



# Healthcare Reform: Impact on Small Employers

Ken Janda  
President and CEO  
Community Health Choice, Inc.

January 2013



## About CHC

- Non-profit Health Maintenance Organization licensed by the Texas Department of Insurance
- Affiliate of the Harris County Hospital District
- Serves over 220,000 Members with the following programs:
  - **Medicaid** State of Texas Access Reform (STAR) program for low-income children and pregnant women
  - **CHIP** (Children's Health Insurance Program) for the children of low-income parents
  - **CHIP Perinatal** program for unborn children of pregnant women who do not qualify for Medicaid STAR
  - Harris County Healthcare Alliance **3-Share Program** that subsidizes the premiums of a limited benefit plan for previously uninsured, low-income employees of small businesses (in development)



# CHC Mission Statement

At Community Health Choice, our mission is to improve the health of underserved residents of Southeast Texas by facilitating access to coordinated, high quality, affordable healthcare services. Our mission is achieved through:

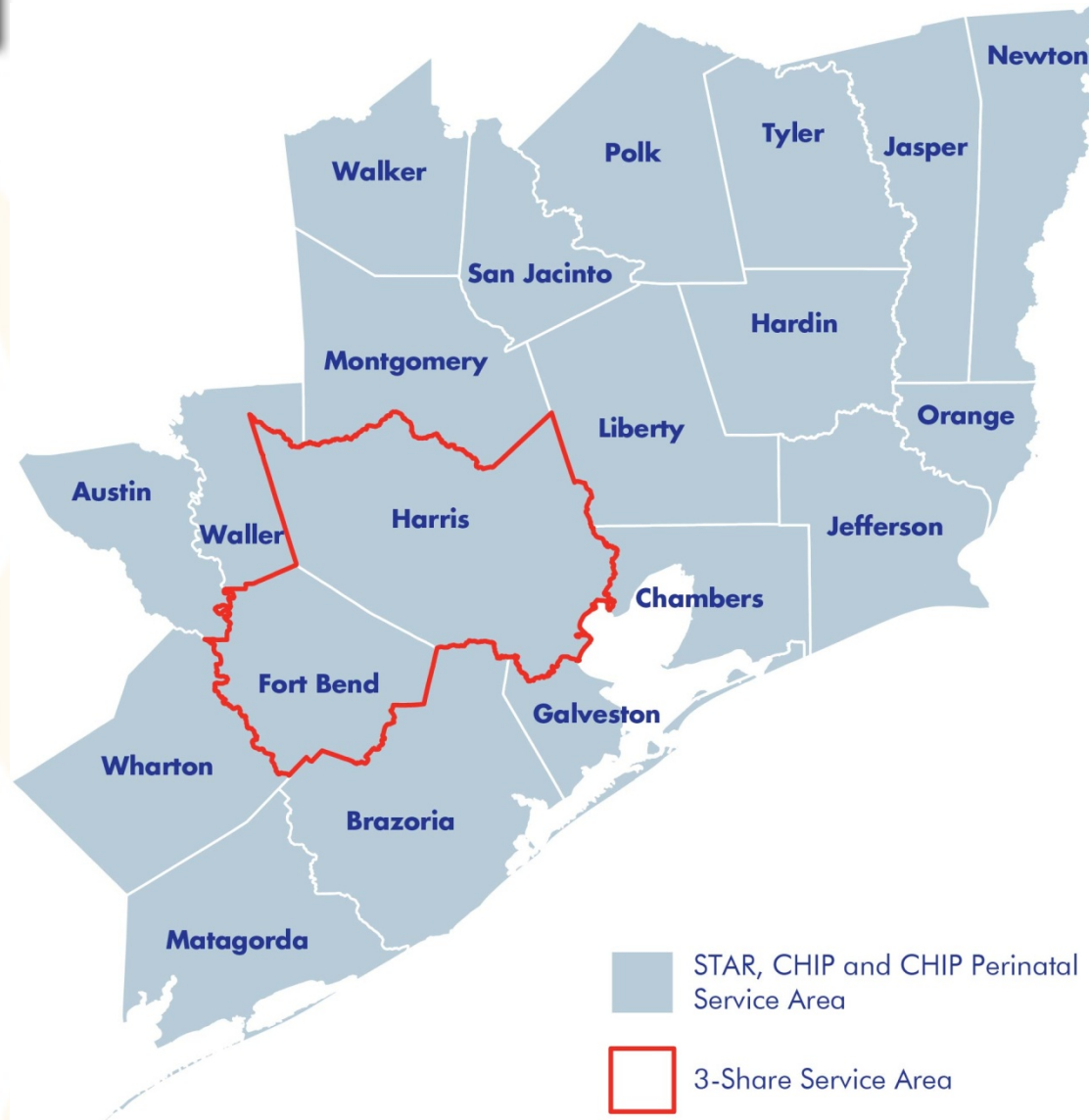
**Community:** Collaborating with community-based Providers and organizations to improve access, quality, coordination and cost effectiveness of services

**Health:** Developing programs to establish medical homes, manage health conditions and promote wellness and preventive care

**Choice:** Encouraging personal accountability and educated choices for individual and family health



# CHC Service Area Map





# Health Reform 101





# Definitions

- Affordable Care Act (ACA): health reform law passed in 2010; most provisions effective January 1, 2014
- Individual requirement: all individuals, with certain exceptions, are required to either have health insurance coverage or pay a fee
- Employer requirement: large employers (50 or more employees) must provide coverage or pay a fee



# Eligibility Guidelines

Federal Poverty Level (FPL): poverty status based on family size and annual household income; eligibility for many public assistance programs depends on FPL

## 2012 Federal Poverty Guidelines

Family Size	Annual Household Income (% FPL)			
	100%	133%	200%	400%
1	\$11,170	\$14,856	\$22,340	\$44,680
2	15,130	20,123	30,260	60,520
3	19,090	25,390	38,180	76,360
4	23,050	30,657	46,100	92,200

Note: These figures represent combined household income, not individual wages.



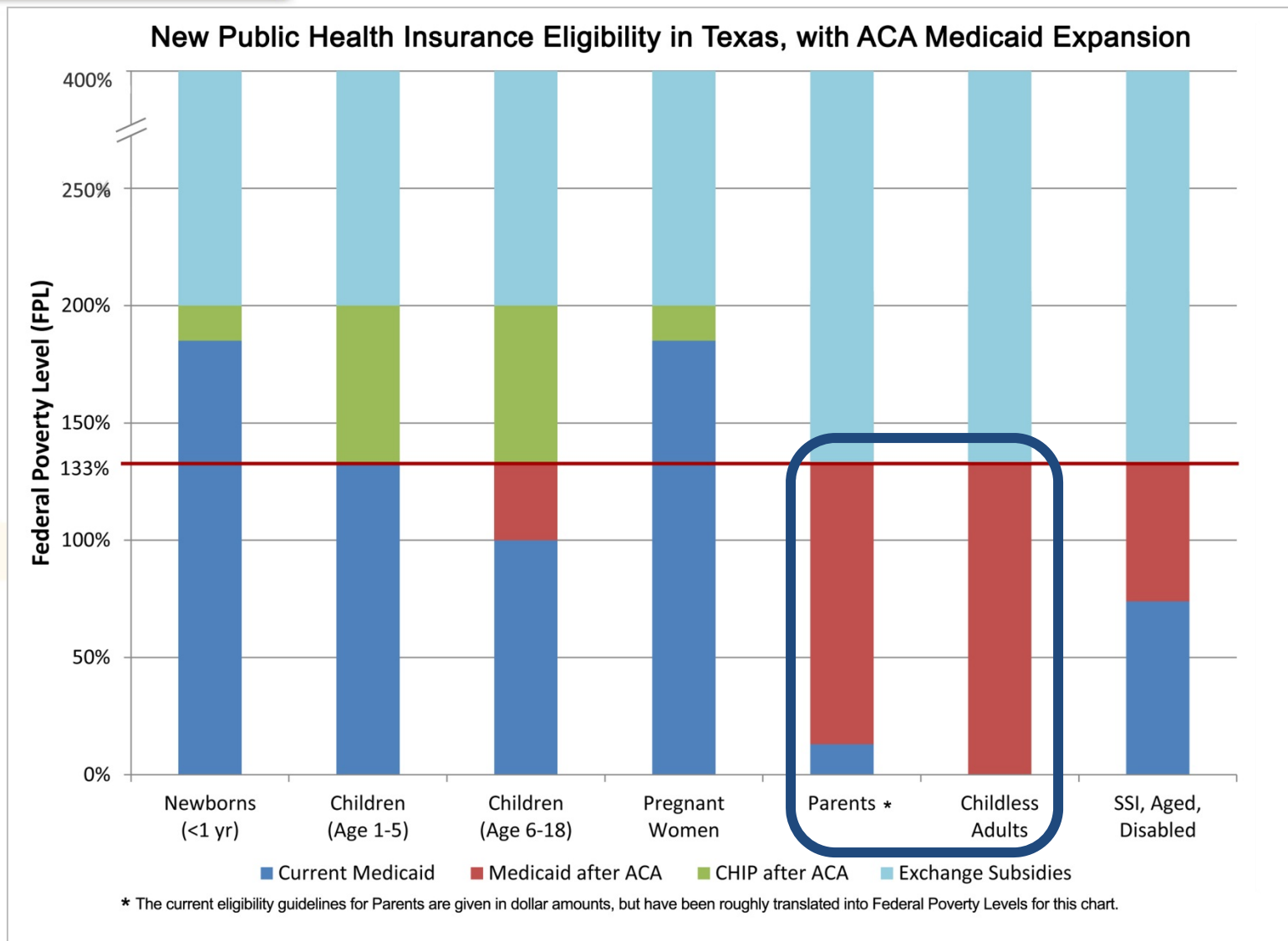
# Medicaid

- Government sponsored health insurance for very low-income individuals
- In Texas, has covered mainly children and pregnant women
- Recent immigrants not eligible
- ACA allows states to expand eligibility, funded mainly by the federal government, but Texas may choose to not do so





# Federal Reforms with Medicaid Expansion





# Health Insurance Exchange

- For individuals: American Health Benefit Exchange
  - Virtual marketplace where individuals can compare and purchase health insurance policies on the individual market
  - Policies divided into five categories based on actuarial value: Bronze, Silver, Gold, Platinum, and Catastrophic (for people under age 30 only)
  - Premium tax credits and cost-sharing subsidies available for individuals from 100% to 400% FPL with no access to employer-sponsored insurance
    - Recent immigrants eligible
    - Undocumented immigrants not eligible



# Illustrative Eligibility & Cost Sharing

	Bronze	Silver	Gold	Platinum
Monthly Premium - Child	\$150	\$200	\$250	\$300
Monthly Premium - Adult	\$300	\$350	\$400	\$450
Office Co-pay	\$40	\$30	\$20	\$15
Hospital Co-pay	40%	30%	20%	15%
ER Co-pay	40%	30%	20%	15%
Rx Drug- Generic	\$20	\$15	\$10	\$5
Rx Drug- Brand	\$45/\$60	\$25/40	\$20/\$35	\$15/\$25
Deductible	\$400	\$200	\$100	\$0
Out of Pocket Maximum	\$4,000	\$2,000	\$1,000	\$500

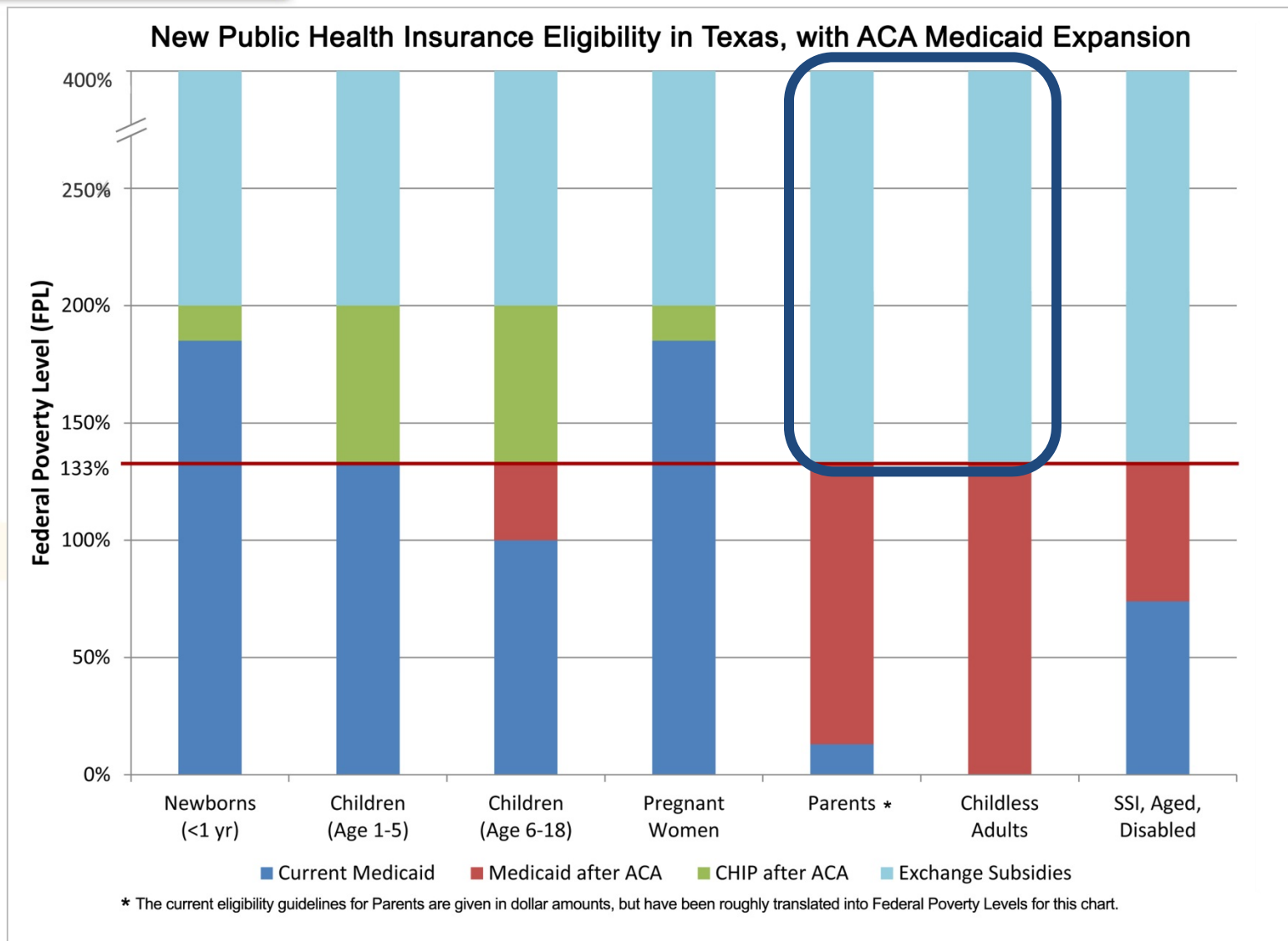


# Health Insurance Exchange

- For employers: Small Employer Health Options Program (SHOP)
  - Same concept as the exchange for individuals
  - 2014-2016: individuals and employers with up to 100 employees have access to the SHOP
  - Beginning 2017: employers with more than 100 employees also have access to the SHOP
  - Individuals covered by employer-sponsored small group policies in the SHOP are not eligible for individual subsidies
- If a state-facilitated health insurance exchange is not created (e.g. Texas), the federal government will run one

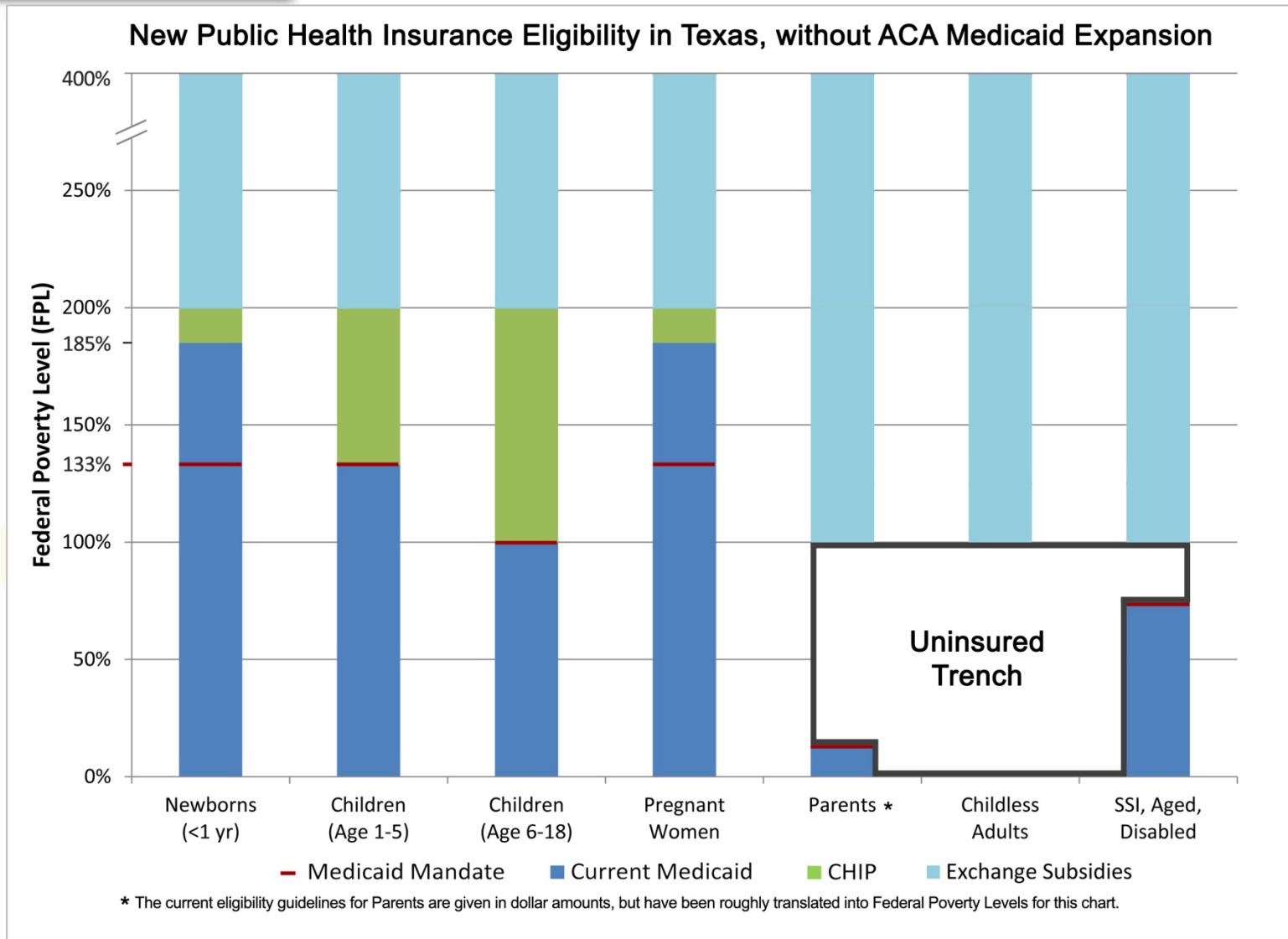


# Federal Reforms with Medicaid Expansion





# Federal Reforms without Medicaid Expansion





# The Employee Perspective





# Individual Requirement

- Effective January 1, 2014
- Obtain coverage or pay a fee
  - \$95 in 2014 or 1% of taxable income, whichever is higher
  - \$325 in 2015 or 2% of taxable income
  - \$695 in 2016 or 2.5% of taxable income
  - Beyond 2017: \$695 tied to cost-of-living adjustment
  - Family fee = individual fee x family size (up to 3 times the individual fee or 2.5% of income, whichever is higher)
- Exemptions
  - Income below the tax filing threshold (\$9,750 for singles, \$19,500 for couples, \$27,100 for couple with two children)
  - Uninsured for less than three months (but only one period of non-coverage is allowed)
  - Financial hardship: lowest cost plan exceeds 8% of income





# Health Coverage Options

- Government sponsored programs
  - Medicaid, Medicare, CHIP, TRICARE, VA
  - States allowed to expand Medicaid to 133% of FPL, financed mostly by federal government, but Texas has not yet made a final decision
- Individually purchased coverage from the health insurance exchange
  - Subsidized coverage for individuals up to 400% of FPL
  - Non-subsidized coverage through the exchange for individuals above 400% of FPL
- Partial payment for employer-sponsored coverage



# Sample Coverage Options for Family of Four

Family Income <sup>1</sup>	FPL Equivalent	Medicaid Eligible? <sup>2</sup>	Eligible for Individual Premium Credits?	Cost of coverage (less credits) <sup>3</sup>
\$20,000	87%	Yes	No	N/A
\$25,000	108%	Yes	Yes	\$500
\$40,000	174%	No; CHIP for children	Yes	\$1,980
\$50,000	217%	No	Yes	\$3,385
\$90,000	390%	No	Yes	\$8,550
\$100,000	434%	No	No	\$12,130

<sup>1</sup>The incomes represent combined household income, not individual wages.

<sup>2</sup>Assuming that Medicaid is expanded to 133% FPL for all eligible individuals in Texas.

<sup>3</sup>According to the [Kaiser Family Foundation Subsidy Calculator](#) for a 40-year-old policy holder with a family of four in a medium-cost region.



COMMUNITY  
HEALTH  
CHOICE

# The Employer Perspective



# Employer Tax Credits and Penalties

Business Size	Tax Credits	Penalties
25 or fewer FTEs	Depends on average annual wages	None
26 – 49 FTEs	None	None
50 or more FTEs	None	Only if an employee obtains a premium credit in the exchange



# Small Employer Tax Credit

- Sliding scale tax credit
  - Employer must pay at least 50% of premiums at the employee-only coverage rate
  - Businesses with 10 or fewer employees and average annual wages of less than \$25,000 get the full credit
  - Must have 25 or fewer employees and average annual wages of less than \$50,000 to get any credit
- 2010-2013
  - Full credit: 35% of employer's premium contribution (25% for tax-exempt businesses)
- 2014 and beyond
  - Full credit: 50% of employer's premium contribution (35% for tax-exempt businesses)



# FTE Calculations for Tax Credit

- Calculate your full-time equivalents (FTEs)
    - Number of full-time employees (employees who work at least 40 hours per week)

+

  - Full-time equivalent of part-time employees: add up total annual hours and divide by 2080
- 
- Total FTEs

+

=



# Small Employer Tax Credits

- To obtain credit, fill out forms available from [irs.gov](http://irs.gov)
  - [Form 8941](#) (instructions [here](#))
  - Tax-exempt businesses: [Form 990-T](#)
  - For more info, see "[Small business health care tax credit for small employers](#)"
- Still time to amend your 2012 tax return



# Large Employer Penalties

- Proposed regulations released in December 2012, not yet finalized
- “Employer Shared Responsibility” is applicable if:
  - You do not offer affordable, minimum health coverage to at least 95% of full-time employees, AND
  - At least one of the employees obtains a premium tax credit in the exchange
  - 2014: only workers are calculated in the 95% rule
  - After 2015: workers and dependents are calculated in the 95% rule
    - Only children under age 26 are considered dependents in the proposed rules
- Companies that have a common owner are combined for calculating FTEs and penalties





# Affordable, Minimum Coverage

- Affordable: costs employee less than 9.5% of income
  - Safe harbor: penalty can be avoided by basing estimates on employee income instead of family income
- Minimum value: at least a bronze level coverage (60% of actuarial value)
- Must cover the Essential Health Benefits, a comprehensive list of benefits across ten broad categories



# FTE Calculations for Penalty

- Different from FTE calculations for small employer tax credit
- Penalties are based on previous tax year's FTE calculations; different measurement periods are allowed for different situations
- General guidelines
  - Full-time employees: employees who work 30 hours or more on average over a certain measurement period
  - Part-time employees: divide average hours worked by the number of hours in a certain measurement period
  - Seasonal workers cannot put businesses over the 50 employee threshold



# Penalty Assessment

If an employee's portion of the insurance premium exceeds 9.5% of income, he or she may be eligible for an individual premium credit in the exchange. If more than 30 employees obtain premium credits in the exchange, the employer is assessed a penalty.

Family Income <sup>1</sup>	FPL Equivalent	9.5% of Monthly Income	Eligible for individual premium credit if premium exceeds 9.5% of income?
\$20,000	87%	\$158	No
\$25,000	108%	\$198	Yes
\$40,000	174%	\$317	Yes
\$50,000	217%	\$396	Yes
\$90,000	390%	\$713	Yes
\$100,000	434%	\$792	No

<sup>1</sup>The incomes represent combined household income, not individual wages. However, because employers have information only about their employees' wages, and not that of their spouses, employee wages may be used as a substitute when planning for insurance coverage. This estimate can be used to avoid or reduce penalties.



# Penalty Amounts

- If no coverage is offered, and at least one full-time employee receives a credit in the exchange:
  - Number of full-time employees (not FTEs) less 30, times \$2,000
- If coverage is offered, but at least one at least one full-time employee receives a credit in the exchange:
  - Number of full-time employees (not FTEs) who receive a subsidy less 30, times \$3,000
- Calculated on an annual basis, or on a monthly basis if insurance is offered for part of the year
- If company is comprised of several small firms, the penalty amount is spread across the smaller firms



# Private Exchanges

- Set up by HR companies
- Aggregate a “menu” of different commercial insurance plans
- Employees select a plan of their choice
- Employees pay for their portion of the premium using a defined amount from their employers (any employee premium costs in excess of that amount must be paid out-of-pocket)
- Employers pay for their portion of the premiums in aggregate



# Uncertainties and More Info

- Moral obligation to provide health insurance v. cost of coverage
- FTE calculations
  - Most important for businesses with around 40 employees
- “Transition relief” available for employers offering insurance policies that begin less than one year before January 1, 2014
- More information available on IRS website
  - [Employer Shared Responsibility](#)
  - [W-2 reporting](#)



# Strategies for Employers

- Begin researching now
- Hire consultants, accountants, lawyers, etc. to help understand rules, especially if you have around 40 employees
- Educate your employees about their options
- Consider defined contribution and private exchanges
- Consider integrating wellness programs



# Future of 3-Share

- Transform into an exchange product
- Continue to tailor to low-income parents and workers
- Continue to integrate a subsidized component





# Questions/Discussion

- What else are you hearing?
- Fact or myth?
- Questions?

\

Contact us:

Ken Janda

[ken.janda@chchealth.org](mailto:ken.janda@chchealth.org)

713-295-2410

June Liu

[june.liu@chchealth.org](mailto:june.liu@chchealth.org)

713-295-2413

For a copy of this presentation visit our website at [www.CHCHHealth.org](http://www.CHCHHealth.org)  
> About CHC > Ken's Corner > Presentations