

Oklahoma Legislature
Joint Committee on
Federal Health Care Law

**Impact of Healthcare
Reform on Employers**

Mike Rogers, State Chamber of Commerce

October 5, 2011

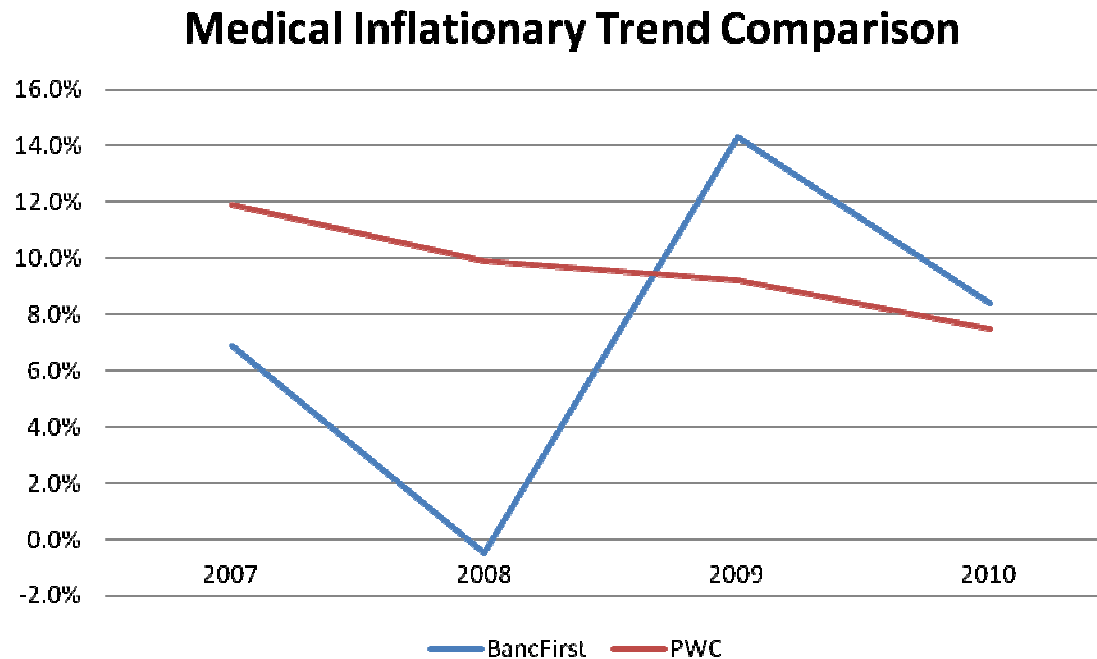
Typical approach for a self-funded plan

- Medical Plan Financial Analysis
 - Key discussion points regarding increased medical claims cost
 - Medical inflationary trend benchmarking
 - Grandfathering Status: definition and current evaluation
- 2011 and 2012 Cost Projections
- Healthcare Reform Key Requirements (2012 – 2014)
- 2014 and 2018 Modeling
 - Key variables to evaluating “Play” or “Pay”
 - “Free Rider” penalty analysis
 - “Cadillac Tax” analysis
- Plan Strategy Considerations

Key Discussion Points

- Assumed inflationary trend: 9% for 2010, 2011 and 2012
- Consultant projected 2012 increase at 10.2% (with data through 4/30/2011)
- Financial analysis based upon COBRA rates and not funding since PPACA compliance will be calculated using this methodology.
- Limited historical plan design changes and limited change in utilization patterns has kept average participant cost shares steady
- Inflationary trend and no increase to employee cost sharing has created leveraged impact to plan funding.

Actual Medical Trend vs. Benchmark



Observations

1. Both 2009 and 2010 saw increased volume and severity of “Shock Claims”, most other utilization remained unchanged
2. Plan participant cost shares have remained unchanged due to little to no adjustment to plan design which creates a leveraged impact to employer funding as total plan costs increase.
3. Company’s four year average is nearly 2.5% below the Price Water House Coopers (PWC) benchmark

2011 Plan Cost Scenarios

Current as of January 2011	2011 Premium ER 70% - EE 30% Contribution				EE Cost	ER Cost	Observations
	June Headcount	Premium Equivalent Rates	Employee	Employer			
Employee Only	649	\$ 460.32	\$ 72.00	\$ 388.32	15.64%	84.36%	<i>Excellent ER subsidy</i>
Employee + Spouse	147	\$ 825.54	\$ 430.00	\$ 395.54	52.09%	47.91%	<i>Implied Spousal surcharge</i>
Employee + 2 or less Children	214	\$ 563.92	\$ 174.00	\$ 389.92	30.86%	69.14%	<i>Excellent ER subsidy</i>
Employee + Family	143	\$ 908.84	\$ 512.00	\$ 396.84	56.34%	43.66%	<i>Implied Spousal surcharge</i>
Annual Total	1,153	\$ 8,048,941	\$ 2,644,680	\$ 5,404,261			
PEPM		\$ 581.74	\$ 191.14	\$ 390.59			
			33%	67%			

Current as of July 2011	2011 Premium ER 70% - EE 30% Contribution				EE Cost	ER Cost	2011 Fixed Costs	
	June Headcount	Premium Equivalent Rates	Employee	Employer				
Employee Only	649	\$ 460.32	\$ 79.46	\$ 380.86	17.26%	82.74%	Composite	\$ 38.62
Employee + Spouse	147	\$ 825.54	\$ 473.33	\$ 352.21	57.34%	42.66%	Rx Rebate	\$ (8.29)
Employee + 2 or less Children	214	\$ 563.92	\$ 191.19	\$ 372.73	33.90%	66.10%	Aggregate	\$ 2.96
Employee + Family	143	\$ 908.84	\$ 563.16	\$ 345.68	61.96%	38.04%	Specific	\$ 15.96
Annual Total	1,153	\$ 8,048,941	\$ 2,911,147	\$ 5,137,794			Admin	\$ 27.99
PEPM		\$ 581.74	\$ 210.40	\$ 371.34				
			36%	64%				

2012 Grandfathered Renewal Scenario

		2011 Premium ER 70% - EE 30% Contribution								
Current as of July 2011		June Headcount	Premium Equivalent Rates	Employee	Employer	EE Cost	ER Cost	2011 Fixed Costs		
Employee Only		649	\$ 460.32	\$ 79.46	\$ 380.86	17.26%	82.74%	Composite	\$ 38.62	
Employee + Spouse		147	\$ 825.54	\$ 473.33	\$ 352.21	57.34%	42.66%	Rx Rebate	\$ (8.29)	
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PEPM			\$ 581.74	\$ 210.40	\$ 371.34					
				36%	64%					
2012 Renewal		2012 Renewal						2012 Renewal		
		June Headcount	Premium Equivalent Rates	Employee	Employer	Employee Monthly Increase	EE Cost	ER Cost	Premium Increase	10.15%
Employee Only		649	\$ 507.06	\$ 87.53	\$ 419.53	\$ 8.07	17.26%	82.74%		
Employee + Spouse		147	\$ 909.36	\$ 521.39	\$ 387.97	\$ 48.06	57.34%	42.66%		
Employee + Child		214	\$ 621.17	\$ 210.60	\$ 410.57	\$ 19.41	33.90%	66.10%		
Employee + Family		143	\$ 1,001.11	\$ 620.34	\$ 380.77	\$ 57.18	61.97%	38.03%		
Annual Total		1,153	\$ 8,866,137	\$ 3,206,740	\$ 5,659,397					
PEPM			\$ 640.80	\$ 231.77	\$ 409.03					
				36%	64%					
	Increase		\$ 817,196	\$ 295,593	\$ 521,603					
								2012 Renewal Fees		
								Fees + Stop Loss	\$ 42.35	

Healthcare Reform: 2012 and 2013

2012 (details and timing subject to HHS guidance)

- Uniform plan summary notice requirements: 4 page maximum, 12 point font and “culturally and linguistically” appropriate language.
- Participants must receive 60 day notice of plan changes (effective March 2012)

2013 (details and timing subject to HHS guidance)

- **Automatic enrollment with opt-out provisions. Special employee notice will need distribution (March) describing process and right to purchase insurance in state exchange in 2014. Note that effective date could be delayed further.**
- Medical Flexible Spending Account: maximum reduced to \$2,500
- Implement additional employee only .9% Medicare Hospital Insurance payroll tax for employee wages in excess of \$200,000 or \$250,000 filing jointly.

Healthcare Reform: 2014

- Preexisting Condition Limitation waived
- State Exchanges become available (four tiered offerings: 90%, 80%, 70% and 60%) for individuals and small employers. **Large employers may be eligible in 2017.**
 - **Note that currently most states are not prepared for 2014 deadline- only UT and MA**
- Individuals subject to coverage mandates
- Qualified Health Plan “essential benefit” requirements defined by HHS must be satisfied
 - Annual reporting requirement
- **Employer “free rider” penalties subject to both availability (\$2,000 per each employee) and affordability (\$3,000 per impacted employee) of coverage**
 - **Affordability standards: a) minimum 60% employer subsidy and b) maximum employee contribution of 9.5% of household income (has since been changed to W-2 Income)**
 - **Full-Time Employee comparison: 30 hrs vs. 40 hrs.**
- Employee Eligibility: 90 day waiting period maximum limitation
- Dependent Eligibility: coverage through age 26, no exceptions
- Appeals and review procedures for both coverage and claims must be implemented, including a binding external review process.

Key Variables to “Play” or “Pay”

- Current employee participation rate
 - BancFirst is 81%, healthy and slightly low
 - Auto-enrollment could have large impact
- Current employer subsidy percentage
 - BancFirst is 65% compared to 75% average
- Richness of current plan design and cost
- Average compensation
 - Employees with salaries in excess of 400% FPL will not be eligible for premium subsidies
 - Single: \$43,560 (2011)
 - Family of four: \$89,400 (2011)
 - High income employees benefit greatly from tax advantaged health plans due to their higher tax rates

Impact from Automatic Enrollment

AUTOMATIC ENROLLMENT

Non Enrolled Employees as of 5/1/2011	279
Auto Enroll, won't opt out	70
Per Member Per Month Cost Trended	\$ 391.29
Employee Contribution	\$ (95.83)
Projected Cost Per Member Per Month	\$ 295.46
Additional BancFirst Cost	\$ 248,183

Note: estimate based upon trended medical costs only

“Pay or Play” Analysis

	BancFirst: "Play"				BancFirst: "Pay" \$2,000 Penalty			
	EE's	Premium	EE Contrib	ER Contrib	EE's	Premium	EE Contrib	ER Contrib
Pre-PPACA Enrollment	1153	\$ 9,887,131	\$ 3,460,496	\$ 6,426,635	Eligible FTE's	1432	\$ 2,000	\$ 2,864,000
Auto-enrollment	70	\$ 328,684	\$ 80,500	\$ 248,183	Auto-enrollment	n/a		
Waive	209	\$ -	\$ -	\$ -	Credit first 30			\$ (60,000)
Total	1432	\$ 10,215,814	\$ 3,540,996	\$ 6,674,818	Total Penalty			\$ 2,804,000
Corporate tax deduction	35%			\$ (2,336,186)	Corporate tax deduction	35%		\$ 2,336,186
FICA tax deduction	7.65%			\$ (270,886)	FICA tax deduction	7.65%		\$ 270,886
Adjusted ER Contribution				<u>\$ 4,067,746</u>	Adjusted ER Contribution			<u>\$ 5,411,073</u>
Subsidy Penalty	54	\$ 3,000		\$ 162,000	Subsidy Penalty	n/a		
Net Medical Cost				<u>\$ 4,229,746</u>	Net PPACA Cost			<u>\$ 5,411,073</u>
Cost Per Employee				\$ 2,954	Cost Per Employee			\$ 3,779
Additional PPACA Cost (auto enroll plus penalty)				\$ 410,183	Additional PPACA Cost (penalty plus lost deductions)			\$ 1,181,327
					variance			\$ 771,143.45

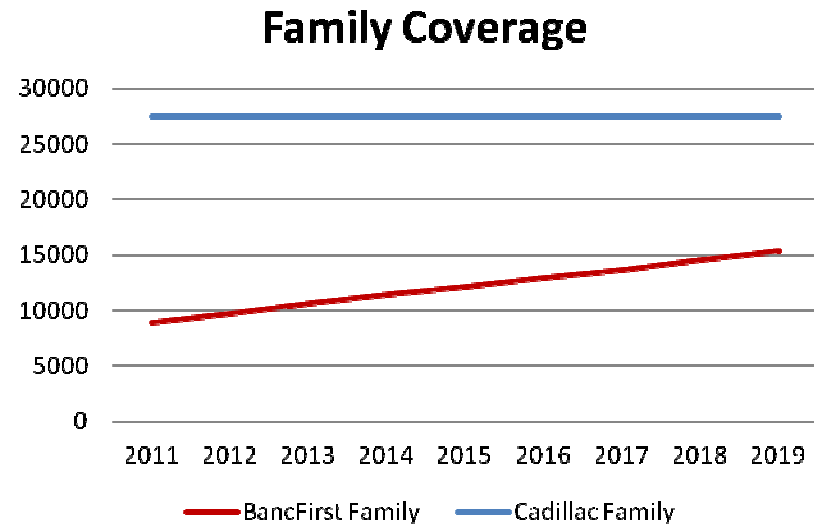
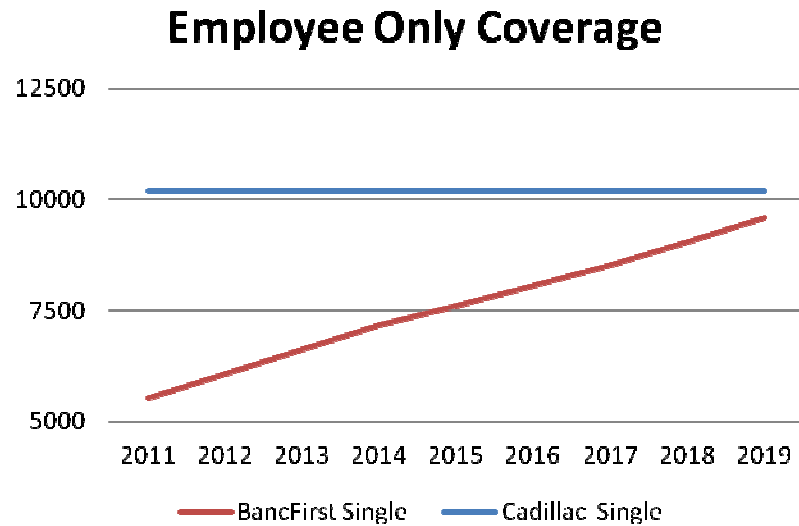
Assumptions

- 1) Employee contributions 35% of total premium
- 2) Dental premium excluded from above calculation
- 3) FICA cap on salary not contemplated in above calculation
- 4) Assumed no salary increase for calculation of those who might be subsidy eligible
- 5) Any impact from State and local taxes is not included

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“Cadillac Tax” effective 2018



Definition: 40% excise tax on “excess benefit” of annual limit- paid by BancFirst

- \$10,200 for individuals
- \$27,500 for families

Notes:

1. BancFirst won't meet criteria until 2020
2. Adjusting dependent tiering appears to be allowed which could provide relief past 2020
3. This requirement is under significant scrutiny

Plan Strategy Considerations

- Evaluate Grandfathering status- guidance still lacking and much could still change
 - Re-evaluate plan design and notice requirements annually as new guidance is released and new precedent is determined.
- Separate Dental from Medical and price independently. PPACA excludes Dental.
- Create Dual Option PPO Plan and auto-enroll into lesser valued plan that meets minimum “essential benefits”
- Consider “defined contribution” approach

Conclusions

- Complex
 - Burdensome
 - Costly
 - Confusing
 - Individual Mandate Court Challenge

 - **Creates Uncertainty**
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