THE SPONSORSHIP DILEMMA:

A HEALTH INSURANCE RUBIK'S CUBE

By Michael Weiskirch
Principal, EmployeeTech
Deerfield, IL
mweiskirch@employeetech.com

As we get into the throes of 2014, the reality of PPACA has started to make its way back to the front burner for many brokers and employers. Part of this reality recheck is prompted by the looming shared-responsibility requirements in the large market (now for employers over 100 full-time-equivalent employees). Even more pressing is the upcoming renewals for smaller companies, which are coming due this year, and many will revert to new ACA community rates. Not to mention the individual mandate, Medicaid expansion and a number of other requirements and events that will be impacting how companies and their employees address their healthcare decisions.

As we continue to address these issues, determining how to sponsor health benefits has never been a more complex and difficult decision. Here are some vexing questions employers will be looking to get answers to in the upcoming months:

Does my part-time workforce classify me as an applicable large employer and, if so, will I pay penalties? As we have seen, a company's size will determine if it is eligible for shared-responsibility penalties. This determination will, of course, include the hours of their part-time workforce and will exclude employees that are Medicare and Medicaid eligible. For employers with variable-hour employees, this calculation can be even more challenging if the company does not have the right process and technology to engage is proper measurement of employee hours.

How does my affordability equation play out? The question of affordability for most organizations is a simple one; however, companies that apply a surcharge on their wellness plans or a tobacco credit need to consider how that factors into the measured employer contribution.

Does my affordable plan negatively impact my employees? PPACA rules disqualify employees from receiving subsidies if the employer's plan is considered affordable (9.5% of W-2 income). These subsidies, as well as plan cost-sharing (out of pocket) adjustments provided through PPACA, can be generous for some households with

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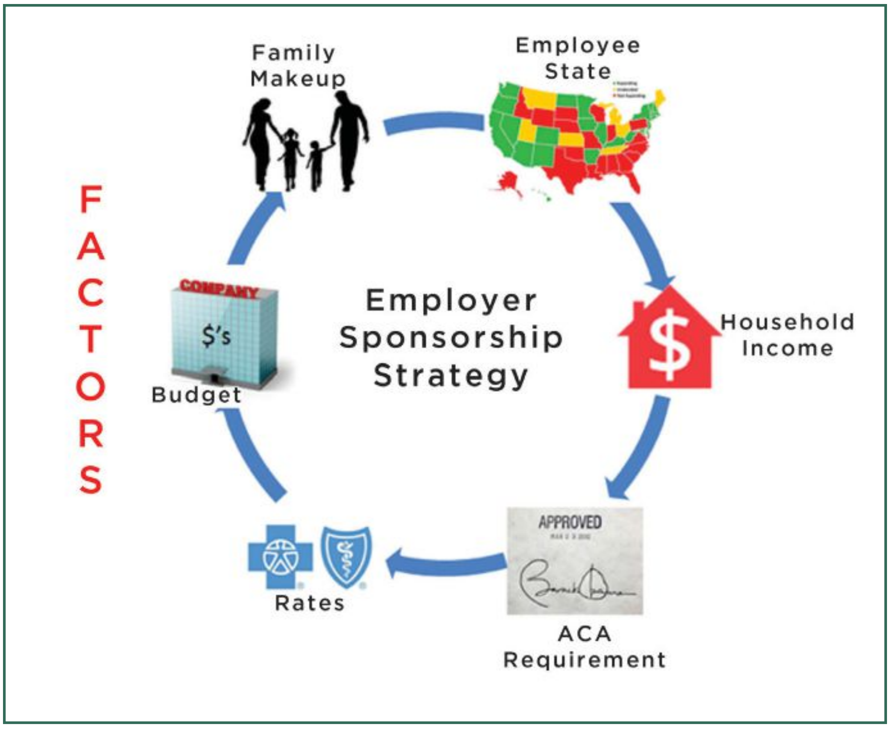
lower income. For example, a family of four with household income of $40,000 would have 80% of their coverage picked up in subsidies and a lower cost-sharing than the recognized Silver plan. Depending on the employee's age and the employer's family coverage offer, this could be a dramatic difference for the employee. Because most employers follow safe-harbor rules when they design their contribution strategy, employees might jump ship if their health coverage is dramatically compromised by the affordability issue.

Does it work out better financially if some of my employees peel off and go to the exchange? As laid out in the last question, some employees are better off going to the exchange than being covered on their employer's plan. This may also be more advantageous for the employer, depending on how much the employee's coverage costs the employer. At a 35% corporate tax rate, the net cost for a penalty is $4,615. If the current employer share around that specific premium is about $4,615 and the exchange plan with a subsidy is much better deal for the employee, it can be a win-win situation if the employer makes its plans purposely unaffordable.

How do you determine equitable contribution with individual rates? Employer plan contributions are drivers of plan participation and, in some cases, its future success. Most plans, even in the small market, have composite rates that offer the same tiering rates to all ages of employees. As new PPACA plans hit the small-employer market in 2014, companies will have to rethink how they structure their contributions. While a flat-dollar contribution seems fair on the surface, it will penalize older employees.

How do we plan for the Excise (Cadillac) Tax? Starting in 2018, there is a new 40% excise tax on "Cadillac" health insurance plans ($10,200 single/$27,500 family). There are higher thresholds ($11,850 single/$30,950 family) for early retirees and high-risk professions such as



firefighters. Most plans are not projected to hit the Excise Tax in 2018 until you consider spending-account contributions (FSA, HSA and HRA). Both employee and employer contributions count in this case and will become a central discussion as it relates to this tax. For this reason, these amounts should be trended and budgeted in the totals.

MANY FACTORS TO CONSIDER

The contribution strategy employers are trying to navigate in 2014 is very different than what it was in 2012. The new calculation works like a Rubik's Cube; if you move one side in favor of one factor, you might mess up the other sides of the cube. These factors include how individual rates will result in different premiums for most employees, how employees' residential addresses will determine treatment of Medicaid eligibility and exchange plan rates, how household income will impact subsidy eligibility for employees and how employer affordability (based on a W-2 safe harbor) will be impacted by wellness incentives. Also included: how shared-responsibility penalties (which are not tax deductible) trade off with reduction of premium if an employee goes to the exchange. All of these factors work together and require the right employer sponsorship strategy that lowers costs while providing the best options for employees.

How do brokers and employers address these issues? Today, helping employers reach the right mix of sponsorship takes some skill and insight that is not easily achieved on a spreadsheet. To address this, my company rolled out HealthCostManager, an online tool that helps employers take a broad view of their plan sponsorship by taking all of the key factors that drive these decisions. The tool shows employer and employee cost impact using five separate scenarios, a calculation of health plan taxes, a comprehensive view for each employee and a review of all geographic exchange markets. HCM doesn't provide step-by-step instructions on to how to solve the health care Rubik's Cube, but it does provide the guidance needed to arrive at the optimal solution. HIU