ACA @ 5

ACTUARIAL IMPLICATIONS OF THE AFFORDABLE CARE ACT FIVE YEARS AFTER IMPLEMENTATION

In commemoration of the five-year anniversary of the passage of the Affordable Care Act (ACA), the Society of Actuaries (SOA) has developed and published several articles on the bill and its implementation.

While the primary focus over the past five years has been on the establishment of the individual marketplace, the law has had significant effects on other stakeholders, causing systematic changes that are not often at the forefront of conversations.

As experts in the financial consequences of financial health risk, health actuaries are the most well positioned professionals to help determine how the path to more accessible and effective healthcare can be preserved and expanded. Actuaries continue to play a key role in the execution of several ACA provisions, and contribute data-driven analysis of the true effects of the law. The following highlights significant facts from the ACA @ 5 and addresses some of the most important issues facing the U.S. healthcare industry today.

EMPLOYER MANDATE

The Employer Mandate was signed into law in 2013, but only began impacting employers in 2015 due to a delay in the original legislation. The mandate requires employers to either provide their employees with health insurance (with certain stipulations) or pay a penalty.

KEY FACTS

THE ACA'S IMPACT ON EMPLOYERS WILL VARY BASED ON THE SIZE AND STRUCTURE OF THE EMPLOYERS' WORKFORCE.

LARGE EMPLOYER IMPACT

- **2015** — OFFER COVERAGE TO AT LEAST 70% OF FULL TIME EMPLOYEES TO AVOID PENALTY; FIRST 80 FULL TIME EMPLOYEES ARE EXCLUDED IN PENALTY
- **2017** — SHOP COVERAGE OPEN TO ALL LARGE EMPLOYERS
- **2016** — OFFER COVERAGE TO AT LEAST 95% OF FEES TO AVOID PENALTY A; FIRST 30 FULL TIME EMPLOYEES ARE EXCLUDED IN PENALTY
- **2018** — CADILLAC TAX TAKES EFFECT

SMALL EMPLOYER IMPACT

Small employers with fewer than 50 employees can choose not to provide insurance and rely on their employees to purchase their own coverage in the individual marketplace. These small employers will be able to buy coverage through the Small Business Health Options Program (SHOP) exchanges.

MID-SIZE EMPLOYER IMPACT

Some mid-size employers have reduced the size of their workforce to fewer than 50 employees and/or converted their full time positions to part time to give themselves additional flexibility in determining their health care benefit packages or to reduce their potential penalties for failing to provide health coverage.

ACTUARIAL IMPLICATIONS

Since it is unclear which employers, and what size, will continue offering coverage and which will send employees to the exchanges, actuaries will need to nimbly react and price plans for all scenarios.

PHASING OUT THE REINSURANCE AND RISK CORRIDOR PROTECTIONS

Two of the three financial protections for insurers against risky individual market enrollees - reinsurance and risk corridors - will be eliminated from the health insurance exchanges in 2017.

RRR

The elimination of two of the three Rs has the potential to impact the willingness of health insurers to participate in the individual market as the market could become too risky without the financial protections.

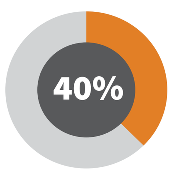
The individual market is inherently risky due to limited historical data, inconsistent population and the potential for revenue uncertainty.

ACTUARIAL IMPLICATIONS

Actuaries will need to determine health plan rates with little historical data, a population with uncertain risk and revenue uncertainty in the mix. If plans exit due to the unpredictable individual market and the elimination of the risk provisions, there will be an impact to the makeup of the individual market and the number of available plans.

CADILLAC TAX

Beginning in 2018, employers will be subject to a tax for health plans that are deemed too generous. The purpose of the tax is to generate $80 billion in new tax revenue to assist the federal government in covering the costs of healthcare reform. This has the potential to impact employers of all sizes who offer coverage to employees.



The Cadillac Tax is a 40% tax on the total value of medical benefits in excess of $10,200 for self-only coverage and $27,500 for family coverage.

EMPLOYER EXCEPTIONS:

Employers that have high-cost coverage that is a result of the demographic profile of their employees will be compensated.

Adjustments will be made to allow for higher limits if employers have high-cost coverage that is a result of covering qualified retirees or as a result of covering high-risk professions (e.g., law enforcement, fire professionals, mining, etc.).

A one-time "catchup" adjustment will be made to the annual dollar limits set in 2010 in the event the cost of health insurance increases more than originally expected.

ACTUARIAL IMPLICATIONS

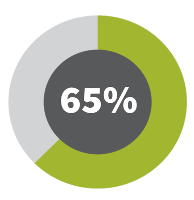
Actuaries will need to help businesses assess how the Tax impacts the change in coverage and the types of plans that will be offered.

MEDICAID EXPANSION

The ACA originally called for sweeping federal expansion of Medicaid coverage, but a 2012 Supreme Court decision determined that individual states would decide whether or not to expand the program. The makeup of a state's enrolled population varies widely based on whether or not Medicaid has been expanded in a given area.

- **29** states including the District of Columbia, have expanded Medicaid.
- **16** have not
- **6** are still debating

Approximately 65% of the people who obtained coverage under the ACA are Medicaid eligible.



ACTUARIAL IMPLICATIONS

Actuaries will need to estimate and understand the effect of Medicaid expansion on the individual and non-group market. Specifically, how the expansion will impact pent up demand and the use of care and associated costs in those states that decided to expand Medicaid.