



National Association of Dental Plans' Annual Conference  
**SEPTEMBER 12-15, 2011**  
Marriott Marquis • Atlanta, Georgia

# The Affordable Care Act's Impact on Employer Sponsored Health Insurance

Presented by:

Caroline F. Pearson, Avalere Health

September 15, 2011

## Who Is Avalere Health?

---

- Research and strategic advisory services in healthcare
- Focus on nexus of public policy and business
- Clients across health industry; some federal government
- Neutral, analytical; no advocacy
- Widely quoted and published in healthcare, policy, general media

[www.avalerehealth.net](http://www.avalerehealth.net)



# Agenda

---

- **Summary of Findings**
- **Affordable Care Act (ACA) Provisions Impacting Employers**
- **Predicting the Future of Employer Coverage**
  - » Employer-sponsored coverage estimates
  - » Employer decision-making - impact of different ACA provisions
  - » Microsimulation models of employer behavior
- **Conclusions**
  - » Uncertainties
  - » What to expect



## Summary of Findings



The intersection of business  
strategy and public policy

# What Do the Varying Projections of the Impact of ACA on Employer-Sponsored Health Coverage Mean?

---

- **Most analysts expect stable rate of employer-sponsored coverage**
- A few analysts got headlines projecting steep drop in employer-sponsored health coverage
  - » McKinsey & Co., Douglas Holtz-Eakin
- Avalere studied analyses of ACA impact on employer-sponsored coverage
  - » Microsimulation models<sup>1</sup>
  - » Other published analyses
  - » Surveys (benefit consultants, financial analysts)
- Avalere also interviewed modelers, benefits consultants, trade associations, other experts

---

1. Models analyzed include: Urban Institute, RAND, Lewin Group, and Congressional Budget Office (CBO).

## How Will ACA Affect Your Decision to Offer Health Benefits? How Are Other Employers Thinking About Health Coverage?

---

- On the one hand...
  - » If exchanges work well, employees may have viable alternative to obtain coverage
  - » Some employers and individuals may be able to obtain less expensive health benefits post-2014
- On the other hand...
  - » Exchanges are unproven
  - » Dropping health benefits could wind up costing you more
- Which means the decision is specific to each employer

# Employer-Sponsored Health Coverage Is Expected to Be Stable in the Short Term But Uncertain in the Longer Term

2014

2015

2016

2017 and beyond

## Employer Coverage Likely Stable Post-2014

- Estimates suggest most employers will offer coverage
  - » Microsimulation models predict net changes of -2% to +8.7%
  - » Stability is driven by large firms continuing to offer health benefits
- Employers are conservative and want to make sure exchanges work

## Long-Term Uncertainty Remains

- Greater erosion over 10 to 20 years is possible
  - » “Me too” effect
- If exchanges offer greater value, larger employers and workers may seek access to the exchanges



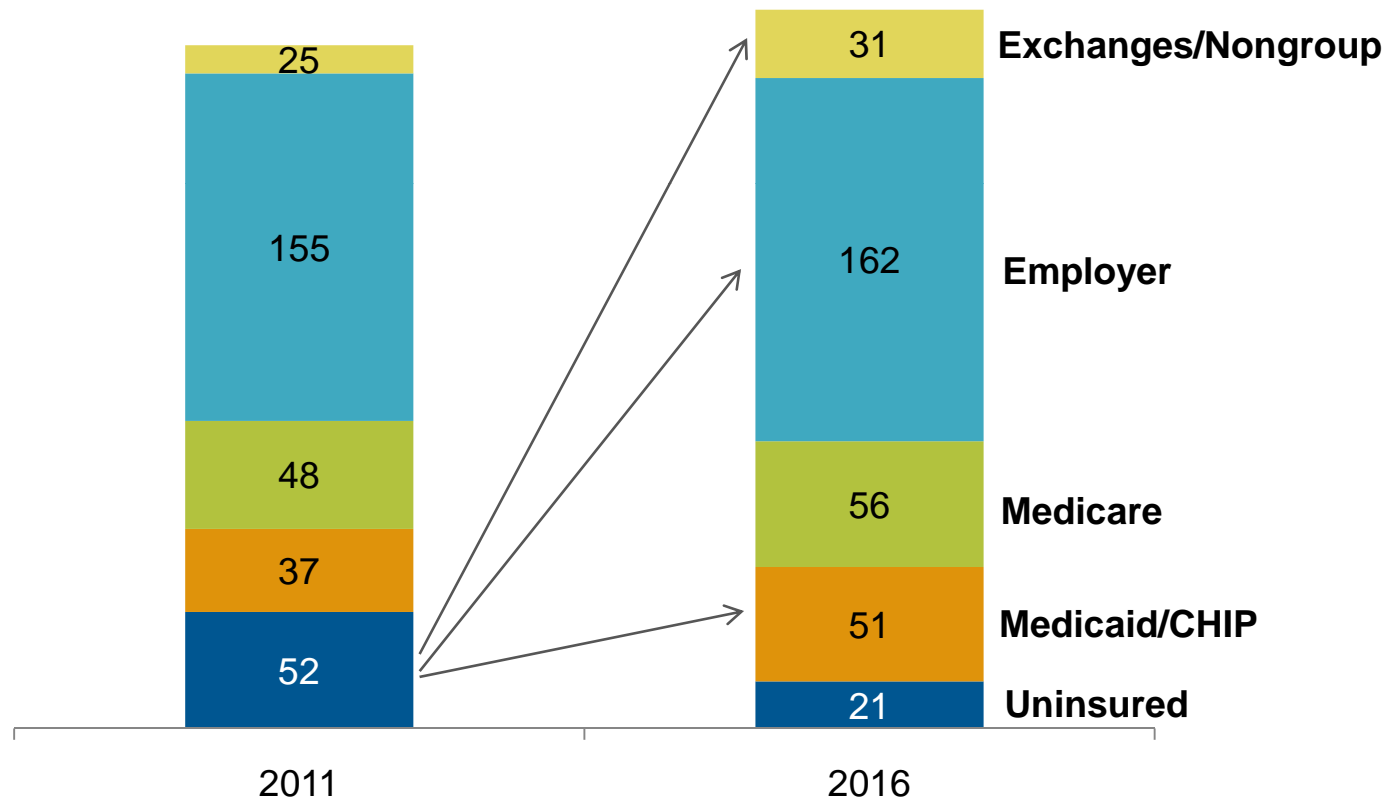
## ACA Provisions Expanding Access to Health Insurance



The intersection of business  
strategy and public policy

# Expected Shifts in Sources of Insurance Coverage According to the Congressional Budget Office

**Expected Sources of Primary Insurance Coverage, in Millions of Persons**



Source: CBO March 2011 Estimate of the Effects of the Insurance Coverage Provisions Contained in the Patient Protection and Affordable Care Act (Public Law 111-148) and the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152); Medicare Data: CBO's March 2011 Baseline, March 18, 2011; Methodology for disaggregating nongroup and Medicare population from: CBO March 2010 Cost Estimate of the Combined Effect of H.R. 4872, the Reconciliation Act of 2010, and H.R. 3590, the PPACA.  
CHIP=Children's Health Insurance Program.



# Primary Impacts of Health Reform on Employers

---

**1**

## **Employer Mandate**

Requires certain employers to offer health coverage for employees

**2**

## **Health Insurance Exchanges**

Allows some employers to enroll employees in Exchange plans

**3**

## **Insurance Market Reforms**

Requires all commercial health plans to comply with new rules

**4**

## **Essential Benefit Requirements**

Requires small group health plans to offer minimum requirements

**5**

## **Taxes and Fees**

Imposes new taxes and fees on select health plans and employers

---

# Employer Groups With at Least 50 Full Time Equivalent Employees Must Offer Coverage or Face Penalties

**Employers trigger penalties under the following scenarios:**

Does the employer offer coverage?	Applicable Penalties
Employer offers coverage but has at least one full-time employee receiving a premium assistance tax credit to purchase exchange coverage	Penalty will be the lesser of: (a) \$2,000 times the number of full-time employees excluding the first 30, or (b) \$3,000 times the number of full-time employees receiving subsidies in an exchange
Employers do not offer coverage or the coverage does not meet minimum standards	Penalty will be \$2,000 times the number of full-time employees in the business, not counting the first 30

**“Full-time equivalent employees” is calculated looking at hours for full time and part time workers, excluding seasonal workers**

# Exchanges Create New Markets Where Individuals and Small Employers Can Purchase Insurance



Exchanges offer a central place to purchase insurance for individuals and small groups

- Website will compare product and offer price quotes in individual market
- Small group exchange offers employee choice and consolidated billing

\*Individuals with an offer of employer-sponsored insurance (ESI) are not eligible for subsidies unless their individual employer premium exceeds 9.8% of their income.



## Exchange Plans Will Be Less Generous than ESI, with Enrollees in Bronze Plans Responsible for 40% of Costs

Insurance Plan	Actuarial Value
Typical Employer Plan (HMO) <sup>1</sup>	93%
<b>Platinum</b>	<b>90%</b>
FEHBP Blue Cross Blue Shield Standard Option (PPO) <sup>1</sup>	87%
Typical Employer Plan (PPO) <sup>1</sup>	80.0% - 84%
<b>Gold</b>	<b>80%</b>
Medicare Parts A, B and D <sup>1</sup>	76%
<b>Silver</b>	<b>70%</b>
<b>Bronze</b>	<b>60%</b>

The actuarial value tiers are set at levels lower than typical employer-sponsored plans, suggesting that cost sharing will be higher for enrollees in exchange plans

<sup>1</sup> CRS, Setting and Valuing Health Insurance Benefits, 2009

Actuarial Value = A measure of a benefit generosity that is expressed as percent of expenses paid by the insurer

Typical ESI HMO defined as a plan with no deductible; \$20 copays for office visits; 250 copay for inpatient hospitalization copay; no cost-sharing for lab or x-ray; and three tiers of copayments for prescription drugs

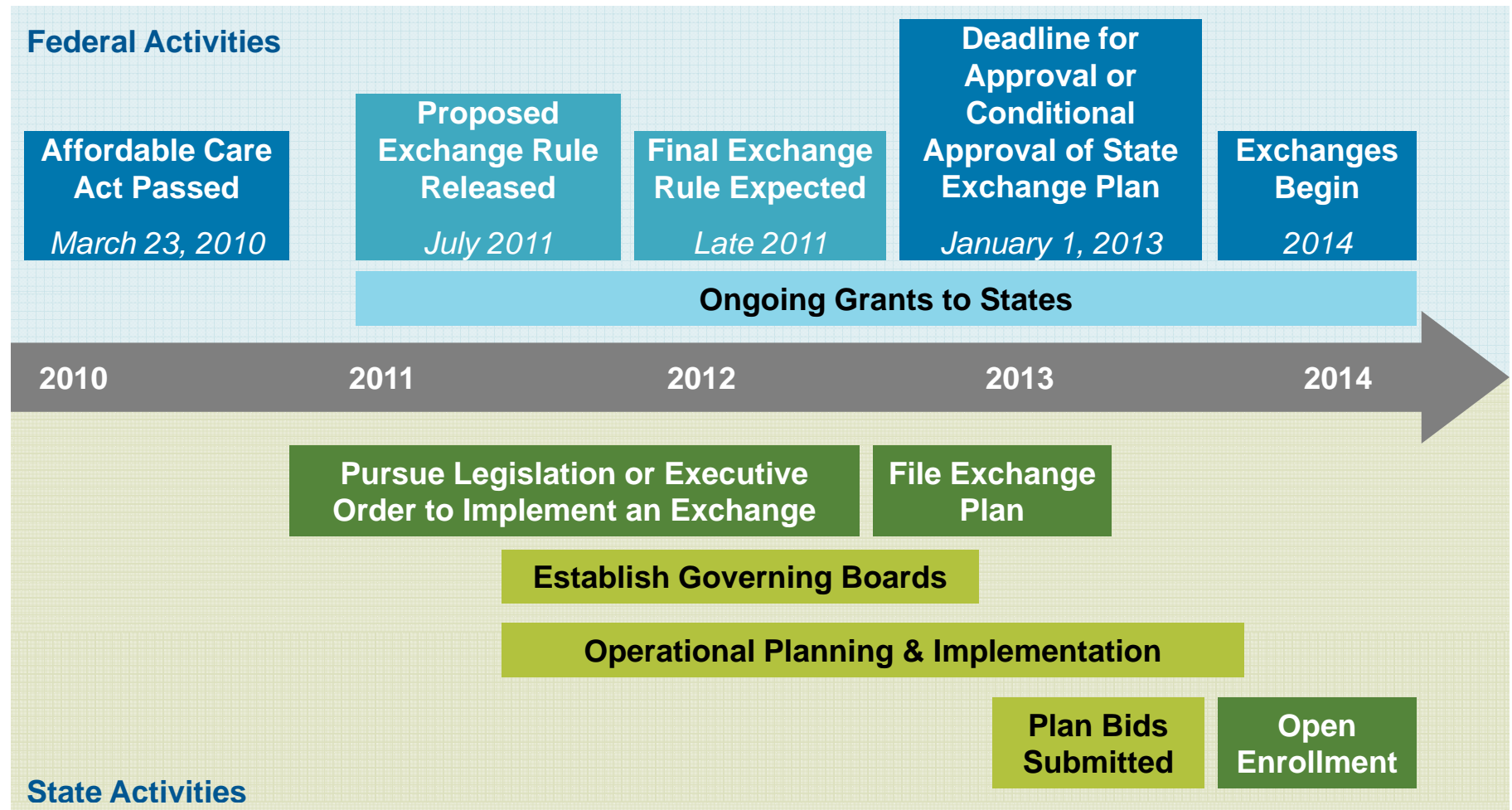
Typical ESI PPO defined as a plan with a \$700/\$400 annual deductible; 20% coinsurance for office visits, inpatient hospitalization, lab and x-ray.; HMO defined as a plan with no deductible; \$20 copays for office visits; 250 copay for inpatient hospitalization copay; no cost-sharing for lab or x-ray; and three tiers of copayments for prescription drugs; and \$3,500/\$2,000 overall out-of-pocket maximum



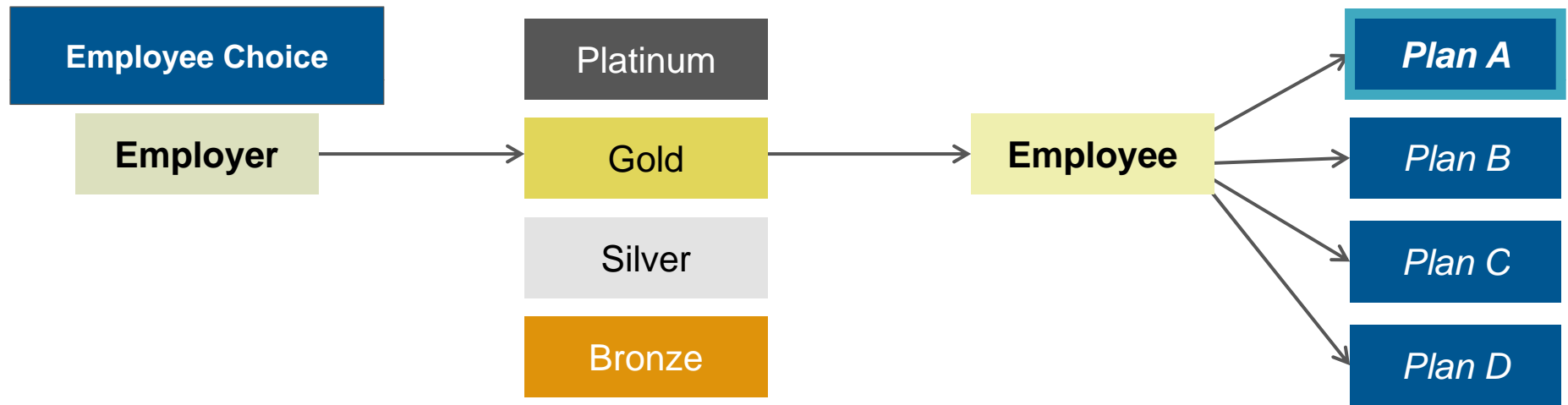
# Proposed Exchange Regulation Grants States Significant Flexibility to Establish Exchanges

Exchange Functions	State Flexibility	State Flexibility with Federal Floor	Nationwide Standard
Health Plan Selection Process	X		
Network Adequacy Standards	X		
Marketing Requirements	X		
Agent and Broker Roles	X		
Streamlined Applications & Eligibility Decisions		X	
Governance Structure		X	
Subsidiary and Regional Exchanges		X	
SHOP Employer/Employee Choice Model		X	
Exchange Consumer Tools: Website, Call Center		X	
Navigator Program		X	
Requirements for Qualified Health Plan Offerings		X	
Network Requirements		X	
Enrollment Periods			X
Approval of State Exchanges			X

# States Have Substantial Implementation Responsibilities in the Next 3 Years

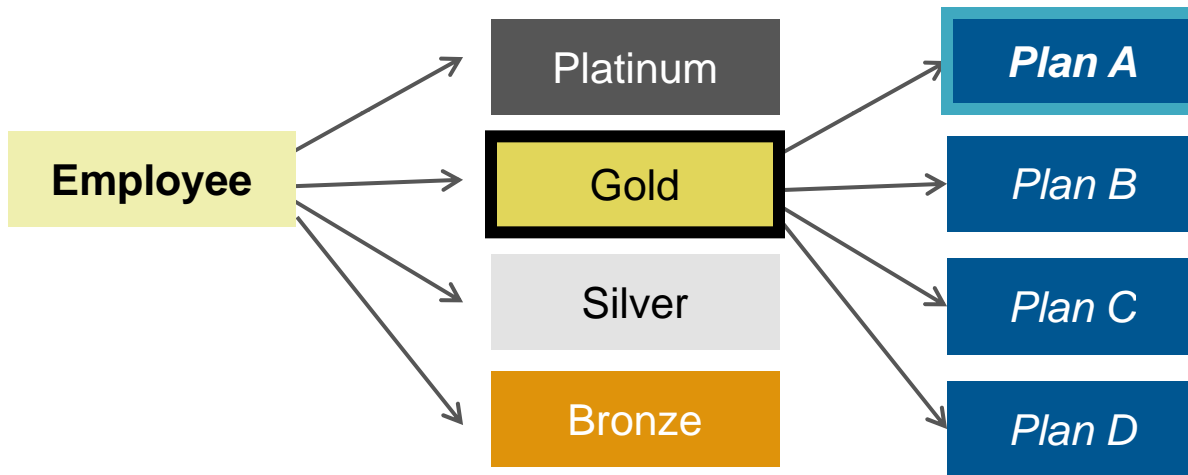


# SHOP Exchanges Must Offer Employee Choice Option

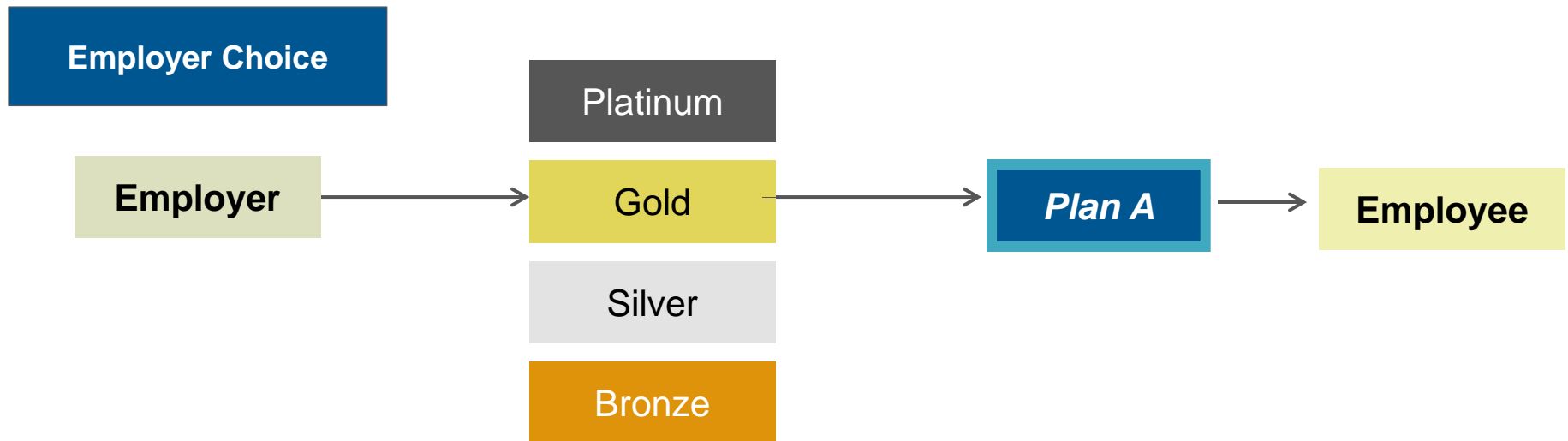


# SHOP Exchanges May, But Are Not Required, to Allow Employees to Choose Tier and Plan

## Employee Choice Alternative



# SHOP Exchanges May Also Allow Employers to Choose Level of Coverage and Specific Plan for Employees



# Direct Impacts on Dental Plans

Provision	Details
Essential Health Benefits	<ul style="list-style-type: none"><li>▪ All qualified health plans must meet “essential health benefits” requirements including pediatric services, which incorporates dental care</li></ul>
Taxation	<ul style="list-style-type: none"><li>▪ Dental coverage included in annual health insurance fee</li><li>▪ Stand-alone dental coverage excluded from counting toward value of employer provided coverage for the Cadillac tax</li></ul>
Exchanges	<ul style="list-style-type: none"><li>▪ Stand-alone dental plans are allowed to be offered through the exchanges if they offer pediatric dental benefits</li></ul>
Tax Credits	<ul style="list-style-type: none"><li>▪ Small business tax credits may be used for the purchase of dental plans</li></ul>
Cost-Sharing for Qualified Plans	<ul style="list-style-type: none"><li>▪ If an individual enrolls in a qualified health plan and a stand-alone dental plan, the portion of the dental plan’s premiums that are attributable to the essential benefit package shall be counted towards the premium for the qualified health plan</li></ul>



## Predicting the Future of Employer Coverage



The intersection of business  
strategy and public policy

# ACA Increases Options to Obtain Affordable Coverage But Employers Still Have Reasons to Offer Health Coverage






---

## Why Employers Offer Health Benefits

1. Employers offer health benefits as part of overall compensation package to attract and retain employees
2. Employers offer health benefits because there has been no viable alternative for employees to get comprehensive coverage on their own
3. Employers offer health benefits to boost worker productivity

The ACA makes significant changes only to #2 – insurance market reforms and exchanges could create a viable alternative to employer-sponsored coverage

# Several ACA Provisions May Affect Employers' Decisions to Offer Health Insurance

Provision	Effect on Employer Coverage	Why?
<b>Pay-or-play/free-rider penalties</b>		Penalties may not be high enough to deter employers from dropping coverage
<b>Exchanges</b>		Will create alternative current individual market; small employers may offer coverage through exchanges (if viable)
<b>Subsidies /Medicaid expansion</b>		Could incentivize employers with low-wage subsidy- or Medicaid- eligible workers to drop coverage
<b>Individual Mandate</b>		Could boost demand for coverage and encourage more employers to offer coverage
<b>Small business tax credit</b>		Could incentivize employers to continue providing coverage, or to start providing coverage

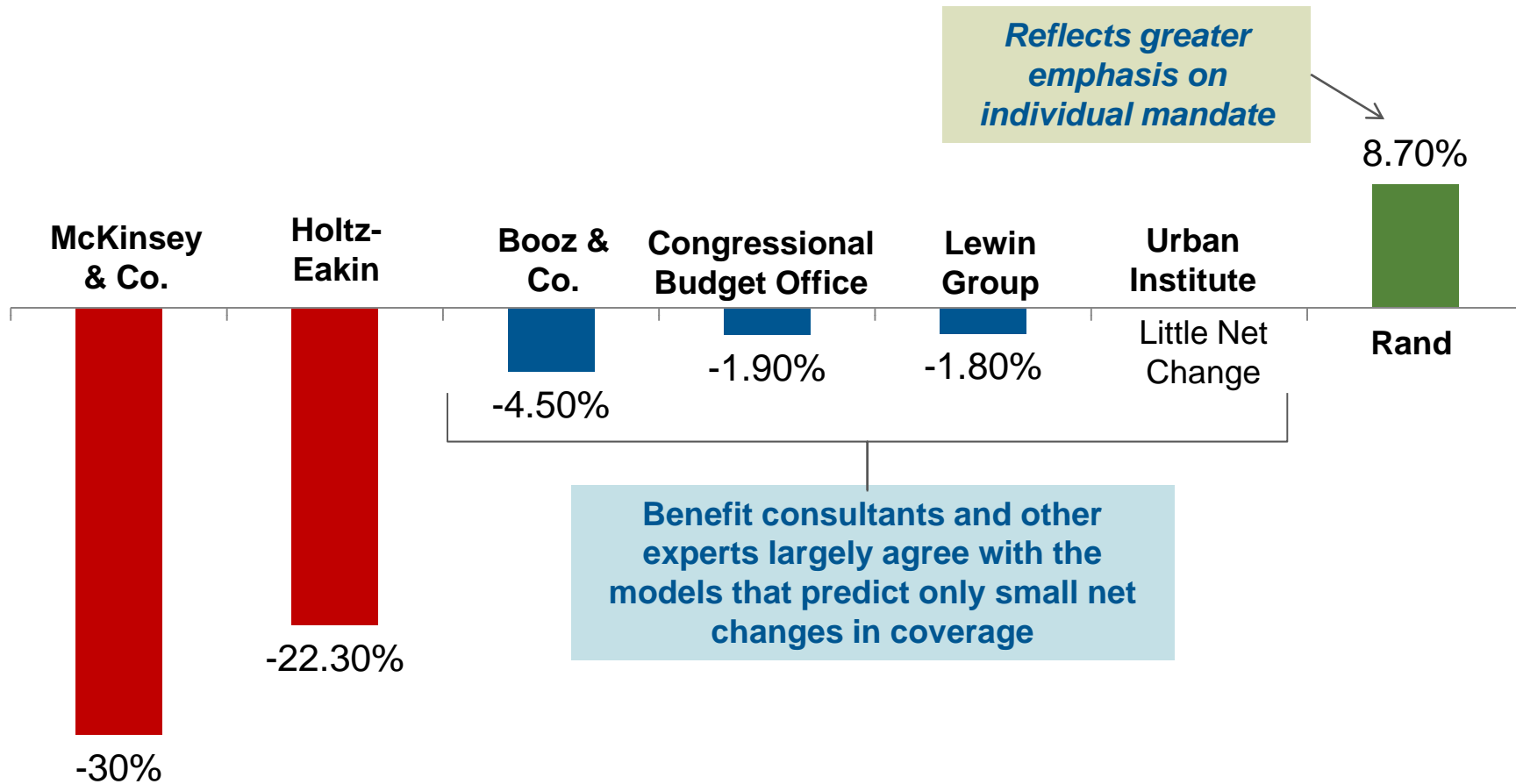


## Key Findings







The intersection of business  
strategy and public policy

# Estimates of ACA's Impact on Employer-Sponsored Coverage Vary Widely, Though Modelers Occupy Narrow Band



*Impact on early retirees not included in microsimulation model estimates*

## Subsets of Employers Will Be Affected by Different Provisions and Will Likely React Differently to ACA

Employer Type	Provisions Driving Employer Response	Effect on Employer-Sponsored Coverage
Firms with predominantly low-wage workers	Premium subsidies, Medicaid expansions	
Firms with high early-retiree costs	Health insurance exchanges	
Firms with fewer than 25 employees and microbusinesses (<10)	<ul style="list-style-type: none"> <li>» Small business tax credits</li> <li>» Health insurance exchanges</li> <li>» Individual mandate</li> </ul>	
Small businesses >25	<ul style="list-style-type: none"> <li>» Health insurance exchanges</li> <li>» Individual mandate</li> </ul>	

# Models Simulate Decisions of Firms and Individuals in Response to Policy Changes with Different Methodologies

---

- Models predict firm offer rates taking into account:
  - » Policy changes and their impacts on premiums
  - » Wage offsets to compensate for loss of health benefits
  - » Target price elasticities from the empirical economic literature (small firms are more price sensitive than large firms)
- Workers are assigned to representative firms that vary in their composition by factors such as:
  - » Distribution of wages across workers
  - » Age and health status
  - » Single vs. family status

# Firms Take Multiple Factors Into Account When Calculating Relative Cost of Dropping Versus Offering Health Benefits

---

- Tax Treatment
  - » Employer premiums are excluded from federal income tax, payroll tax and state income tax (if applicable); many worker premiums also excluded from these taxes
  - » “Pay or play” penalty: not tax deductible
- Wage gross-up (making employees “whole”)
  - » Need to compensate by sufficient amount to buy insurance elsewhere
  - » Higher income workers tend to be older, so need to gross wages up even more if drop coverage
  - » Pay equity considerations could require all workers (including those that did not take up coverage) to get wage increases

**Benefit consultant interviewed estimates that large employers would pay \$1,000 less for employer-sponsored coverage than it would cost to pay the penalty and gross up-wages; consistent with modelers results**

# Multiple Unknowns Could Impact Future Employer Coverage

## Scenarios that may influence employer coverage:

<b>Factor</b>	<b>Erosion of Employer Coverage</b>	<b>Stable Employer Coverage</b>
<b>Exchange Availability</b>	Highly-successful exchanges with attractive plan options	Exchanges not available in all states or not consumer-friendly
<b>Cost-Sharing Subsidies</b>	Subsidies available for low-income individuals	Premium or cost-sharing subsidies scaled back under debt deal
<b>Leading Employers</b>	If one large employer drops, others may follow	Most employers say they will not be first to drop
<b>Economy</b>	Soft labor market could accelerate dropping	Improving economy would increase competition for workers

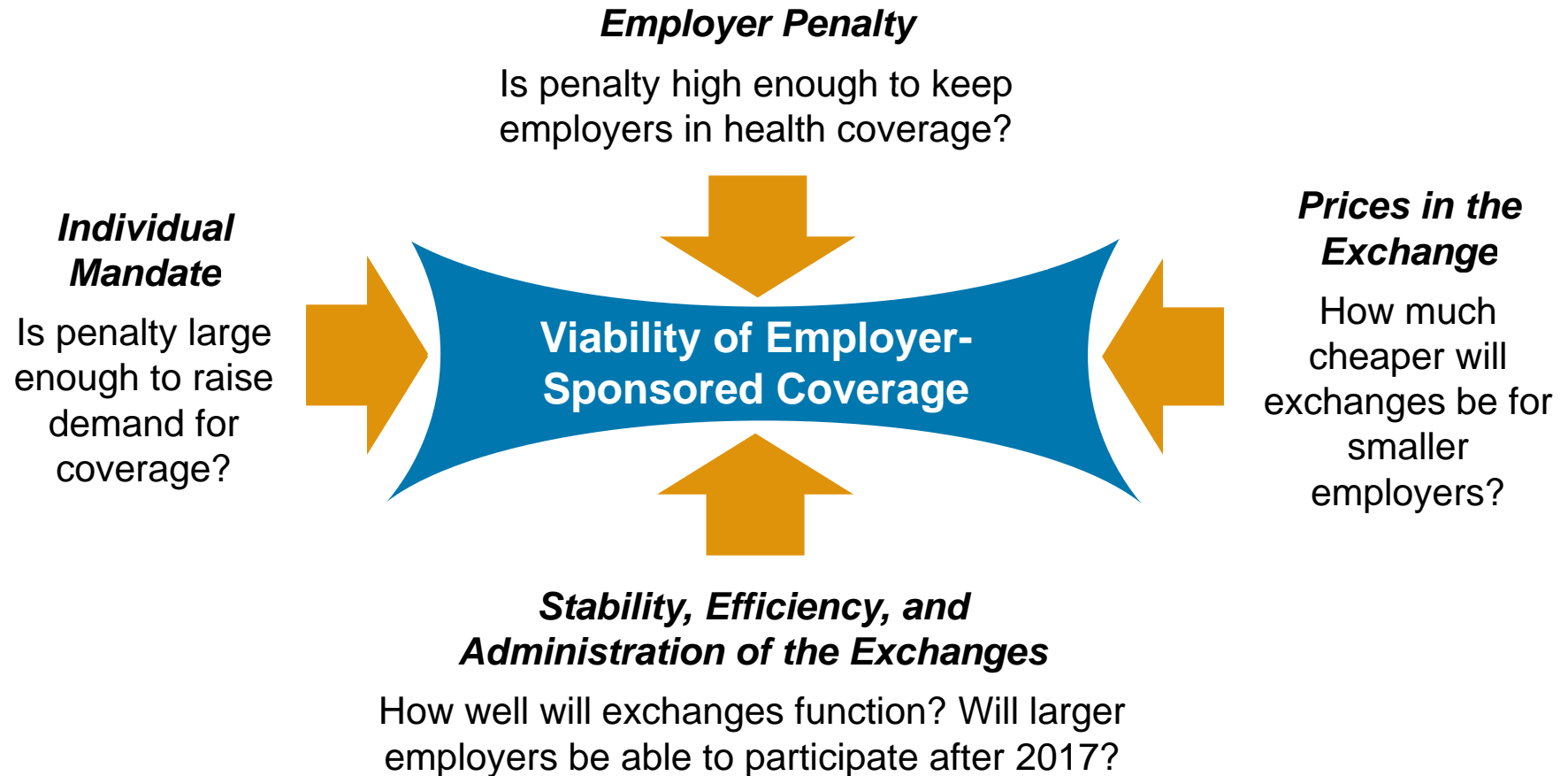


## Conclusions



The intersection of business  
strategy and public policy

# Many Factors Will Influence Future of Employer-Sponsored Coverage, Leaving Uncertainty in Near Term



## What to Expect

---

1. Employer-sponsored coverage will be fairly stable in the near- to mid-term post-2014 – primarily due to stability in offer rates among large employers
  - » Small chance of large-scale exodus if a few highly visible large employers drop coverage
2. Firms with a high proportion of low-wage workers very likely to drop coverage
3. Offers of early-retiree coverage are likely to decline dramatically
4. Longer-term erosion of employer-sponsored insurance – over 10 to 20 years – is possible under certain circumstances
  - » If new insurance exchanges are successful, employers and workers may migrate over