

# Affordable Care Act

## Health Care Reform Update for OEBB

**A presentation to OEBB**

**Attachment 5**

**by Steve Carlson, Kim Hickman and Jenny Marks**

**December 2015**

© 2015 Towers Watson. All rights reserved.

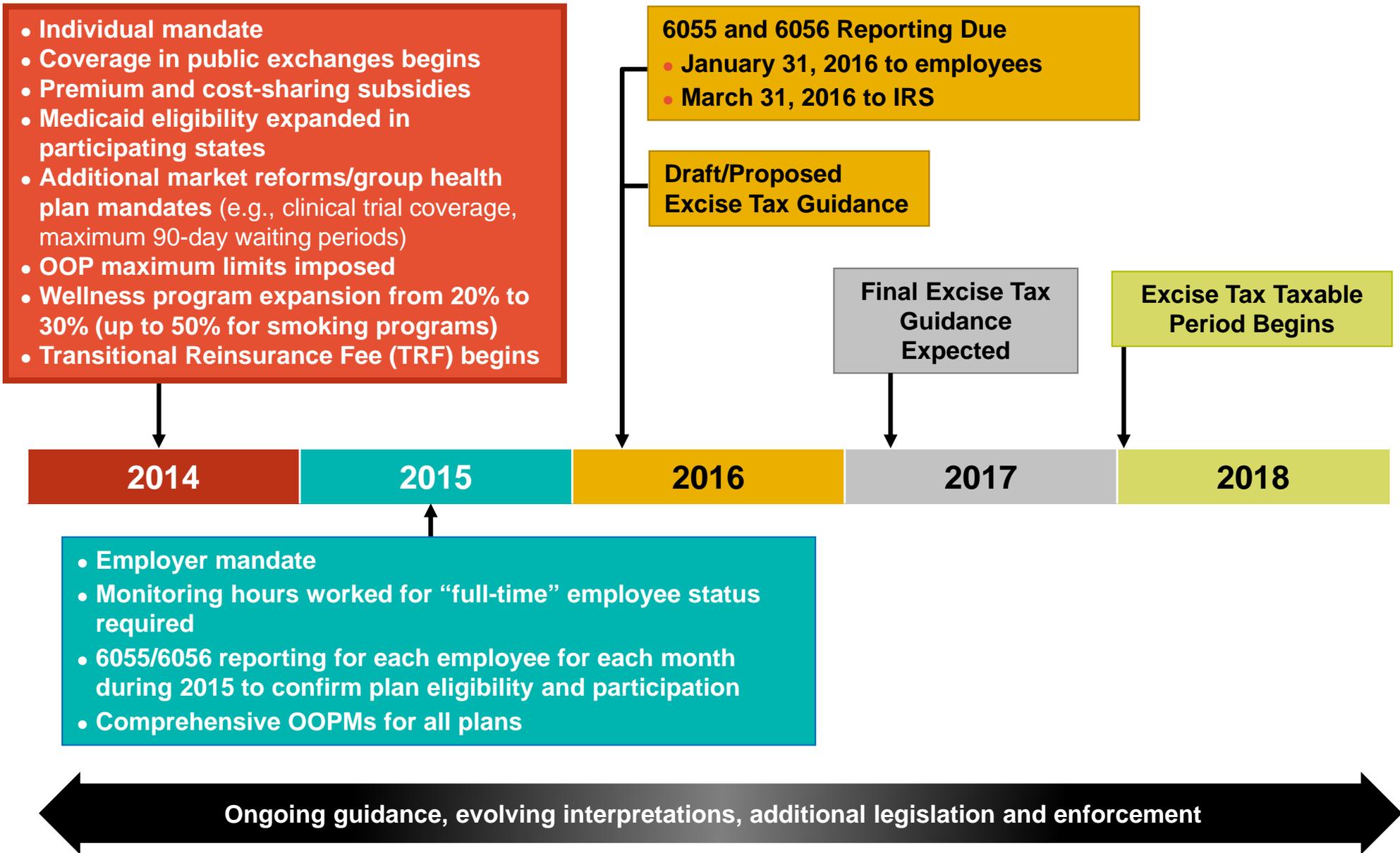
**TOWERS WATSON** 

# Discussion Guide

- **Health Care Reform High-level Timeline**
- **ACA Excise Tax**
  - The basics
  - New insights
  - Current estimates
- **Next Steps**
- **Appendix**

# Health Care Reform Timeline

# Health Care Reform High-level Timeline



# ACA Excise Tax

# ACA 40% Excise Tax

## What we knew



### Basics

- Effective for 2018 tax year — Calendar year regardless of plan year
- 40% nondeductible tax on value of employer-sponsored coverage over thresholds
- Calculated **per participant** based on total cost of participant's selected coverage/tiers
- Applicable to Medical/Rx, HSAs, HRAs, FSAs, retiree medical plans



### Thresholds

- 2018 standard threshold\*
  - \$10,200 single coverage
  - \$27,500 family (2-tier basis)
- 2018 threshold for high risk jobs or pre-65 retirees\*\*
  - \$11,850 single
  - \$30,950 family



### Adjustments

- Indexing
  - CPI + 1% in 2019
  - CP thereafter
- Additional potential threshold adjustments may be possible; awaiting additional guidance

\*Standard thresholds apply to post-65 retiree coverage

\*\*Statute indicates "blending" of pre-65 and post-65 costs may be allowable; awaiting additional guidance

# ACA 40% Excise Tax

## New insights from the IRS

- Two Notices released by the IRS in February and July to initiate the process for providing formal guidance
  - IRS invited stakeholders to submit comments and suggestions for approaches which are currently being reviewed
  - Proposed regulations anticipated in early 2016 with final regulations potentially in first quarter 2017
- Notice 2015-16 provided some insight into:
  - Definition of applicable coverage — which coverages will be subject to the tax calculation
  - Determination of cost of applicable coverage — how the cost of coverage *might* be developed for excise tax purposes
  - Applicable dollar limits — how the threshold amounts might be applied and adjusted for demographics, high-risk jobs and pre-65 populations
- Notice 2015-52 provided additional insight into:
  - Identification of taxpayers — who will need to submit/pay the excise tax (i.e., employer, TPA, insurer)
  - Defining “taxable period” and “determination period”
  - Reporting and payment of the tax — employer required to calculate the excess benefit subject to the excise tax and notify the IRS and each tax-paying provider

# ACA 40% Excise Tax

## New insights, but few new answers

- In the absence of regulations being released, several open questions include:
  - How are HSA, HRA and FSA funds treated? Employer versus employee contributions?
  - Will there be accommodations to the thresholds to address composite premiums? And if so, how will those adjustments be made? For example, will existing tiered rates be the basis for the calculation of the tax?
  - How will the tax be allocated among and paid by the paying entities? (Medical plan, TPAs, Employers?)
  - What new reporting requirements will need to be established?
  - Any leeway provided for bargained benefit programs?
- Towers Watson can only provide a high level projection of the estimated Excise Tax because of the large number of undefined provisions
  - Updated projections will be provided once proposed regulations are released in early 2016

# OEGB Excise Tax Projections

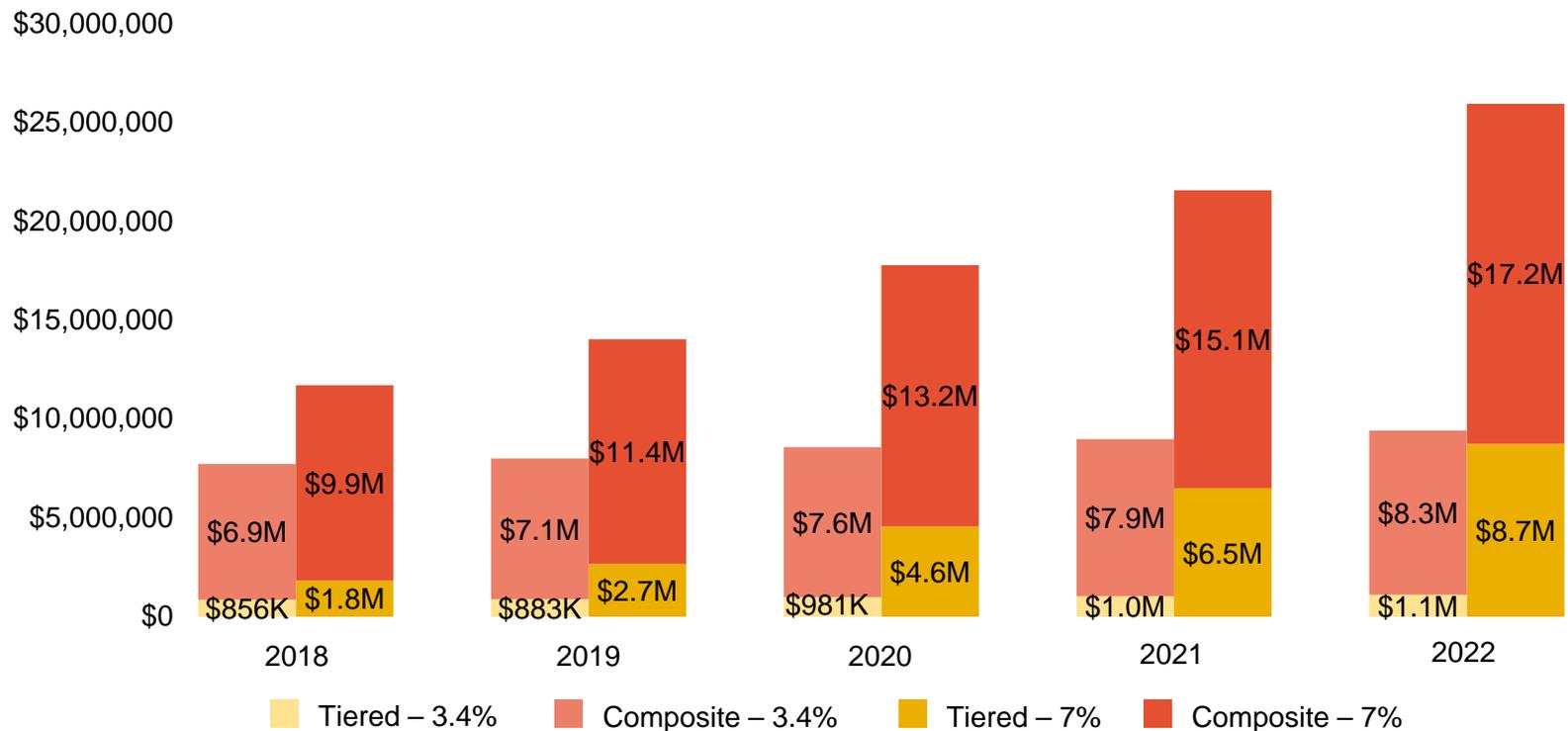
## Assumptions used in the Excise Tax estimates

- Projections provided based on Towers Watson's assumed premium increases (7%) and Oregon's targeted increase for OEGB (3.4%)
- The updated potential Excise Tax projections presented today
  - Represent all OEGB members and plans combined as opposed to entity-specific liabilities
  - Include medical and Rx exclusive of FSA, HSA or HRA funding
  - Exclude EAP, dental and vision premiums
  - Utilized thresholds of \$10,200 and \$27,500
  - Show projected results through 2022
  - Are based on the premiums for 2015 – 2016 Plan Year increased by 3.4% and 7% per year for potential premium increases between 2017 and 2022
  - Assumes no change in plan designs or enrollments
  - For the second projection, calculations apply tiered rates for all enrollees

# Estimated Excise Tax 2018 to 2022

## Projection 1: If composite rates are subject to Single and Family thresholds

- Projected tax liability for all entities combined of \$7.8M – \$11.7M in 2018
- **Assumes:**
  - OEGB members continue to be enrolled as they are today, including on same tiers and plans
  - Composite rates are subject to both Single and Family Thresholds
  - Annual premium increases of 3.4% or 7%

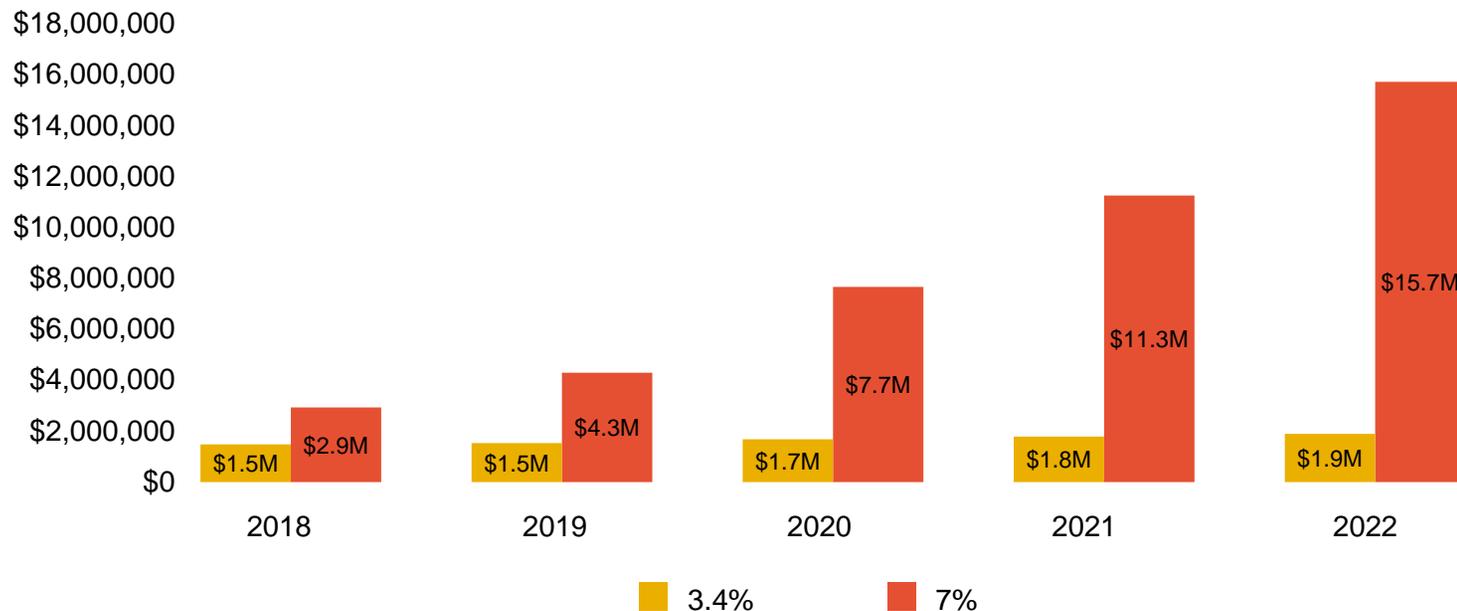


Note: See detailed assumptions on slide 8

# Estimated Excise Tax 2018 to 2022

## Projection 2: If the excise tax was calculated based on tiered rates for all enrollees

- Projected tax liability for all entities combined of \$1.5M – \$2.9M for 2018
- **Assumes:**
  - OEGB members continue to be enrolled as they are today — electing the same plan and covering the same family members
  - Assumes those on a Composite rate structure will have tiered thresholds applied to *corresponding tiered rates*, according to the family members enrolled
  - Annual premium increases of 3.4% or 7%



Note: See detailed assumptions on slide 8

## Next Steps

- Proposed/draft regulations are expected in early 2016
- Once proposed regulations are issued, Towers Watson will provide another update to OEGB staff and OEGB board

# Appendix

# OEGB Health Care Reform Actions to Date

## Plan Design & Insurance Reform

- OEGB plans cover all of the recommended preventive care services as required by the Affordable Care Act (ACA) — USPTF recommendations are updated annually
- OEGB's medical plans have been updated to comply with required plan features and deductible/out-of-pocket maximum rules
- All of OEGB's medical plan offerings meet the definition of minimum essential coverage under the ACA
- All of OEGB's medical plan offerings meet the definition of minimum value under the ACA

# OEGB Health Care Reform Actions to Date *(continued)*

## ACA Fees and Taxes

- Patient-Centered Outcomes Research Institute (PCORI) fee
  - OEGB's contracted carriers added this fee to all medical premiums beginning with the 2012 – 2013 plan year and will file and pay this fee on behalf of all participating entities
- Transitional Reinsurance Fee
  - OEGB's contracted carriers added this fee to all medical premiums and will file and pay this fee on behalf of all participating entities. This fee sunsets in 2017
- Oregon Supplemental Transitional Reinsurance Fee (Oregon HB 3458)
  - OEGB's contracted carriers added this fee to all medical premiums and will file and pay this fee on behalf of all participating entities. This fee sunsets in 2017.
- OEGB has reviewed projections for potential Excise Tax (Cadillac Tax) liability in aggregate using various assumptions

## Entity Education

- OEGB staff and Towers Watson have provided numerous informational bulletins, webinars and conference presentations for entities on a variety of Health Care Reform compliance topics

# Health Care Reform — Current Focus for OEGB Entities

## OEGB Entity Activity Related to ACA

- Refining systems to track hours for all employees to ensure all Full Time Employees working 30 hours or more are offered coverage
- Reviewing contributions to ensure that member premiums meet ACA affordability rules
- Finalizing systems to provide required ACA reporting to employees by January 31, 2016 and to the IRS by March 30, 2016

## Reliance of Data Used in Analysis

- Towers Watson has relied upon plan participant information provided to us by OEGB's vendor partners
- We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information
- The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information
- We are aware of no errors or omissions that would have a significant effect on the results of our calculations
- In addition, these results are intended for use by OEGB
  - Towers Watson accepts no responsibility whatsoever for any consequences arising from any third party relying on this report or any advice relating to its contents