Cutting Through The Chaos
Agenda

• Setting the Stage – Current State
• Latest PPACA Timeline
• Cost Strategy Considerations
OVER PRICED & FAILED TO DELIVER
Setting the Stage – Current State
Insurance Industry Reform vs. Healthcare Cost Reform

- **What We Got** - Insurance Reform – Mandating industry standards to protect consumers, buyers (both individual and group)

- **What We Needed** - Healthcare Cost Reform – The government had and missed the opportunity to change the cost equation of utilization, efficiency and unit costs of services provided

*PPACA has moved beyond industry reform and contains hundreds of complex, contradictory and inefficient regulations that penalize employers.*
The Healthcare Premium Dollar
Massachusetts residents enjoy 3 of the top health plans in the United States

Massachusetts Healthcare institutions provide some of the most highly desired procedures and outcomes in the world, and do not turn away patients.

In 1996 Massachusetts passed group insurance reform, protecting businesses from rate spikes tied to employee claims.

Between 1996 and 2007 several more protection laws were passed providing comprehensive coverage to Massachusetts businesses and individuals.

2007 Mass Healthcare reform was successfully implemented and now covers close to 98% of the population.
Massachusetts Has Lowest Uninsured Rate in US

From 7% to less than 2% in Mass from 2006 to 2012

Percent Uninsured, 2000-2012, All Ages

Source: Blue Cross Blue Shield of Massachusetts Foundation, 2011
Today however, Massachusetts struggles with some of the most expensive healthcare in the world.
Average Premium Costs

Nationally
$6,815 per person*

Medical Trend Continues Unabated at 7% to 10%

Massachusetts
$9,278 per person

+36%

*WSJ April 2013
2014 Changes for Massachusetts Small Business
Health law may squeeze Mass. health law thrown a curve by Obamacare
National health care overhaul apt to push up costs
Mass. needs an Obamacare waiver for small-business health plans
PPACA Impact on Small Business
Understanding Current Rating Factor Adjustments

*Mass Small Group*

Small Groups in MA are currently rated using the following factors:

- Age
- Contract size
- Geography
- Group size
- Industry
- Participation
- Wellness programs (largely not used)
- Tobacco (not used)
How the Carriers Set Rates

Mass 2-50 Employees Pre-PPACA

- Higher Claim Industries
- Fewer Employees
- Older

- White Collar
- More Employees
- Younger

Filed Approved Rates
2014 Rating Factor Changes

• For individuals and small groups, the only permissible rating factors are age, geographic location and smoking status (not used).

• Massachusetts will phase-out its other rating factors (group size, industry, participation) over the next two years.

• Rates must be calculated on a “per member” basis – the number and ages of dependents will be taken into account.
Without the PPACA Waiver...

Starting January 1, 2014

- Higher Claim Industries
- Fewer Employees
- Older

FILED APPROVED RATES

- White Collar
- More Employees
- Younger
## January 1, 2014 Renewal Example

<table>
<thead>
<tr>
<th>Landscaper</th>
<th>PR Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gold Benefits</strong></td>
<td><strong>Gold Benefits</strong></td>
</tr>
<tr>
<td>3 employees, aged 40</td>
<td>3 employees age 40</td>
</tr>
<tr>
<td>3 spouses, aged 35</td>
<td>3 spouses age 45</td>
</tr>
<tr>
<td>1 child each under 21</td>
<td>3 children each under 21</td>
</tr>
<tr>
<td>SIC = 1.1</td>
<td>SIC = .9</td>
</tr>
<tr>
<td><strong>2013 rate = $1,100</strong></td>
<td><strong>2013 rate = $900</strong></td>
</tr>
<tr>
<td><strong>2014 rate = $868</strong></td>
<td><strong>2014 rate = $1280</strong></td>
</tr>
</tbody>
</table>

- 22% Adjustment
- +42% Adjustment
ACA Impact to Small Groups in Massachusetts

Small Group Premium Impact Due to Change in Rating Factors

<table>
<thead>
<tr>
<th>Groups</th>
<th>Increase In Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>Full Implementation</td>
</tr>
<tr>
<td>&lt; -20%</td>
<td>709</td>
</tr>
<tr>
<td>-10 to 20%</td>
<td>2,850</td>
</tr>
<tr>
<td>0 to -10%</td>
<td>12,028</td>
</tr>
<tr>
<td>0 to 10%</td>
<td>13,318</td>
</tr>
<tr>
<td>10 to 20%</td>
<td>2,726</td>
</tr>
<tr>
<td>&gt; 20%</td>
<td>934</td>
</tr>
</tbody>
</table>

Wakely Consulting Group – Impact of the Affordable Care Act (ACA) on Small Group and Individual Market Premiums July 15, 2013
## Summary of PPACA Fees

<table>
<thead>
<tr>
<th>Applicable Plans</th>
<th>Patient-Centered Outcomes Research Fee</th>
<th>Transitional Reinsurance Program Fee</th>
<th>Health Insurance Industry Fee</th>
<th>Excise Tax on Cadillac Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully-Insured and Self-Funded Plans, excludes dental</td>
<td>Fully-Insured and Self-Funded Plans, excludes dental</td>
<td>$63 per participant (meaning the fee applies per member, per spouse, per child on the plan). This amount can change going forward</td>
<td>Fully-Insured Plans, includes dental and vision plans</td>
<td>Fully-Insured and Self-Funded Plans, excludes dental and vision plans</td>
</tr>
<tr>
<td>and Vision plans</td>
<td>and Vision plans</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Fee Amount
- **Year 1:** $1 per covered member per year
- **Year 2:** $2 per covered member per year
- **Year 3:** To be determined

### Effective Date
- **Year 1:** Plan Years October 1, 2012 and after;
- **Year 2:** Plan Years October 1, 2013, and after
- **Fee Ends:** As of October 1, 2019

### Tax Deductibility
- **Yes**
- **Yes**
- **No**
- **No**

### Excise Tax on Cadillac Plans
- 40% excise tax for plans with an aggregate annual value that exceeds $10,200 for individual coverage and $27,500 for family coverage

Likely 2014 Rate Increases

- **60% (377,468 employees)** of small employers will see an increase
- Taxes and fees - **2.5% to 3.5%**
- Medical Trend remains **+7% to +10%**
- White collar firms will be adversely impacted
- Larger groups 25-50 will be adversely impacted
- The total impact will be phased in over 3 years so this is just year one impact – This was the Obama/Patrick Compromise
- **35% of Massachusetts small business will see increases of +15% to +70%**
More Troubling...

In 2016 PPACA Pricing Expands To 51-99

• In 2016 the 2-50 and 51-99 markets will merge

• Companies (51-99) with good claims experience in the past received additional rate relief

• Those discounts will be disallowed January 1, 2016
2014 Small Group Product Overview

All Small Group plans must fit into a metal tier (Platinum, Gold, Silver and Bronze) and a precise AV (actuarial value) assessment.

All Small Group plans must contain the ACA prescribed Essential Health Benefits, which include pediatric dental coverage.

Carriers will change the products they have available currently in the small group market.

Employers that are covered on a closed plan will be mapped to the closest plan at renewal.

Deductibles will be capped at $2,000/$4,000 and out of pocket maximums will be capped at $6,350/$12,700.
Essential Health Benefits Plan Requirements

Ambulatory patient services
Emergency services
Hospitalization
Maternity and newborn care
Mental health and substance use disorder services, including behavioral health treatment
Prescription drugs
Rehabilitative services and devices
Laboratory services
Preventive and wellness services and chronic disease management
Pediatric services, including oral and vision care
Pediatric Dental Coverage

EHB includes pediatric dental coverage equivalent either to a state’s CHIP plan or the federal employees plan.

Medical plans sold through the exchange do not need to include pediatric dental if a stand alone dental plan is available through the Exchange.

Medical plans sold outside the exchange do not need to include pediatric dental if the account provides “reasonable assurances” that members are enrolled in an Exchange (Marketplace) certified dental plan.

The Pediatric Dental benefit covers children to the age of 19 and will add approximately 1.5% to the medical rates.
Latest PPACA Timeline
2014 Overview

PPACA Fees will be built into renewal rates for fully insured plans

Health insurance exchanges begin offering coverage to qualified individuals.

The federal government begins subsidizing the purchase of health insurance for individuals with incomes up to 400 percent of the federal poverty level.

All individual and small group health insurance policies must provide an essential health benefits (EHB) package, a comprehensive list of ten broad benefits mandates and services.

All health insurance plans must meet a 60 percent minimum actuarial value threshold.

Modified community rating standards go into effect for individual or family coverage based on geography, age and smoking status.

Employer Mandate (50+ full-time equivalent employees) delayed until 2015
Employer Mandate Delayed Until 2015

Employers with 50 or more FTEs who do not offer coverage to their full-time employees must pay a $2,000 penalty per full-time employee (minus first 30 employees).

Employers with 50 or more FTEs who offer coverage must pay a $3,000 penalty for each full-time employee receiving a subsidy through the Exchange if:

- If an employee’s share of the group premium exceeds 9.5% of his or income and enrolls through the Exchange.
- The plan fails to meet the minimum value

Waiting periods for coverage for new employees limited 90 days.
2015 through 2018

2015

Small business (SHOP) health insurance exchanges must allow employers:
- To choose multiple health insurance plans from which employees may select.
- To choose a metallic coverage level from which employees may choose any plan from any insurer within the level

2016

Small group market definition increases to businesses with up to 100 employees, making more businesses subject to the essential health benefits package and all other insurance market reforms.

Small business (SHOP) health insurance exchanges must open up to businesses with up to 100 employees.

2018

Cadillac tax begins on high-cost health insurance plans with an aggregate value that exceeds threshold amounts of $10,200 for individual coverage and $27,500 for family coverage.
What is a Public Exchange (Marketplace)?

PPACA requires every state to offer an public exchange (aka “marketplace”) to its residents and small employers.

Plans must be offered at four different plan design levels: Bronze, Silver, Gold and Platinum.

A state can choose to run its own exchange and if they choose not to, a federal exchange will be put in place.

Alternatively, a state can partner with the federal government and share responsibility for running the exchange.

Results to date:

- 18 states are running their own exchange (including Massachusetts)
- 26 states have defaulted to a federal exchange
- 7 states have opted for a partnership exchange

Exchanges must provide standard information on benefits, must help consumers understand their eligibility for enrollment in health plans and eligibility for tax credits.

Private exchanges are also in place run by brokers, third party administrators and health plans.
What is a Private Exchange?

(Think Defined Contribution Plan)
Cost Strategy Considerations
Cost Shifting Strategies

Contribution Strategies

1. Increase employee’s share of the contribution
2. Maintain the employee contribution but increase the family contribution
3. Have a baseline plan and have employees buy-up to the more expensive plan
4. Introduce salary based-tiers
5. Provide an opt-out bonus
6. Utilize a defined contribution strategy and allow employees to enroll in a Private Exchange
7. Spousal Penalty
8. Engagement Carrots and Sticks (More Later)
Cost Shifting Strategies (con’t)

Plan Design Alternatives
1. Increase co-pays
2. Create steerage into high deductible plans
3. Offer limited networks/tiered networks
4. Introduce a Health Reimbursement Account (HRA) or Health Savings Account (HSA)

Wellness Programs – BC/BS Healthy Actions

Request Early Renewal for 12/1/13
More Creative Client Solutions

1. Pay or Play Analysis—delayed until 2015
2. Using Contributions to Manage TO The Exchange
3. Defining and Managing Full Time Employment
4. WGA Health Care Captive
5. Self Funding Down To 50 Employees
6. Employee Focused Member Health Engagement Practice
Pay or Play Cost Comparison for ABC Company, Inc.  
For Policy Year Starting in 2014

<table>
<thead>
<tr>
<th>2013 Cost for Currently Enrolled (A)</th>
<th>Projected 2014 Costs for Currently Enrolled (B)</th>
<th>Projected 2014 Costs With New Enrollees (C)</th>
<th>Stop Coverage in 2014 (Negative amount shown represents the lost tax deduction) (D)</th>
<th>Stop Coverage in 2014 and give $1,912 to Each Employee (E)</th>
<th>All Employees Move to Bronze-Type Plan (F)</th>
<th>$3,000 Penalty for those where the coverage is &quot;Not Affordable&quot; (G)</th>
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<tbody>
<tr>
<td>$3,350,554</td>
<td>$3,685,609</td>
<td>$3,771,475</td>
<td>$2,640,189</td>
<td>$2,787,168</td>
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<td>$1,116,851</td>
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<td>$1,257,158</td>
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<td>$1,172,694</td>
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<td>$1,320,016</td>
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<td>$2,177,860</td>
<td>$2,395,646</td>
<td>$2,451,458</td>
<td>$1,224,000</td>
<td>$2,451,458</td>
<td>$1,298,324</td>
<td>$1,248,091</td>
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</tbody>
</table>

Net Employer Cost | Tax Savings | Employee Contribution | Cost Transferred to EE's

$1,416,189 | $5,028,633 | $3,801,174 | $1,435,038 | $849,033 | $3,579,929

Pay or Play Cost Comparison for ABC Company, Inc.
Some Employers “Managing” Employees Off Group Plan

Start

Does the employer have at least 50 full-time employees?

No

No Penalty Applies

Yes

Does the employer offer coverage to all full-time employees?

No

No Penalty Applies

Yes

Does at least one full-time employee receive a premium tax credit or cost-sharing subsidy through an Exchange?

No

A Penalty Applies

Yes

9.5% Affordability Test

Is the employee’s required premium contribution for single coverage for the employer’s lowest cost plan 9.5% or less of the employee’s w-2 income?

No

No Penalty Applies

Yes

Minimum Value Test

Does the employer-sponsored plan provide minimum value?

No

No Penalty Applies

Yes

Employers can intentionally manage some of the employees into Exchange

Exchange Subsidy

Do any employees purchase coverage in an Exchange and receive a premium tax credit or cost-sharing subsidy?

No

No Penalty Applies

Yes

A Penalty Applies

The penalty is $3,000 times the number of full-time employees receiving premium tax credits, or $2,000 times the number of full-time employees minus 30.
Determining who is a full-time employee for purposes of the Pay or Play Provision

NEW WORK DEFINITIONS
-MEASUREMENT PERIOD
-STABILITY PERIOD
-ADMINISTRATIVE PERIOD

Existing Employee

New Employee

Measurement period - no less than 3 months and up to 12 months.

Stability period - follows the measurement period and its duration is no less than six months but no shorter than the measurement period.

Administrative period - up to 90 days, during which eligible employees must be enrolled in the health plan, overlaps with the measurement period.
Employee Engagement

The Future of Healthcare Cost Control

• 70% of chronic diseases are preventable or reversible
• 20% of most populations generate 60% of claims costs
• 20% of employees have not seen a doctor in over two years
• 70% have not had an age appropriate screening
• Over 80% of members refuse carrier disease management
• Claim episodes that begin in an emergency will generate $16,000 in expense vs. $4,300 through a primary doctor early stage

Employers are now holding employees accountable to:

• Get a physical
• Have blood work done (Biometrics)
• Get age appropriate screenings
• Respond to carrier outreach calls
• Participate in any clinically appropriate programs including disease management
Value of Member Engagement - 24% Lower Costs

Initiation to Early Accountability of Members

Initiation

Awareness

Accountability

Ownership

$8,342
Annual Cost Per Year / Person

Low Initiation

• No clinical programs; low Rx integration
• No rewards strategy.

N = 31 clients, (15th pctle), 346k members.

$6,361
Early Accountability

• Clinical suite of programs; Rx integrated 70% of the time
• Richness average of 77% CDHP average of 68%
• Network: almost all have COEs
• Consequential incentives

N = 13 clients (95th pctle), 584k members

24% Lower Costs*

*Based on United Healthcare Analysis. 11% reduction attributed to plan design, 13% to reduction in claims expense
Christopher Nadeau is a Principal at William Gallagher Associates (WGA) and head of the Employee Benefits Group. Since joining the firm in 1998, Mr. Nadeau has been a key figure in growing the practice to a strong organization of 55 employees with over 400 clients, and maintaining consistent annual growth. Mr. Nadeau counsels his department to develop and redesign employee benefits programs to match the corporate philosophy, long-term needs and objectives of their clients. He is also an industry leader on Healthcare reform and the cost impact and administrative burden on employers.

In 2007, Mr. Nadeau was named Chairman of the Washington DC based, Council of Employee Benefits Executives, a standing committee of the Council of Insurance Agents & Brokers (CIAB). CIAB is the largest insurance industry association in the country. During 2008 and 2009, he represented the industry and client issues on Capitol Hill for countless meetings with politicians on the direction of Health Reform and the impact on employers.

Mr. Nadeau is a licensed Life, Accident and Health broker and holds his Investment Advisors License as well as his NASD Series 6 & 63 Investment Securities Licenses. He is a member of the New England Employee Benefits Council (NEEBC) and the Northeast Human Resources Association (NEHRA). He previously served as a Corporate Board Member of Delta Dental of Massachusetts and currently serves on both the Large Case Advisory Board for Blue Cross Blue Shield of Massachusetts and the National Advisory Board for UNUM. Mr. Nadeau is a frequent speaker regarding the regional and national impact of Healthcare reform, trends in corporate benefit delivery, consumer directed plans and trends in voluntary benefits. Mr. Nadeau graduated from Bucknell University with a degree in Business Administration, with a Marketing concentration.

Kerry Hands is a Senior Vice President at William Gallagher Associates (WGA) in the Employee Benefits Group, with an expertise in healthcare and healthcare reform targeting high technology companies in the small/midsize market space. She has 20 years of experience as a strategic advisor, providing consulting and brokerage service to firms and working on the analysis, development, implementation and on-going strategic direction of company benefit programs. Ms. Hands also has extensive knowledge and awareness about products, developments, various funding arrangements and legislative and compliance updates. Her role involves monitoring current industry trends, as well as managing high-level relationships and strategic partnerships with organizations in the private equity and venture capital space.

Prior to joining WGA in 2013, she spent 13 years as a Vice President at Bostonian Group, A Marsh & McLennan agency. She was appointed to a cross-agency national team for Marsh & McLennan to develop and implement a new company-wide mission, vision and values statement for the organization. During her time there, she managed benefit plans for a diverse group of clients in the small/midsize market space.

Ms. Hands is a member of several industry organizations, including The Women’s Network Advisory Board for the Boston Chamber of Commerce, The New England Employee Benefits Council and the Commonwealth Institute. She is also a current Executive Committee member and a former board member and former HR Committee Chair for the Smaller Business Organization of New England (SBANE), where she is a frequent panelist and speaker on the state of healthcare in Massachusetts.

Ms. Hands earned a Bachelor of Arts degree from DePauw University in Greencastle, Indiana. She is a licensed Life, Accident and Health Broker and Advisor. Originally from the Chicago area, Ms. Hands now resides in Sherborn with her husband and three children.
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Questions?