Health Care Strategy
After the 2012 Elections

November 9, 2012
Today’s Agenda

- Election Results
  - As we know them
  - Implications for the Affordable Care Act
  - The next 100 days—The Fiscal Cliff

- What’s next for health care reform?
  - The rest of 2013
  - Looking ahead

- Health Care Strategy
  - It’s time to act
  - Understanding your options
  - The role of exchanges

- Q&A
Election Results and Implications for Health Care Reform
The Presidential Election—Status Quo

Barack Obama
50%
303 Electoral Votes
(270 needed to win)

Mitt Romney
48%
206 Electoral Votes
The New Congress: Names change; Numbers Remain Nearly the Same

112th Congress: Senate

51 Dem

47 Rep.

2 Indpt.

112th Congress: House

190 Dem

240 Rep.

5 vacancies

113th Congress: Senate

53 Dem

45 Rep.

2 Indpt.

113th Congress: House

192 Dem

233 Rep.

10 Undec.
Governors

2012

20 Dem.

29 Rep.

1 Indpt.

2013

30 Rep.

20 Dem.
State Initiatives

- **Alabama** approved an amendment to the state constitution prohibiting any employer or person from being compelled to participate in a health care system
  - **Florida** rejected a similar measure

- Same-sex marriage initiatives
  - Same-sex marriage approved in **Maine**, **Maryland**, and **Washington**
  - **Minnesota** voters rejected an initiative that would have limited the status of marriage to opposite-sex couples

- **Missouri** approved a law prohibiting the establishment of health insurance exchanges by the Governor or any state agency unless approved by legislature or referendum

- Medical marijuana initiatives rejected in **Arkansas**, but approved in **Massachusetts** and **Montana**
Political Environment Post-Elections—Impact

- **Short Term**
  - Lame duck session likely: no “must pass” legislation. May address AMT patch, possibly Hurricane Sandy relief
  - Down payment on the fiscal cliff (necessary tax cuts and revenue increases) may be explored; likely to be addressed in stages

- **Longer Term**
  - Avoiding fiscal cliff/ striking a grand bargain will dominate 2013
  - Health care reform implementation will be a top priority
  - Democratic Senate and Republican House means more gridlock
    - Fewer moderates in both parties, so partisan battles will continue
      - Fewer conservative Democrats
      - Fewer moderate Republicans
What is the “Fiscal Cliff”?

- Terms of the Budget Control Act of 2011 go into effect on January 1, 2013

- Spending cuts and higher taxes will reduce Federal deficit
  - Expiration of temporary FICA tax cut for employees
    • 2% increase in employee portion of FICA tax
  - Expiration of Bush-era income tax cuts
    • Higher marginal income tax rates
    • Higher taxes on interest, dividends and capital gains
    • Increase in alternative minimum tax
  - Tax increases under Affordable Care Act
    • Increased Medicare taxes for high income individuals
    • 3.8% Medicare tax on investment income for high income individuals
  - Cuts in Federal spending
    • Cuts to providers under Medicare
    • Cuts in defense spending
    • Cuts in unemployment benefits
The Next 100 Days or So—The Road to the Fiscal Cliff

<table>
<thead>
<tr>
<th>November 2012</th>
<th>December 2012</th>
<th>January 2013</th>
<th>February 2013</th>
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</thead>
<tbody>
<tr>
<td>▪ November 6</td>
<td>▪ December 17</td>
<td>▪ January 1</td>
<td>▪ February 4</td>
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<tr>
<td>– Election Day</td>
<td>– Electoral College meets</td>
<td>– New ACA taxes take effect</td>
<td>– Deadline for President to propose FY 2014 federal budget</td>
</tr>
<tr>
<td>▪ “Lame Duck” session of Congress expected to convene in November</td>
<td>▪ December 31</td>
<td>– Spending cuts and tax increases take effect</td>
<td>▪ Debt ceiling might be reached some time in February or March</td>
</tr>
<tr>
<td>– Do the President and Congress agree to temporary fix to fiscal cliff?</td>
<td>– Expiration of stimulus spending and Bush-era tax cuts</td>
<td>▪ January 3</td>
<td></td>
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<tr>
<td>– Or do spending cuts and tax increases take effect in 2013?</td>
<td></td>
<td>– New Congress sworn in</td>
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<td></td>
<td>▪ January 20</td>
<td>– Inauguration Day</td>
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<tr>
<td></td>
<td>– Spending cuts and tax increases take effect</td>
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The Road to the Fiscal Cliff

- Congressional Budget Office estimates that “going over the fiscal cliff” would result in
  - Cut in GDP of 4 percentage points, putting economy into a recession
  - Increase in unemployment of 1 percentage point, resulting in loss of 2 million jobs

- Possible fixes
  - Use lame duck session to
    - Postpone “going over the fiscal cliff” until later in 2013 OR
    - Pass modest spending cuts and tax increases
  - Pass elusive “Grand Bargain”
    - Less likely during lame duck
  - Hold hands and jump
    - But it’s a long way down!
What’s next for health care reform?
What’s Next for Health Care Reform?

- Legislative Update
- Regulatory Update
- Compliance Checklist
Legislative Update—2013

- House will continue to pass legislation repealing discrete portions of the ACA
  - Medical device tax of 2.3%
    - Bipartisan support in House for repeal
    - Republicans will continue to push for vote in Senate
  - Repeal prohibition on using FSA funds/HSA funds for OTC drugs
Legislative Update—2013

- **Congress will review options for providing states with incentives to expand Medicaid** in wake of Supreme Court decision making Medicaid expansion optional
  - But how much incentive can Congress constitutionally provide?
  - What funding mechanisms are used?
  - States are challenging ACA’s Medicaid maintenance of effort provisions in court

- **Implementation of health care reform continues**
  - States must decide about creating a state exchange or adopting the federal exchange by November 16
  - Employer notice for state exchanges due March 2013
  - Individual mandate, employer mandate and FTE/PTE determinations (2014)
  - Premium subsidies are a possible target for deficit reduction
Legislative Update—2013

- **Possible amendment of cap on income tax exclusion for health care**
  - Cap on exclusion of high cost health care coverage goes into effect in 2018
    - Effective date could potentially be accelerated earlier as part of larger tax reform package

- **Possible delay in effective date for State Exchanges**
  - Would give states more time to implement their own exchanges
  - Publicly, White House has said it will not support a delay

- **Some discussions about requiring employers to cover dependents** based on the parenthetical "(and dependents)" language
  - Many employer groups have argued against including dependents, but statutory language is problematic
Regulatory Update

- **Expect final regulations for Affordable Care Act**
  - Patient-Centered Outcomes Research Institute (PCORI) comparative effectiveness fee
  - Transitional reinsurance fee
  - Medicare tax on investment income
    - Some guidance possible on increased Medicare tax for high-income individuals

- **Early 2013 for final rules on defining “full-time employee” under employer mandate**
  - Initial measurement period cannot start on January 1, 2014, and must start prior to that time (e.g., in 2013)
    - Treasury is considering break in service rules and appropriate transition measures, such as allowing shorter measurement periods in the first year
  - Permissible to document (e.g., employment contract) that part-time salaried employees are not expected to work 30 or more hours a week
  - Agencies not likely to impose a free rider penalty if substantially all applicable employees are offered minimum essential coverage

- **Expect proposed rules on “minimum actuarial value”**
Regulatory Update

- **Premium Tax Credits**
  - Will be based on silver plan, even if individual chooses bronze or higher metallic plan
    - Individual gets no refund of excess if selected plan costs less and does not get an increased amount if costlier plan is selected

- **Summary of Benefits and Coverage (SBCs)**
  - Agencies are employing a rule of flexibility and reasonableness regarding the template
  - Accurate content more important than meeting the 4 page limit

- **Final HIPAA rules close to being published**
  - State exchanges are not covered entities themselves, but might be business associates
    - Private exchanges might be viewed differently
    - Privacy issues might arise if employer hires a navigator or personal representative to assist employees
Independent Payment Advisory Board

- **May be the key control feature in the ACA**
  - Effective 2014

- **Focus of IPAB is fee and payment reforms** to bring Medicare spending in line with spending targets
  - Cannot modify Medicare eligibility or benefits or “ration” care

- **15 person full time Board serving 6 year terms with potential re-appointment**
  - Appointed by President and confirmed by Congress

- **IPAB’s recommendations become effective** if approved or not voted on by Congress
  - Recommendation also become effective if Congress disapproves but the President vetoes action but Congress lack two/thirds to override veto

- **IPAB can make difficult decisions on controlling Medicare costs** that Congress has difficulty making for political reasons
  - IPAB decisions impact Medicare fees and spending but will likely be embraced by private sector
## Employer Checklist—Act on 2013 Provisions Now

<table>
<thead>
<tr>
<th>2013 Provisions</th>
<th>Administrative &amp; Communication Actions</th>
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</thead>
</table>
| Medicare taxes for high-income | • Do calculations  
• Coordinate with payroll  
• Tell affected employees (optional) |
| $2,500 FSA Limit | • Communicate in off-cycle enrollments  
• Provide decision support  
• Update SPDs and SMMs |
| Women’s preventive health coverage | • Communicate in off-cycle enrollments  
• Update SPDs and SMMs |
| Deductibility of expenses due to RDS payments eliminated | • Follow administrative process |
| Notifying employees about state exchanges | • Communicate to all employees about exchanges (eligibility, services and contact information) |

*Awaiting guidance*

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<th>2014 Provisions</th>
<th>Administrative &amp; Communication Actions</th>
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<tr>
<td>Employer mandate</td>
<td>• Incorporate provisions into enrollment</td>
</tr>
<tr>
<td>Free-rider penalties</td>
<td>• Develop a communication strategy and tactics</td>
</tr>
<tr>
<td>Premium tax credits</td>
<td>• Provide decision support</td>
</tr>
<tr>
<td>Automatic enrollment</td>
<td>• Create or update SBCs/ SPDs/ SMMs</td>
</tr>
<tr>
<td>Minimum essential benefits</td>
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</tr>
<tr>
<td>Fully-effective group market and insurance reforms</td>
<td></td>
</tr>
<tr>
<td>Educating employees on how state exchanges will work</td>
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<tr>
<td>Increased wellness rewards cap</td>
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*Awaiting guidance on most*

### Guiding Principles
- Focus on participant actions
- Stay objective
- Simplify messages
- Provide guidance
- Capitalize on the opportunity
How do these election results influence my business strategy on health?
Still About Rising Cost, Worsening Health Risk

Since 2006, employer costs for health care have risen 40%, while employee costs (out-of-paycheck and out-of-pocket) have risen 82%.

1. Diabetes
2. Coronary Artery Disease
3. Hypertension
4. Back Pain
5. Obesity
6. Cancer
7. Asthma
8. Arthritis

8 risks and behaviors

9. Allergies
10. Sinusitis
11. Depression
12. Congestive Heart Failure
13. Lung Disease (COPD)
14. Kidney Disease
15. High Cholesterol

accounting for 80% of total costs for all chronic illnesses worldwide

Source: 2010 World Economic Forum
Still About An Evolving Health Care System

**Individual Solutions**
- Value add defined by what individuals desire
- Greater opportunity to engage members

**System Overload**
- 30M new consumers
- Faster adoption of telemedicine, retail clinics, alternate providers, on-site clinics

**Rapid Consolidation**
- Supports ACOs/Alternate payment models

**Broad Adoption**
- Stimulus for electronic records
- Broader availability of cost and quality data

**More Strategic Options**
- State and private exchanges offer consumers more options
- Supports move to defined contribution or complete exit

**New Normal**

**Expanded Coverage**
- Medicaid expanded, but not all states will comply
- Low-income subsidies, and penalties to employers whose employees qualify
It Is Now About Balancing Employer Goals and Employee Views

<table>
<thead>
<tr>
<th>Focus on Behavior</th>
<th>Focus on Coverage</th>
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<tbody>
<tr>
<td><strong>“Make it Move Me”</strong></td>
<td><strong>“Make it Easy”</strong></td>
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<tr>
<td>Engage Participants</td>
<td>“Make it Personal”</td>
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<tr>
<td>Improve Health &amp; Performance</td>
<td><strong>“Make it Meaningful”</strong></td>
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<tr>
<td>Reduce Unnecessary Expense</td>
<td><strong>“Make it Meaningful”</strong></td>
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<tr>
<td>Design with Intent</td>
<td><strong>“Make it Personal”</strong></td>
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It Is About a New Normal

**Buy Local**
- ACOs
- Medical Homes
- Health Centers
- Collaborative Condition Care Centers

**Keep It Simple**
- Fewer choices
- Integrated solutions
- Reduced barriers to care
- Concentrate on 2–3 priorities

**Make It Relevant (and Personal)**
- Individual health maintenance plans
- Targeted communication and decision support
- Health performance coaches
- Engage local community and leaders

**Focus on Risks and Behaviors**
- Results-based incentives
- Data-driven initiatives
- Drive for intrinsic behavior change
It Is About One Integrated System

Encompassing Access, Cost and Quality

Access to Care

Networks, On-Site Clinics, Convenient Care, Telemedicine...

Quality of Care

COE’s, ACO’s, and EPOs, Second Opinions, Tourism...

Cost of Care and Coverage

Premiums, Exchanges, Coverage Tiers, Plan Design, Rx, Covered Services...
It Is About Managing Through Reform

- Employers with modest impact will see costs rise 2-5 percent in 2014
- Employers with low paid workers, long waiting periods, 30+ hour employees with no coverage or low value coverage could see costs increase 20-60 percent in 2014
- 2014 changes for some employers will mean incremental changes to health care programs and offering more traditional decision making tools and resources to employees
- For other employers, 2014 will mean radically redefining their health care offerings and helping employees optimize their coverage and cost through
  - Employer plan
  - Exchanges
  - Medicaid
- These choices will be heavily influenced by Federal subsidies and State Medicaid entitlement rules as well as the influx of fully insured lives into the state and federal exchanges
- Employers need to monitor legislative and regulatory changes
  - Our Healthcare Reform modeling tool can provide the most up to date insights
<table>
<thead>
<tr>
<th>Potential Employer Scenarios</th>
<th>Employer Costs</th>
<th>Employee Expenses</th>
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<tr>
<td><strong>Status Quo</strong></td>
<td>Employer Plan</td>
<td>Cost-sharing</td>
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<td>Full time and Part time employees</td>
<td>EE contributions</td>
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<td>PPACA fees</td>
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Which Path to Take?

HOUSE MONEY, HOUSE RULES
“Play by New Rules”

LEVERAGE/SUBSIDIZE EXCHANGES
“Play on a New Field”

Healthy & High-Performing Workforce

“Stay”
ANNUAL TREND MITIGATION

“Pay”
EXIT COMPLETELY

Aon Hewitt | Health & Benefits Consulting | Proprietary | November 2012
House Money, House Rules—Now and in the Future

Health Becomes a Business Priority

- **Design with Intent**
  - Cap dependent subsidy
  - Full-replacement CDHP designs, with indexed plan features
  - Design “gates” to better benefits
  - DC approach to subsidy

- **Engage Participants**
  - Shift incentives to year-round health habits
  - Market wellness brand via social media and traditional approaches
  - Population outcomes in addition to individual results

- **Reduce Unnecessary Expenses**
  - Mandatory Centers of Excellence
  - Narrow networks that promote cost efficiency
  - Expansive reference-based pricing
  - Dependent eligibility audit

- **Improve Health & Performance**
  - Executive pay tied to health
  - Aggressive return to work/stay at work models
  - Medical plan performance gains shared with employees
What is an Exchange?

An exchange is a competitive marketplace that consists of suppliers and buyers.
Corporate Exchange: How It Works

1. Health Care Credit
2. Standardized Plans
   - Bronze
   - Bronze Plus
   - Silver
   - Gold
   - Platinum
3. Competing Carriers
   - Cigna
   - United
   - Kaiser
   - HealthNet
A New Paradigm Is Emerging

- **Healthier employees are more engaged and produce better business results** for their employer
  - Organizations with top quartile engagement scores averaged 12% higher profitability than those with below average engagement (Gallup 2008)
  - Companies in the Best Companies To Work For league tables increased their turnover by 94% and their profits by 315% between 2004–2008
  - Companies with most engaged workforces were 27% more likely to report higher profitability, 50% more likely to have lower staff turnover and 38% more likely to have above average productivity (Bath University 2010)

- **Next generation will use different mechanisms to navigate health system and will also need to balance health and wealth needs and priorities**
  - Mobile apps
  - Social networking
New Paradigm For Health With Four Spheres Of Influence
2013 Strategy Actions Post Election

- **Health care reform is here to stay**
  - The costs and risks of non-compliance are high
  - Act now!

- **Assess and measure impact of strategic and health care reform changes**
  - Understand the financial impact: identify costs and project through 2018
  - Create appropriate metrics and delivery mechanism

- **A compliance strategy is not a health care strategy. You need both.**
  - Health care reform does not solve two priority issues: rising costs and declining health

- **Turn opportunities from reform into better results for your organization and employees**
  - Reward healthy behavior. In 2014, the law allows differentiated subsidies for those who take steps to improve health
  - Evaluate your retiree health care strategy
  - Review workforce segmentation for coverage selection
  - Refine partner portfolio
  - Revise and focus your employee communications and engagement strategies

- **Explore emerging market options**
  - Network configurations (ACOs)
  - Local market delivery (New Normal)
  - Corporate health care exchanges
Q&A
Today’s Speakers

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