Briefing Agenda

- What is the purpose of private health insurance (PHI)?
- How is PHI regulated?
- Where do people get insurance?
- What is the employer role?
- What do you get with insurance?
- What does it cost?
- What PHI/ACA issues may be taken up in the 114th Congress?
Private Health Insurance Basics
Risk and Insurance

- Risk is everywhere
- Risk – likelihood and magnitude of loss
- Uncertain future
- Insurance provides protection from economic loss

Insurance arrangement
- Transfer of risk from insured to insurer
- Each party seeks to minimize its own risk
Major Components of a Health Plan

Obtaining the Plan
- Premiums

Using the Plan
- Benefits package
  - Medical services
  - Health care providers
    - May have network
  - Cost-sharing requirements
Major Segments of the PHI Market

- Nongroup (individual insurance)
- Group — employer-sponsored insurance (ESI)
  - Small group
  - Large group
  - Definitions vary
    - Health plans
    - Employer requirements
Key Features of Group Coverage

- Plan sponsor
- Tax policy favors group coverage
- Who bears the insurance risk?
  - State-licensed insurance carrier ("fully-insured")
  - Plan sponsor ("self-insured" or "self-funded")
    - 58.5% of covered workers in the private sector, 2011
    - May use third-party administrator (TPA)
Regulation of Private Coverage – States

- State – primary regulator
  - Business requirements
    - Licensure
    - Solvency
  - Insurance requirements
    - Mandated benefits, providers, covered persons
    - Consumer protections
    - Rating requirements
Regulation of Private Coverage – Federal

- Federal – “federalism” model
  - Public Health Service Act (HHS)
  - Internal Revenue Code (Treasury)
  - Employee Retirement and Income Security Act (DoL)
    - Preemption clause
- Example: HIPAA, 1996
  - Mandated benefits
  - Nondiscrimination
  - Pre-existing conditions and portability
- Example: ACA, 2010
  - Essential health benefits
  - Nondiscrimination and other market reforms
  - Exchanges
  - Mandates
Main Players

Who purchases private coverage?

- Individuals and families
- Employers
  - Average employer share of total premium, 2014
    - Self-only: 82%
    - Family of four: 71%

Who provides private coverage?

- State-licensed insurance carriers
- Plan sponsors (e.g., employers) who self insure
Health Insurance Coverage for the Total Population in the United States, 2013


Note: The 2014 CPS surveyed individuals about sources of health coverage in 2013. Individuals can have coverage from more than one source; therefore, the sum exceeds 100%.
Individuals: Requirement to Have Coverage
Individual Mandate

- Most individuals required to maintain “minimum essential coverage” or pay a penalty

Minimum essential coverage:
- Government sponsored programs (e.g., Medicare Part A, Medicaid, CHIP...)
- Employer-sponsored plans
- Military health plans (e.g., Tricare)
- Nongroup policies
- Grandfathered health plans
- Other coverage as recognized by Secretaries of HHS and Treasury
**Penalty**

Annual penalty for an individual is the **greater** of:

<table>
<thead>
<tr>
<th>Percentage of household income exceeding the tax filing threshold</th>
<th>OR</th>
<th>Flat dollar amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 1.0%</td>
<td></td>
<td>$95</td>
</tr>
<tr>
<td>2015 2.0%</td>
<td></td>
<td>$325</td>
</tr>
<tr>
<td>2016 2.5%</td>
<td></td>
<td>$695</td>
</tr>
<tr>
<td>2017+ 2.5%</td>
<td></td>
<td>$695 adjusted for inflation</td>
</tr>
</tbody>
</table>
Exemptions

- Some individuals are exempt from the mandate
- Exemptions include:
  - Required contribution for self-only coverage exceeds 8.05% of household income
  - Qualifying religious exemption
  - Not lawfully present in the U.S.
  - Member of an Indian tribe
  - No coverage for less than 3 months (only 1 “gap” per year)
  - Anyone the Secretary of HHS determines to have suffered a hardship
- Individuals can claim exemptions through exchanges or the tax filing process
Implementation

- Mandate went into effect in 2014
- First penalties assessed in 2015 (for 2014 tax year)
  - Owed penalties paid through tax returns
- If an individual does not pay the penalty:
  - Receives notice from IRS about owing penalty
  - IRS can reduce tax refund amount in future
  - No criminal prosecution or penalty
  - IRS cannot file notice of lien or file a levy on any property
Availability of Private Health Insurance
Availability of Private Health Insurance

- Exchanges
  - Nongroup (individual)
  - Small group
- Traditional Market
  - Nongroup (individual)
  - Small group
  - Large group
- Group size varies under ACA, by state
Exchanges (Marketplaces)

• Marketplaces where individuals and small employers can purchase health insurance

<table>
<thead>
<tr>
<th>Individual Exchange</th>
<th>SHOP Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Individuals can purchase <strong>nongroup insurance</strong></td>
<td>• Small employers can purchase <strong>small group insurance</strong> to offer to their employees</td>
</tr>
<tr>
<td>• Financial assistance - premium tax credits and cost-sharing subsidies - available to lower income enrollees</td>
<td>• Small business tax credits available to some small employers</td>
</tr>
</tbody>
</table>

• All exchanges are administered by states, or the federal government (HHS), or both
Individual Exchanges - 2015

Federally-facilitated Exchange: 20
Federally-supported State-based Exchange: 3
State-based Exchange: 14
State-assisted Federally-facilitated Exchange: 7
State-partnership Exchange: 7

[Map of the United States showing different types of exchanges across states.]
Traditional Market

- Private health insurance can also be obtained outside exchanges
  - Directly from insurers
  - Agents and brokers
  - Web brokers (e.g., ehealthinsurance)
  - Employers

- Insurance purchased in traditional market is generally regulated the same way as exchange coverage

- Financial assistance from federal government unavailable in traditional markets
Employer-Sponsored Insurance

- 53.9% of individuals have employer-sponsored insurance, 2013
- Employers may offer coverage:
  - directly
  - through a third party administrator (TPA)
  - through a private exchange
  - through a SHOP exchange
- Firms that offer health insurance in 2013:
  - 34.8% of firms with < 50 employees
  - 95.7% of firms with ≥ 50 employees
Employers: Requirement to Offer Coverage
Employer Penalty

• Applies to "large" employers

• "Large" based on average of full-time equivalent (FTE) employees during the preceding calendar year

• FTE employee calculation includes:
  • Full-time employees working 30 or more hours per week
  • Part-time workers’ hours prorated by dividing total monthly hours worked by 120
  • Seasonal employees who work 120 days or more during the year
## Applicability

<table>
<thead>
<tr>
<th>Employer Size (# of FTEs)</th>
<th>Employer Penalty Applicability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>≤50</td>
<td></td>
</tr>
<tr>
<td>51-99</td>
<td></td>
</tr>
<tr>
<td>≥100</td>
<td>√</td>
</tr>
</tbody>
</table>
Coverage Requirements

- To avoid the penalty, health insurance coverage must be offered to employees and their dependents.

- Coverage must be:
  - **Adequate**: Plan covers at least 60% of the costs of health benefits.
  - **Affordable**: Employee’s contribution for self-only coverage cannot exceed 9.5% of household income.
How it Works

- Does the employer have at least 100 (50 in 2016) FTEs?  
  - No: No penalty
  - Yes: Does the employer offer coverage to its workers?
    - No: Did at least one employee receive a premium tax credit or cost sharing subsidy in an Exchange?
      - Yes: Penalty
      - No: Does insurance pay for 60% of covered health care expenses for a typical population?
        - Yes: Employees can choose to buy coverage in an Exchange and receive a premium tax credit.
        - No: Does insurance that covers only employees cost more than 9.5% of family income?
          - Yes: Those employees can choose to buy coverage in an Exchange and receive a premium tax credit.
          - No: No penalty
Implementation

• Delays
• Complicated regulations
  • Many special cases
  • Safe harbors
  • Transitional provisions
• Beginning in 2015, employers required to provide coverage information to IRS
• 2015 penalties assessed in 2016
What do you get when you have private health insurance?
Requirements

- State and federal requirements apply to most types of private health insurance

- Requirements:
  - Address how coverage is obtained and maintained
  - Limit the cost of coverage
  - Mandate benefits
  - Add consumer protections

- Do not necessarily apply uniformly across market segments

- ACA included many new federal requirements
  - Most directed at nongroup and small group coverage
  - Create a federal floor – states may expand upon the requirements
## Requirements

<table>
<thead>
<tr>
<th>Provision</th>
<th>Grandfathered Plans</th>
<th>New Plans (Non-grandfathered)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Group Market</td>
<td>Large Group Market</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Small Group Market</td>
</tr>
<tr>
<td></td>
<td>Fully-Insured</td>
<td>Fully-Insured</td>
</tr>
<tr>
<td>Extension of Dependent Coverage</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Coverage of Preventive Services with No Cost-sharing</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Rating Restrictions</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Essential Health Benefits Package

- Covers the essential health benefits (EHB)
- Limits cost-sharing
  - Prohibits any deductible applicable to preventive health services
  - Caps annual cost-sharing limits
- Meets a generosity level

<table>
<thead>
<tr>
<th>Levels</th>
<th>Actuarial Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronze</td>
<td>60%</td>
</tr>
<tr>
<td>Silver</td>
<td>70%</td>
</tr>
<tr>
<td>Gold</td>
<td>80%</td>
</tr>
<tr>
<td>Platinum</td>
<td>90%</td>
</tr>
</tbody>
</table>
Benefits

- Services or supplies covered by a health insurance plan, such as:
  - Office visits
  - Laboratory tests
  - Surgical procedures
  - Prescription drugs
  - Durable medical equipment

- Vary from plan-to-plan
Essential Health Benefits (EHB)

- Certain plans are required to offer a core package of health services
  - Most nongroup and small group plans
  - Inside and outside the exchanges

- Ambulatory patient services
- Emergency services
- Hospitalization
- Maternity & newborn care
- Mental health & substance use disorder services (including behavioral health treatment)
- Prescription drugs

- Rehabilitative & habilitative services & devices
- Laboratory services
- Preventive & wellness services & chronic disease management
- Pediatric services, including oral & vision care
EHB Benchmark Plans for 2014-2015

Note: No states selected one of the largest FEHBP plans for a benchmark plan.
Costs of Private Health Insurance
Premiums and Cost-Sharing

• **Premiums**
  - Amount paid for health insurance by insured individual, plan sponsor
    - Usually paid on a monthly basis
  - Components:
    - Expected cost of health benefits covered
    - Administrative expenses
    - Profit margin

• **Cost-Sharing**
  - Share of costs an insured individual pays for services
  - Costs include deductibles, coinsurance, and co-payments
Costs of Employer-Sponsored Insurance (ESI)
ESI Premiums

Average Annual Premiums, 2007-2014

ESI Deductibles

Average Deductibles for Single Coverage by Plan Type, 2010-2014

<table>
<thead>
<tr>
<th></th>
<th>HMO</th>
<th>PPO</th>
<th>HDHP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$601</td>
<td>$675</td>
<td>$1,903</td>
</tr>
<tr>
<td>2011</td>
<td>$911</td>
<td>$675</td>
<td>$1,908</td>
</tr>
<tr>
<td>2012</td>
<td>$691</td>
<td>$733</td>
<td>$2,086</td>
</tr>
<tr>
<td>2013</td>
<td>$729</td>
<td>$799</td>
<td>$2,003</td>
</tr>
<tr>
<td>2014</td>
<td>$1,032</td>
<td>$843</td>
<td>$2,215</td>
</tr>
</tbody>
</table>

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2014
Cost of Nongroup (Individual) Market Insurance
Nongroup Premiums

Average Monthly Premiums,* 2009-2013

*Note: Average monthly premiums are only based on eHealth’s customers and are not representative of the national population.

Nongroup Deductibles

Average Deductibles,* 2009-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$2,326</td>
<td>$3,128</td>
</tr>
<tr>
<td>2010</td>
<td>$2,632</td>
<td>$3,531</td>
</tr>
<tr>
<td>2011</td>
<td>$2,935</td>
<td>$3,879</td>
</tr>
<tr>
<td>2012</td>
<td>$3,079</td>
<td>$4,079</td>
</tr>
<tr>
<td>2013</td>
<td>$3,319</td>
<td>$4,230</td>
</tr>
</tbody>
</table>

*Note: Average deductibles are only based on eHealth’s customers and are not representative of the national population.

Exchange Premiums


<table>
<thead>
<tr>
<th>Year</th>
<th>Individual (27 Year Old)</th>
<th>Family of Four</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$349 ($161)</td>
<td>$1,265 ($582)</td>
</tr>
<tr>
<td>2015</td>
<td>$449 ($158)</td>
<td>$1,624 ($573)</td>
</tr>
</tbody>
</table>

Average
- Individual: $218
- Family of Four: $789

Note: Plan information is from the plan landscape files as of November 2014 for only 35 states.

Financial Assistance
Premium Tax Credits

- Premium credits only available through individual exchanges

- Eligibility criteria:
  - Must file tax returns
  - Household income **100% - 400% FPL**
  - Ineligible for public or employer-sponsored coverage (exceptions)

- Amount of credit generally based on:
  - Income
  - Premium for the enrolled exchange plan
Premium Tax Credits

Maximum Percentage of Income to Go Towards 2015 Premiums for the Second-Lowest Cost Silver Plan, by FPL

Cost-Sharing Subsidies

- Some premium tax credit recipients also receive cost-sharing subsidies
- Only available through individual exchanges
- Must be enrolled in a silver-level plan
- Household income 100% - 250% FPL
- Subsidies work in two ways:
  - Reduce the annual limit on cost-sharing expenses
  - Reduce per-service cost-sharing requirements
Small Business Tax Credit

- Available to small employers that purchase insurance through a SHOP exchange
- Only available for two consecutive tax years
- Maximum credit:
  - For profit employers: 50% of employer’s contributions toward premiums
  - Nonprofit employers: 35% of employer’s contributions toward premiums
# Risk Programs

## Reinsurance
- **Goal:** Offset a plan’s risk associated with high-cost enrollees
- **Temporary program 2014-2016**

## Risk Corridors
- **Goal:** Protect against inaccurate rate setting
- **Temporary program 2014-2016**

## Risk Adjustment
- **Goal:** Protect against adverse selection
- **Permanent program, begins after end of benefit year 2014**
Possible Legislative Options and Issues to Consider

- Full repeal of ACA
- Targeted changes to ACA
  - Technical corrections
  - Delay/repeal employer requirement to offer coverage
  - Redefine full-time work from 30 to 40 hours a week
  - Remove ACA applicability to certain workers (e.g., veterans) or health plans (e.g., expatriate plans)
  - Repeal medical device tax, annual tax on insurers
- Status Quo
- Legal Challenges
  - King v. Burwell
  - House of Representatives v. Burwell