Public Employees' Health Benefits Report

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January 6, 2016

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Public Employees' Health Benefits Report

- Acts 46 and 54 mandated a study of IRC 4980I, the Excise Tax on High Cost Employer Sponsored Health Care Coverage. What is it?
  - Federal mandate, part of the Affordable Care Act
  - Tax **was** scheduled to start January 1, 2018
  - Excise tax on high cost employer sponsored health care coverage
  - 40% tax on "excess benefit" for each employee beyond tax threshold
- Compare benefit cost to tax thresholds to determine "excess benefit"
  - Benefit cost
    - Full premium (employer/employee share doesn't matter) +
    - Health Reimbursement Arrangement (HRA) +
    - Health Savings Account (HSA) pre-tax dollars only +
    - Flexible Spending Account (FSA) for health expenses +
  - Tax thresholds
    - Starting point was $10,200 for single plans and $27,500 for everyone else
    - Tax thresholds subject to five adjustments
    - Tax thresholds vary by employer

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Public Employees' Benefit Study (2)

- Goals of the study
  - Determine whether public employers will trigger the excise tax given current benefit design and enrollment
    - Study estimated that each employer group would trigger the tax
      - Yet, initial tax estimate was much lower than previously predicted
  - Test options for providing health care coverage to public employees that will not trigger the excise tax
    - Study tested ten scenarios to reduce tax liability
  - Major conclusion of the study was that considerable federal uncertainty remains on issues that will affect the basic calculation of the tax and may change the study's estimates substantially
    - This issue has gotten worse, not better, since publication of the study

Current State of the Law

- AOA submitted study to the legislature on December 4th
  - President Obama signed a bill into law that made changes to IRC 4980I on December 18
    - Delayed implementation of the tax until 2020
      - Nobody will pay the tax until at least 2021
    - Created additional uncertainty about future tax liabilities
      - Unclear what strategy Congress will take for 2020 and beyond
      - Created a federal study that may impact the calculation of the tax and render these estimates irrelevant

Lessons Learned About the Tax

- Tax is still a risk for 2020 and beyond
  - Feds delayed implementation, but they did not repeal
  - Adds uncertainty to benefit planning and collective bargaining
- Unsettled federal rules have a huge potential impact on tax estimates
  - Employers should monitor emerging federal guidance , particularly two focus areas
    - Age and gender tax threshold adjustment
    - Aggregation issue
- Tax driven mostly by active employees, not retirees
- Plan specific details really matter
- Tax estimates vary significantly depending on how fast health care costs grow
- The tax will always catch up with an employer unless the employer bring health care costs below inflation, as measured by CPI

Lessons Learned (2)

Estimated State of Vermont Tax Liability as an Example

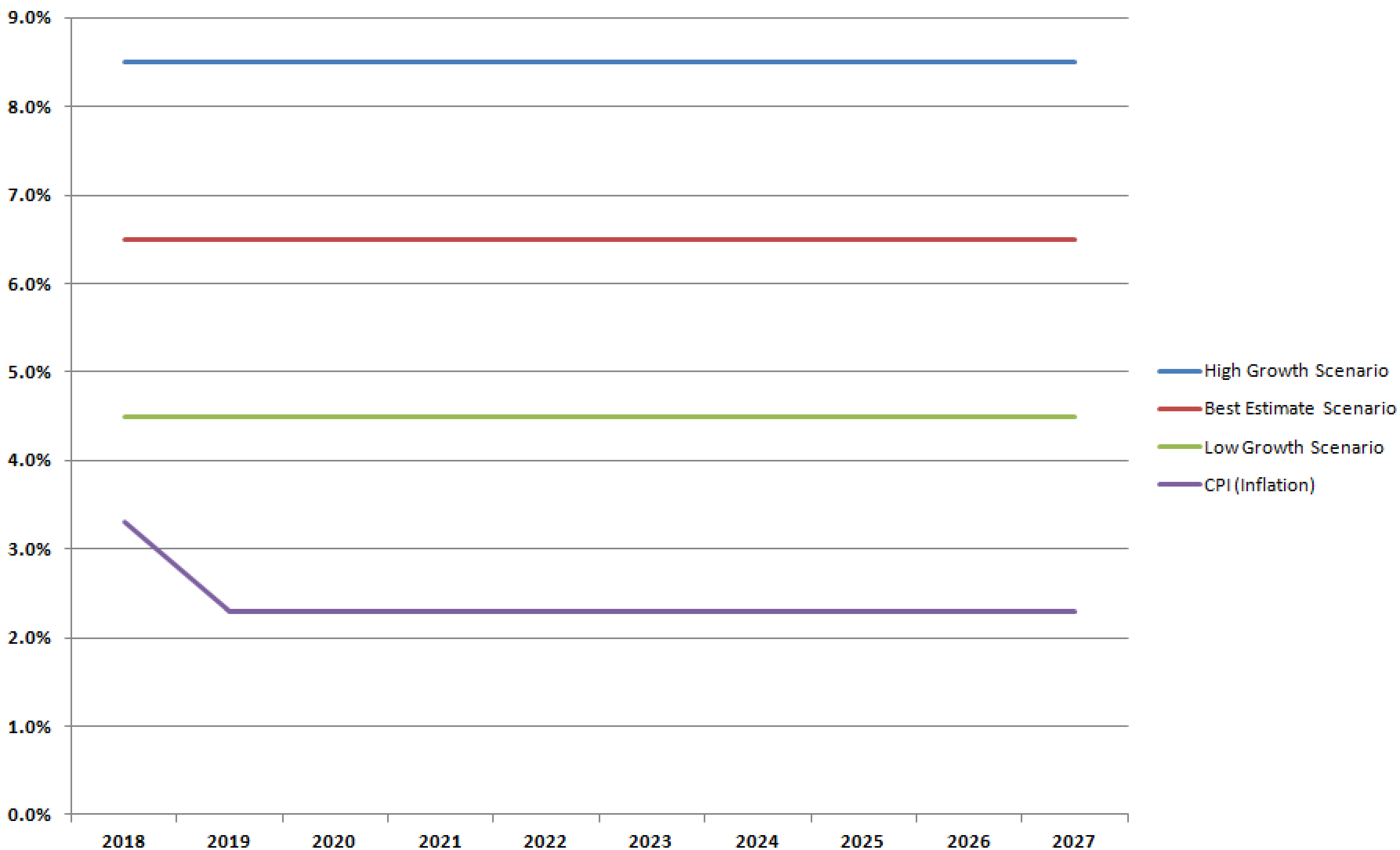
Estimated Tax Due: Aggregated Scenario		Estimated Tax Due Non-Aggregated	
2020	**2027**	**2020**	**2027**
$1,472,626	$28,701,924	$5,090,783	$29,686,468

Points worth repeating

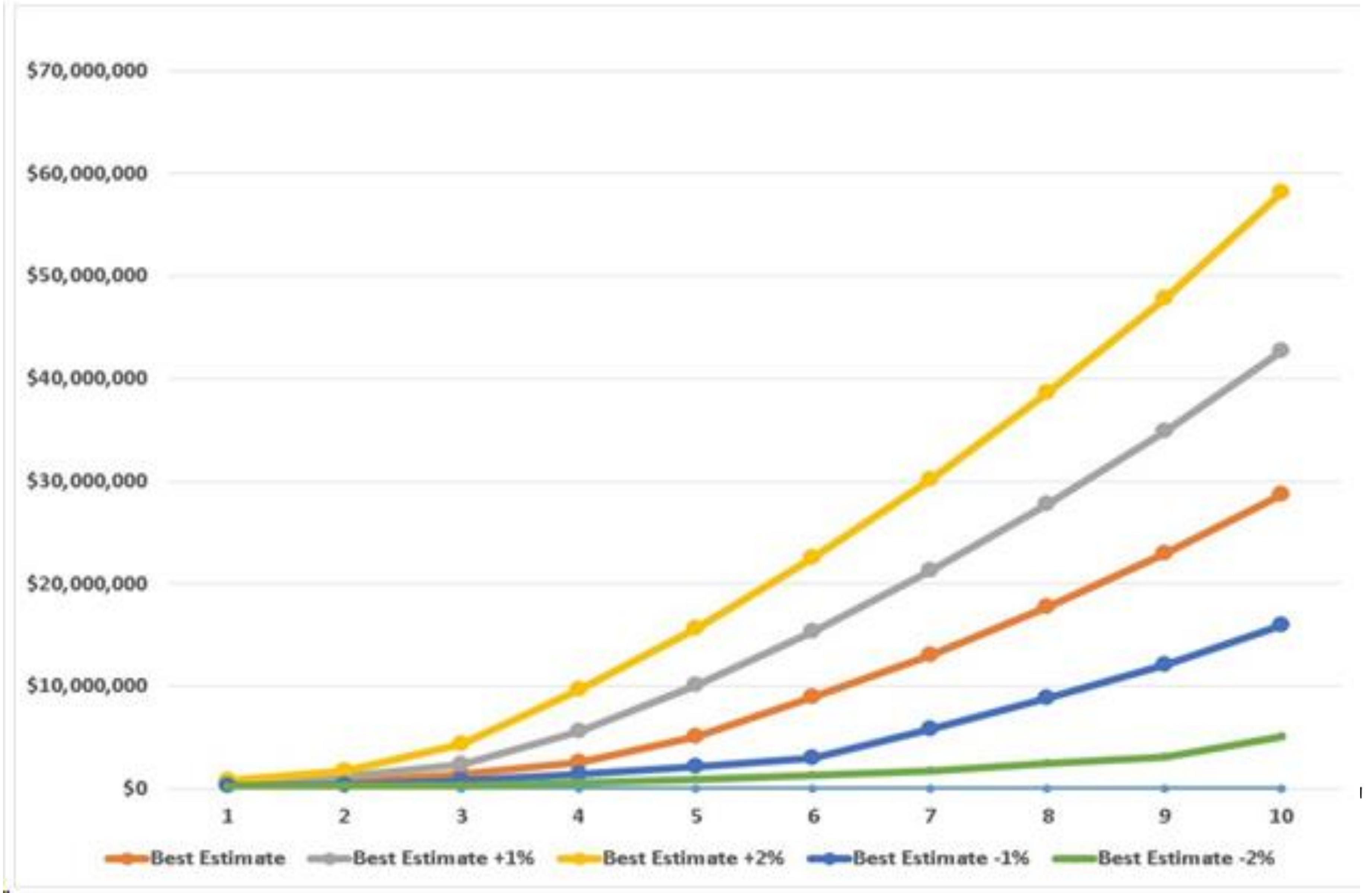
- Estimates subject to considerable federal uncertainty
- Smaller estimated initial tax amounts, but large annual % increases
- The fundamental question remains the most important:
    - Can you contain health care costs to grow by only inflation? If so, when?

The Fundamental Issue: Health Care Grows Faster than Inflation

Actuarial Estimates of SOV Health Care Growth Versus Inflation



Health Care Cost Growth & SOV Tax Estimate (Prior to Federal Action)
Health Care Cost Growth between 4.5% and 8.5%



Testing Strategies to Reduce or Eliminate Tax

Avoiding the Tax Entirely

- Scenario 1: Stop offering employer sponsored health insurance to public employees

Change Plan Designs to Reduce Overall Costs

- Scenario 2: Adopt different plan designs
- Scenario 3: Eliminate higher cost benefit plans
- Scenario 4: Remove Flexible Spending Account (FSA) contributions

Reduce Health Plan Costs

- Scenario 5: Enact one time plan cost changes
- Scenario 6: Engage in payment and delivery system reform

Consolidate Employer Groups

- Scenario 7: Create a combined public employer risk pool
- Scenario 8: Require purchase of insurance in Vermont Health Connect
- Scenario 9: Have VEHI employers purchase lower metal level plans in Vermont Health Connect
- Scenario 10: Explore the multiemployer plan option

Key Results

- Each scenario that maintains employer sponsored health insurance triggers the excise tax.
  - Eventually, health care costs outpace inflation
  - Yet, most strategies delay or reduce tax liability
- Delayed tax liability may be important to policymakers, providing time to either determine whether Congress will again amend the law, Congress will repeal the law, or to develop a long term strategy for addressing the tax, such as systemic payment and delivery reforms the time to work and reduce overall health care costs.