

# 10 Minutes on Health Reform

What you need to know about emerging topics essential to your business. Brought to you by PricewaterhouseCoopers.

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## Considerations on the post-reform horizon

### Highlights:

- This year, most employers will start revising their benefit plans to comply with the new health reform law. The magnitude of change is poised to grow over the next several years.
- On near horizons, reforms range from expanding coverage to include children up to age 26 in 2010 to implementing auto-enrollment in health plans.
- The biggest changes for employers will unfold in 2014, with the advent of state insurance exchanges.
- As companies across industries digest the new laws and prepare for the challenges ahead, they can begin asking some critical questions to assess potential impacts to their health benefits and people strategies.

**President Obama has signed into law one of the most important pieces of social legislation in decades, aiming to expand health coverage in the US over the next 10 years.**

**According to government estimates, by 2019, if reforms succeed, 94 percent of non-elderly Americans will have health insurance coverage, up from about 83 percent today.<sup>1</sup>**

**To be sure, health reform will have major impacts on hospitals, physicians, health insurers, and pharmaceutical and life sciences companies. But the array of new rules will also fundamentally alter the health insurance market, impacting virtually all aspects of employer-sponsored insurance, from eligibility and plan design to underwriting rules, tax deductions and funding.**

**Amid a rising tide of healthcare costs, business leaders across industries will be challenged to do well by their people while complying with new near- and long-term requirements.**

**What are the key issues in health reform facing businesses?**

1. **Reforms include a myriad of tax deductions, fees and subsidies around health coverage.** Some businesses will benefit from the changes; others will not.
2. **Three million fewer Americans will have employer-sponsored insurance by 2019.<sup>2</sup>** Some of the newly insured are expected to choose to buy coverage through new, state-based insurance exchanges.
3. **Every employer will need to review its benefits strategy in light of the changes brought by the new law.** Employers will have to weigh compliance with new requirements against new alternatives, including exiting the direct provision of employee health benefits.

<sup>1</sup> Congressional Budget Office and Joint Committee on Taxation, March 20, 2010.

<sup>2</sup> Ibid.

# At a glance

## New rules for employer-sponsored insurance and plans

The health reform laws require companies to

Begin:

- Providing coverage to children up to age 26
- Covering children regardless of pre-existing conditions

- Reporting value of worker health benefits on W-2s

- Considering offering new community living assistance services and supports benefit (CLASS)

- Notifying workers about the state insurance exchanges starting in 2014

- If available, considering whether to join state health insurance exchanges (small employers)
- Covering all full-time workers or pay the “free-rider” penalty
- Getting subsidies for providing coverage to their workers (small employers only)
- Considering offering 30% wellness incentives to workers

- If available, considering whether to join the state health insurance exchanges (large employers)

Stop:

- Setting lifetime limits on benefits
- Implementing annual limits that aren’t “reasonable”

- Deducting federal subsidies for retiree drug coverage

- Allowing FSA contributions of more than \$2,500

- Setting out-of-pocket limits that are greater than health savings account plan limits
- Making workers wait more than 90 days to enroll

- Offering “high-cost” benefit plans, or face 40% excise tax



## 01

## What should businesses do now?

For group health plans, many provisions will become effective in the first plan year commencing after September 23, 2010. Employers can take action now to prepare for the changes down the road.

### **Prepare for higher retiree drug costs**

When Congress expanded Medicare in 2003 to include drug coverage, it agreed to give a 28 percent subsidy to companies paying for their own retirees' drugs. The government also decided the subsidy would not be taxable. The new health reform law reduces the employer's tax deduction for employee health benefits by the value of the subsidy received, beginning in 2013. Companies will have to account for that change now on their income statements.

In the meantime, Medicare is closing the gap in coverage known as the "doughnut hole"—the difference between a Medicare beneficiary's initial prescription drug coverage limit and the threshold for catastrophic coverage—which often places a tremendous financial burden on beneficiaries who reach their prescription drug coverage limits well before the catastrophic threshold kicks

in. Employers may want to evaluate how their retiree drug plans compare with Medicare's prescription drug plan.

### **Plan to expand coverage to more workers and family members**

By September 2010, employer-sponsored benefit plans must cover children up to age 26, eliminate lifetime limits and ensure that their annual limits are "reasonable." In addition, employer plans cannot contain pre-existing-condition exclusions for children.

### **Tap additional funding to pay for coverage for early retirees**

By the summer of 2010, the government will create a temporary re-insurance program for high-cost claims for early retirees. This could reduce costs for pre-65 retirees by more than 25–30 percent, according to PwC estimates.<sup>3</sup>

<sup>3</sup> PricewaterhouseCoopers, HRS Insight, April 9, 2010.

# 02

## What to expect over the next three years

Employers face even bigger changes from 2011 to 2013, affecting not only the level and type of coverage they offer but also the ways they deliver and account for those benefits.

### **Conscripting employees into plans**

In 2011, large employers may offer to auto-enroll workers in a new federal program that pays for community living assistance services and supports (CLASS). Employers will also have to auto-enroll workers in the employers' health plans on a date yet to be determined.

### **Potential drop in Medicare Advantage enrollment**

The new law cuts payments to Medicare Advantage plans, which cover about one-fifth of Medicare beneficiaries and have been popular among both retirees and their former employers. These plans often offer additional benefits such as vision and drug coverage and provide greater value than traditional Medicare coverage. Reducing payments to these plans could mean fewer additional benefits and higher cost-sharing for retirees. Companies that offer Medicare Advantage plans to their retirees may see premium

increases for those plans, which in turn might make them less appealing to retirees.

### **Report coverage value on W-2s**

In the effort to create greater transparency around healthcare costs, employers must begin reporting the value of an employee's health insurance on the annual Form W-2 in 2011. To calculate the coverage value, employers will need to follow rules similar to those for determining the cost of COBRA coverage.

### **Exchanges are coming**

Beginning in 2013, employers must notify their workers that new, state-based health insurance exchanges will become available to workers in 2014. These exchanges will provide an alternative to employer-sponsored insurance for certain workers.

# 03

## The biggest changes occur in 2014 and beyond

The landscape for employer-sponsored insurance changes dramatically in 2014. Not only will employers have strong incentives to provide coverage to their workers, but they will also have options to drop coverage and allow employees to obtain company-sponsored coverage from exchanges.

### **State-based health insurance exchanges**

According to the reforms, states will establish health insurance exchanges that provide one-stop shopping for standardized packages of benefits. In 2014, small employers and individuals may buy their insurance through these exchanges. In 2017, states may open their exchanges to large employers. There will be added relief for small businesses, with \$40 billion of tax credits being made available over 10 years to subsidize coverage through these exchanges.

### **New coverage requirements on employers and individual**

Also beginning in 2014, employers with more than 50 workers must provide coverage for full-time workers or pay a \$2,000-per-worker “free-rider” penalty, excluding the first 30 full-time employees. There are numerous

rules around what type of coverage must be offered to escape the penalty. In addition, if a company offers coverage, it must pay \$3,000 for each employee who enrolls in a health plan offered through the exchange and receives a premium tax credit.

Individuals also must enroll in 2016 in coverage or pay a fee that generally phases in to a maximum of \$695 / \$2,085 (individual / family) or 2.5 percent of income, whichever is greater.

While there are still gray areas around the coverage penalties, employers can start assessing the potential impacts today. Health benefits packages can be integral to a company’s ability to attract and retain talent, and employers should evaluate the decision in the context of their overall benefits and people strategies.

# 04

## Rethinking benefits strategy in a post-reform world

Overall, employers need to look at the full package of reform to assess challenges and opportunities. Key questions that employers may want to consider are:

### **How does the law help reduce my company's medical costs?**

Provisions in the new law increase access to preventive services community-wide, which could lower costs in the long run. Employers will be able to use greater financial incentives to encourage healthy behaviors. In addition, the new law provides payment incentives through Medicare for providers to improve the efficiency and coordination of care. These improvements could spill over to help those in private coverage as well.

### **How do these new exchanges and choices affect my benefit strategy?**

By 2017, large employers may be able to provide health coverage for their workers in the exchanges. These exchanges could be attractive to workers. However, because employers like to customize their benefit plans to the special needs of their workforces, they should evaluate continuing their current plans, offering plans through the exchange or even offering plans that wrap around exchange-based plans, as regulations may permit.

### **What happens to consumer-directed health plans?**

Many provisions in the health care reform act carry through the same principles that led to consumer-directed plans, by encouraging transparency in health plans and on the part of providers so patients can make good decisions.

### **Are my health benefit plans considered "Cadillac" plans, and are they worth the cost?**

In 2018, high-value health plans will be assessed a 40 percent excise tax. In general, these are plans with actuarial values over \$27,500 for a family plan and \$10,200 for a single plan. Amounts exceeding the thresholds will be subject to the tax. In response, employers may shift compensation from benefits to salary.

## Upcoming 10Minutes topics

### **From crisis mode to sustainable efficiency**

Companies have yet to ease up on cost reduction measures, and many are now rethinking their operating models to deliver more value at lower cost. 10Minutes looks at how companies are embedding lessons from the crisis into more-disciplined management of corporate performance.

### **Creating value through transparency**

10Minutes explores how companies are giving their stakeholders the insight and comfort they need, in areas beyond traditional financial reporting, such as operations, risk management and corporate responsibility practices to encourage investment and enhance trust in business.

### **The changing face of financial reporting**

Standard setters have proposed fundamentally changing the way public companies gather and display financial data for investors and the general public. 10Minutes discusses the pros and cons of the proposed changes.

### ***On business and technology***

In this economy, CEOs are asking: “Are there ways to cut more costs and, at the same time, position my company for its next competitive advantage?” In the area of technology, the answer is yes. What is needed is to bridge the gaps that may exist between CEOs and CIOs regarding how technology can serve two functions: rationalize IT spend and align IT resources with business strategy for future growth.

**10Minutes on the CIO** explores how CEOs can enlist CIOs to help accomplish business goals such as winning more loyal customers, commercializing innovations faster or differentiating the business.

**10Minutes on cloud computing** explores where and how CEOs can adopt aspects of the cloud model to drive opportunities for the business as well as efficiencies in IT.

## How PwC can help

To have a deeper discussion about how health reform will affect your business, please contact:

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