**Health Care Reform and the Cost of Change**

As companies prepare to meet new requirements under health care reform — some of which become effective in less than a month — many large employers are already planning to control ever-rising health care costs by resorting to familiar strategies, including shifting more costs to employees.

The National Business Group on Health (NBGH), releasing results from its annual plan design survey, reported recently that a majority of large businesses plan to raise group health insurance rates for employees next year.

In 2011, about 63 percent of employers surveyed by NBGH expect to shift more premium costs to employees, 46 percent plan to increase out-of-pocket maximums that workers must pay for health services, and 44 percent will increase in-network deductibles.

“It’s not surprising that employers are considering cost-sharing strategies,” said Jim O’Connell, Ceridian’s consultant on health care reform based in Washington, D.C. “Not only is it difficult to pinpoint anything in the new law that will slow the escalation of health care costs, but some provisions are likely to lift costs higher.”

The Patient Protection and Affordable Care Act (PPACA) was proposed, at least in part, to rein in health care costs. But employers suspect the law could spur higher costs, the survey reported. Employers now estimate their health care benefit costs will jump an average of 8.9 percent in 2011, compared with an average increase of 7 percent this year. (See this edition’s *Health Care Compass* Question.)

O’Connell said several provisions effective September 23, 2010 — or January 1, 2011, for calendar-year plans — are expected to contribute to rising costs for employer-sponsored plans, putting premiums under pressure. These provisions include:

* The repeal of lifetime limits on the dollar value of health benefits and the eventual elimination of annual limits for group plans
* Extended coverage for dependents up to age 26
* The end of pre-existing condition exclusions for individuals under age 19 and ultimately for everyone

Also, new restrictions on cost sharing for preventive care benefits are expected to add about 1 percent to 2 percent per year per enrolled employee in a typical large health plan.

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| How much do you estimate your health care costs will increase in 2011?  [Take the Poll](http://www.ceridian.com/corp/form/compass1/1,8033,16880,00.html)  Results will be reported in next issue. |  | http://www.ceridian.com/myceridian/client-support/marketing/compass/poll.gif |

“All these changes don’t come free,” O’Connell said. Potential cost effects, however, could vary dramatically among plan sponsors, he added.

Other popular cost-cutting strategies employers are considering include a wider adoption of consumer-directed health plans, which give plan-enrolled employees more responsibility for how they spend their health care dollars, and wellness programs. By helping employees stay healthy and active, employers hope to keep health care costs down and productivity high. (See *Avoiding the Most Common Wellness Program Pitfalls* in this edition.)

Meanwhile, key White House allies have recently backed away from claims that PPACA will reduce health care costs and instead are stressing how it will “improve” the health care system, including improving the quality of coverage people have.

Employers are allowed to keep a "grandfathered" status that would leave them exempt from certain provisions that will raise costs, but only if they don't make certain changes to their policies. Despite this, NBGH reports that 53 percent of large employers are planning to make changes to their benefit plans despite uncertainty about how to comply with PPACA.

Most businesses expect to lose grandfathered status because of design changes by 2014, with the majority doing so in the next two years. Recently, employer groups have asked federal regulators for greater ability to make plan changes and control costs without losing grandfathered status.

“Health care reform has forced employers to assess their health care benefit strategies and decide whether to comply with the law or lose grandfathered status,” said Helen Darling, president of NGBH. “But they are still mindful that controlling rising costs is among their highest priorities.” NGBH, of which Ceridian is a member, is a non-profit organization devoted to representing large employers' perspectives on national health policy issues.

“The bottom line is that a weak economy and health care reform have combined to dramatically change the way employers look at employee health care benefits and their strategies to contain costs,” O’Connell said.

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| http://www.ceridian.com/myceridian/client-support/marketing/compass/know-how-box.jpg | Health Care Reform — Coming Soon to Workplaces Everywhere  **A wave of health reform provisions take effect in less than a month** |

Insurance coverage that starts on or after September 23, 2010, must comply with these changes, which range from the expansion of coverage for adult children up to age 26 to restrictions on annual coverage limits. For employers with calendar-year plans, the changes won't affect their plans until coverage renews on January 1, 2011.

Below is a summary of some of the new provisions that will affect employer-sponsored plans:

* Adult children up to age 26 will be able to receive dependent coverage on their parents’ plan, regardless of whether they are attending school, married or financially dependent on their parents.
* Also, the tax code was revised so that the cost of reimbursing medical expenses of adult children under an HRA is not taxable to the employer or employee.
* Insurers may not impose lifetime coverage limits and, until 2014, may not set annual limits below certain levels.
* Insurers may not arbitrarily rescind or cancel coverage, except in cases where an individual commits fraud.
* Insurers will not be able to exclude children from coverage because of a pre-existing condition. However, they can require parents to enroll their children only during a fixed annual enrollment period to make sure parents don't wait until a child gets sick to purchase coverage.
* Insurers will be required to provide preventive care, such as immunizations or mammograms, without charging co-pays or deductibles. Grandfathered plans do not have to meet this requirement.
* Over-the-counter (OTC) drugs and medications must be accompanied by supporting documentation, such as a doctor’s prescription, in order to be reimbursed from Flexible Spending Accounts, Health Reimbursement Accounts and Health Savings Accounts.
* The penalty for non-qualified withdrawals from HSAs increases from 10 percent to 20 percent.  There is no “hardship” exception.
* The law provides consumers with a way to appeal coverage determinations or claims to their insurance company, and establishes an external review process.
* The new law requires that at least 85 percent of premium dollars collected by insurance companies for large employer plans are spent on health care services.  For individual and small group plans, at least 80 percent of the premium must be spent on benefits and quality improvement. If insurance companies do not meet these goals, they must provide rebates to consumers.

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| http://www.ceridian.com/myceridian/client-support/marketing/compass/know_how_button.jpg | **Compass Points:**  **News Briefs on Health Care Reform** |

**Brokers Seek Greater Role in Reform**

The National Association of Insurance Commissioners (NAIC) has passed a resolution calling on federal policymakers to recognize the critical role licensed health insurance brokers play in health care reform, and to establish standards for health care exchanges “so that insurance professionals will continue to be adequately compensated for the services they provide.”

The resolution, titled “To Protect the Ability of Licensed Insurance Professionals to Continue to Serve the Public,” was adopted August 17, 2010.

Brokers are concerned about the medical loss ratio provisions within the new health care reform legislation. They believe that by limiting the percentage of premiums carriers can spend on administrative costs to 20 percent for small group policies and 15 percent for large group contracts, their commissions will be drastically reduced.

Health and Human Services Secretary Kathleen Sebelius is waiting for the NAIC to suggest rules surrounding how much insurance companies should spend on medical costs versus administrative expenses. The report is expected in several weeks.

**Federal Aid to States Helps Fight ‘Unreasonable’ Insurance Hikes**

The Department of Health and Human Services (HHS) recently announced grant awards of $1 million each to 45 states and the District of Columbia under PPACA to help improve the oversight of proposed health insurance premium increases and take action against insurance carriers seeking “unreasonable rate hikes.” The only states not receiving this first round of grants were Alaska, Georgia, Iowa, Minnesota and Wyoming.

**Guidance, Model Notices on PPACA External Review Issued**

The U.S. Treasury Department, Department of Labor (DOL) and Department of Health and Human Services have issued additional guidance on the federal external review process (which generally applies to non-grandfathered, self-funded plans) and have provided model notice requirements for all non-grandfathered plans. Under PPACA, individuals have the right to appeal decisions made by their health plan to an outside independent decision-maker, regardless of what state they live in or what type of health coverage they have.

The new guidance establishes an interim enforcement safe harbor that applies for plan years beginning on or after September 23, 2010, for non-grandfathered self-funded plans that are subject to the federal external review process, until any further guidance is issued. During the period safe harbor is in effect, the DOL and Internal Revenue Service will not take any enforcement action against a self-funded group health plan that meets state external review law or certain prescribed interim compliance methods.

The new model notices (for all non-grandfathered, self-funded and insured plans):

* [Model Notice of Adverse Benefit Determination](http://www.dol.gov/ebsa/IABDModelNotice2.doc)
* [Model Notice of Final Internal Adverse Benefit Determination](http://www.dol.gov/ebsa/IABDModelNotice1.doc)
* [Model Notice of Final External Review Decision](http://www.dol.gov/ebsa/IABDModelNotice3.doc)

Additional information on health care reform and previous issues of *Health Care Compass* can be found by visiting [www.ceridian.com/healthcarereform](http://www.ceridian.com/healthcarereform).