

# **Impact of Health Care Reform on the State Health Benefits Program**



**Virginia Department of Human Resource Management**

**House Appropriations Committee  
May 17, 2010**



# Health Care Reform Overview

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- **What it is:**
  - **The Patient Protection and Affordable Care Act (PPACA)**
    - Signed by the President on March 23, 2010
  - **The Health Care and Education Reconciliation Act (Reconciliation Act)**
    - Amends the PPACA
    - Signed by the President on March 30, 2010
  - **Addresses access to health coverage**
  - **Includes some coverage mandates**
- **What it is NOT:**
  - **Health care cost reform**



# Grandfathered Plans

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- **Coverage provisions of Health Reform generally do NOT apply to existing plans**
  - **COVA plans meet grandfathered plan criteria**
  - **Redesign or changes to existing plan may impact grandfathered status**



# Grandfathered Plans

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- **Grandfathered Plans are subject to some key provisions**
  - **Prohibits:**
    - Lifetime and annual limits
    - Pre-existing condition exclusions
    - Waiting periods over 90 days
    - Rescission, except for fraud or misrepresentation
  - **Covers adult children to age 26**
  - **Provides uniform summary of benefits and coverage documents**



# Health Care Reform Timeline - 2010

<b>Reform Provision</b>	<b>Cost Impact FY11</b>
<b>Early retiree reinsurance: reimbursement for claims between \$15K- \$90K; must benefit early retirees</b>	<b>Estimate \$20 million reimbursement</b>
<b>\$250 rebate from Centers for Medicare and Medicaid Services to Medicare members who reach donut hole.</b>	<b>\$250 per retiree</b>
<b>Prohibition on lifetime and annual limits; pre-existing condition exclusions; excessive waiting periods; rescission; cost sharing for preventive services</b>	<b>None. Already covered under COVA plans</b>
<b>Internal and external appeal processes must be established.</b>	<b>Already in place. Estimate \$100,000 for added volume</b>
<b>Coverage for married or single adult children to age 26 not eligible for health coverage through employer.</b>	<b>Estimate \$4 million cost to program</b>



# Health Care Reform Timeline - 2011

<b>Reform Provision</b>	<b>Cost Impact</b>
<b>Reimbursement of over-the-counter drugs excluded under Flexible Spending Account</b>	<b>Loss of pre-tax benefit to employee. Some FICA impact</b>
<b>Uniform summary of benefits and coverage documents</b>	<b>Estimate \$100,000 printing cost</b>
<b>W-2 reporting of value of employee coverage, reflected on 2012 W-2 for 2011 coverage. Value based on COBRA premium</b>	<b>Some systems and programming cost</b>
<b>50% discount on brand drugs for Medicare members who reach the donut hole</b>	<b>Medicare retirees may receive savings</b>
<b>Annual fee for pharmaceutical manufacturers of brand drugs</b>	<b>If passed on to consumer, increase cost to both employer and employee</b>
<b>Voluntary public LTC program. Auto-enrollment with opt-out, paid by payroll deduction.</b>	<b>Some systems and programming cost.</b>



# Health Care Reform Timeline - 2012

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<b>Reform Provision</b>	<b>Cost Impact</b>
<b>Employers with 200+ employees must auto-enroll new employees into health program. Employee may opt-out. (Effective date of provision unclear.)</b>	<b>If wage employees included, then significant additional cost.</b>



# Health Care Reform Timeline - 2013

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<b>Reform Provision</b>	<b>Cost Impact</b>
<b>Comparative Effectiveness Research fee. \$2 per member first year; \$1 per member next four years</b>	<b>Estimate \$1.2 million over 5 year period</b>
<b>Reduces annual Medical Flexible Spending Account contributions from \$5,000 to \$2,500.</b>	<b>Loss of pre-tax benefit; some FICA impact</b>
<b>Medical device manufacturers responsible for 2.9% sales tax on medical devices; eyeglasses, contact lenses, hearing aids exempt.</b>	<b>If passed to consumer. then increase cost to both employer and employee</b>





# Health Care Reform Timeline - 2014

<b>Reform Provision</b>	<b>Cost Impact</b>
<b>State individual and small group Health Insurance Exchanges operational.</b>	<b>Cost to the state to implement and operate Exchange</b>
<b>Health plan must offer “essential benefits package” that covers at least 60% of value of covered services. Annual cost sharing limited to Health Savings Account limits (\$5,950 single; \$11,900 family) indexed for inflation.</b>	<b>None. Current COVA plans meet essential benefits package and cost sharing criteria</b>
<b>Penalty for employer if at least one employee receives federal subsidies through Exchange (lesser of \$3,000 X total FTEs receiving subsidy or \$750 X total FTEs).</b>	<b>Need further regulatory guidance to estimate cost</b>
<b>Free Choice Voucher for employees with income less than 400% Federal Poverty Level, with premium share between 8% and 9.8% of income, and who enroll through Exchange.</b>	<b>No penalty to employer for employees that receive voucher</b>



# Health Care Reform Timeline - 2018

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<b>Reform Provision</b>	<b>Cost Impact</b>
<b>40% excise tax on "Cadillac" plans, with value over \$10,200 single; \$27,500 family. Includes Flexible Spending Account contribution. Indexed to CPI after 2010.</b>	<b>COVA plans currently not a "Cadillac" plan</b>



# Health Care Reform Timeline - 2020

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<b>Reform Provision</b>	<b>Cost Impact</b>
<b>Donut hole coverage gap in Medicare Part D benefit fully phased out</b>	<b>Savings for Medicare retirees. State would no longer need Part D coverage under retiree program.</b>



# Health Care Reform

## Current DHRM Activities

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- **Preparing for early retiree reinsurance submission. Applications available beginning June 1.**
- **Developing policies for coverage of adult children to age 26.**
- **Working with payroll systems to develop programming for W-2 reporting.**
- **Reviewing internal and external appeals processes for compliance with guidelines.**
- **Working with vendors to interpret and implement required changes.**
- **Reviewing regulatory releases and guidelines as they become available.**



# Health Care Reform

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## ■ What we know

- Many of the later components of the legislation may change.
- There will be additional cost to employers for administration and coverage.
- Employers will continue to face health care cost inflation.

## ■ What we don't know

- We don't know what we don't know.



# Health Care Reform

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**QUESTIONS?**