

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



Virginia Department of Human Resource Management

Senate Finance Committee  
June 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**



# 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 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
  - Provides uniform summary of benefits and coverage documents
  - Covers adult children to age 26



# Health Care Reform Timeline - 2010

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



# Health Care Reform Timeline - 2011

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



# Health Care Reform Timeline - 2012

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



# Health Care Reform Timeline - 2013

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



# Health Care Reform Timeline - 2014

Reform Provision	Cost Impact
State individual and small group Health Insurance Exchanges operational.	Cost to the state to implement and operate Exchange
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.	None. Current COVA plans meet essential benefits package and cost sharing criteria
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).	Need further regulatory guidance to estimate cost
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.	No penalty to employer for employees that receive voucher



# Health Care Reform Timeline - 2018

Reform Provision	Cost Impact
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.	COVA plans currently not a "Cadillac" plan



# Health Care Reform Timeline - 2020

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



# Health Care Reform

## Current DHRM Activities

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- **Preparing for ERRP submission. Draft application released, anticipate filing by June 30.**
- **Revised regulations developed for coverage of adult children to age 26. Preparing for submission to Town Hall.**
- **Working with DOA on 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?**