



SBLC REPORT

September 9, 2013

Volume XIV Issue 21

THE PRESENT AND FUTURE OF HEALTH CARE

While the debate about the future of health care reform continues on the policy level, the daily reality is fast approaching. Individuals and small businesses will be able to buy health insurance through public exchanges on October 1st. (the operational status of the public exchanges will vary more or less from state to state as to the level of technology involved and there are sure to be glitches.)

Whatever the state of the technology in October, we will still gain our next substantial glimpse into the future of health care in the United States. Most of the public exchanges, operated by states or the federal government, will have all of their rate information available. Individuals and small businesses will be able to shop for insurance. Some of the information about premiums has already been made public for some of the exchanges. As anticipated, there is a wide range in the premiums, and as we have been saying all along, geography is going to play a huge role in determining your place in the rate spectrum. This is not only true of your state versus another state, but within states as the health care reform law permits multiple

geographic rating areas within a state.

There is an analysis of the *actual* rates that has been released already. Admittedly, it is more useful for us health care wonks than all of you since a comparison of one state's rates versus another is not much help to an individual business owner unless you can pick up your business and move it. Nevertheless, lots of fascinating information. When all 50 public exchanges are up and running it will be interesting to see whether the trends hold up. The study was published by Kaiser Family Foundation, a premier reliable source of information on health care. The study can be found at <http://kaiserfamilyfoundation.files.wordpress.com/2013/09/early-look-at-premiums-and-participation-in-marketplaces.pdf>.

One interesting observation in the study: "While premiums will vary significantly across the country, they are generally lower than expected. For example, we estimate that the latest projections from the Congressional Budget Office imply that the premium for a 40-year-old in the second lowest cost silver plan would average \$320 per month nationally. Fifteen of the eighteen rating areas we examined have premiums below this level, suggesting that the cost

of coverage for consumers and the federal budgetary cost for tax credits will be lower than anticipated."

While we are on the topic of Kaiser research, they also released their annual employer costs benchmark survey last month. We have cited it frequently over the years. This year's version gives us a detailed baseline for points of comparison going forward as it probably is the last clean benchmark for pre-exchange premium costs. Annual premiums for employer-sponsored family health coverage reached \$16,351 this year, up four percent from last year, with workers on average paying \$4,565 toward the cost of their coverage, according to the Kaiser Family Foundation/Health Research & Educational Trust (HRET) 2013 Employer Health Benefits Survey.

Also, according to the study, "This year, 78 percent of all covered workers face a general annual deductible, up from 72 percent in 2012. The average deductible this year for worker-only coverage is \$1,135, similar to the \$1,097 average deductible in 2012. The survey also finds that large deductibles of at least \$1,000 or more are common in employer-sponsored plans, especially among workers of smaller firms. This

year, 38 percent of all covered workers face such a deductible. At small firms, 58 percent of covered workers now face deductibles of at least \$1,000, including nearly a third (31 percent) who face deductibles of at least \$2,000, up from 12 percent in 2008.”

PRIVATE EXCHANGES

If you follow SBLC health care reform material, you know that we opined some time ago that “private” health care exchanges might become more attractive for mid and large employers. Lately the term “private exchange” has been cropping up in the general media with increasing frequency.

Access to “private” health care exchanges are being sold by brokers, consultants, or insurance companies to business customers. It is, in effect, an alternative for group coverage in the open market. The employer decides how much it is willing to spend on an employee for health care coverage. The employee then goes to the private exchange where he or she will find a variety of options that meet the health care reform law’s requirements but offers flexibility in what benefits, provider networks and cost containment mechanisms that an individual might find attractive. Think of it as a defined contribution plan. It gets the employer out of choosing a single plan that is the “best” for all employees, it engages the individual in the cost containment strategy of his or her choice, and it allows providers and insurers to manage their side of the cost/pricing equation better.

The public exchanges are going to offer a version of a defined contribution plan too, generally

referred to as “employee choice.” The employer chooses a metal tier, designates how much of the premium it will pay, and the employee can choose whatever plan the employee likes within that metal tier. Unfortunately, from our perspective, the federal government had the option to delay this option under 2015 and it chose to do so (some states will go ahead with employee choice in their state exchanges in 2014). SBLC objected to the delay but we were obviously not persuasive. Many of our colleagues dismissed our dismay. Nevertheless, we thought then, and still think it is the wave of the future. Decide your contribution amount, write one check, and have your employees choose their best strategy.

Some say that the employee choice option, as opposed to having all the employees on the same plan, is going to raise rates across the board and there is probably some truth to that. But our thought is the “employee choice” option is an attractive way for small employers that do choose to offer coverage to their employees, to get the business out of the middle of the “what is the best plan for all of us” decision making. We think that outweighs any downside to the overall cost of health care. In the short run, for those small employers currently not offering coverage, the delay of the employee choice option may be among the reasons not to start in 2014.

In theory, small employers could go the private exchange route, but with the subsidies available in the public exchanges, which are not available for plans secured through private exchanges, it probably makes more sense for small

businesses to wait until 2015 for the public exchanges’ versions before making such a decision.

For those of you asking what are these “metal” tiers, here is the explanation. By 2015, it is going to be “common knowledge.” Beginning in 2014, non-grandfathered health plans in the individual and small group markets must meet certain Actuarial Values (AVs), or metal levels: 60 percent for a bronze plan, 70 percent for a silver plan, 80 percent for a gold plan, and 90 percent for a platinum plan. In addition, issuers may offer catastrophic-only coverage with lower AV for eligible individuals. Actuarial Value, or AV, is calculated as the percentage of total average costs for covered benefits that a plan will cover. For example, if a plan has an AV of 70 percent, on average, a consumer would be responsible for 30 percent of the costs of all covered benefits. The 30 percent could be reached through a combination of co-pays, co-insurance and deductibles. (Since not everybody has an actuary in the family, an actuarial value calculator will be available on the exchanges’ websites.)

The subsidies for individuals are pegged to the silver tier. The formula for calculating the amount of the subsidy is a complicated one. But once the subsidy amount it is determined based on the silver tier plans in that exchange, the individual does not have to buy a silver plan. The fixed subsidy amount can be applied to a “basic” plan (i.e. bronze plan) or a more comprehensive plan (i.e. a gold or platinum plan).