



Employer Sponsored Health Insurance and the Health Insurance Exchange

WMC Government Affairs Council

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ESI in Wisconsin, 2010

	Total	Less than 50 employees	50 or more employees
Number of Private Sector Establishments	127,675	97,062	30,614
Number of Employees	2,225,566	673,576	1,551,990
Percent of Establishments that Offer Health Insurance	49.2% (51.4% in 2009) (54.1% in 2006)	34.5% (36.8% in 2009) (40.8% in 2006)	95.7% (95.5% in 2009) (97.9% in 2006)

Source: AHRQ, Medical Expenditure Panel Survey, 2010, Insurance Component

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What is an Insurance Exchange

"Market place for individuals and business to purchase private health insurance. The one-stop shopping concept will allow individuals to get information about their insurance options and enroll in their choice of plan." - AHA

States have some flexibility in creating exchanges

- Exchanges (if we have to have them) should be like Expedia or Travelocity – *go out there and find your best deal in this (now more competitive) marketplace/"interchange".*

OR

- Sure, exchanges can be like Expedia or Travelocity, but they must: *make sure everyone pays the same (if different, based on income), is able to travel wherever they want, assures we don't have too many resorts and they are all running efficiently and offering same amenities*

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Features of a WI Exchange

Wisconsin Office of Free Market Health Care:

- A web-based Portal for individuals only looking for information
- Facilitate entry for those who wish to purchase coverage for plans available offered through the Interchange
- Within the Interchange, transactions between purchaser, agent, and health insurer can be completed:
 - ✓ Access educational background on public programs, commercial insurance and agents
 - ✓ Determine eligibility -- federal tax subsidy and Medicaid
 - ✓ Connect with an agent (if desired)
 - ✓ Compare insurance products, with the option for consumers to query based on their preferences, e.g. premium, cost sharing, providers, etc.
 - ✓ Select and enroll into health insurance products.

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Fed Requirement for an Exchange

Federal Requirement

- Every state must establish a federally approved exchange for individuals and small businesses by 1/1/14, or the feds will take over
- But before that, by 1/1/13, states must demonstrate to federal government they are on a path implementing an exchange, or the feds will take over



Health Benefits in the Exchange

PPACA requirements for benefits offered in the Exchange:

Benefits – All health plans in the individual and small group market must offer the “Essential Health Benefits”

Health plans divided into tiers:

- Bronze, Silver, Gold, Platinum

Rating on health status no longer allowed

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Using the Exchange

Is anyone required to use the Exchange?

- An individual must purchase through the Exchange to be eligible for a subsidy
- Small business must offer insurance through the Exchange for all of their employees in order to get a tax credit

Can everyone use the Exchange?

- Large business (with greater than 100 employees, or 50 at state option) cannot offer through the exchange until 2017



The Individual Mandate

Must obtain minimum essential coverage

- Exceptions if income below tax filing threshold; religious objections, affordability, etc.
- Coverage = public programs; plans offered in the individual market; eligible employer plans; HIRSP; other as det'd by HHS Secretary

Penalties are phased in

2014 – the greater of:

- flat amount of \$95 per adult (half for kids), max of \$285 per family per year; OR
- 1% of taxable income

2016 – the greater of:

- flat amount of \$695 per adult (half for kids), max of \$2,085 per family per year, OR
- 2.5% of taxable income, whichever is greater.

Penalties increase by COLA each year thereafter

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Personal Subsidies

Eligible for subsidies if:

Income is above 133% FPL (\$24,645 for a family of 3)
and below 400% FPL (\$74,120)

AND

- No public coverage or ESI; or
- ESI, but not “affordable”; or
- ESI, but not minimum essential coverage.

Affordability

ESI is considered not affordable if the employee share of the premium for single coverage exceeds 9.5% of income

Minimum Essential Coverage – Eligible Employer Plan

Plan is offered in small or large group market and plan pays for at least 60% of covered health care expenses

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Premium Amount With Subsidy

Income Level - Amount Shown for Family of Three*	Annual Premium ** Will be No More Than
\$24,645	2% of income (\$493)
\$24,646 - \$27,795	3% - 4% of income
\$27,796 - \$37,060	4% – 6.3% of income
\$37,060 - \$46,325	6.3 – 8.05% of income
\$46,326 - \$55,590	8.05% - 9.5% of income
\$55,591 - \$74,120	9.5% of income (\$7,041)

•*Amounts will be based on federal poverty guideline for the year. For illustrative purposes, amounts shown are based on federal poverty guidelines for 2011.

•**Premium amount is for the second lowest cost silver plan. If a different plan is chosen, the premium amount could be lower or higher.

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**Single Coverage with Employee
Required Contribution of \$1,200**

Employee Wages = 16,000

9.5% of Income

\$1,520

Is ESI Affordable?

Yes, the employee contribution is less than 9.5% of the employee's income

Employee Wages = \$11,000

9.5% of Income

1,045

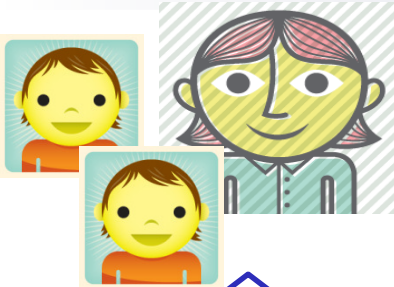
Is ESI Affordable?

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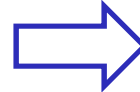
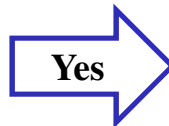
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Penalty vs. Premium Cost



Works for ABC Company
ABC does not offer health insurance
Income = \$37,000 (200% FPL for family of 3)
Premium (Silver Plan) for Family Coverage = \$12,000



Pay Penalty: The Greater of
2014: \$190 (flat amount of \$95 plus \$47.40 per child) **vs. \$370 (1%)**

2016: \$925 (2.5% of income) **vs. \$1,390 (flat amount of \$695 plus \$347.5 per child)**

Eligible for Subsidy:

Under Subsidy, premium is 6.3% of income (varies by income level).

Premium She would pay: **\$2,331**

Subsidy Amount:
\$12,000 - \$2,331 =
\$9,669

Guaranteed Issue? But, enrollment periods...



Small Businesses (2-50 emp's)

No penalty for not offering coverage

Tax Credits

- Current:
 - ✓ Full credit available only if 10 employees or less and average taxable wages of \$25,000 or less
 - ✓ Credit phases out if more than 25 employees and more than \$50,000 in taxable wages
 - ✓ Max of 50% of contribution toward premium
- In 2014
 - ✓ Only if offer coverage to all employees through the Exchange
 - ✓ Only for 2 consecutive years

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Most small employers did not view the small business health insurance tax credit as an incentive to provide health insurance coverage to their employees last year.

The credit is so complex that small employers “are perplexed about how the tax law applies to them,” and they cannot quickly or easily evaluate whether they are eligible for the credit”

“For many small employers, tax compliance costs were created without an offsetting benefit.”

Patricia Thompson, chair of the American Institute of CPA's Tax Executive Committee, at a hearing held by the House Ways and Means Oversight Subcommittee.

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Large Employers

If 50 or more full time equivalent workers,

Penalty for not offering affordable, minimum essential coverage if one or more full time employees receives a federal subsidy

If Offer Coverage:

- Penalty is the lesser of:
 - ✓ \$2,000 (per year) for each full time employee, excluding the first 30 full time employees; or
 - ✓ \$3,000 for each full time employee who receives subsidies through the exchange

If Don't Offer Coverage:

- \$2,000 for each full time employee, excluding the first 30

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Large Employers

	Offers Coverage	Does Not Offer Coverage	Either Offers or Doesn't
#Full Time Employees	130	130	130
Number of FT Employees Receiving Subsidies	20	20	0
Penalty Calculation	$\$2,000 \times (130 - 30) = \$200,000$ OR $\$3,000 \times 20 = \$60,000$	$\$2,000 \times (130 - 30) = \$200,000$	0
Penalty Amount	\$60,000	\$200,000	0

Penalty is calculated on a monthly basis; Amounts in the table are annual amounts and assume the same number of employees are affected each month during the year.

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Premium Costs

In 2010, for businesses with 50 or more employees:

Average Single Coverage Premium Cost: **\$5,419**

- Average Employee Contribution: **\$1,181**
- **Average Employer Contribution: \$4,238**

Average Family Coverage Premium Cost: **\$14,472**

- Average Employee Contribution: **\$3,068**
- **Average Employer Contribution: \$11,404**

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What will happen in Wisconsin?

Report prepared for Office of Free Market Health Care by J. Gruber:

1. Total change in coverage:
 - Very small (-10,000) change in people covered by ESI
 - 170,000 more on Medicaid
 - 160,000 more in private coverage through the Exchange
2. Premium increase of about 30% for large segment of individual market (59%), even after accounting for subsidies
3. Premium increase of about 15% for of small employers (53%)
 - 47% of small employers will see a decrease of about 16%
4. Slight reduction in small employers offering
 - Approx. 5% of small group members will drop coverage, but will be offset by effect of individual mandate (take up rate)

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What will happen to ESI?

1. Various surveys with various results

- McKinsey Survey (national) - up to 1/3 employers will drop
- A recent Wisconsin-specific survey from HC Trends suggests 22% are likely or very likely to drop in 2014 – mostly smaller employers

2. Penalties are insufficient to incent employers to offer/not drop:

- Would employers make it up in wages?
- Would employees be eligible for subsidies?

3. Recruitment and retention considerations

4. Will employers be willing to turn over coverage and employee wellness to a government-run exchange?

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Where Are We Now?

Federal Level

1. Vendor chosen to develop an Exchange product
2. Expected Supreme Court Ruling in 2012
 - Individual mandate – constitutionality, severability
 - Medicaid Expansion
3. Awaiting some proposed regulations; awaiting some final regulations; recent bulletin on essential benefits



Exchange Implementation in WI

State Level

Governor Walker created the Office of Free Market Health Care

- “Conditionally develop a WI health insurance exchange that utilizes consumer driven, free market approach”
- “Explore all opportunities and alternative approaches that would free WI from establishing a federal health benefit exchange, including federal waivers”

Sec. Smith testified at House Budget Hearing on Implementing PPACA

- Very WI/state autonomy focused
- “WI has high levels of coverage without federal reform or mandates”
- Unlike many other states, WI has a very competitive insurance market
- “Exchange must have a minimal footprint”

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QUESTIONS?

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