



Health Care Reform  
Plan Design Considerations, Determining Full-time  
Employees, and Financial Modeling



L O C K T O N C O M P A N I E S

## Plan Design Considerations

- ❖ Many companies are concerned about their increased cost due to health care reform.
  - Taxes and fees will cost a company more with regard to fixed premium cost.
  - More employees may elect to enroll in the health plan as a result of the individual mandate.
- ❖ Companies should consider implementing multiple plan options to satisfy the employer mandate (quality and affordable coverage) of health care reform and mitigate cost.
- ❖ Plan designs to consider include:
  - Offer your company's current plan design or a similar plan design that has an actuarial value between 75% and 85% (**Gold plan**). *The plan may or may not be considered affordable.*
  - Offer a 60% actuarial value plan design that is considered affordable (**Silver plan**).
  - Offer a Minimum essential coverage plan (**Bronze plan**).
    - ❖ *This plan design may differ by insurers.*
    - ❖ *The Minimum essential coverage plan may be considered the "default" plan when the automatic enrollment provision of health care reform is effective. Note: Employees may opt out of the plan or "buy up" to another plan option.*



## Determining Full-time Employees



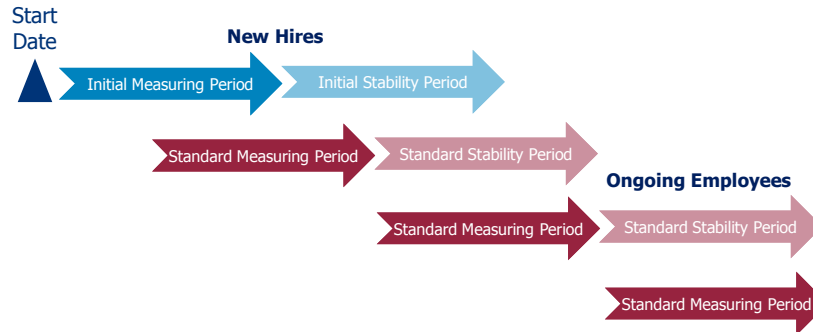
## Determining Full-Time Employees

- ❖ Regular, Full-Time Employees
  - Full-time employee averages at least 30 hours or more per week
  - Treat as "full-time" for health reform after 90 day waiting period
- ❖ Seasonal and Variable-Hour Employees
  - Seasonal Employee:
    - ❖ An employee who the employer reasonably and in good faith believes is a seasonal employee.
  - Variable-Hour Employee:
    - ❖ On hire date, the employer cannot reasonably conclude that the employee is expected to work an average of at least 30 hours per week, or
    - ❖ On hire date, the employer expects the employee to work 30 or more hours per week—at least initially—but the employer expects that full-time employment will be of limited duration, and can't conclude that the employee is expected to average at least 30 hours per week over the entire initial measurement period
- Free pass for 12 months
- The big question... Average at least 30 hours per week over what period?

## Determining Full-Time Employees

### ❖ Basic Concept

- The guidance provides for measurement periods, followed by stability periods, as the building blocks of the full-time employee determination for new seasonal and variable hour employees
  - ❖ Measurement period = determine employees who average at least 30 hours per week
  - ❖ Stability period = offer coverage



## Determining Full-Time Employees - New Hire

### ❖ Initial Measurement Period

- Period of time used to determine if a newly hired employee works 30 hours per week
- Employer may average hours between 3 and 12 months
- If determined to be full-time during Initial Measurement Period, employee must be treated as full-time during Initial Stability Period and offered coverage

### ❖ Initial Administrative Period

- Allow time to offer coverage and enroll
- Administrative period for a newly hired employee – date of hire to the first of the following month AND
- Administrative period - between the end of the Initial Measurement period and the beginning of the Initial Stability period

### ❖ Initial Stability Period

- Begins after Initial Measurement Period and any following Administrative Period
- If determined to be full-time during Initial Measurement Period, employee must be treated as full-time during Initial Stability Period and offered coverage
- Must be at least 6 months and no shorter than Initial Measurement Period

## Determining Full-Time Employees – Ongoing Employees

❖ **Standard Measurement Period (look back period)**

- Period of time used to determine if an ongoing seasonal or variable hour employee works 30 hours per week
- Employer may average hours between 3 and 12 months



❖ **Standard Administrative Period (Open Enrollment)**

- Allow time to offer coverage and enroll
- Cannot exceed 90 days following end of Standard Measurement Period

❖ **Standard Stability Period**

- Begins after Standard Measurement Period and any following Administrative Period
- If determined to be full-time during Standard Measurement Period, employee must be treated as full-time during Standard Stability Period and offered coverage
- Must be at least 6 months and no shorter than Initial Measurement Period

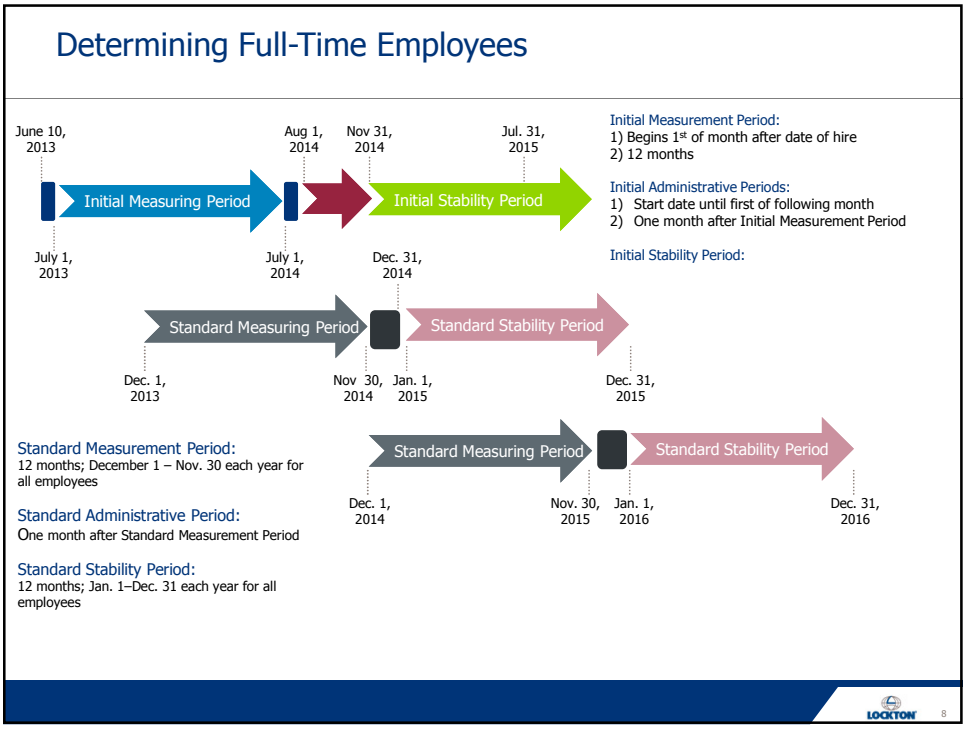
## Determining Full-Time Employees – Calendar Year Plan Example

**Ongoing (current) employees**

Standard Measurement Period	Standard Administrative Period	Standard Stability Period
Year 1: June 1, 2013 – November 30, 2013 (period of time to determine average)	December 1, 2013 – December 31, 2013 (open enrollment)	January 1, 2014 – December 31, 2014 (period of time coverage is offered)
Year 2: December 1, 2013 – November 30, 2014	December 1, 2014 – December 31, 2014	January 1, 2015 – December 31, 2015
Year 3: December 1, 2014 – November 30, 2015	December 1, 2015 – December 31, 2015	January 1, 2016 – December 31, 2016

**New employee date of hire: June 10, 2013**

Initial Measurement Period	Initial Administrative Period	Initial Stability Period
July 1, 2013 – June 30, 2014	June 10, 2013 – June 30, 2013 (date of hire to 1 <sup>st</sup> of following month) and July 1, 2014 – July 31, 2014	August 1, 2014 – July 31, 2015
December 1, 2013 – November 30, 2014	December 1, 2014 – December 31, 2014	August 1, 2015 – December 31, 2015
December 1, 2014 – November 30, 2015	December 1, 2015 – December 31, 2015	January 1, 2016 – December 31, 2016



### Determining Full-Time Employees

- ❖ When do employers have to start tracking hours?
  - > Start in 2013 . . .
    - ❖ Your obligation to offer FTEs health insurance—or risk penalties—begins January 1, 2014 (unless satisfy non-calendar year plan delay)
    - ❖ Employers will have to designate measurement periods in 2013 so they will know, by January 1, 2014, who their full-time employees are
  - > Even if it's clear the employee is part-time, employers will need to show the hours to prove it, if they are not offering qualifying and affordable coverage to him or her

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Health Care Reform Financial Modeling - *Sample*



Financial Modeling – *Sample*

Employees	Year	Total	Enrolled In Medical Plan
Total		975	448
Medicaid Enrollees—Working 30+ Hours		0	
Employees—Non Medicaid		975	
Working 30+ Hours		975	448
Working <30 hours		0	0
Total Cost PEPY Medical/Rx	8/1/2012		\$9,809
ER PEPY Cost Medical/Rx			\$7,357
EE PEPY Contributions Medical/Rx			\$2,452
Tax Rate	1/1/2014		
Federal	35%		
FICA	7.65%		
Medical Trend Rate	10.0%	1.14	
Employee Contribution Growth Rate	3.0%	1.04	1.038
Salary Growth	3.0%	1.04	
Years Trend to 2014		1.42	
<b>Current State</b>		<b>2012</b>	<b>2014</b>
Employees Eligible			975
Number of Employees Enrolled			448
Employer Medical/Rx Cost		\$3,295,833	\$3,884,124
Employee Medical/Rx Cost		\$1,098,604	\$1,145,584
Total Employee & Employer Medical/Rx Cost		\$4,394,437	\$5,029,709
Tax Deduction for ER provided Benefits		(\$1,153,542)	(\$1,359,444)
FICA Savings on EE Contributions		(\$84,043)	(\$87,637)
Current ER Net Cost		\$2,058,248	\$2,437,044

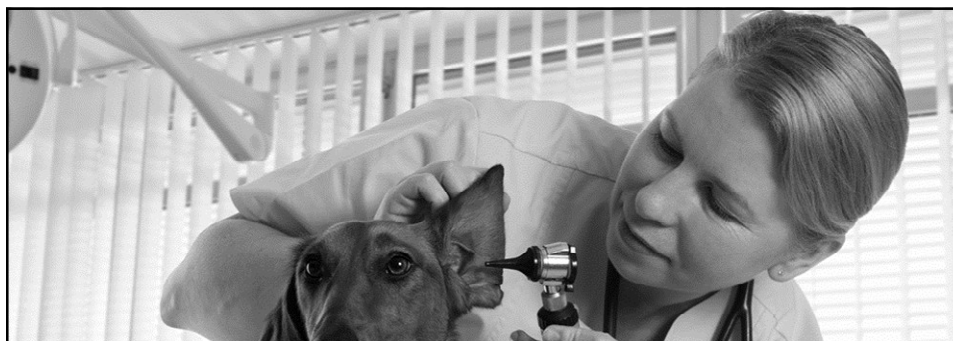
<sup>1</sup> Assumes that even when mandated, some employees will continue to waive coverage.  
<sup>2</sup> Based on the Assumption that employees who previously didn't enroll, will likely be younger and cover their families less often.

### Financial Modeling – Sample

Employees	Year	Total	Enrolled In Medical Plan
<b>Scenario 1—Discontinue Plan</b>			<b>2014</b>
"Free Rider" Surcharge			\$1,890,000
Cost to Discontinue Plan			\$1,890,000
<b>Employer Net Savings/(Cost)</b>			<b>\$547,044</b>
2014 Estimated Exchange Premium			\$4,764,021
Estimated Subsidies			\$2,061,759
Employee Net Cost			\$2,702,263
Employee Prior Contributions			\$1,131,562
<b>Employee Net Savings/(Cost)</b>			<b>(\$1,570,701)</b>
<b>Scenario 2—Continue to Offer Benefits Under Current Scheduling</b>			<b>2014</b>
Employees Eligible			975
Percentage of Uncovered Employees Enrolling <sup>1</sup>			25%
Number of Employees Enrolled			580
ER Cost per enrolled EE @ 10% Annually			\$8,670
Relative Value of "New" Enrollee to "Old" Average <sup>2</sup>			75%
Total ER Cost Medical / Rx			\$4,740,821
Tax Deduction for ER provided Benefits			(\$1,659,287)
FICA Savings on EE Contributions			(\$113,410)
Net ER Cost			\$2,968,124
Change vs. Current State			21.8%

<sup>1</sup>Assumes that even when mandated, some employees will continue to waive coverage.

<sup>2</sup>Based on the Assumption that employees who previously didn't enroll, will likely be younger and cover their families less often.



### Plan Actuarial Calculation



## Plan Actuarial Valuation

Would you like to know what your plan's actuarial value is?

### ❖ Information needed:

- > Do you have an integrated medical and drug deductible?
- > Do you have inpatient copays per day?
- > Is there a skilled nursing facility copay per day?
- > Do you use separate out of pocket maximums for medical and drug spending?
- > Is your plan Grandfathered?
- > Do you have an HRA or HSA contribution?
- > Do you have a blended network/POS plan?
- > Individual Deductible
- > Coinsurance
- > Out of Pocket Maximum (OOPM)
- > OOPM if separate for medical, Rx
- > Emergency Room Services
- > Inpatient services
- > Primary care/specialist care services
- > Mental health, substance abuse services
- > Imaging (CT, Pet, MRI's)

60%



- > Rehab speech therapy
- > Rehab occupational, physical therapy
- > Preventive care
- > Lab outpatient and professional services
- > X-rays and diagnostic imaging
- > Skilled nursing services
- > Outpatient facility services
- > Generic drug co-pay or coinsurance
- > Preferred drug co-pay or coinsurance
- > Non preferred drug co-pay or coinsurance
- > Specialty drug co-pay or coinsurance
- > Do you set a maximum on specialty copays? If yes, what?
- > Do you set a maximum for number of days to charge copay? If yes, what?
- > Do you begin primary care cost sharing after a set number of visits? If yes, how many?
- > Do you begin primary care deductible/coinsurance after set number of copay? If yes, how many?



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