



SJVIA

San Joaquin Valley
Insurance Authority

BOARD OF DIRECTORS

SUSAN B. ANDERSON

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Meeting Location:
Tulare County Employee Retirement
Association Board Chambers
136 N. Akers Street
Visalia, CA 93291
November 9, 2012
9:00 AM

AGENDA DATE: November 9, 2012

ITEM NUMBER 11

SUBJECT Health Care Reform Impact on SJVIA Health Plans

REQUEST(S): That the Board receive the attached Health Care Reform Report.

DESCRIPTION:

Health Care Reform, also referred to as the Patient Protection and Affordable Care Act (PPACA), continues to be a focus for SJVIA staff and Gallagher Benefit Services as new regulations continue to be issued as this new law is interpreted. Below is a summary of the items attracting the most interest based on impact to the SJVIA. Further, attached is additional information explaining this legislation and the impact on health plans, employers, and individuals.

Minimum Loss Ratio Rebates

This provision of the Act requires that insurance carriers with health plans sold to individuals and small employers have a minimum loss ratio ("MLR") of 80% and that health plans sold to large employers (plans with 101 or more employees) have a MLR of 85%. This essentially means that carriers must pay out 80% or 85% of premium, depending on the size of plan, in the form of health care benefits. If an insurance carrier fails to meet the required MLR, that carrier must rebate any excess premium back to enrollees under the plans. The SJVIA operates at an equivalent MLR of greater than 90%. Further,

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these new requirements only affect fully insured health coverage and therefore, the SJVIA plans are exempt.

W2 Reporting

Large Employers, including all current SJVIA member entities, are required, as of the 2012 tax year, to report the aggregate cost of applicable employer sponsored coverage on the 2012 W-2s. This reporting is informational only and does not create additional taxable income at this time. The purpose of the reporting is to provide useful and comparable consumer information to employees on the cost of their health care coverage.

Clinical Effectiveness Research Fee (CER Fee)

The Act established the Patient-Centered Outcomes Research Institute. Funded by the Patient-Centered Outcomes Research Trust Fund, the institute will assist patients, clinicians, purchasers and policy-makers in making informed health decisions through the dissemination of comparative clinical effectiveness research findings. The trust fund will be funded in part by CER fees paid by health insurers and plan sponsors. The fee is imposed on the SJVIA for each plan year beginning with the current 2012 plan year and is scheduled to continue through 2018. The fee for 2012 plan year is \$1 multiplied by the average number of lives covered under the plan for the plan year. For plan year 2013 the fee increases to \$2. The fee amount will be indexed annually starting in 2014. These fees which are to be paid in July of each year will have minimal impact on the overall cost of the SJVIA and will not significantly impact rates.

Medicare Payroll Tax

Starting in 2013, employees with income in excess of \$200,000 and couples filing jointly with incomes in excess of \$250,000 will see an increase of 0.9% in their Medicare tax. However, employers will only be required to withhold the additional FICA taxes on amounts exceeding these thresholds for employees to whom with pay in excess of \$200,000. The Medicare tax (a total of 3.8%) will also be applied to net investment income for individuals or couples meeting the above income thresholds.

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Required Notices- Health Exchange

Employers are required to notify employees by March 1, 2013 of the existence of Health Insurance Exchanges. These Exchanges are intended for individuals to purchase coverage beginning in 2014 when the individual coverage mandate takes effect. Additional legislative guidance is pending and more detail will be communicated when available.

Reinsurance Fee

A transitional reinsurance program will be established in each State to help stabilize premiums for coverage in the individual market during the benefit years 2014 through 2016. Under this provision, the SJVIA must make contributions for each individual covered to support reinsurance payments to individual market insurers that cover high-cost individuals. The SJVIA must submit these contributions to HHS on a quarterly basis beginning January 15, 2014. Guidance on the amount of the fee is not yet available but HHS has indicated it should be released by the fall of this year. For the first year of the program, estimates have ranged from \$60 per person to as high as \$100 per person annually. SJVIA cost estimates will be developed when this information is available and will be incorporated into future budget projections. Using 2013 plan rates, it is estimated this Reinsurance Fee will result in a premium increase ranging from 0.6 to 3.1 %

Cadillac Tax

In 2018 the “Cadillac Plan” tax will take effect. It is determined based on the cost of the coverage provided. The cost of a plan with single coverage that exceeds \$10,200 annually, or family coverage that exceeds \$27,500 annually, will be considered a “Cadillac Plan” beginning in 2018. At that time, coverage with a cost that exceeds those amounts will be subject to a 40% excise tax on the value of coverage that exceeds the above amounts. The tax is imposed on insurers for insured plans. Generally, for self-funded plans, the tax will be paid by the sponsoring employer. Much more guidance is expected on this provision.

Part-Time and Temporary Employee Impact

In 2014 the Employer Mandate to offer coverage or pay a penalty takes effect. This is applicable to employers with at least 50 full time employees. The annual penalty is \$2,000 for each full-time equivalent employee not covered. Special consideration for part-time and temporary employees will need to be

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given for purposes of determining full-time employees. They are defined as those employees who work on average 30 hours per week. Analysis for each member entity of the impact of this provision will be developed in 2013.

Women's Preventative Services

Beginning with Plan Year 2013 the SJVIA will cover women's preventative services at no cost on non-grandfathered plans, most notably including oral contraceptives. Following is the list of required women's preventive services to be provided without cost sharing by the covered member:

- (1) Well-woman visits;
- (2) Gestational diabetes screening for women 24 to 28 weeks pregnant;
- (3) High-risk human papilloma virus ("HPV") DNA testing for women who are 30 or older;
- (4) Sexually transmitted infection ("STI") counseling;
- (5) Contraception and contraceptive counseling (including all FDA-approved contraceptive methods, sterilization procedures, and patient education and counseling);

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(6) Breastfeeding support, supplies, and counseling; and 7) Domestic violence screening.

Gallagher Benefit Services will continue to work with SJVIA staff to monitor and provide clear guidance to ensure timely compliance with Health Care Reform legislation. Developments and findings will be reported to the SJVIA Board on a regular and ongoing basis.

FISCAL IMPACT/FINANCING:

The legislation and regulation implementing the Patient Protection and Affordable Care Act will result in increased expenses for the SJVIA that will be factored into the development rates for each coverage option.

ADMINISTRATIVE SIGN-OFF:



Paul Nerland
SJVIA Manager



Jeffrey Cardell
Assistant SJVIA Manager

**BEFORE THE BOARD OF DIRECTORS
SAN JOAQUIN VALLEY INSURANCE
AUTHORITY**

IN THE MATTER OF Health Care Reform Impact on SJVIA Health Plans

RESOLUTION NO. _____

AGREEMENT NO. _____

UPON MOTION OF DIRECTOR _____, SECONDED BY
DIRECTOR _____, THE FOLLOWING WAS ADOPTED BY
THE BOARD OF DIRECTORS, AT AN OFFICIAL MEETING HELD _____
_____, BY THE FOLLOWING VOTE:

- AYES:
- NOES:
- ABSTAIN:
- ABSENT:

ATTEST:

BY: _____

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That the Board received the attached Health Care Reform report.