

Health Care Reform

At-a-Glance

A guide for our brokers and customers



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You've often heard Health Net say, "your business, your choice."
We say it a lot because we believe it's the way things should work.

We also believe in the potential of the Affordable Care Act (ACA),
especially now as it hits Main Street.

Yet the unknowns are many. Details continue to evolve.

Health Net is here to work with you in shaping the future of health
care — leveraging the opportunities of the post-reform world.

Your Roadmap to Reform


















































Use our interactive table of contents to go straight to a specific provision, or page through from start to finish.

In this time of change, you've got one sure thing. You've got Health Net.


- Timeline of change
- Annual cost-sharing limits
- Benefit metal levels
- Employer shared responsibility
- Essential Health Benefits
- Excise tax
- Grandfather plan status
- Levels of health coverage (platinum, gold, silver, bronze)
- Limits on waiting periods
- Marketplaces
- Medical loss ratio
- Notice of marketplaces
- Premium rating rules
- Small business tax credits
- Taxes and fees
- Wellness programs


































Timeline of Change

Legend  Plans for Individuals and Families  Small Group Plans  Large Group Plans

2010	<ul style="list-style-type: none"> • Choice of any participating primary care provider and access to OB/GYN.    • No lifetime limits on the dollar value of coverage; restrictions on annual limits.    • Over-age dependent coverage for adult children to age 26.    • 100% coverage for preventive care (all nongrandfathered plans).    • No pre-existing conditions exclusions for children who are under 19 years of age.    • Emergency services for all nongrandfathered plans are covered for    : <ul style="list-style-type: none"> – With no prior authorization. – For any provider, whether in- or out-of-network. – At the same copayment or other cost-sharing, whether in- or out-of-network. – Without difference in coverage, whether in- or out-of-network. • Rescinding of coverage now limited to cases of consumer fraud.    • Nondiscrimination rules.    • Early retiree reinsurance program.    • Tax credit up to 35% for eligible employers. 
2011	<ul style="list-style-type: none"> • Medical Loss Ratio (MLR).    • Over-the-counter drug reimbursements.  
2012	<ul style="list-style-type: none"> • Summary of Benefits and Coverage (SBCs).    • Women's preventive services.    • PCORI fee.    • Report value of employer-sponsored coverage on W-2s if filing 250+ W-2s. 
2013	<ul style="list-style-type: none"> • Health insurance marketplaces open in October for enrollment effective 1/1/14.   • FSA contribution limits.   • Notify employees about the new marketplace by October 1, 2013, per Department of Labor.  

Timeline of Change

Legend  Plans for Individuals and Families  Small Group Plans  Large Group Plans

	<ul style="list-style-type: none"> • Health plans via the health insurance marketplaces go into effect.   • Individual mandate to have health insurance coverage. Applies to most Americans. People currently insured through an employer or a plan they bought on their own likely meet the requirements already. So do those enrolled in a Medicare plan, TRICARE, Medicaid, and a few other programs. • Essential health benefits (EHB): <ul style="list-style-type: none"> – Coverage required for nongrandfathered individual and small group commercial plans.   – Plans subject to EHB requirements – or that choose to cover these services – must cover them with no annual dollar limits.   
2014	<ul style="list-style-type: none"> • Guaranteed availability of insurance; no pre-existing condition exclusions.    • Premium rating rules.   • Annual cost-sharing limits.    • Health insurance tax.    • Reinsurance contribution fee.    • Clinical trials.    • Wellness program rewards.   • Tax credit up to 50% for eligible employers.  • Auto-enrollment for groups of 200+ (rules and effective date pending Health and Human Services' guidance). 
2015	<ul style="list-style-type: none"> • Employer shared responsibility. 
2016	<ul style="list-style-type: none"> • SHOP expands to businesses with up to 100 employees. 
2017	<ul style="list-style-type: none"> • States have the option to expand SHOP to businesses with 100+ employees. 
2018	<ul style="list-style-type: none"> • Excise tax on high-cost insurance plans.  

Annual Cost-Sharing Limits



Out-of-pocket limits for nongrandfathered plans

Health Net will delay cross-accumulation with pharmacy benefits for our nongrandfathered large group plans. As a result, limits for medical and pharmacy benefits will be separate in 2014.

- Annual limits on member cost-sharing take effect January 1, 2014, or upon renewal for all nongrandfathered plans:
 - \$6,350 for self-only
 - \$12,700 for family
- Limits and cross-accumulation applies to all covered plan services:
 - Medical services must cross-accumulate to the annual cost-sharing limit in 2014.
 - Cross-accumulation of benefits administered by third-party providers may be delayed until 2015.

Annual Cost-Sharing Limits



Annual deductible for small business groups

For nongrandfathered small group plans, the annual deductible may not exceed \$2,000 for self-only coverage or \$4,000 for family coverage (certain exceptions apply).

Benefit Metal Levels

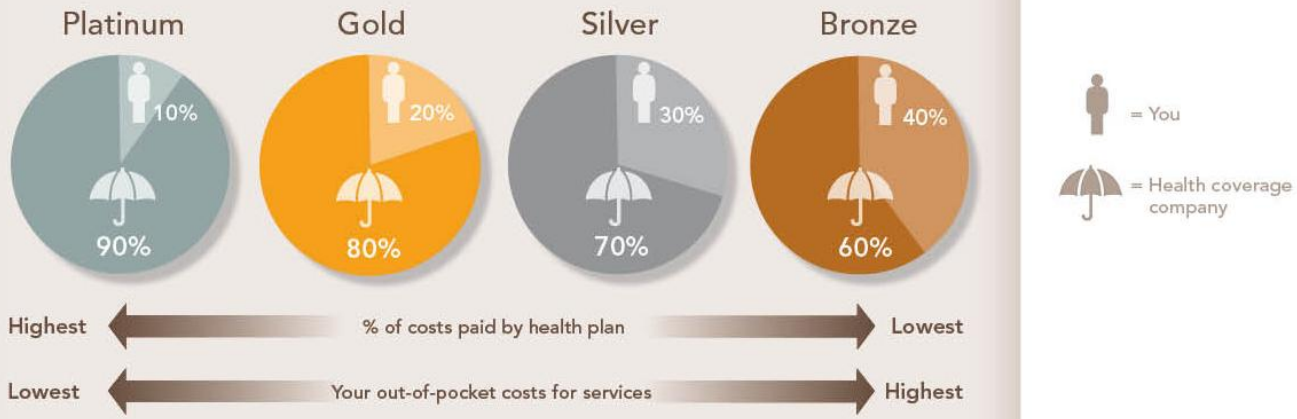


Health plan structure effective 2014

The way health plans are structured, rated and offered will change in 2014. Collectively, these changes will reshape the insurance market.

What you pay vs. what the health coverage company pays

Each of the four metal levels is based on the average of total costs for benefits that a plan covers. That means a platinum plan will cover the most when you use services. The tradeoff is the premium will be higher.



Carriers who offer plans in the individual marketplace and the small business health options program (SHOP) are required to offer child-only plans in the same metal level.

Employer Shared Responsibility



Originally slated for 2014; now effective 2015

Employers
can check
minimum value
using the
calculator at:

<http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/mv-calculator-final-4-11-2013.xlsm>

- Certain situations will trigger a tax penalty if employer groups with at least 50 full-time (or full-time equivalent) employees do not provide health insurance to their employees.
- Under the final rules established February 2013:
 - Minimum value standard: Employer-sponsored health plans must cover at least 60 percent of covered costs.
 - Definition of affordable coverage:
 - Employees pay less than 9.5% of their household income for their contribution of an employer-sponsored health plan.
 - Employers that offer more than one health plan: The affordability test applies to the lowest-cost option available to the employee as long as that option meets minimum value.

Essential Health Benefits

   *Minimum categories of Essential Health Benefits (EHB) include:*

Ambulatory patient services	Hospitalization
Emergency services	Maternity and newborn care
Mental health/substance abuse disorder services	Prescription drugs
Rehabilitative and habilitative services/devices	Laboratory services
Preventive and wellness services and chronic disease management	Pediatric services, including dental and vision care

Essential Health Benefits



- Actual EHB services vary by state — Each state may define EHBs by choosing a benchmark plan.
- IFP and SBG nongrandfathered plans subject to the EHB requirement must provide benefits that are equal to or greater than the benchmark plan; annual dollar limit amounts are prohibited.
- Grandfathered SBG and large group plans do not have to provide EHB coverage; however, if a plan currently provides coverage of an EHB, annual dollar limits are prohibited.

Excise Tax



Slated for 2018

- 40 percent tax on employer-sponsored group health plans with costs that exceed a predetermined level.
- The cost level (as of July 2013) is \$10,200 for individual coverage and \$27,500 for family coverage.

Grandfathered Plan Status



While the ACA expands benefits and offers other advantages, keeping a grandfathered plan can mitigate uncertainty and provide rate and benefit flexibility.

- Groups that have a grandfathered plan can keep it for as long as the plan is offered, and the group doesn't remove or make significant changes to the plan per the requirements of the Affordable Care Act (ACA).
- Grandfathered plans are exempt from certain mandates that can add to cost.
- Grandfathered plans (both individual and group) incorporate three key protections of the ACA:
 - No lifetime limits
 - Restricted annual limits through 2013; no annual limits effective January 1, 2014 (applies only to group grandfathered plans)
 - Extension of dependent coverage up to age 26

Limits on Waiting Periods



The waiting period provision applies to grandfathered and non-grandfathered plans, and to fully insured and self-insured/ASO groups.

90 calendar days; 60 calendar days in California

- The waiting — or probationary — period is the period of time set by an employer before coverage becomes effective for a new employee enrolling into the group's health benefit coverage.
- Group health plans and health insurance insurers offering group coverage may not apply a waiting period that exceeds 90 days.
- California law sets the limit at 60 calendar days (AB1083).
- Effective January 1, 2014, for new groups, and on or upon renewal for existing groups.

Marketplaces



- Open in October 2013 as new ways to compare and buy health coverage. January 1, 2014, is the first effective date for health coverage purchased through a marketplace.
- Offer options for individuals and small businesses that have fewer than 50 full-time equivalent employees.

The small business exchange is called the Small Business Health Options Program (SHOP).

- Expand to businesses with 100 or fewer full-time equivalent employees in 2016.

Medical Loss Ratio



A requirement for health insurance companies to:

Health Net's Medical Loss Ratio (MLR) met the required ratios for all lines of business in 2011, and all but small business group in 2012.

- Report the proportion of premium dollars spent on clinical services.
- Pay rebates to policyholders if the share of premium spent on clinical services and quality is less than:
 - 80% for plans in the individual and small group markets.
 - 85% for plans in the large group markets.

Good to know:

- The MLR requirement began for coverage purchased in 2011 with any rebates due in 2012.
- MLR is calculated based on a company's entire book of business, not by a specific plan or group.

Notice of Marketplaces



Employers of all sizes are required to notify employees about the health insurance exchanges. The Department of Labor has model notices available.

Employer requirement:

- Provide notification to full-time and part-time employees at time of hire.
- Deadline for notifying current employees is October 1, 2013.

The written notification must:

- Tell employees about the health insurance marketplaces;
- State whether the employer offers a health plan that meets the minimum value standard; and
- Explain that if the employee purchases a qualified health plan through a marketplace, the employee may lose any employer contribution to the health benefits plan offered by the employer.

Premium Rating Rules



Effective January 1, 2014, all health plans under reform may vary premiums by four allowable rating factors only.

- Age — limited to a 3:1 ratio. Example: The rate for a 64-year-old can't be more than three times (300%) the rate for a 21-year-old.
- Tobacco use — limited to a 1.5:1 ratio. Note: Health Net is not factoring tobacco use into our rates.
- Family composition with member-level rating applied:
 - Each adult family member over age 21 is rated individually based on his/her age; plus
 - The first three children under age 21 are charged.¹

The Moore family, for example, has mom, dad and four children under age 21. Their rate = mom's rate + dad's rate + the child rate x 3 (age 0-21).
- Geographic rating region.

¹ Rating methodology varies by state. For example, in California, the three oldest members/insureds under age 21 are rated for individual and family plans. For group plans, the three oldest children under age 21 are rated.

Small Business Health Care Tax Credits



Businesses with fewer than 50 full-time equivalent employees are not required to provide health insurance under the ACA.

Eligibility and Amounts

- Small businesses are eligible for a health care tax credit when they buy health insurance through SHOP if they:
 - Have 25 or fewer full-time equivalent employees.
 - Pay employees an average of less than \$50,000 per year.
 - Contribute at least 50% toward employees' premium costs.
- Employers with 10 or fewer full-time equivalent employees with wages averaging \$25,000 or less are eligible for the maximum tax credit amount.
- The maximum tax credits beginning in 2014 are:
 - 50% of insurance premium expenses.
 - 35% for tax-exempt organizations.

Small Business Health Tax Credits



Health Net recommends that small businesses consult with their legal and tax advisers about the tax credit.

Resources

- <http://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit-for-Small-Employers>
- <https://www.healthcare.gov/small-businesses>

Calculators for estimating tax credits

- <http://www.smallbusinessmajority.org/tax-credit-calculator/>
- <http://www.nfib.com/advocacy/healthcare/credit-calculator>
- <http://www.taxpayeradvocate.irs.gov/calculator/SBHCTC.htm>

Taxes and Fees



Health Insurance Tax (HIT)

Effective January 1, 2014, the ACA imposes two new fees that will be collected to fund specific programs under health care reform law.

- Annual fee to fund premium subsidies for the health insurance exchange and Medicare expansion
- Applies to health insurers, health maintenance organizations, and entities providing insurance under government programs (e.g., Medi-Cal)
- HIT is based on insured net premiums written with first payment due in 2014. Total fee amounts increase in phases:
 - \$8 billion in 2014
 - \$11.3 billion in 2015 and 2016
 - \$13.9 billion in 2017
 - \$14.38 billion in 2018 (after 2018, the amount increases each year based on premium growth)

Taxes and Fees



Transitional Reinsurance Assessment Fee

- Supports the transitional reinsurance program established by each state to:
 - Stabilize premiums for coverage in the individual market.
 - Minimize the effects of adverse selection.
- Applies to insured coverage and self-funded coverage.
- Runs for three years: 2014-2016.

Taxes and Fees



Patient-Centered Outcomes Research Institute (PCORI)

The PCORI fee funds research into the comparative effectiveness of medical treatments.

- A fee imposed on health insurance companies and plan sponsors of self-insured health plans
- Effective for plan or policy years ending on or after October 1, 2012, and before October 1, 2019
- The total amount is based on the average number of covered lives:
 - \$1 multiplied by the average number of covered lives for plan or policy years ending on or after October 1, 2012, and before October 1, 2013
 - \$2 multiplied by the average number of covered lives for plan or policy years ending on or after October 1, 2013
 - Fee increases after October 1, 2014, based on a formula that includes per capita increases in the amount of national health expenditures.

Taxes and Fees: Premium Rate Adjustments

Premium adjustments apply also to individual and family plans, and will be smoothed over the 12 months of each year beginning 2014.

- Estimated ACA-related fees are:
 - Health Insurer Fee equal to 2.47 percent of premium in 2014.
 - Reinsurance Fee equal to \$5.25 per participant (including dependents) per month based on 2014 membership.
 - PCORI as set by years in effect (2012-2019).
- Health Net is adjusting premium rates as follows:
 - For groups effective October 1, 2012, and later.
 - Prorated (i.e., smoothed) over the 12-month policy period for a constant load and recognition that group policy periods may span two different calendar years.
- The taxes and fees are paid by Health Net on behalf of our customers.

Wellness Programs



Rules for employment-based wellness programs:

- Support participatory wellness programs.
- Leverage workplace health promotion and prevention as strategy for reducing the burden of chronic illness, improving health and limiting growth of health care costs.
- Safeguard individuals against unfair underwriting practices that could otherwise reduce benefits based on health status.
- Outline standards for nondiscriminatory “health-contingent wellness programs,” which generally reward individuals who meet a specific standard related to their health.

Closing Thoughts...

As health care
reform hits
Main Street,
you've got one
sure thing.
You've got
Health Net.

- The next couple of years are going to be big for health care reform. There promises to be as many challenges as opportunities.
- We're here to help you work through health care reform changes for the good of your business.
- Together, we can shape the future of health care in the post-reform world.