Einstein
Advanced Health Insurance Solutions

NEWSALERT

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Health Insurance

Proposal Would Allow Employers to Band Together for Coverage

THE U.S. Department of Labor is moving ahead with plans that would allow small businesses and sole proprietors to band together to purchase group health insurance plans.

The DOL aims to permit these small business health plans – also known as "association health plans" – to skirt the regulatory requirements of some states and the Affordable Care Act.

Under the proposal, small businesses and sole proprietors would have more freedom to band together to provide affordable, quality health insurance for employees.

This would be done by creating an association plan that would help them secure competitive premium rates through economies of scale.

An association with a few thousand members would have more bargaining power than an individual small employer and open the door to a wider array of insurance options, according to the DOL.

The proposal essentially modifies the definition of "employer" under the Employee Retirement Income Security Act regarding what type of organizations can sponsor group health plans.

It adds "association" to that definition, so that such associations could sponsor group health coverage. In other words, the proposal would allow an association to be formed for the purpose of offering a health plan.

The proposal, experts say, could be expanded to allow employers throughout the country to form an association if they can pass a commonality of interest test, such as:

- Operating in the same trade or industry, or
- Operating in the same metropolitan area, state or region.

Additionally, the proposed regulations would let sole proprietors join small business health plans to provide coverage for themselves as well as for their spouses and children.

The proposed rules would allow these plans to skirt many of the provisions that the ACA requires of small plans, including that they include "essential health benefits."

Currently, large employer group plans and self-funded plans are not required to comply with the essential benefit requirements.

The DOL was careful to note that the proposal would bar health plans from rejecting coverage to anyone with pre-existing conditions and would include nondiscrimination provisions under the Health Insurance Portability and Accountability Act and the ACA. ❖

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Benefits Pricing

Drug Costs Start to Drive Group Plan Inflation

UNDER THE Affordable Care Act, group health insurance costs have been rising at a much slower rate than they had during the decade preceding its passage.

In fact, the rate of annual premium growth in the group market has hovered around 5% – more than half of what it was between 2001 and 2010. Also, health care's share of the national economy actually fell from 17.4% in 2010 to 17.2% by 2013. However, that trend hasn't lasted and in 2016 the share was 17.9%.

There has been a lot of debate about why rates have been increasing and some pundits say that if it were not for spiraling pharmaceutical costs, the rate of health insurance inflation would be lower.

While the drug industry would deny pharmaceutical costs are what's driving health care cost inflation, the numbers show otherwise, according to an analysis by *Modern Healthcare*, an industry publication.

Here are the figures that drive home the point. Between 2013 and 2016, personal health care consumption rose 16.7%, according to the Centers for Medicare & Medicaid Services (CMS). This is what was driving that inflation:

- Hospital spending: Up 15.5%
- Physician services: Up 16%
- Drug spending: Up **23.9%**

The situation may actually be worse than the numbers hint at. Retail drug sales don't include the most expensive medicines – those delivered in hospital outpatient and physician offices. The CMS doesn't track that data separately, but one can get a glimpse of what's happening by examining the latest financial reports from major hospital systems.

Medical Cost Inflation 2017-2018

- Hospital costs: **6.1%**
- Physician costs: **4.3%**
- Pharmaceuticals: **10.9%**

Source: Segal Company

Controlling drug costs

Prescription drug costs now account for about 17% of total U.S. health care spending and were the fastest rising component of that spending over the past year.

Drug costs have been difficult for health care providers and the insurance industry to tackle.

The pharmaceutical industry has been able to fend off government efforts to counter price hikes. It successfully lobbied Congress in 2003 to bar Medicare from negotiating prices in the new Part D program.

The industry has been aided by opposition from physician and patient advocacy groups, who fear that cost-benefit calculations will be used to cut them off from high-priced but effective medicines.

Benefits consulting firm Segal Company asked managed care organizations, health insurers, pharmacy benefit managers and third party administrators to rank the cost-management strategies implemented by group health plans in 2017. Here are the top five:

- **Using specialty pharmacy management** – This focuses on controlling costs of specialty drugs, many of which cost more than an annual health premium for a year's worth of dosing.
- **Intensifying pharmacy management programs** – This includes negotiating better pricing for commonly used drugs.
- **Contracting with value-based providers**.
- **Increasing financial incentives in wellness plans.**
- **Adopting high-deductible health plans.**

These strategies show plan sponsors are looking to drive utilization to high-quality, low-cost providers in lieu of simply passing the costs on to their employees. ❖

Affordable Care Act

'Cadillac Tax' Delayed Again – for Another Two Years

PART OF the funding bill that reopened the federal government at the end of January further delayed the implementation of the so-called "Cadillac tax" on employer-sponsored health plans – this time by two more years.

That means the excise tax will instead take effect on the most expensive of employer-sponsored plans in 2022. Employers and labor groups have generally applauded the delay, but are still calling for its complete elimination.

The Affordable Care Act imposes an annual 40% excise tax on plans with annual premiums exceeding $10,800 for individuals or $29,500 for a family, starting in 2020, to be paid by insurers. The tax only applies to the portion of the premium that exceeds the threshold amount.

While the tax would be levied on insurers, they would pass the cost on to policyholders.

The premium is the total amount that the insurer charges, regardless of how that premium is shared between the employer and employees.

American Benefits Council president James A. Klein says the move to delay implementation of the 40% tax on the most expensive plans until 2022 was crucial for maintaining strong worker benefits.

"Because companies typically make health plan decisions 18 to 24 months in advance, employers were reluctantly considering curtailing benefits or increasing workers' out-of-pocket costs to meet the prior 2020 deadline," he says.

Insurer, employer and labor groups have argued that if the law goes into effect, many employers would choose to reduce benefits in order to fall under the Cadillac tax threshold.

Almost a quarter of employers that provide health insurance to their workers were likely to be hit by the tax in the first year, according to an analysis by the Society of Human Resources Management.

The Cadillac tax was originally set to take effect in 2018. However, in December 2015, a law delayed the start date to 2020. The recent action puts that off to 2022.

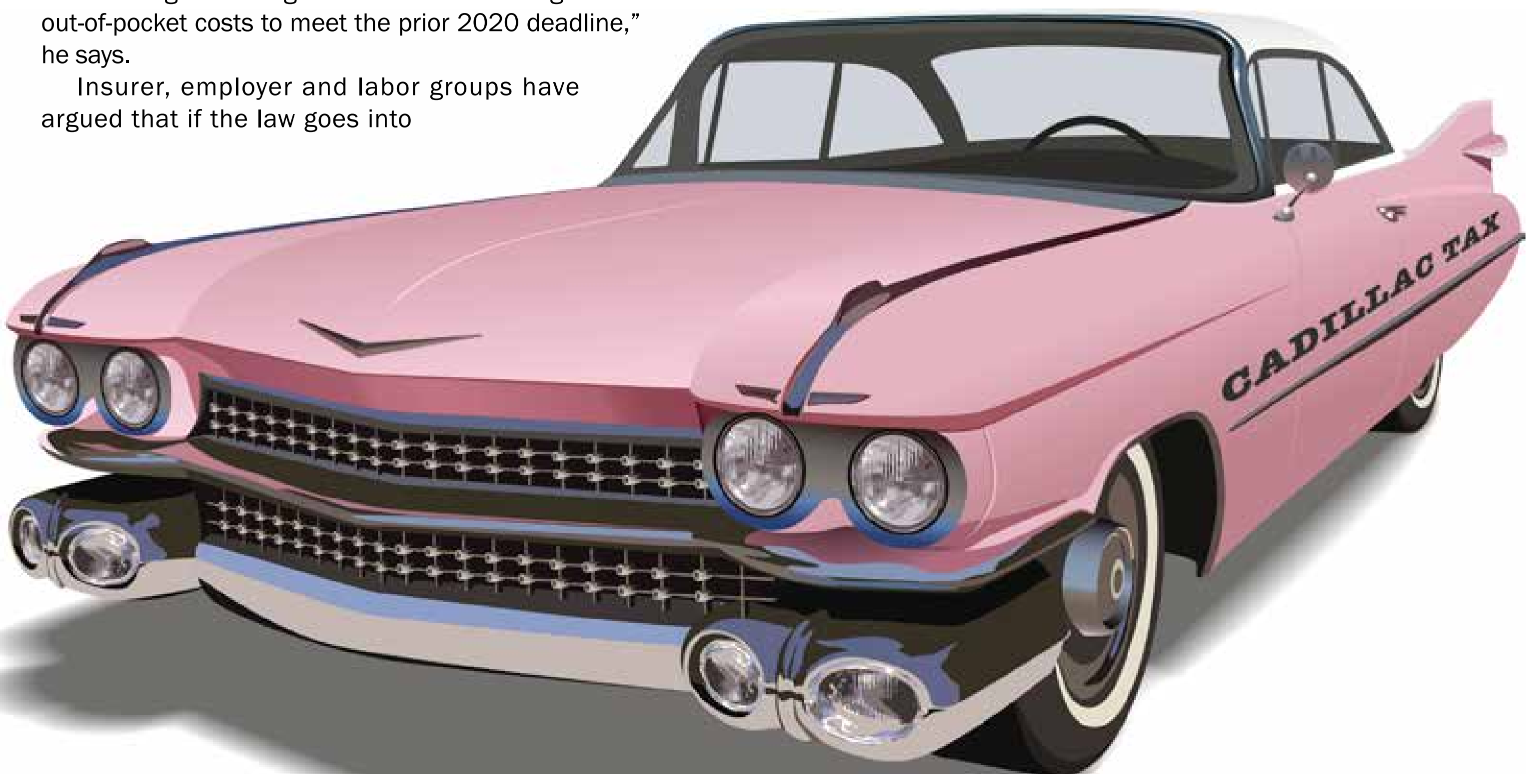
Although there is wide bipartisan support for repealing the tax, Congress has been unable to pass legislation doing so because of disagreements over how to replace the future lost revenue to government coffers.

The takeaway

So for now, unless it is revoked, as an employer you should take this tax into consideration if you are making changes to your plan design.

Stay mindful of your health insurance costs and keep track of federal guidance/legislation that may alter the tax.

We will also continue keeping you informed of any legal or regulatory changes affecting the ACA, and how they impact your organization. ❖



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Voluntary Benefits

Employee Benefits Offered at No Cost to the Employer

MANY EMPLOYERS offer a wide range of voluntary benefits to employees, all at no cost, since their staff typically will pay all of the costs. Some employers, however, do choose to subsidize a portion of the premiums.

Popular benefits

Life insurance is usually tops among voluntary employee benefits offerings. Companies can already deduct term insurance premiums they pay on employees' behalf for up to $50,000 in death benefit per employee, under Section 7702 of the Internal Revenue Code. But, this death benefit is frequently too low for employees with families, so employers frequently offer additional life insurance via payroll deduction.

Other popular benefits include everything from dental and vision plans to long-term care insurance and dread-disease and cancer insurance plans, and from disability income insurance to gym memberships. In recent years, pre-paid legal services and privacy protection services have also become increasingly popular.

However, there's nearly no limit to employee benefit providers' creativity – and they have designed everything from auto and shopping discount plans to pet care programs to attract workers' dollars.

Benefits to employees

For insurance-related products, employees benefit because if the pool and participation rates are large enough, they gain from simplified or guaranteed underwriting. For example, many voluntary benefit life insurance companies will issue a policy based solely on a short questionnaire and a medical background check, with no medical exam necessary. These workers may have a hard time buying this coverage in the individual market, but are able to get coverage as part of a larger group.

The second way employees benefit is by group discounts. Staff can often get needed benefits and services as part of an employee benefits program at a significant discount as part of a group, compared to what they would have to pay as individuals.

Benefits for employers

Employers benefit as well, in a variety of ways:

Tax savings – Employees who buy certain kinds of benefits via a Section 125, or "cafeteria," plan do so pre-tax. This lowers the employer's tax bill, because any dollars the employee contributes to a qualified plan benefit are not subject to Social Security and Medicare taxes.

Reduced absenteeism – Benefits can also help reduce absenteeism. For example, a worker whose family is receiving benefits from a childcare benefit program or long-term care benefits covering a dependent is less likely to have to take unexpected time off work to deal with emergencies related to childcare or care for disabled dependents.

Productivity – Some research is showing a measurable increase in productivity compared to employees who do not have access to these benefits.

Lastly, a large package of employee benefits – whether they are employer-paid or sponsored as part of a voluntary benefits package or fringe benefits program – help build loyalty among workers, and help employers attract and retain talent in a competitive marketplace. ❖