Health Reform Employer Impact Analysis

Prepared for

Employer Name

Date

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Overview

Beginning in 2014, an "applicable large employer" becomes subject to what are referred to as the "shared responsibility rules". Under these new rules an employer may pay a penalty if at least one of its full-time employees purchases coverage through an exchange and qualifies for a premium tax credit or cost sharing reduction (referred to as a subsidy for the rest of this report). It is important to note that full-time employees are defined as those working 30 hours or more per week.

For an employee to qualify for subsidized coverage, their household income must be less than 400% of the federal poverty level (FPL). In addition, the individual must not be eligible for employer sponsored "minimum essential coverage", or the coverage offered by the employer must be deemed "unaffordable". These criteria are explained in more detail below.

Note: The penalty structure is significantly different for employers who do not offer coverage to all full-time employees than that which will apply if an employer decides not to offer qualifying health coverage to full-time employees. This report estimates and compares the estimated cost impact of both types of penalties.

Definition of Applicable Large Employer

Only employers with at least 50 full-time employee equivalents (FTE) during the preceding calendar year are subject to the shared responsibility rules and possible penalties. To determine FTE totals an employer must consider part-time employees and some seasonal employees.

- Part-time employees are included on a pro-rated basis in the calculation to determine if an employer is an applicable large employer.
- The number of full-time employees excludes seasonal employees who work less than 120 days during the year.

Note: While part-time employees are used to determine if an employer meets the 50 FTE threshold, an employer is not required to provide coverage to part-time employees working under 30 hours per week.

Minimum Essential Coverage

For an employer sponsored health plan to meet the requirement of minimum essential coverage, it must have an actuarial value of at least 60%. The actuarial value is a measurement of the total % of benefits available to the participant paid for by the plan. It is anticipated that most current employer sponsored health plans will qualify as minimum essential coverage unless the plan has a very high deductible or maximum out-of-pocket.

Employee Qualification for Subsidies

As stated in the overview above, a penalty will apply to an employer if at least one full-time employee qualifies for subsidized coverage and actually purchases coverage through an exchange. Individuals with an income between 138% and 400% of the federal poverty level (FPL) may qualify for subsidized coverage through an exchange. Employees with household incomes less than 138% of FPL will qualify for expanded Medicaid coverage beginning in 2014.

Table A
2012 400% of
Federal Poverty Level

Household Size	
1	$44,680
2	$60,520
3	$76,360
4	$92,200
5	$108,040
6	$123,880
7	$139,720
8	$155,560

Household income is defined as the modified adjusted gross income (MAGI) of any family member living in the employee's household who is required to file a tax return.

For a full-time employee who meets the income qualifications to qualify for subsidized individual coverage through an exchange, one of the following situations must exist:

- Their employer's plan does not provide "minimum essential coverage"
- The required employee contribution for an employer's plan exceeds 9.5% of their household income

Individuals will need to apply to a state or federally run exchange to be "certified" as subsidy eligible. The employer will then be notified if an employee has qualified for subsidized coverage and of any penalty that may apply.

Employer Shared Responsibility Rules and Penalties

Under the "shared responsibility rules", employers are required to offer affordable minimum essential coverage to all full-time employees, or face the possibility of paying a penalty. The employer penalty for employers who offer minimum essential coverage to all full-time employees differs from the penalty that applies to employers who do not offer coverage.

Employer penalty notes:

- The penalty for an employer offering coverage to all full-time employees is based only on the number of employees who actually purchase subsidized coverage through an exchange.
- The penalty applicable to employers who do not offer coverage is based on all full-time employees (not counting the first 30).
- Penalties are calculated on a monthly basis.
- The exchange is responsible for certifying if an employee is eligible for subsidized coverage.

<u>Penalty #1 - Employers who offer minimum essential coverage to all full-time employees</u>

- The employer will pay a penalty of $250 per month ($3000 per year) for each employee who actually purchases coverage through an exchange, <u>and</u> is certified by the exchange as qualifying for subsidized coverage.
- The IRS has announced a safe harbor regarding the employer penalty. Since employers do not typically know the employee's household income, an employer will not pay a penalty if the required contribution for employee-only coverage is less than 9.5% of the employee's wages from the employer regardless of the employee's household income.

<u>Penalty #2 - Employers who do not offer minimum essential coverage to all full-time employees</u>

- If at least one employee purchases coverage through an exchange and is certified by the exchange as qualifying for subsidized coverage, the employer will pay a penalty of $166.67 per month ($2000 per year) times <u>the total number of full-time employees</u> (excluding the first 30 employees).

Medicaid Eligibility

Currently Medicaid eligibility varies by state. Beginning in 2014, Medicaid eligibility will be expanded nationwide to any individual whose household income is no more than 138% of Federal Poverty Level (FPL). The Medicaid Health insurance Premium Payment Program (HIPP) may also expand to additional states in 2014. Under this program states can pay an employee's contribution to an employer sponsored health plan for which the employee is eligible. A possible result may be an increase in the number of Medicaid eligible employees and their families enrolled in employer sponsored plans due to states paying the employee's required contribution.

Analysis Process

This *Health Reform Impact Analysis Report* has analyzed census data provided by the employer and uses proprietary algorithms to calculate the estimated financial impact of various provisions of the health reform legislation. The actual results an employer will experience will depend on a number of factors which are currently unknown. Actuarial and statistical assumptions were made to estimate results as accurately as possible at this time.

Many results are a function of an employee's household income, which is not available to most employers. This report uses algorithms that take into consideration a number of factors to attempt to estimate household income. The calculation is based on census data, employee demographics, employee income level, and other factors. All results are displayed in 2011 dollars.

Important Note:
All data provided is based on assumptions that may or may not reflect the actual behavior and choices made by individuals based on their particular circumstances. The results are designed to provide the employer with illustrations to assist in identifying the impact of various health reform changes. The report cannot predict exact financial results.

Impact of Health Reform Provisions

Full-Time Eligibility

The employer shared responsibility rules require employers to offer coverage to all employees who work 30 hours or more per week. This report analyzed the number of employees not eligible for coverage due to the employer's current eligibility definition and estimates the additional employer cost to cover these newly eligible individuals.

Individuals working at least 30 hours a week but less than the employer's current hours per week eligibility requirement
The analysis includes individuals listed on the employer census with average work hours of at least 30 hours per week. If average work hours were not included in the original employer census date then no cost can be estimated for these individuals.

Individuals working full time but currently ineligible for health benefits
The analysis also calculates an estimated cost for full-time employees currently ineligible for benefits based on employee classification if data on ineligible employees was provided in the initial census.

Cost estimate development
To estimate the cost impact on the employer the analysis makes the following assumptions:

- Newly eligible employees will participate in the plan at a participation rate of 50%. (The assumed participation rate can be changed to a different percentage if desired).
- If an employer offers multiple plan options, the analysis bases the cost assumption on the employer's low cost plan option.

Chart 2

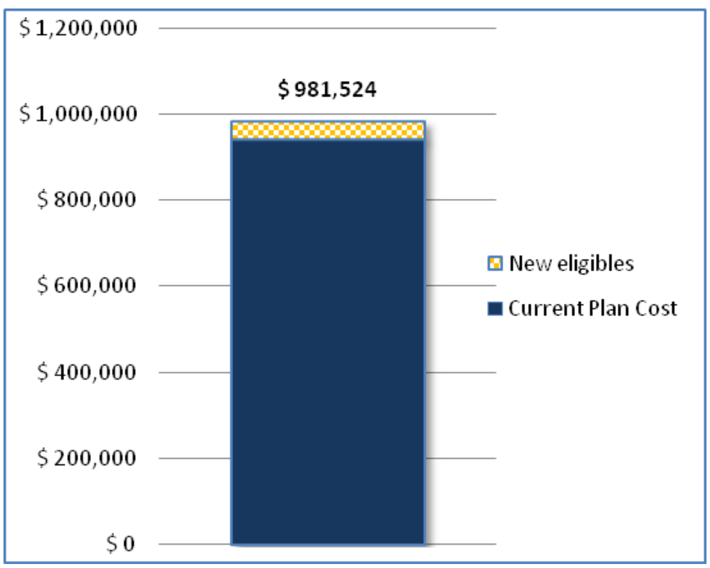


Table 2

Eligibility	
Current plan eligibility (hours per week)	35
Number of full-time employees not currently eligible	10
Assumed participation rate for newly eligible employees	50.0%
Current Plan Cost	$ 942,140
Plan cost of newly eligible employees	$ 39,384
Employer cost inc. new eligible employees	**$ 981,524**

Employer Penalty #1 Results

This employer penalty may apply when:

1. Coverage is unaffordable for some employees -or-
2. Some full-time employees are not eligible for minimum essential coverage

The following results represent the estimated maximum annual penalty risk an employer faces based on the data provided. These results assume that all individuals who are eligible for subsidized individual health insurance will leave the employer plan and purchase that coverage if its relative value is better than the employer's plan. Note that actual results will depend on choices made by individual employees. It is possible employees will choose to stay on the employer plan even when eligible for subsidized individual coverage which is better than the employer plan.

Table 1

Employer Statistics	
Total employees	180
Total Currently Participating	115
Household income < 400% FPL	129
Total subsidy eligible	0
Subsidy eligible likely to purchase individual coverage	0

Table 3a

Employer Penalty	Number	Current Plan Cost	Cost of Penalty	Net Cost
Subsidy likely employees currently on employer plan	0	$ 0	$ 0	$ 0
Subsidy likely employee not currently on employer plan	0	$ 0	$ 0	$ 0
	Total Cost to Employer		**$ 0**	**$ 0**

Chart 3

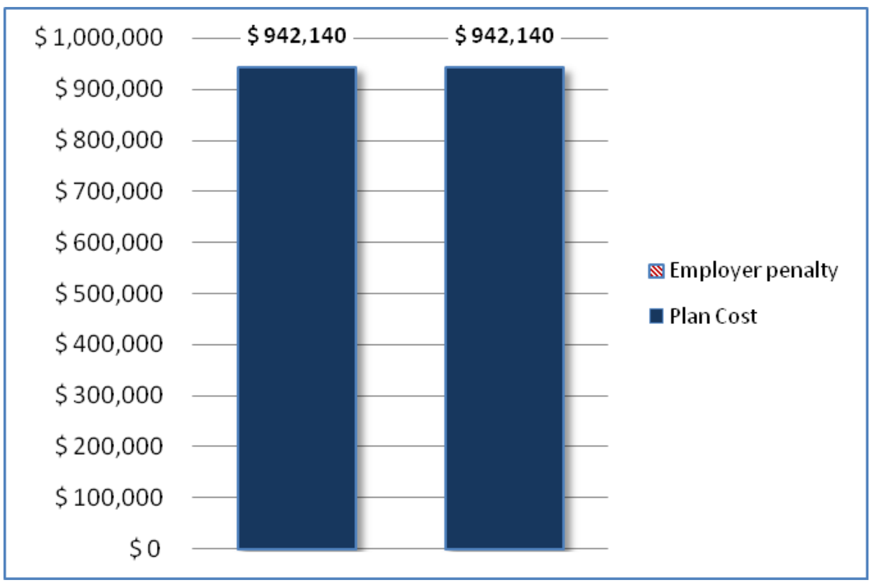


Table 3b

Summary of Impact of Shared Responsibility Penalty	Current	After ACA
Plan Cost	$ 942,140	$ 942,140
Employer penalty	$ 0	$ 0
Total	**$ 942,140**	**$ 942,140**

Details on Determining Employees Likely to Qualify for Subsidized Coverage

This analysis compares a number of factors to estimate the number of employees likely to leave the employer plan and purchase individual subsidized coverage on the exchange:

- The cost of the employee subsidized coverage on the exchange is determined as a percentage of the individual's household income. The analysis compared the expected cost of the exchange coverage to the required contribution for the employer plan.
- The subsidy is based on "Silver" level coverage on the exchange. This analysis compares the employer provided coverage with a model "Silver" level plan and adjusts the likelihood that any particular individual will choose exchange coverage based on the relative value of each plan.
    - The analysis also takes into account the impact of lower income individuals who may also receive cost-sharing reductions in the form of waived deductibles and co-pays.

Notes on Results

- "Total subsidy eligible" is the estimate of the number of current employees who will qualify for subsidized individual health insurance coverage through an exchange.
- "Subsidy eligible likely to purchase individual coverage" takes into account the difference in plan premiums and plan designs to estimate the number of employees who are subsidy eligible who will actually choose to purchase individual coverage through an exchange instead of participating in the employer plan.
- Employer will pay $250 per month for any employee who purchases subsidized coverage through an exchange, but if the employee is already covered by the employer's plan, the employer will no longer be required to make their current employer contributions. In this case the employer will experience cost savings for these individuals that will at least partially offset the penalty the employer is required to pay.

Medicaid Eligibility

Health Reform expands Medicaid eligibility to any individual with a household income of less that 138% of FPL. The increase in the number of employees who may qualify for Medicaid could impact an employer's plan significantly depending on how aggressively any particular state uses the Medicaid Health Insurance premium Payment Program (HIPP).

Under HIPP, states are allowed to pay the employee required contribution for any available employer plan instead of providing complete Medicaid coverage to the individual and their family. If a particular state takes full advantage of the HIPP program there will likely be an increase in low-income employees covered by the employer plan who may currently be unable to afford the coverage. On the other hand, if a state does not choose to enroll Medicaid recipients in employer sponsored plans, the employer may experience a decrease in costs as some currently covered Medicaid eligible employees opt-out of the employer plan and choose to receive Medicaid benefits instead.

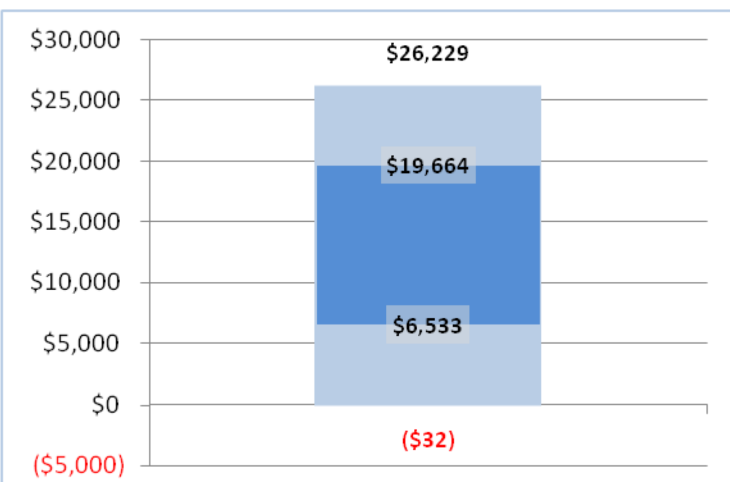
This analysis estimates the number of current employees likely to qualify for Medicaid. The system then considers how many of these individuals are currently covered by the employer's plan. Finally a cost impact range is developed.

- The maximum cost impact to the employer results from the states enrolling, and paying the employee contribution for all Medicaid eligible employees not currently covered in the employer's plan.
- The maximum savings, or lowest cost impact to the employer, results from all currently covered employees who become Medicaid eligible, dropping the employer's plan and choosing Medicaid coverage instead.

Actual results are likely to fall somewhere in between these outer limits. Even if states enroll employees though the HIPP program, it is unlikely that they will enroll 100% of the Medicaid eligible employees at a particular employer. Conversely, even if currently covered employees choose to opt out of the employer plan and take Medicaid coverage, it is unlikely that all eligible employees will do so. The chart and table below illustrates the range of possible cost impact for the employer.

Possible Range of Cost Impact on Employer Due to Medicaid Eligibility Changes

Chart 4



138% of Federal Poverty Level	
Household Size	
1	$15,415
2	$20,879
3	$26,344
4	$31,809
5	$37,274
6	$42,739
7	$48,203
8	$53,668

Table 4

Medicaid	
Total employees	180
Total Medicaid eligible employees	10
Estimated maximum cost due to of Medicaid eligibility	$ 26,229
Estimated maximum savings due to Medicaid eligibility	($ 32)
Estimated midpoint of Medicaid cost impact	**$ 13,098**

Summary of Employer Cost Impact

This page summarizes the impact of the health reform provisions considered in detail in previous sections of the report.

Chart 5

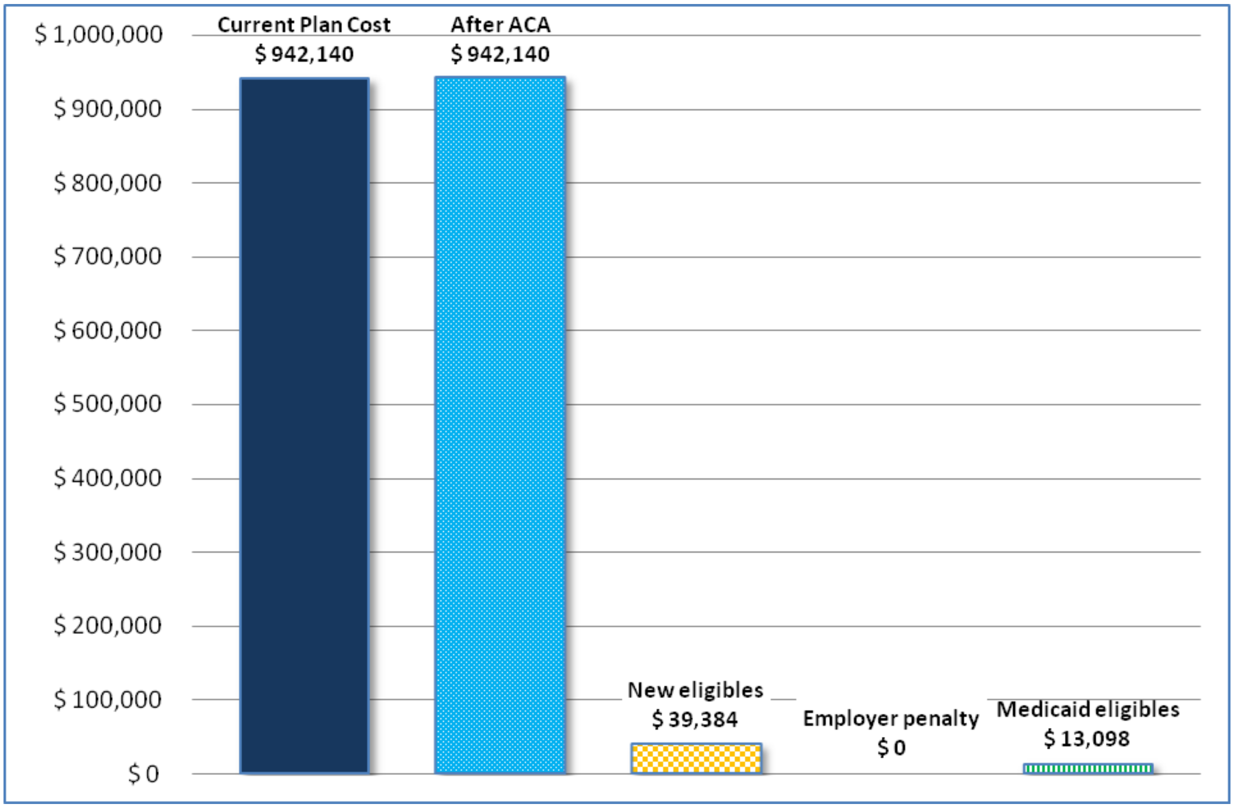


Table 5

Summary of Impact of Health Reform Provisions	Annual Cost Risk
Current Plan Cost	$ 942,140
After ACA	$ 942,140
New eligibles	$ 39,384
Employer penalty	$ 0
Medicaid eligibles	$ 13,098

Notes regarding this summary:

- The cost impact of each particular issue cannot always be combined to produces a "total" cost impact because in some cases there will be overlap in the risk presented by each section of the report.
  - For example, the estimate of the cost to the employer for newly eligible individuals makes assumptions about how many individuals will be eligible for the plan under new full-time eligibility rules imposed by the ACA. This estimate is intended to illustrate the potential cost to the employer of enrolling these newly eligible individuals. On the other hand, the estimate of the employer penalty risk calculates the potential cost to the employer of an employee qualifying for a subsidy. Newly eligible individuals can also potentially qualify for subsidized coverage. However, a particular employee will not qualify for a subsidy and be on the employer plan at the same time. Therefore, depending on the demographics of the group, there could be overlap between these two estimates.
- The change in plan cost illustrated here reflects the fact that under the employer current plan, if an employee leaves the plan and elects individual subsidized health coverage on the exchange, the employer will no longer be responsible for current employer contributions for that employee. Thus, the employer plan cost would go down for each currently covered employee leaving the plan. This change is reflected in detail in table 3a on page 5.

Employer Penalty for Not Offering Coverage to All Full Time Employees

Applicable large employers who do not offer minimum essential coverage to all full-time employees are required to pay a penalty of $166.67 per month ($2000 per year) times the number of all full-time employees (not counting the first 30 FTEs).

Many employers recognize that if they stop offering health benefits to currently eligible employees they may expect some increase in compensation to make up for the loss of the benefit. This analysis considers the total cost of dropping employer sponsored health insurance taking into account the following factors:

- **The total employer penalty** - Calculated based on all current full time employees whether they are eligible for coverage or not (not counting the first 30).
- **The cost of additional compensation provided to employees**. The report assumes that the employer will provide additional employee compensation in lieu of offering health benefits. The amount is expressed as a percentage of the current total the employer spends on health insurance. The percentage is shown in Table 6 below.
- **Additional employer payroll tax liability** - Calculated based on a percentage of any additional compensation provided to employees. The report uses 7% to estimate the employer payroll tax liability since some employee will exceed the social security portion of the payroll tax.
- **Corporate tax impact** - The employer penalty is not tax deductible to the employer. The report illustrates a financial impact to the employer based on an assumed corporate tax rate shown in Table 6.

Chart 6

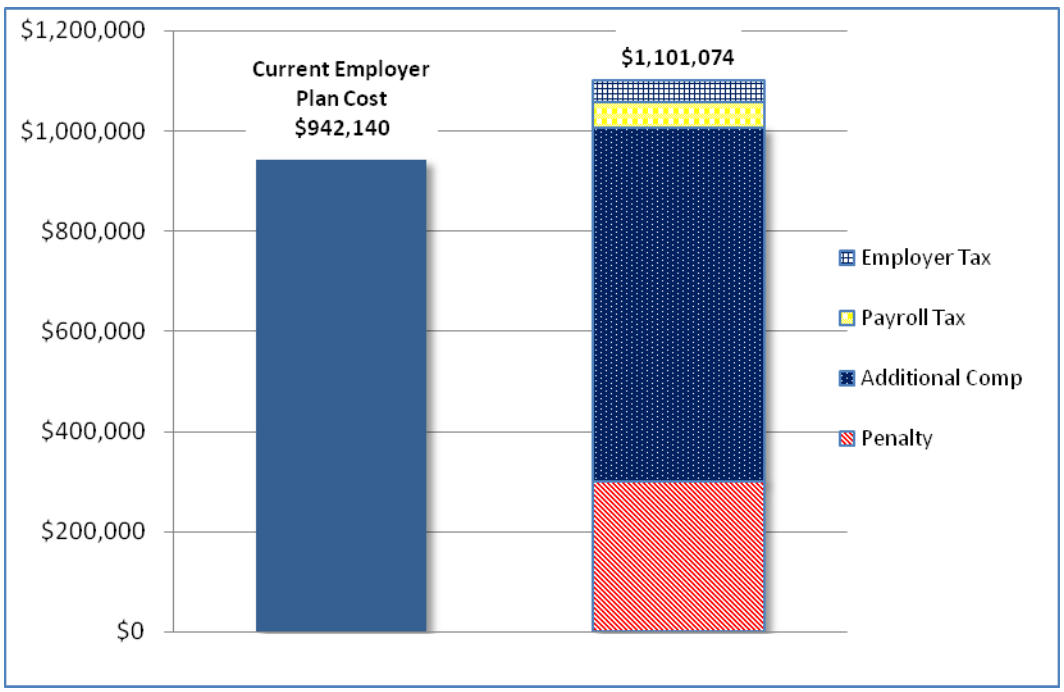


Table 6

Cost Impact of Not Offering Coverage to All Full Time Employees	Current	Impact
Current Employer Plan Cost	$ 942,140.25	
Employer Penalty		$ 300,006
Additional Compensation		$ 706,605
Employer payroll tax on additional compensation		$ 49,462
Tax impact of penalty not being tax deductible		$ 45,001

Alternative Scenario 2

This analysis allows for the presentation of alternative employer contributions or plan design arrangements, and estimates the effect the changes would have on expected employer costs. The changes modeled in this section (if any) will be described by the individual presenting the report. If no alternatives are modeled in this report the current plan results and Scenario 2 results will be identical.

Table 1.2

Employer Statistics	Scenario 2
Total employees	180
Total subsidy eligible	67
Subsidy eligible likely to purchase individual coverage	52

Table 3a.2

Employer Penalty	Number	Current Cost	Cost of Penalty	Net Cost
Subsidy likely employees currently on employer plan	36	$ 198,534	$ 108,000	($ 90,534)
Subsidy likely employee not currently on employer plan	16	$ 0	$ 48,000	$ 48,000
	Total Cost to Employer		**$ 156,000**	**($ 42,534)**

Chart 3.2

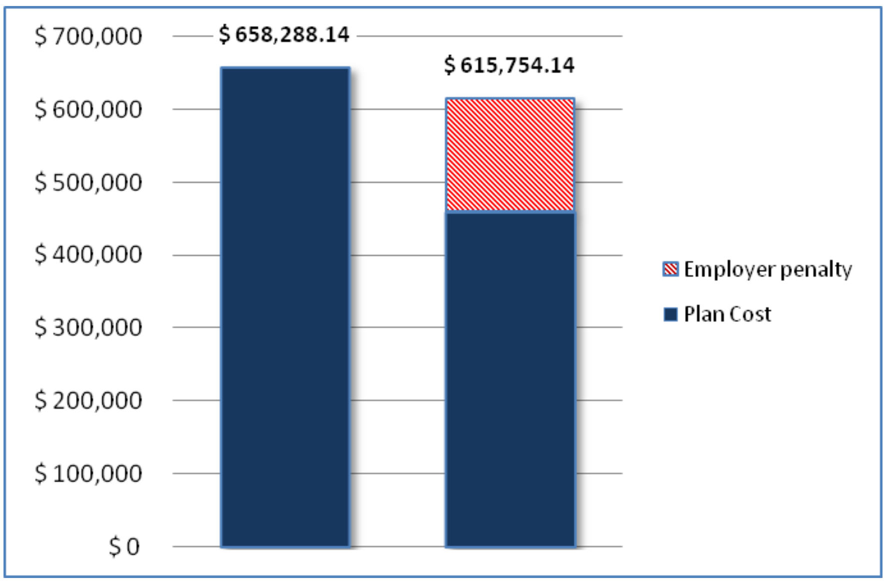


Table 3b.2

Summary of Impact of Shared Responsibility penalty	Current	After ACA
Plan Cost	$ 658,288	$ 459,754
Employer penalty	$ 0	$ 156,000
Total	**$ 658,288.14**	**$ 615,754.14**

Scenario 2 Summary

Chart 5.2

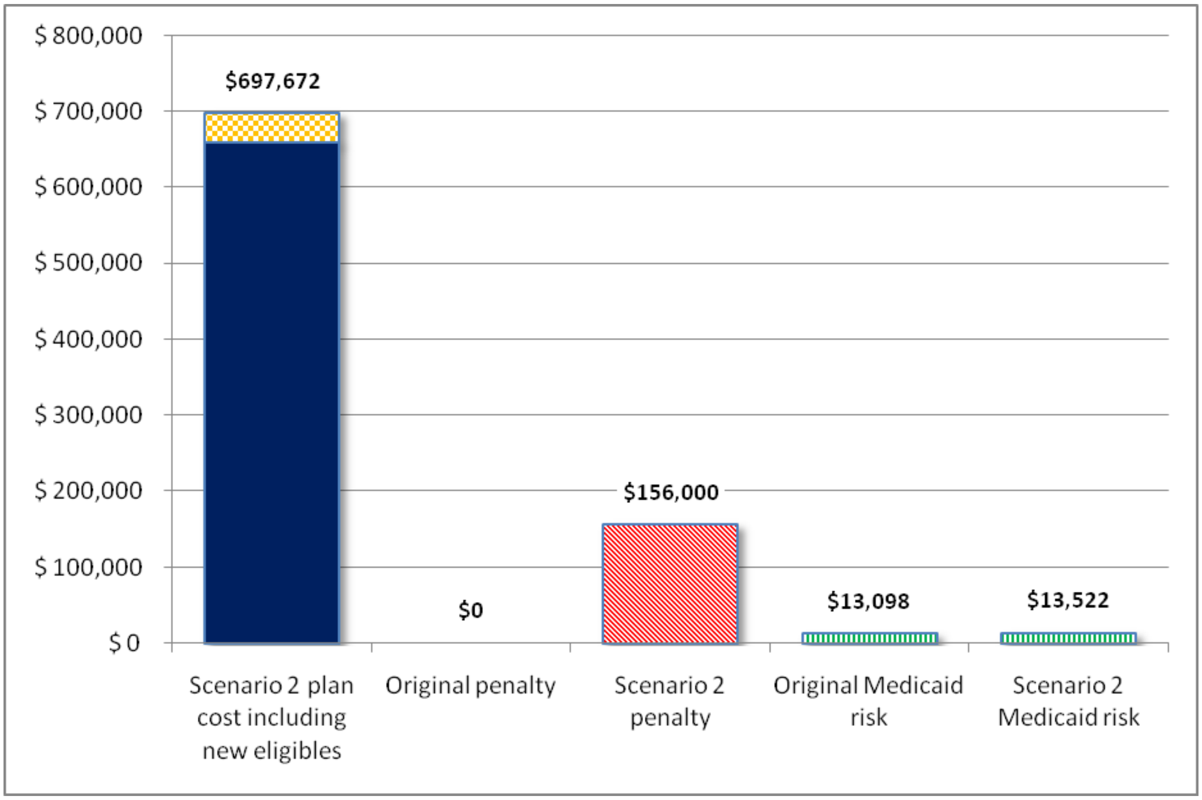


Table 5.2

New Plan Cost	**Current eligibles**	**New Eligibles**
Scenario 2 plan cost including new eligibles	$ 658,288	$ 39,384
Changes From Current Plan to Scenario 2	**Current**	**Scenario 2**
Original penalty	$ 0	
Scenario 2 penalty		$ 156,000
Original Medicaid risk	$ 13,098	
Scenario 2 Medicaid risk		$ 13,522