



Health Care: Confronting the Implications of Reform June 2010

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Agenda

- Health care reform
- Impact on employers
- Timeline
- Advice to CFOs
- Questions and Answers

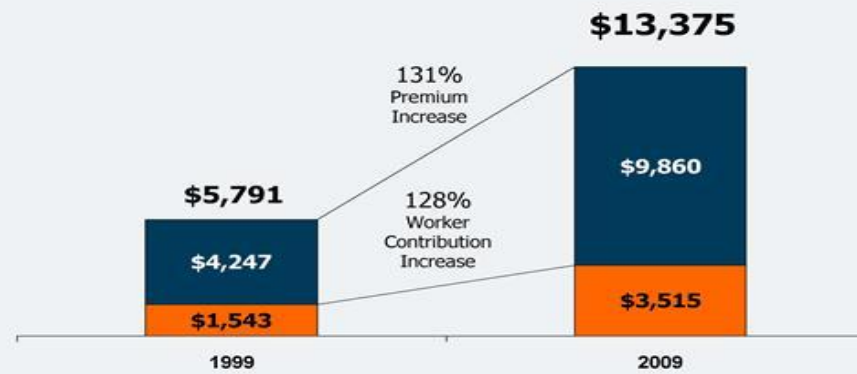
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The Initial Focus of Health Care Reform: Spiraling Costs

- Health care was 17.9% of our GDP in 2009
 - Expected to grow to 19.5% of GDP by 2017
 - Twice the average of other developed nations
 - Insurance premiums doubled in last 10 years

**Average Health Insurance Premiums and
Worker Contributions for Family Coverage, 1999-2009**



Note: The average worker contribution and the average employer contribution may not add to the average total premium due to rounding.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

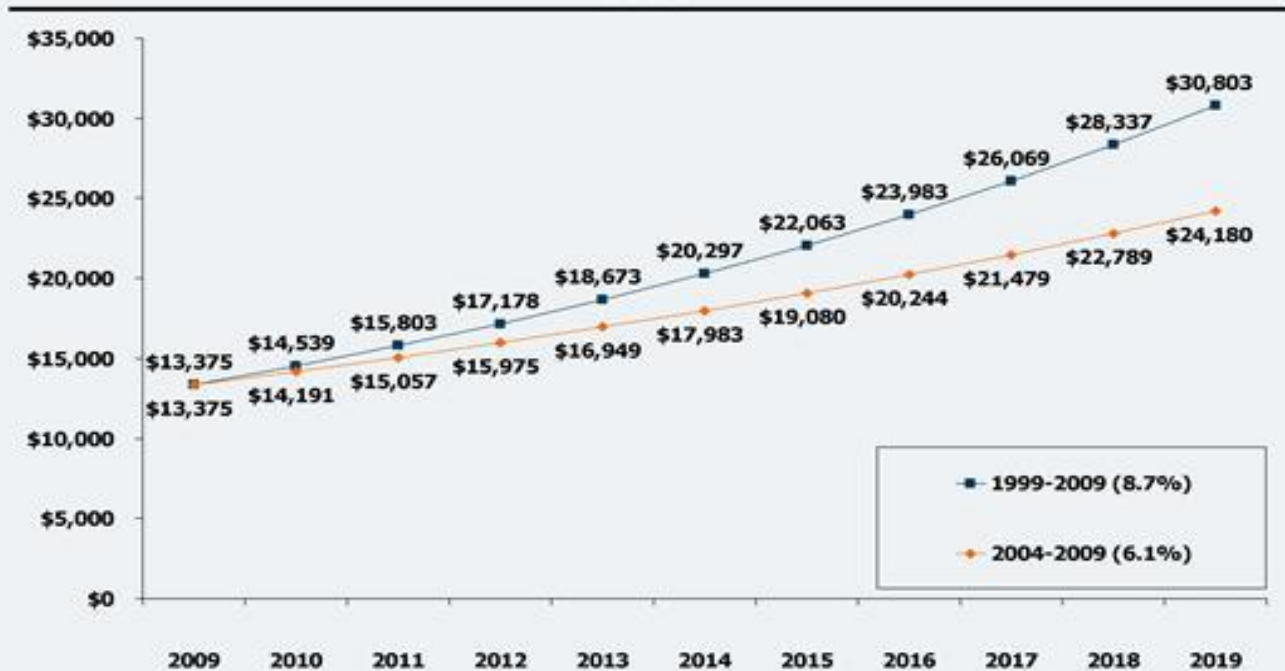


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The Initial Focus of Health Care Reform: Spiraling Costs

Projected Health Insurance Premiums for Family Coverage, Assuming Average Growth Rates, from 1999-2009 and 2004-1999



Note: Health insurance premiums projected for 2010-2019 assuming (1) that the average growth in premiums between 1999 and 2009 (8.7%) continues or (2) that the average growth in premiums between 2004 and 2009 (6.1%) continues. Source: Kaiser Family Foundations projections based on data from Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

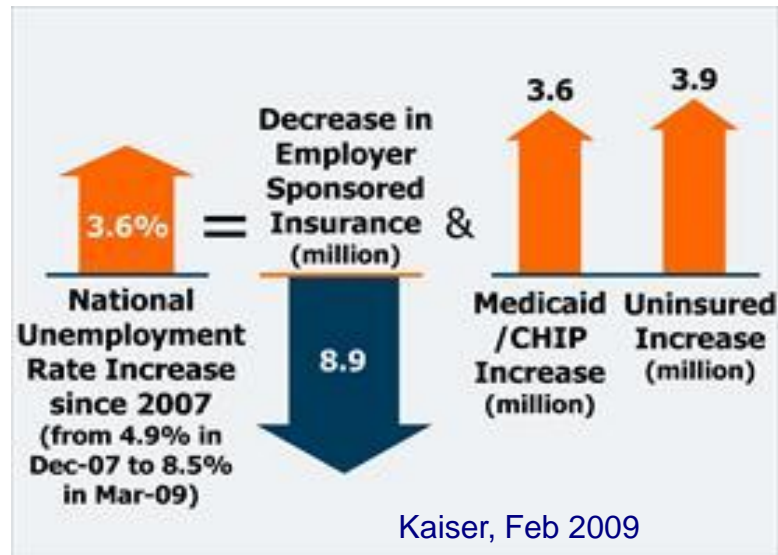


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The Initial Focus of Health Care Reform: Access to Care

- There are 46 million uninsured
 - Individual health and financial consequences
- Unemployment could drive this number up significantly
- Employment-based coverage declined to 176.3 million





The Initial Focus of Health Care Reform: Quality

- Americans are split about 50/50 on whether they think we have the best health care system in the world
- Pay for service model needs improvement
- More care ≠ Better care



The Message Changed



Health care reform  Health insurance reform

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Source: Picture from Nola.com



Law of the Land

- March 23, 2010: President Obama signed HR 3590 – The Patient Protection and Affordable Care Act (PPACA)
- March 30, 2010: President Obama signed HR 4872 – its Reconciliation Bill or “Side Car” Bill
- Senate Bill with reconciliation sidecar is the Law of the Land



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What Does the Bill Accomplish?

- People without insurance will decrease from approximately 50 million to 23 million by 2019
- Underwriting for pre-existing conditions will cease
- Annual and lifetime caps will disappear
- Fraud, waste and abuse in public programs is getting more attention leading to reductions long-term

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What Will This Bill be Unable to Accomplish?

- Didn't bend the cost curve downward
- Didn't address tort reform
- Didn't increase competition by permitting sales across state lines
- Perpetuates the less effective fee for service model versus focusing on health outcomes



What are the Unintended Consequences?

- Flexible Spending Accounts
- Mandated coverages will increase premiums
- Alters payers business model
- Negatively impacts state budgets

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Are we Headed in the Right Direction?



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Estimated Change in Health Coverage (millions of non-elderly)

	2010	2014	2019
Employer	150	165	159
Nongroup and Medicare	27	26	25
Medicaid/CHIP	40	45	51
Exchange	N/A	8	24
Uninsured	50	31	23

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Source: CBO (March 20, 2010)



Impact on Employers: Key Areas of Concern

- Premium increases
- Employer reporting requirements
- Tax increases
- Small business credits
- Employer mandate
- Flexible spending accounts
- Health savings accounts

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Impact on Employers: Premium Increases

- Health plans are working diligently on their anticipated plan costs due to:
 - No lifetime maximum
 - No annual maximum
 - No pre-existing conditions
 - Adding dependents children to age 26
 - No cost sharing on preventive services
 - Requirement to cover out-of-network emergency services at same rate as in-network
- These factors along with medical inflation will mean higher rates in the future
- More benefits will equal more cost

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Impact on Employers: Employer Reporting

- Must report the value of employer sponsored health benefits on W-2's beginning in 2011
- Must confirm that you offer (or don't offer) minimum essential coverage to full-time employees and their dependents
- Disclose the length of any applicable waiting period
- Report the lowest cost option in each enrollment category under your plan
- Report number and names of full-time employees receiving health coverage
- Expanded reporting requirements for self-insured plans in 2014

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Impact on Employers: Personal Income Tax Issues

- Medicare or your health insurance tax will increase 9/10's of one percent from 1.45% to 2.35% on incomes above \$200,000 for singles and \$250,000 for joint filers in 2013.
- In 2013, your ability to deduct medical expenses on your tax return will move from 7.5% of your adjusted gross income to 10% of your AGI.
- New 3.8% surtax on passive income, unearned income, dividend and interest income for people above \$200,000 for single and \$250,000 for joint filers.

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Impact on Employers: Small Business Credits

- Two Phases
 - Phase 1 Starts Immediately
 - The new credit gives eligible small employers a credit for a portion of the employer's cost of providing health insurance
 - Eligible employers must have no more than 25 EE's and average wages of less than \$50,000 per year. This is a sliding scale that tops out at 35% of the employer cost.
 - Phase 2 Starts in 2014
 - Exchanges come online and provide a credit of up to 50% of the employer's share of the premium if the employer purchases through the Exchange and provides at least 50% of the cost of the premium.

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Impact on Employers: Employer Mandate

- Commonly referred to as Pay or Play (Effective 1/1/2014)
 - Employees with 50 or more applicable employees that don't offer coverage and at least one full time employee receives a federal subsidy through the Exchange – then that employer will pay a monthly penalty of $1/12$ of $\$2,000 \times$ the total number of full time employees.
 - For example: If you had 100 full-time EE's (minus 30) = 70
 - $70 \times \$2,000$ annually = $\$140,000/12 = \$11,666.67$
 - If you have over 50 employees and do offer health coverage but you have at least one employee receiving a tax subsidy, then the penalty is the lesser of the $1/12$ of $\$3,000 \times$ the number who receive a subsidy or $1/12$ of the $\$2,000 \times$ the total number of EE's.
 - EE's offered ER coverage are not eligible for a credit unless the premium exceeds 9.5% of the EE's household income or the plan's share of the cost is less than 80%.

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Impact on Employers: Flexible Spending Accounts

- Contributions to FSAs, beginning in 2013, will be limited to \$2,500
 - Current federal employee plan is capped at \$5,000
- The limit is indexed to the consumer price index
- Excludes all eligible over the counter drugs that are not prescribed by a doctor
 - Applies to FSAs, HSAs, HRAs
- Health insurance premiums and contributions to FSAs, HRAs and HSAs will be aggregated and applied to the Cadillac plan cap in 2018

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Impact on Employers: Health Savings Accounts

- Restriction on over the counter drugs applies for all medical expenses.
- HSA contributions will be included in the Cadillac tax cap.
- Beginning in 2011, the penalty for non-qualified expenses will move up from 10% to 20%.
- There are other challenges that will need to be addressed by regulation including actuarial values, medical loss ratios and the definition of preventive care.



Timeline

2010	2011
Small Business Tax Credit	New, Voluntary Options for Long-Term Care Insurance
Eliminating Pre-Existing Condition Exclusions for Children under 19 years of age	Transitioning to Reformed Payments in Medicare Advantages
Rebates for the Medicare Part D 'Donut Hole'	Discounts in the Part D 'Donut Hole'
Prohibiting Rescissions	Reporting Health Care Coverage Costs on Form W-2
Eliminating Lifetime Limits	Standardizing the Definition of Qualified Medical Expenses
Regulating Use of Annual Limits	Increased Additional Tax for Non-Qualified Withdrawals from HSAs
Extending Coverage for Young Adults up to age 26	Pharmaceutical Manufacturers Fee
Indoor Tanning Services Tax	Create Simple Cafeteria Plan for Small Business

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Timeline continued

2013	2014
Limiting Health Flexible Savings Account Contributions	Eliminating Annual Limits
Eliminating Deduction for Employer Part D Subsidy	Establishing Health Insurance Exchanges
Increased Threshold for Claiming Itemized Deduction for Medical Expenses	Providing Health Care Tax Credits
Additional Hospital Insurance Tax for High Wage Workers	Ensuring Choice Through Free Choice Vouchers
Medical Device Excise Tax	Mandated Individual Insurance Coverage
New Hospital Insurance Tax of 3.8%	Increasing Access to Medicaid
	Small Business Tax Credit
	Health Insurance Provider Fee - \$8 billion
	Employer Mandated Coverage (or penalty)
	Rating restrictions that, among other things, limits use of age as a rating factor are imposed
	Pre-existing Condition Exclusions are Prohibited

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Timeline continued

2017	2018
States Allow All Employers to Offer Coverage Through Exchanges	Excise Tax of 40% on High-Cost “Cadillac” plans

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What does this all mean?

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The Moment of Disconnect



Vice President Benefits

“Health care reform has this great provision that says if we like our current program we can keep it.”

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The Moment of Disconnect



**Chief Financial
Officer**

**“With this fantastic
legislation, why are we
budgeting a 15% increase in
our health care costs?”**

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Healthcare Reform

“[Healthcare Reform] has taken the most idiosyncratic feature of American health care – the fact that the onus for providing health insurance falls first and foremost on companies rather than on individuals or the government – and set it in concrete.”¹

- Likely impacts
 - 5-30% increase in healthcare costs
 - Focus on health improvement
 - Employers must manage plans like a true P&L
- Three critical strategies
 - Healthcare consumerism
 - Corporate wellness
 - Real cost containment



Top 10 List for CFOs

1. Establish a corporate point of view:
 - Why does your company offer health benefits?
 - What is your investment horizon for employee health?
2. Make better employee health your primary objective, and build a comprehensive strategy to get there
3. Know your workforce:
 - Use data to pinpoint critical health risks, establish priorities, and drive tactics
4. Deploy health and wellness programs for your total population

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Top 10 List Continued

5. Create a unified member experience
6. Incorporate well-designed financial incentives into your plan designs
7. Manage eligibility with strict control
8. Focus enrollment communications on health rather than benefits selection
9. Integrate health benefit procurement practices
10. Get tough(er) on long-term costs

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Question and Answer

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