Public Employees' Health Benefits Report

Robin Lunge, Director of Health care Reform
Michael Costa, Deputy Director of Health Care Reform

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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 <u>unless</u> 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?

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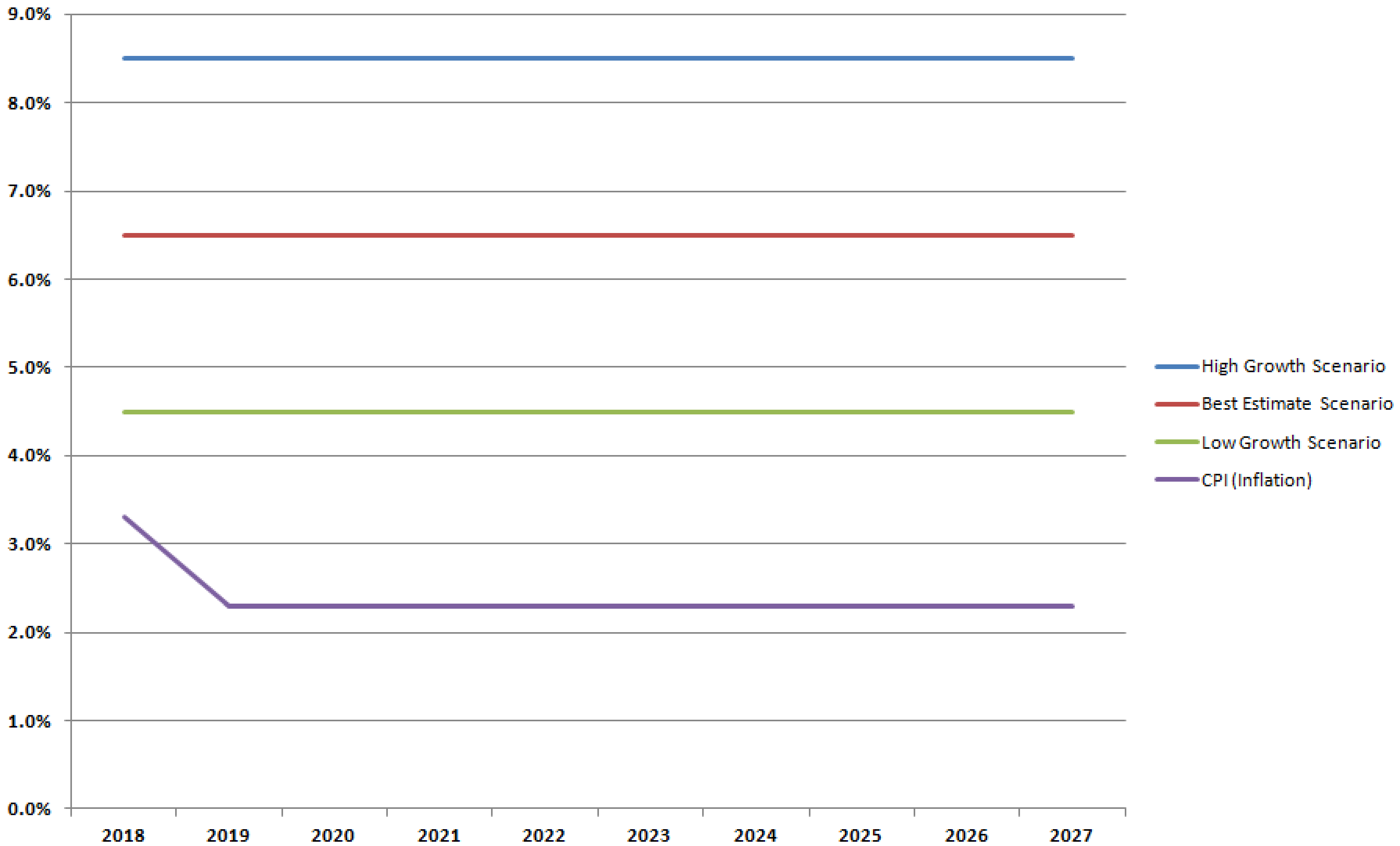
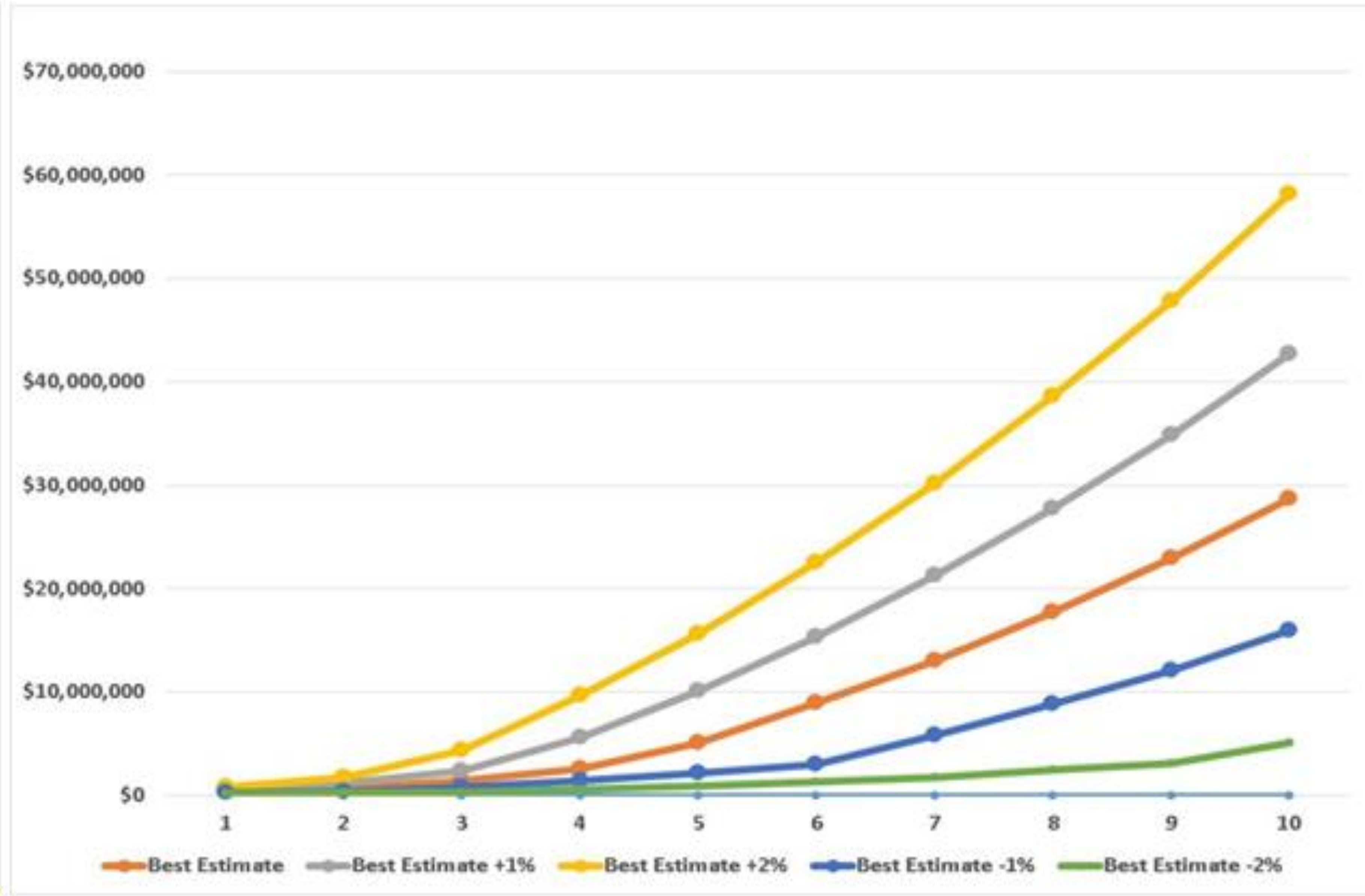
The Fundamental Issue: Health Care Grows Faster than Inflation

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.