

**THE IMPACT OF HEALTH REFORM ON YOUR BUSINESS:**

*Why an integrated approach is critical to success*



## SHORT AND LONG-TERM STRATEGIES FOR MANAGING HEALTH CARE REFORM



The signing into law of comprehensive health care reform legislation in late March 2010 marked a watershed event in the evolution of the U.S. health care system. With the stroke of a pen, President Barack Obama set in motion a series of complex, interrelated changes that will dramatically reshape the way care is accessed and financed over the next ten years.

Whether the administration's goals of creating a more accessible, more efficient and higher quality system can be achieved remains to be seen. However, what is clear is that in the not-too-distant future, most health care stakeholders will begin to experience – to a greater or lesser extent – the first wave of changes triggered by this sweeping legislation.

Through communications like this one, CBIZ Tofias will begin an active dialogue with our clients regarding the need for an immediate, tactical response and for a long-term strategic response. In this inaugural edition of CBIZ Tofias Health Reform Brief, we highlight provisions of the law that take effect immediately, along with the changes coming in the near future.

### **The Big Picture**

In simplest terms, the Patient Protection and Affordable Care Act represents an attempt to broaden coverage for the uninsured and eliminate perceived insurance company abuses and exclusions. These objectives are accomplished through a variety of new mechanisms, including a high-risk pool and later, an insurance exchange; subsidies to low-income individuals and families; myriad insurance reforms; and perhaps most significantly, individual mandates that will require the purchase of insurance coverage for those not covered by Medicare, Medicaid, or any other insurance.

While the act is ambitious in intent, it is incremental in design. That means key elements of the legislation will be rolled out at successive intervals across the next decade. Consequently, the easiest way to understand the law is for companies to become familiar with the overall implementation timeline and then develop a methodical strategy for managing the potential impact of this bill.

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### Steps to Reform

Following is a brief overview of some of the major reform elements that will impact both self-insured and fully-insured employers this year.

### 2010's Key Changes:

- **High-risk Pool:** A temporary, national high-risk pool will be established by the Secretary of Health and Human Services (HHS) within 90 days following the law's enactment (by 6/21/10). It will provide health coverage to individuals with pre-existing medical conditions. Generally, to be eligible for the pool, the individual must have been without creditable coverage (as defined by HIPAA) for at least six months and have a pre-existing condition to be defined by the Secretary. However, the pool is not intended to be a place for employers to send high-risk individuals, and the new law includes specific penalties for employers who attempt to do this.
- **Small Business Tax Credits:** Employers with no more than 25 employees and average annual wages of less than \$50,000 will receive a tax credit of up to 35 percent of premiums, as long as they pay at least half the cost of the insurance for covered employees. The credit increases for smaller employers.
- **Retiree Coverage:** A temporary reinsurance program will be created for employers providing health coverage to retirees over age 55 who are not eligible for Medicare. This program will reimburse employer plans for 80 percent of the cost of benefits provided to retirees age 55 through 64 in excess of \$15,000 and below \$90,000. The program will end by 2014 or when program funding of \$5 billion is exhausted.
- **Health Plan Prohibitions:** Individual and group health plans will be prohibited from placing lifetime limits on the dollar value of coverage and prohibited from rescinding coverage except in cases of fraud. The imposition of pre-existing condition exclusions for children also is prohibited.

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- **Dependent Coverage Expanded:** Effective for plan years beginning on or after September 23, 2010, all insured and self-funded plans offering coverage to dependent children must allow these individuals to remain on the plan until their 26th birthday. A special rule applies to grandfathered plans (those in existence on March 23, 2010). A grandfathered plan need only offer the expanded coverage to dependent children who do not have access to other employer-sponsored coverage. Beginning January 1, 2014, even grandfathered plans will be subject to the full dependent child coverage requirement. Dependents will be defined by future regulations.
- **OTC Drugs:** During open enrollment 2011 (occurring in 2010), employers should be aware that over-the-counter drugs will no longer be an allowable expense for FSA, HSA and HRA plans, except when prescribed by a physician
- **Rate Review:** A process will be established to review increases in health plan premiums and require plans to justify increases.

Because many of 2010's reforms affect insurance policy provisions, companies that are either rebidding or renewing their employee health coverage should meet with their insurance representatives to ensure that the new policies conform to the reform mandates.

At the same time, companies should begin working with their business advisors to develop a response to more employer-focused provisions taking effect in 2011 and beyond. Some of the most important of these include:

- **New Form W-2 Reporting Rules:** Beginning with the 2011 tax year, employers will be required to disclose the aggregate cost of any employer-sponsored health insurance coverage on the Form W-2.

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PLAN I	PLAN II	LOSS OR TREATMENT
		<b>SPECIFIED LOSS</b>
	\$2,250	Burns treated within 72 hours. Payable once per accident.
	\$900	Tendon / Ligament surgically repaired within 1 year.*
up to \$3,750		Dislocation (separated joint) diagnosed within 30 days.* Payable only for the first dislocation of a joint. Subsequent dislocation of the same joint will not be covered.
		Eye injury requiring surgery or removal of a foreign object within 30 days. Payable once per accident.

- **FSA Cap:** Effective for tax years beginning in 2013, the maximum amount of salary contributions to a flexible medical spending account is capped at \$2,500.
- **Uniform Benefit Statements:** Beginning in 2012 (or 12 months after issuance of standardized forms), plans must provide applicants and enrollees with an additional disclosure document that explains in detail the health benefit coverage. The document must meet uniform standards, such as format, appearance, language and content. In addition, a notice of material modification of benefits must be provided at least 60 days prior to the change becoming effective.
- **Medicare Contribution:** Beginning in 2012, individuals earning more than \$200,000 will see their Medicare Tax Rate increase from 1.45% to 2.35% for wages over this threshold. Employers will need to ensure that their payroll systems are designed to accomplish this rate change at exactly the right level. The rate change will also apply to couples who collectively earn over \$250,000; however, only in cases where one spouse exceeds \$250,000 would there be an effect on the employer payroll systems. Most importantly, the *employer* Medicare portion will remain unchanged at 1.45% even after the thresholds are reached.
- **Auto-Enrollment:** Although details have yet to be worked out, employers with 200 or more associates will be required to auto-enroll associates in their health plans starting in 2014.

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### Easing Fears

Given the Patient Protection and Affordable Care Act's daunting complexity and vast scope, it is no surprise that uncertainty and anxiety regarding the implications of reform abound. This is true not only for employees currently covered by health insurance, but also for the tens of thousands of employers who will be responsible for understanding, implementing, explaining and following the new regulations.

The good news for these companies is that CBIZ Tofias is uniquely qualified to provide expert guidance and counsel on the journey ahead.

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*Please note that the information provided herein is not intended to be, and should not be construed as, a legal or tax opinion or advice. It is recommended that you consult with your own attorney or other adviser relating to your specific circumstances or those of any person or entity you advise.*