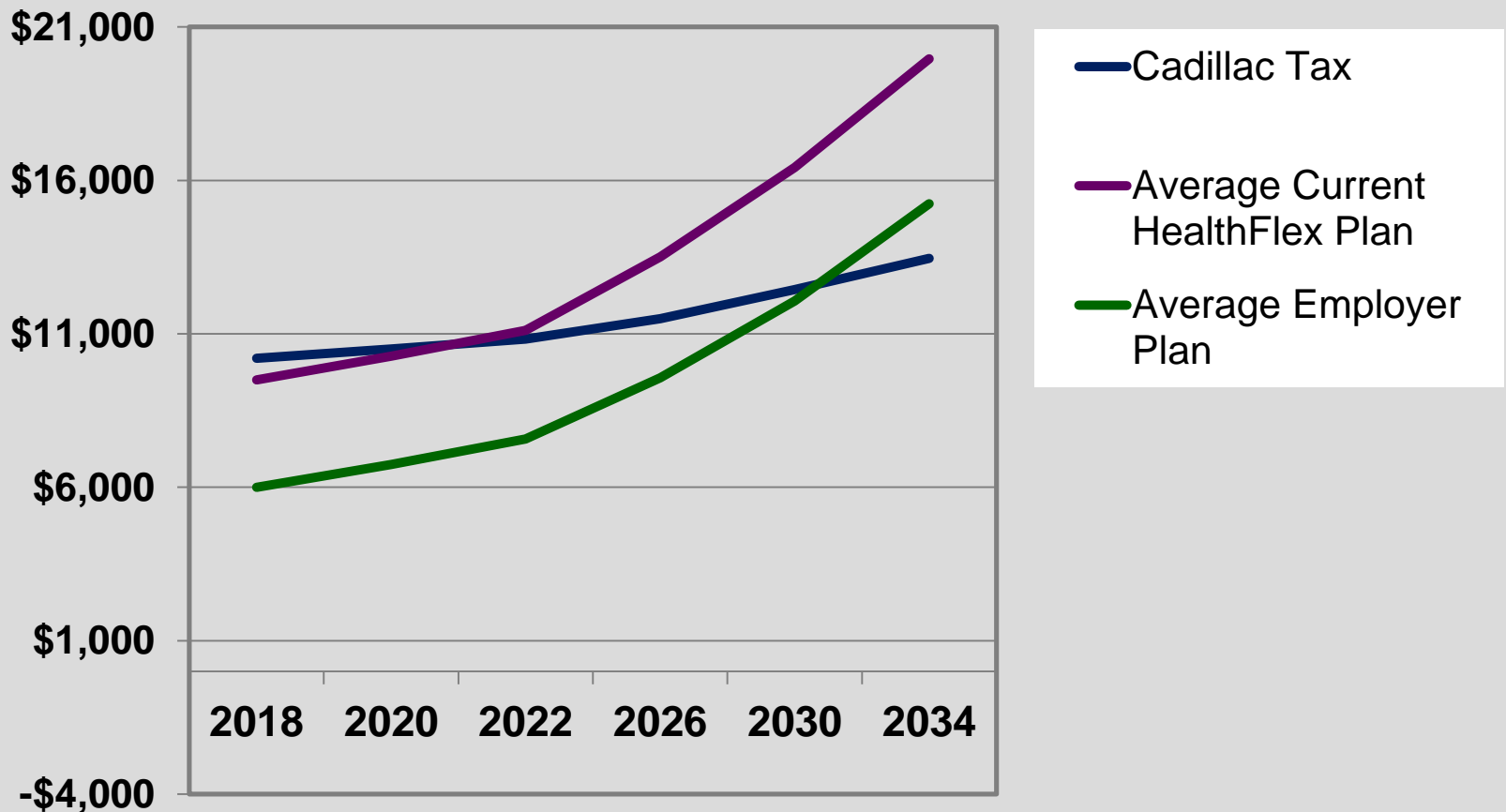
* **FSA: flexible spending account; HRA: health reimbursement account; HSA: health savings account**

Cadillac Plan Tax

- Implementing regulations—What to look for
 - Baseline inflation adjustment in 2018 (possible):
 - **If 2018 plan year cost exceeds 2010 cost at least 55% (per-employee cost for BCBS option under FEHBP*)**
 - Demographic adjustment factor possible
 - Geographic adjustment factor possible
- Unions benefit §49801(b)(3)(B)(ii):
 - Union plans only subject to **family coverage** threshold—for any type of coverage

* FEHBP: Federal Employee Health Benefit Plan

Cadillac Plan Tax



Conference Strategies

Conference Strategies

Connectional and Policy Considerations

- *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 [e.g., type of exchange and Medicaid expansion]
- Appointment process and itineracy concerns
- Equity of health coverage
- Demographics of conference plan population
- Tax implications
- Unintended consequences (e.g., increased DAC*)

* **DAC: Denominational average compensation**

Conference Strategies

Status Quo

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

Conference Strategies

Changes at the Margins

- Encourage Marketplace enrollment for continuation (COBRA) participants and clergy on unpaid leaves (where the 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** no PTC
- 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

Dynamic Plan Strategies

Consumer-Driven Plan Designs: Greater out-of-pocket at front end (except preventive care); account-based features (HSA/HRA)

Private Exchanges: Defined contribution strategy and consumerism in choice and utilization

Outside-the-Box Thinking: Local co-op networks; narrow networks and ACOs*; cash pricing with local providers; self-administering; changing plan's risk-pool (e.g., adding lay employees)

PROS	Maintains single conference employer plan
	Embraces strategies trending among employers and insurers, and socializes participants to the new paradigm
CONS	Disruptive change for participants
	Some cost-shifting to participants
	Administrative costs and efforts

* **ACOs: Accountable Care Organizations**

Dependent Coverage Options

Spouse and Dependent Changes

Version 1: Conference ceases covering spouses and dependents at conference/plan level

Version 2: Local churches cease covering spouses, dependents or both at the local level (with conference permission)

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) <ul style="list-style-type: none">• They pay full premium on exchange with after-tax \$• Compensation may need to be increased

Conference Strategies

Affordability Option

- Maintain required full-time clergy coverage, but **increase** required individual contributions...
- **Clergy for whom coverage is not “affordable”** (e.g., 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 <ul style="list-style-type: none">• 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” <ul style="list-style-type: none">• Diminution in size• Change in risk profile
	Problem for churches with multiple clergy? <ul style="list-style-type: none">• Some would want to remain in the plan; some would not

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 <ul style="list-style-type: none"> • Unintended consequences → Increases CAC and DAC; increases CRSP-DC², CPP³ and UMPIP⁴ contributions based on compensation • Unintended distortions → Uniform salary increases may have disparate impacts for single vs. married vs. family; PTC eligibility
	Add/increase other non-taxable benefits (UMPIP, UMLifeOptions)
	Increased tax burden to clergyperson (SECA and income taxes); or employee (income taxes) and employer (FICA)

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**

Questions?

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