



BOARD OF DIRECTORS

ANDREAS BORGEAS
JUDITH CASE
MIKE ENNIS
PHIL LARSON
DEBORAH POCHIGIAN
PETE VANDER POEL
STEVE WORTHLEY

**Meeting Location:
Tulare County Board of
Supervisors Chambers
2800 West Burrel
Visalia, CA 93921
September 6, 2013 8:00 AM**

**Meeting Location:
County of Fresno Board of
Supervisors, Hall of Records
2281 Tulare St, Room 301
Fresno, CA 93721
September 6, 2013 8:00 AM**

AGENDA DATE: September 6, 2013

ITEM NUMBER: 13

SUBJECT: Report on the measurable costs related to the Affordable Care Act on the SJVIA and its member entities (I)

REQUEST(S): That the Board Receive and File Report on the measurable costs related to the Affordable Care Act

DESCRIPTION:

At the direction of your Board and the managers of the San Joaquin Valley Insurance Authority, Gallagher Benefit Services sought to identify and quantify the effects (both fiscal and operational) of the Patient Protection and Affordable Care Act (PPACA).

On March 23, 2010 President Obama signed into law the Patient Protection and Affordable Care Act (PPACA or ACA). The law faced several court challenges and was ultimately found to be constitutional in June of 2012. PPACA, along with the Health Care and Education Reconciliation Act of 2010, make up the new health care reform law. This legislation creates a number of challenges for employers and self-insured health plans that sponsor group health insurance. Certain changes have already been implemented and additional action will be taken over the next several years. This document is intended as a brief summary with additional discussion and detail to be provided at the Board meeting.

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Impact to the SJVIA :

The impact to the SJVIA of the Affordable Care Act is in two categories. The ACA includes certain benefit and coverage enhancements as well as imposing additional fees and taxes. GBS has sought to identify and quantify both of these components.

Patient Protections mandated by PPACA and implemented:

- Extended dependent coverage for adult children up to age 26 (2010)
- Restrictions on annual benefit limits and elimination of lifetime limits (2010)
- Elimination of pre-existing condition exclusions for children (2010)
- Prohibitions on rescission of health care coverage (2010)
- Limits on reimbursing over-the-counter medication (2011) Women's preventive/contraceptives covered (2013)
- Compliance with nondiscrimination rules for fully-insured plans

The impact to claims as a result of the Patient Protection component of PPACA is between 2.5% to 6%. For the SJVIA, claims costs projections have increased between \$1,750,000 and \$4,200,000 as a direct result of these new benefits.

Additional fees and taxes imposed by PPACA:

In addition to mandating increased eligibility and benefits, PPACA also imposes new fees and taxes on health plans. These fees/taxes include:

- **Patient Centered Outcomes Research Institute Fee (PCORI)** – The Affordable Care 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 by advancing clinical effectiveness research. The trust fund will be funded in part by fees paid by both health insurers for insured plans, and plan sponsors of self-funded group health plans. The fee is \$1 for plan years ending before October 1, 2013 and \$2 thereafter per plan year multiplied by the average number of lives covered under the plan for the plan year. The fee amount will be indexed annually starting in 2014.

The annual cost to the SJVIA of the PCORI fee is \$24,145 in plan year 2014.

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- **Transitional Reinsurance Fee** – The transitional reinsurance program was established with the stated intent of stabilizing premiums in the individual market during calendar years 2014 through 2016. The program cannot be extended past 2016 without an act of Congress.

Under the statute, the program will be financed through “contribution funds from contributing entities,” which is “payments from health insurers and third-party administrators (“TPA”), on behalf of self-funded group health plans,” to support reinsurance payments to individual market insurers that cover high-cost individuals. Although the final rule refers to “contributing entities” and “contributions,” the payment amounts discussed below are not voluntary.

The goal of the transitional reinsurance program is to reduce the uncertainty of insurance risk in the individual market by partially offsetting risk for high-cost enrollees. By limiting insurer's exposure to high-cost enrollees, it's hoped this program will limit individual market rate increases that might otherwise occur because of the immediate enrollment of individuals with unknown health status.

The annual cost to the SJVIA of the Transitional Reinsurance Fee is \$958,666.

- **Health Insurance Industry “Fee”** – PPACA includes an annual tax assessed on fully insured premiums. This tax is approximately 2.5% of total premiums and is intended to fund premium tax credit subsidies through the public exchanges and Medicaid expansion. SJVIA has avoided this tax on the PPO population but is responsible for payment on the HMO population. The annual cost to the SJVIA of the Health Insurance Industry Fee is \$1,341,683.

The impact to fixed costs as a result of the Fee and Taxes component of PPACA is \$2,323,883.

Employer Mandate

Beginning in 2014, PPACA also included a mandate for all employers with more than 50 Full Time Equivalent (FTE) employees. This mandate directed employers to either offer coverage to all employees working over 30 hours per week or pay a fine (“Pay or Play”). This mandate has been postponed until 2015.

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Conclusion:

The overall impact to costs (both fixed costs and projected claims costs) to the SJVIA as a result of PPACA mandated benefits and additional fees and taxes is between \$4,000,000 and \$6,500,000 in additional costs per year. This represents 5% to 8.125% of overall costs. This does not include the additional administrative cost of implementing provisions of PPACA between the SJVIA and its member entities.

FISCAL IMPACT/FINANCING:

No Fiscal Impact. Claims will continue to be paid with no financial implications.

ADMINISTRATIVE SIGN-OFF:



Paul Nerland
SJVIA Manager



Rhonda Sjostrom
Interim Assistant SJVIA Manager

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

IN THE MATTER OF Health Reform Requirement of Electronic Funds Transfers (EFT) for Payment of Claims (A)

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 Receive and File Report on the measurable costs related to the Affordable Care Act.