WELLS FARGO INSURANCE

Health Care Reform:

What an Employer has to know

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Together we'll go far

Key Discussion Issues

1. Overview several components of ACA which impact employer-sponsored plans

2. Review of a Health Care Compliance Checklist Timeline

3. Discuss key items that impact employers

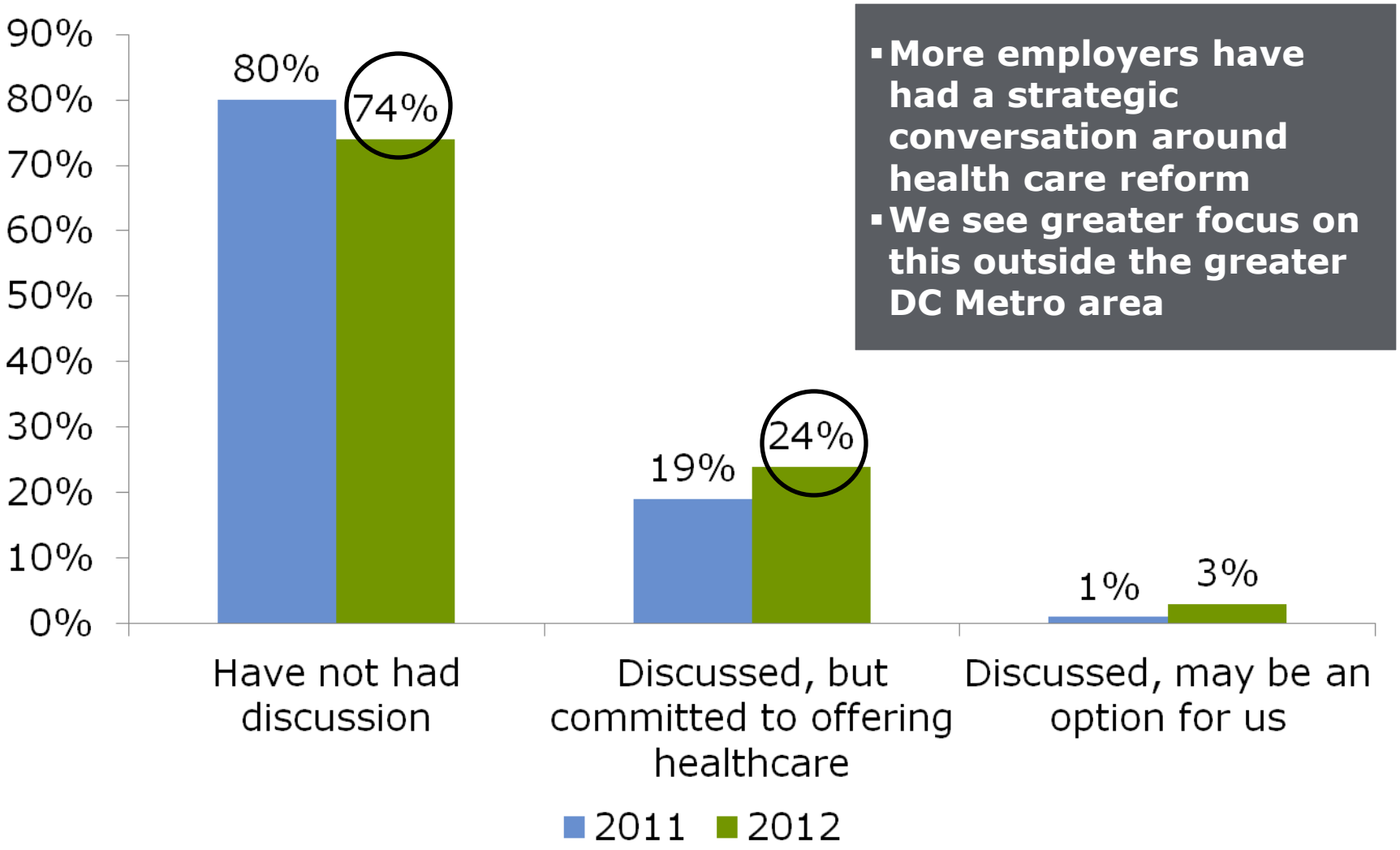
4. Recommendations on how to prepare for 2014

Healthcare Reform – Actions to Date

2012 Greater Washington Employer Benefit Survey

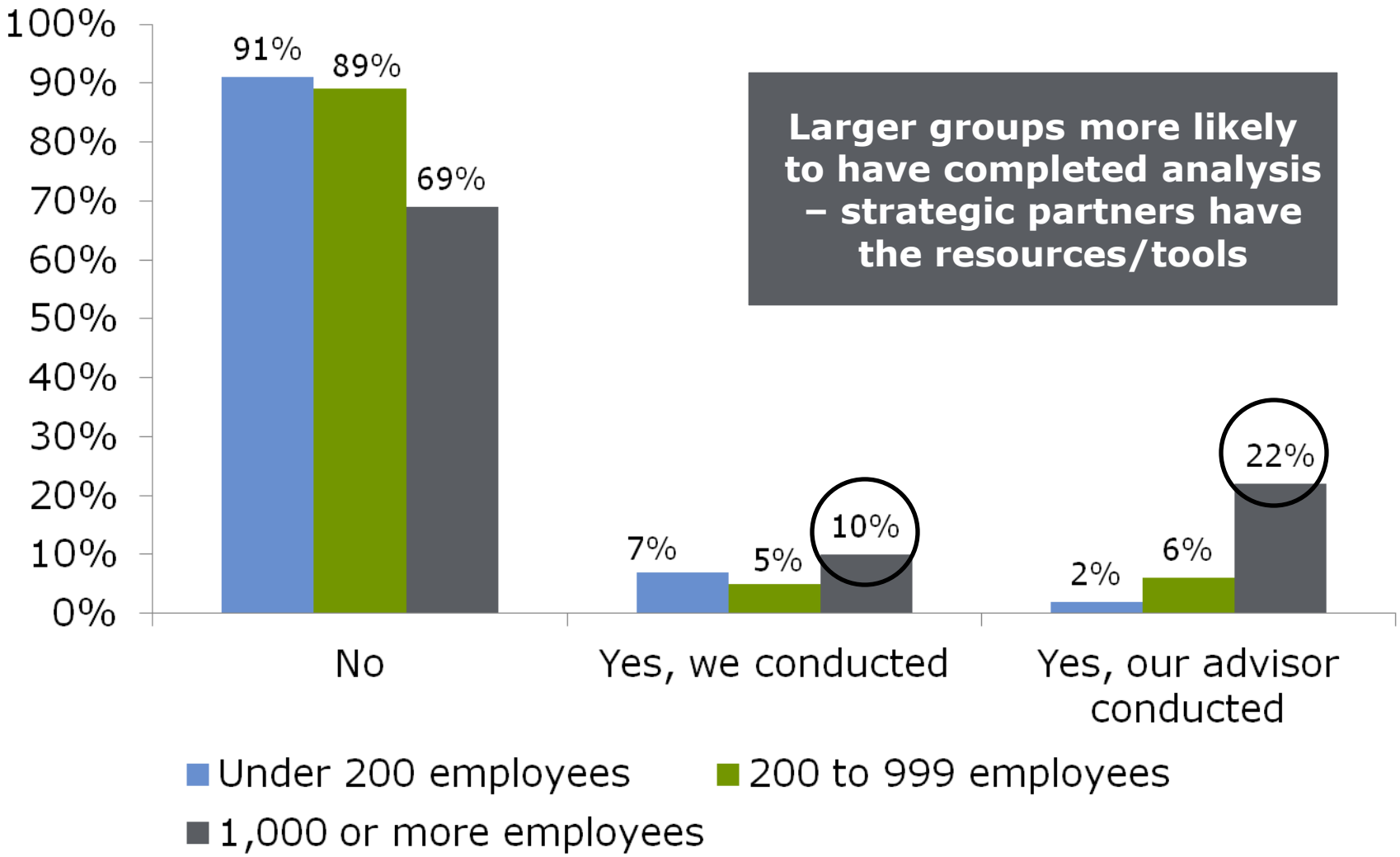
- **Strategies**: How will employers react to the play or pay mandates effective in 2014?
- **Financial Impact Analysis**: Are employers evaluating the financial impact of the legislation on their plan offerings and bottom line?
- **Competitive Landscape:** Do you care how your competitors will react to the legislation?

Plans to Exit Employer Sponsored Health Care Arena in 2014

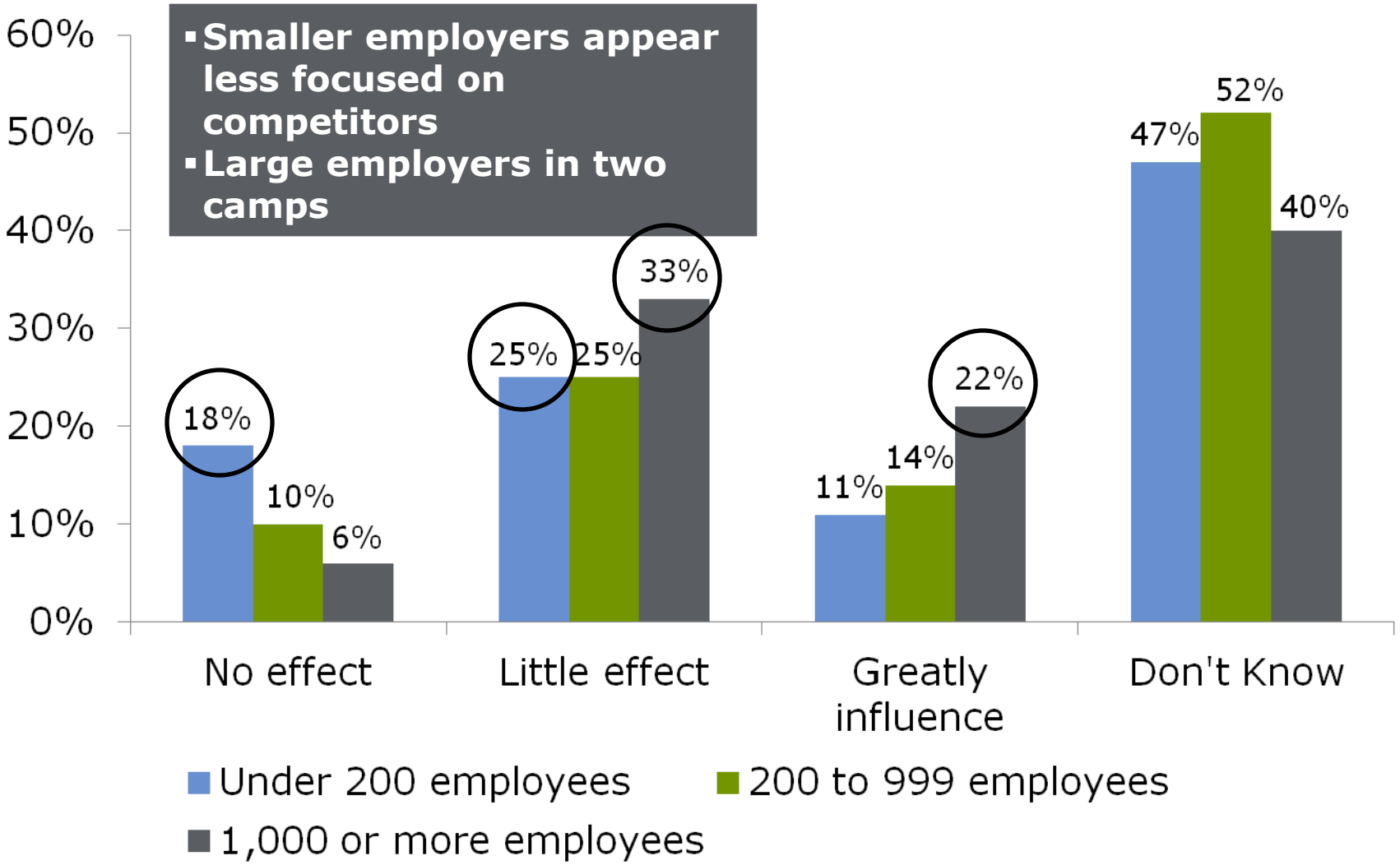


- **More employers have had a strategic conversation around health care reform**
- **We see greater focus on this outside the greater DC Metro area**

Completed a Financial Analysis of Health Care Reform – By Employer Size

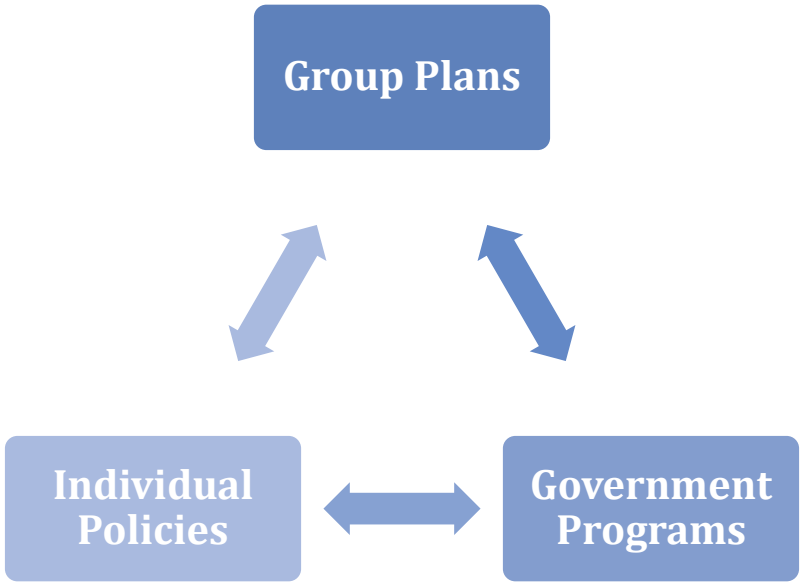


Peer/Competitor Influence on Your Decisions – By Employer Size



The Affordable Care Act (ACA) introduces a fundamental shift in health care programs

- Three primary ways to obtain health insurance coverage in the U.S.
  - Employer-provided group plans
  - Individual health policies
  - Governmental programs (e.g., Medicaid, Medicare, TRICARE, etc.)
- In 2014, ACA changes ground rules with respect to eligibility and cost of accessing these coverage options
  - Employees will potentially migrate into or out of employer-provided group plans
- Critical for employers to understand the drivers and financial implications that these migration patterns will have on their ability to maintain their relative competitiveness for its labor force at an affordable cost



Fundamental shift (cont.)

- Employer-provided health care delivery system will be restructured in 2014 primarily due to following ACA provisions:
  - Individual mandate
  - Employer "play or pay" mandates
  - Subsidized health insurance exchanges / Medicaid eligibility requirement
- A new degree of collaboration needed between HR, finance, and senior management to ensure development of appropriate response to the complexities and financial impact of ACA for a given organization
  - In light of the new federal standards affecting employer-provided health coverage, what is the best way to allocate compensation dollars and manage your employee benefit program?
  - Employers will need to assess multiple potential strategies across a broad continuum

Individual Mandate

- U.S. citizens and legal residents are required to have "minimum essential coverage" for themselves and their dependents beginning on 1/1/2014, or be subject to a tax penalty
  - Minimum essential coverage can be (i) eligible employer-sponsored group health plans , (ii) individual-market insurance policies, or (iii) certain governmental programs (e.g., Medicare, Medicaid, CHIP, TRICARE)
  - Limited exceptions apply
- **Tax** penalty for noncompliance is greater of:
  - percentage of income amount **in excess of** taxpayer's filing threshold (1.0% in 2014, 2.0% in 2015, and 2.5% in 2016 and beyond); or
  - dollar amount ($95 in 2014, $325 in 2015, and $695 in 2016 and adjusted for inflation thereafter)

Employer "play or pay" mandates

No minimum essential coverage for all full-time employees (and dependents) and at least one employee obtains subsidized exchange coverage

Applicable large employer

- 50 or more full-time equivalent employees

$2,000 annually

($166.67 per month) per total number of full-time employees

- Exclude first 30 FT Employees

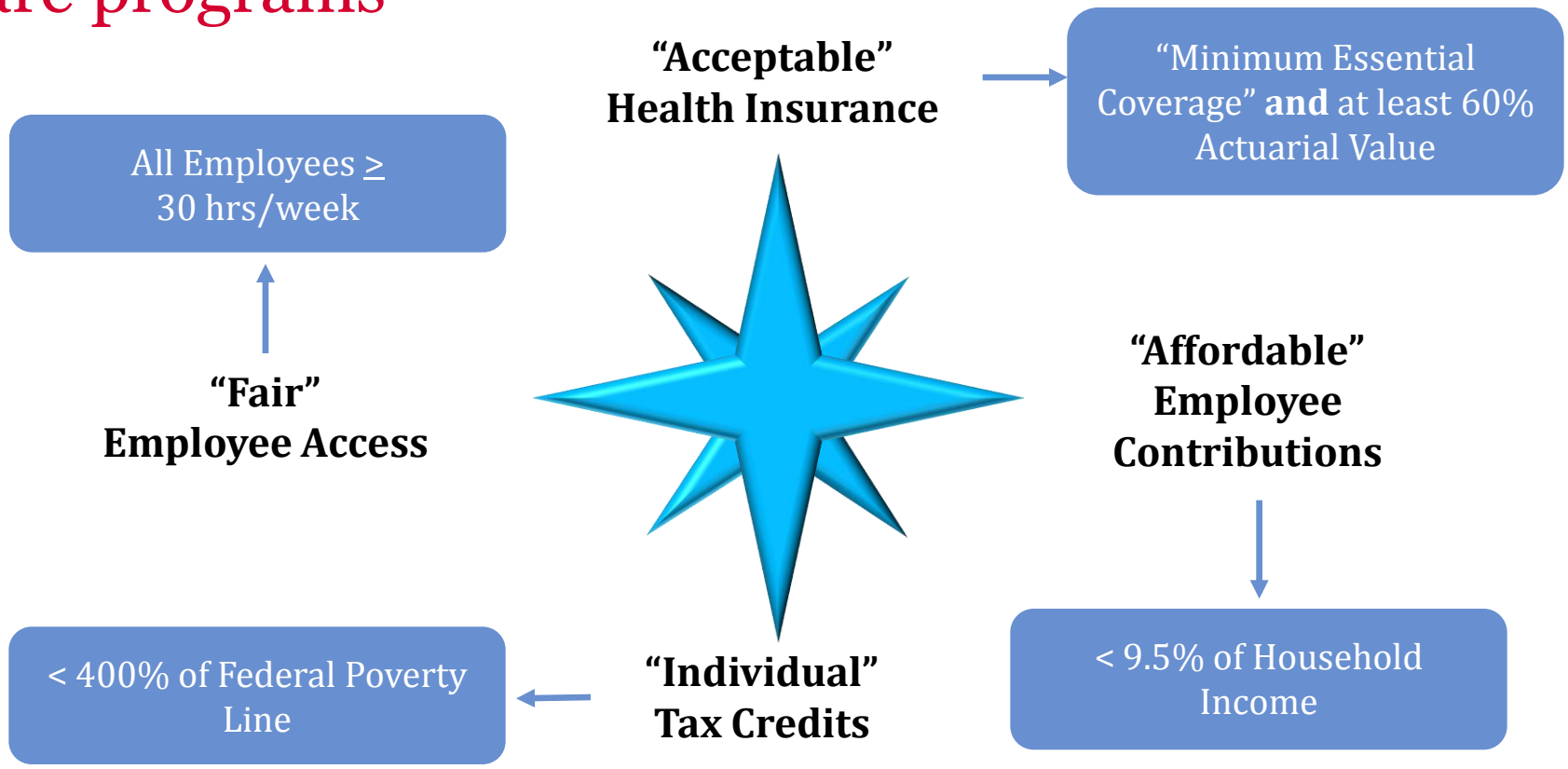
Offers some coverage but employee still obtains subsidized exchange coverage

$3,000 annually

($250 per month) per each full-time employee that receives premium tax credit / cost-sharing reduction from an exchange

(but penalty capped at level as if no minimum essential coverage offered)

New benchmarks and terminology that defines health care programs



Definition of Full-Time Employee

- Full-time employee = "with respect to any month, an employee who is employed on average at least 30 hours of service per week"
- Federal regulators have recently issued guidance on how to determine full-time employee status
- Significance of full-time employee status
  - Determines which employers are subject to employer "play or pay" mandates
  - Determines which employees may trigger excise tax penalty exposure for employer

Minimum Essential Coverage/ Actuarial value

Sample Plan #1	89% Actuarial Value
Deductible	$0
Coinsurance	10%
OOP Max	$1,500
PCP Co-pay	$25
Rx	$10/$25/$50

Sample Plan #2	70% Actuarial Value
Deductible	$1,000
Coinsurance	20%
OOP Max	$3,500
PCP Co-pay	$20
Rx	$15/$30/$50

Sample Plan #3	60% Actuarial Value
Deductible	$250
Coinsurance	35%
OOP Max	$5,000
PCP Co-pay	$25
Rx	$15/50%/50% after $250 Rx Ded.

- Actuarial value is a measure that indicates percentage of covered medical expenditures that a plan will pay in the aggregate with respect to a standardized population

Federal subsidized exchange coverage

- 2012 Federal Poverty Level guidelines (all states, except for Alaska and Hawaii)

Family Size	100%*	138%	400%
1	11,170	15,415	44,680
2	15,130	20,879	60,520
3	19,090	26,344	76,360
4	23,050	31,809	92,200
5	27,010	37,274	108,040
6	30,970	42,739	123,880
7	34,930	48,203	139,720
8*	38,890	53,668	155,560
* For family units of more than 8 members, add $3,950 per additional person			

  - Note that national statistics reflect **63% to 68%** of households will have household income < 400% of FPL, but percentages vary by state and geographic regions

Public health insurance exchanges

- General overview
  - Federally supervised, but state-operated, marketplaces where health insurance policies meeting specific eligibility and benefits requirements will be available for individuals and certain small employers, starting in 2014
  - Each state must establish at least one exchange (federal government will operate one if a state chooses not to establish its own)

- 5 different actuarial value coverage tiers will be available

- Coverage subject to modified community rating (guaranteed issue with no individual medical underwriting)
  - Rates can vary **only** based on (1) individual or family coverage; (2) geographic area; (3) tobacco use (but only within 1.5:1 ratio band); and (4) age (but only within 3:1 ratio band for adults)
  - Cost of unsubsidized individual coverage will increase significantly in most states

Federal subsidized exchange coverage

- Refundable federal tax credit (to reduce premiums) and subsidies (to reduce certain cost-sharing expenses)
  - Will be available to "qualifying" individuals with modified household adjusted gross income (MAGI) between 138% and 400% of Federal Poverty Line (FPL) who purchase state exchange coverage
  - Depending on MAGI relative to FPL, premium credits effectively caps an individual's expenditure to obtain health insurance based on their income (not the cost or tier of coverage), and federal subsidies have effect of decreasing potential out-of-pocket expenditures for individuals incurring large claims (which increases actuarial value of coverage obtained)

Household **MAGI (as % Federal Poverty Level)**	**Max Premium as % of MAGI**	**Estimated Plan Actuarial Value**
<100%	0%	100%
< 133%	2%	100%
134% - 150%	3.0% - 4.0%	94%
151% – 200%	4.0% - 6.3%	87%
201% – 250%	6.3% - 8.05%	73%
251% - 300%	8.05% - 9.5%	70%
301% - 400%	9.5%	70%
>400%	unlimited	60%

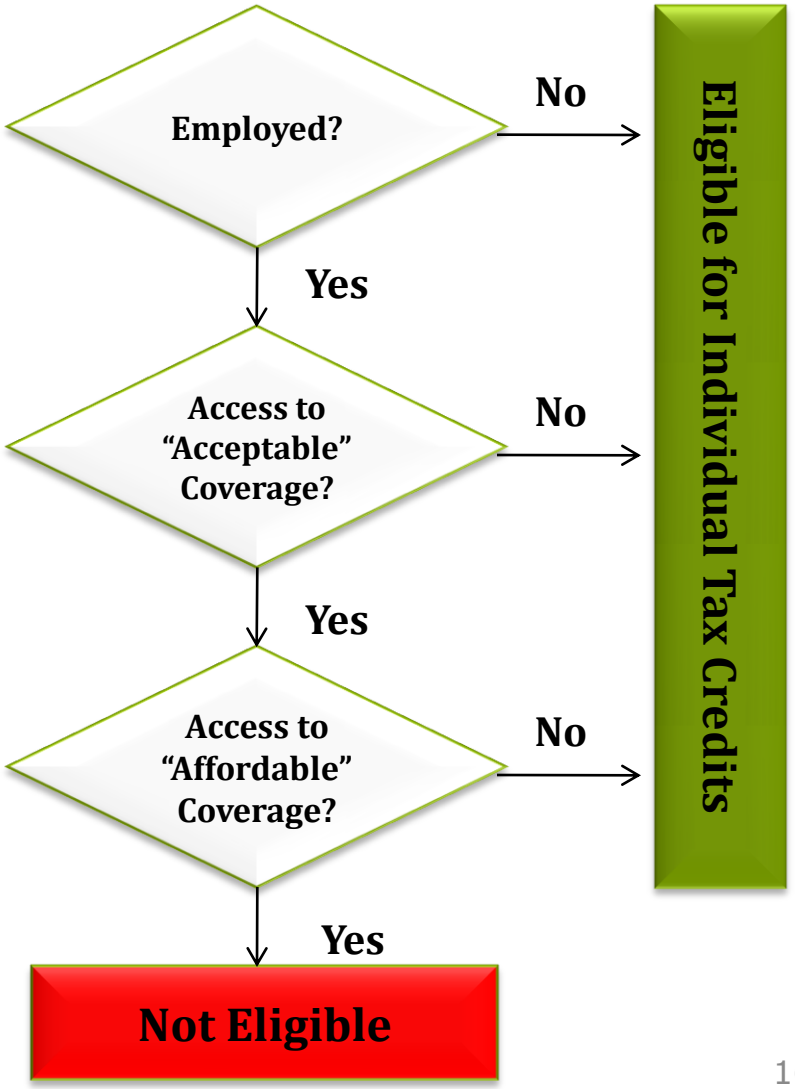
Eligibility for federal subsidy

- Individuals must satisfy various conditions to "qualify" for access to federally subsidized exchange coverage

- In particular, employees **offered** coverage from their employer **cannot** receive federally subsidized exchange coverage (even if their adjusted gross household income <400% of FPL) if:

  - Employer coverage satisfies "acceptable" coverage rules (minimum essential coverage with at least 60% actuarial value), **or**
  - Employer coverage satisfies "affordability" rules (employee contributions for self-only coverage < 9.5% of modified household adjusted gross income (MAGI))

Tax Subsidy Access
(if AGHI <400% FPL)



Health Reform Compliance Checklist for Employer-Sponsored Plans

2012

Provision	Accommodation	Next Steps
Women's Preventive Health Coverage Expanded	If non-grandfathered, amend plan as of 1st renewal after August 1, 2012	
Form W-2 reporting to EEs if issued >250 W-2s in 2011	Report 2012 cost of medical plan on W-2s beginning in 2013	Use total budget rates (employer and employee portions) to determine cost that should be on W-2
Summary of Benefits and Coverage	1st day of open enrollment after September 23, 2012 and for new hires as of 1st plan year after September 23, 2012	Most carriers will provide. You must be sure distributed to EEs during open enrollment for 2013.

Health Reform Compliance Checklist for Employer-Sponsored Plans

2012

Continued…..

Provision	Accommodation	Next Steps
Patient Centered Outcomes Research Fee (plan years ending 9/30/2012 and after) $1 per member (2012/2013) $2 per member 2013-2019	Pay via Form 720. Due by July 31st each year	Carriers pay for Fully insured plans. Self insured plan will need to file Form 720 by 7/31
Insurance refund if medical loss ratio is less than 85%	Carrier refunds employer and employer must distribute within 3 months or put in trust	N/A for self-insured plans
Expansion of internal and external appeals procedures	Negotiate administration with carrier. Amend plan.	

Health Reform Compliance Checklist for Employer-Sponsored Plans

2013

Provision	Accommodation	Next Steps
Medical FSAs must be capped at $2,500	Amend plan document	
Written notice to employees about insurance exchanges	Awaiting further guidance. Notice due March 2013	No guidance has been provided to date
Exchanges	Enrollment begins October 1, 2013 for January 1, 2014 effective date	
Increase in Medicare payroll tax for employees earning over $200K	Payroll vendor needs to make changes as of January 1, 2013	Charge 0.9% additional tax when employee's earnings reach the $200K
Establish parameters for determining full-time employee status	Set standard measurement period; administrative period; initial measurement period for ongoing employees and newly hired	Analyze workforce and set periods to best meet requirements

Health Reform Compliance Checklist for Employer-Sponsored Plans

2014

Provision	Accommodation	Next Steps
Essential Health Benefits	<50 employees: Must cover essential health benefits as of January 1, 2014	Awaiting HHS definition of essential health benefits
No pre-existing conditions for all ages	Amend plan as of January 1, 2014	No pre-existing condition limits in plans today
Cost Sharing Limits: • Limit of $2,000/$4,000 on annual deductibles • Max out-of-pocket expense cannot exceed limits that apply to HSA qualifying high deductible health plans	Awaiting further guidance if applies to more than only small groups (50 or 100 employees, depending on exchange)	

Health Reform Compliance Checklist for Employer-Sponsored Plans

2014

Continued…..

Provision	Accommodation	Next Steps
Employer "play or pay" Mandate – penalties for employers 50+ full-time employees	Must offer health benefits that meet 60% actuarial value and do not cost >9.5% of salary for employee-only coverage	Analyze current plans.
Transitional Reinsurance Fee (2014 to 2016)	Awaiting further guidance	Must employ in 2014; will be collected by the TPA /Carrier; expected cost to be determined in 12/2012 and is expected to be at least $60 per member per year
90-day Waiting Period	Amend plan documentation	
Employer Reporting to IRS	Awaiting further guidance	Must comply in 2014

Health Reform Compliance Checklist for Employer-Sponsored Plans

2014

Continued…..

Provision	Accommodation	Next Steps
Disclosure of plan information HHS	Applies if non-grandfathered. Awaiting further guidance.	
Standard Based Wellness program Incentives increase from 20% to 30%		May increase incentive amount for wellness participation
Adult children eligible up to age 26 even if eligible for another employer's plan	Exception for grandfathered plans ends	
Approved clinical trials	Applies if non-grandfathered. Awaiting further guidance.	Determine if this will impact your plan and comply in 2014.

Health Reform Compliance Checklist for Employer-Sponsored Plans

2015

Provision	Accommodation	Next Steps
Auto enrollment of new hires for employers with more than 200 employees	Awaiting further guidance	Explore various enrollment options

2017

Provision	Accommodation	Next Steps
All employers may purchase coverage through an insurance exchange	Subject to state approval	Decisions will be based on Commonwealth of Virginia's decisions

2018

Provision	Accommodation	Next Steps
Excise tax on high-cost plans – 40% on excess for plans valued above $10,200 single and $27,500 family		Conduct a projection of current expenses (use 9% annual trend) to 2018.

What does HCR mean to my company?

A shift in financial and benefit strategies

From tactical compliance questions	To strategic investment questions
▪ What do I have to do? ▪ When do I have to do it?	▪ What impact will our decisions have on our financial bottom line? ▪ What will these changes mean for our competitive position? ▪ How will our employees (and their families) be affected?

Healthcare reform (HCR) is transforming employee benefits management into an executive-level business strategy

Strategies for 2014

- Start full-time employee analysis now!
  - Calendar year plans that intend to use a 12-month SMP (standard measurement period) should start tracking hours beginning October 2012
- Evaluate operations
  - How many employees work at or near 30 hours per week?
  - Can you limit those employees to fewer than 30 hours a week?
  - Review termination standards and procedures
- Determine the most advantageous measurement, administrative, and stability periods
- Evaluate current plan(s) for actuarial value

Strategies for 2014

- Understand the level/percent of premium currently contributed toward employee-only coverage
  - Does it differ by class?
  - Is it “affordable” under the play or pay mandate (does not exceed 9.5% of employee's household income)?
- Understand the significant tax implications of offering/failing to offer coverage
- Understand the role of household income
  - The affordability of employer’s plan under play or pay is determined by employee’s household income
  - Higher wage earners (above 400% FPL) will pay significantly more for unsubsidized coverage in the exchange than in a group health plan, with no tax advantage
  - Premium credits and out of pocket subsidies for exchange coverage are determined by household income and percent of FPL

Strategies for 2014

- Understand basics of the public health insurance exchanges
  - Premium credits for individuals between 100% and 400% FPL
    - Not available if employer plan is affordable (employee-only premium less than 9.5% of household income) and provides value (at least 60% AV)
  - Out-of-pocket costs subsidies for individuals between 100% and 200% FPL
  - Medicaid eligibility (in states that choose to expand) for individuals up to 138% FPL
  - Five levels of coverage
- Consider benefit philosophy and what your peers are likely to do
  - Richness of benefits offered and contribution formula for plans compared to competition will impact employee retention and candidate decisions

Strategies for 2014

- Be prepared to over-communicate with employees
  - Exchange notice requirement due March 2013 (possible delay?)
  - Educate employees on your plan's affordability and the availability or non-availability of premium credits and out of pocket subsidies for employees' and families
  - Communication can avoid employees mistakenly trying to get subsidized exchange coverage

Subsidy eligible employee example

Factor	Estimated Data
Annual salary	$32,136
Current coverage level	Family
Assumed family size	4
Estimated AGHI	$32,136 (assumes 2% raise)
% Est. AGHI to FPL	142%

Coverage Type	Gross Premium	Net Premium*	Estimated Actuarial Value
BCBS Advantage HMO	$2,484	$2,160	85% (estimated only)
Exchange	$14,817	$1,043	94%
Comparison	($12,333)	($1,117)	9%

*Assumes effective 15% tax rate; employee age of 41; exchange costs based on Kaiser calculator, higher cost area (CA)

Non-subsidy eligible employee example

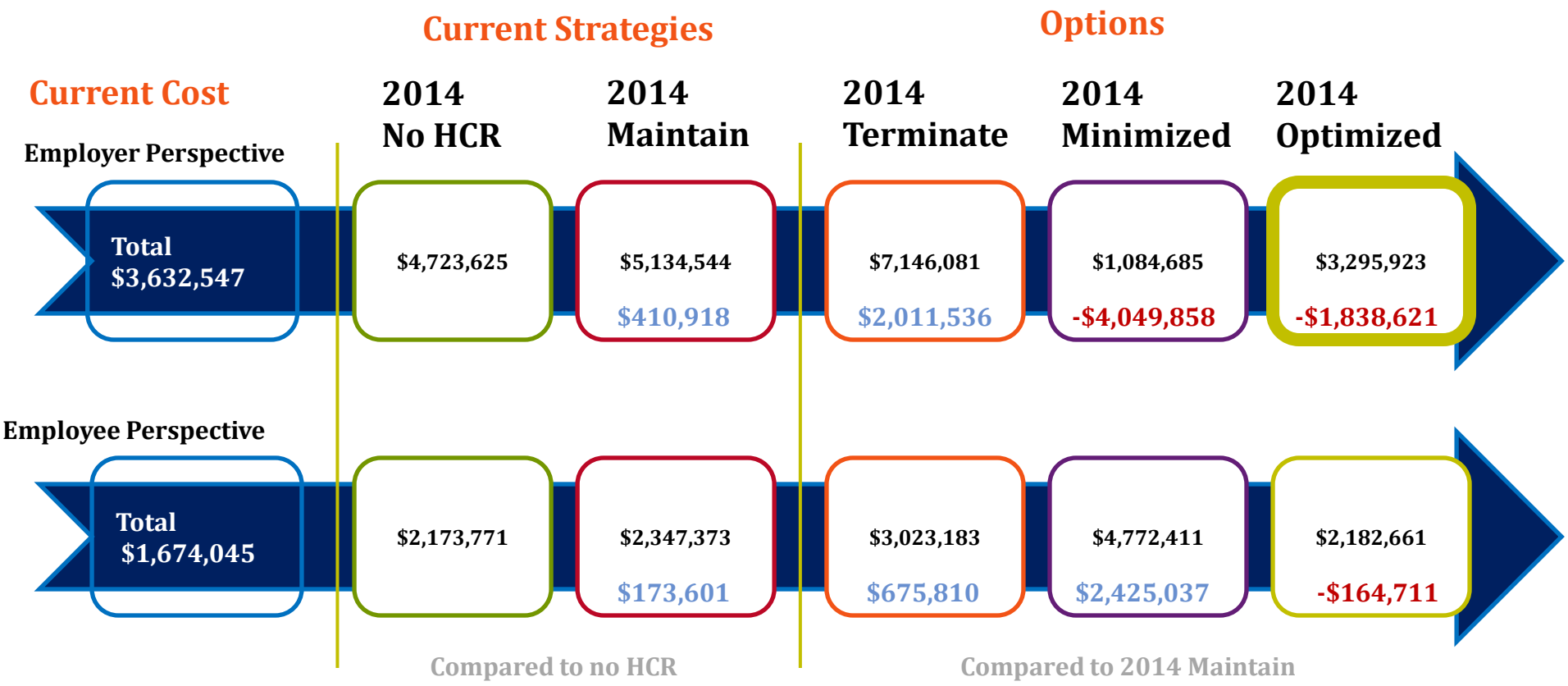
Factor	Estimated Data
Annual salary	$180,000
Current coverage level	Family
Assumed family size	4
Estimated AGHI	$183,600 (assumes 2% raise)
% Est. AGHI to FPL	784%

Coverage Type	Gross Premium	Net Premium*	Estimated Actuarial Value
Blue Preferred Option 15	$3,368	$3,302	78% (estimated only)
Exchange	$22,954	$22,954	60%
Comparison	$19,586	$19,652	(18%)

*Assumes effective 30% tax rate; age of 54; exchange cost based on Kaiser calculator, higher cost area (MD)

HCR-Impact Analyzer: Summary of example results

Organization with 1,400 employees. All data tax adjusted.



Results: analysis points to an employer-specific three-year plan that potentially reduces the benefit budget by over $1.8 million dollars annually and would be financially optimized in the post-2014 environment

Note: Source is Health Care Reform Analyzer for Wells Fargo clients. Results may vary depending on employer circumstances and as Health Care Reform requirements change over time. Estimated healthcare inflationary trend 2012-2014 is 13.5%.

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Questions and answers

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