



FEDERAL HEALTH CARE REFORM - IMPACT ON PEHP

RETIREMENT AND INDEPENDENT ENTITIES APPROPRIATIONS SUBCOMMITTEE
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ISSUE BRIEF

SUMMARY

The federal *Patient Protection and Affordable Care Act* requires health insurance companies to provide a certain level of benefits. The law creates additional requirements for plans that lose grandfathered status. Most health plans (especially small plans) will likely lose their grandfathered status within the next three years. The Analyst estimates, based on information from PEHP, that the federal law will likely increase the cost of health insurance to the state by \$4.1 million in state funds (\$5.1 million all funding sources). If the state’s plans lose grandfathered status, the costs would potentially increase by an additional \$6.8 million in state funds (\$8.5 million all funding sources).

BACKGROUND

The Affordable Care Act creates new requirements for health insurance companies, but exempts “grandfathered” plans from some of those requirements. A grandfathered plan is a health insurance plan that existed on March 23, 2010. The U.S. Departments of Health and Human Services, Labor and Treasury issued a regulation defining the requirements of how an insurance plan may keep grandfathered status.

DISCUSSION

Maintaining Grandfathered Status

Newly adopted federal regulations for the Affordable Care Act provide that a plan will lose grandfathered status if it makes any of the following changes:

- significantly cuts or reduces benefits;
- raises co-insurance charges (the patient’s percentage of a charge);
- significantly raises co-payments (defined as less than the greater of \$5 or a percentage equal to medical inflation plus 15%);
- significantly raises deductibles or out-of-pocket maximums (less than medical inflation plus 15%);
- significantly lowers employer contributions (no more than 5%);
- adds or tightens annual limits to what the insurer pays;
- changes insurance companies.

The federal government estimates that 45% of large employer plans and 66% of small employer plans will likely lose “grandfathered” status by 2013. Table 1 shows how many plans the federal government estimates will continue to remain grandfathered under the new law by 2011 and 2013.

The estimates indicate that the rules and regulations will move most plans out of the grandfathered status within the first several years.

<i>Type of Plan</i>	<i>Estimate</i>	<i>Plans Remaining Grandfathered</i>	
		<i>2011</i>	<i>2013</i>
Large Employer High-Range		87%	66%
Large Employer Mid-Range		82%	55%
Large Employer Low-Range		71%	36%
Small Employer High-Range		80%	51%
Small Employer Mid-Range		70%	34%
Small Employer Low-Range		58%	20%

Source: HealthReform.gov Fact Sheet

Table 1

Although the FY 2011 plan year for PEHP group plans did not begin until July 1, 2010, the new law should grandfather those plans because the Legislature and PEHP approved them prior to March 23, 2010.

Financial Impact to PEHP regardless of Grandfathered Status

PEHP estimates that three provisions of the Affordable Care Act will have a financial impact on the state’s health insurance plans regardless of whether the plans meet the criteria for grandfathered status:

1. Coverage of dependent children up to age 26 (required July 1, 2011)
2. Elimination of lifetime and most annual dollar limits on benefits (required July 1, 2011)
3. No pre-existing condition exclusions for any participant (required July 1, 2014)

The table below summarizes the cost of those provisions to the State and provides additional information.

Federal Provision	Compliance Date	Current PEHP practice	PEHP estimate of cost increase to plans	LFA estimate of increase in state funds
Coverage of dependent children to age 26 regardless of marital or tax status	July 1, 2011	Covers dependents up to age 26 unless they are married or not included as dependents for tax purposes	0.70%	\$2.9 million
Elimination of lifetime and annual dollar limits on "essential" benefits	July 1, 2011	Several benefits contain lifetime or annual dollar limits	0.20%	\$0.8 million
No pre-existing condition exclusions for children under age 19	July 1, 2011	9 month pre-existing condition exclusion period	0.00%	-
No pre-existing condition exclusions for any participant	July 1, 2014	9 month pre-existing condition exclusion period	0.10%	\$0.4 million
Total Increase for Grandfathered plans on July 1, 2011			0.90%	\$3.7 million

Financial Impact to PEHP if it Loses Grandfathered Status

Several provisions of the Affordable Care Act only apply to insurance plans that lose grandfathered status. These requirements do not currently apply to PEHP plans; however, if the state were to lose grandfathered status, PEHP estimates that three additional provisions could have an additional financial impact:

1. Preventative benefits covered at 100%
2. Equal coverage for emergency services from in-network and out-of-network providers
3. Compliance with enhanced internal appeals process and external claim review

The table below summarizes the cost of those additional provisions.

Federal Provision	Compliance Date	Current PEHP practice	PEHP estimate of cost increase to plans	LFA estimate of increase in state funds
Preventative benefits covered at 100% without cost sharing	July 1, 2011	Some benefits require a co-payment, coinsurance, or are part of the deductible	1.50%	\$6.2 million
Equal coverage for emergency services from in-network and out-of-network providers	July 1, 2011	Require \$150 co-payment for in-network ER and \$250 co-payment for out-of-network ER	0.10%	\$0.4 million
Compliance with enhanced internal appeals process and external claim review	July 1, 2011		0.05%	\$0.2 million
Additional Increases for Non-Grandfathered plans on July 1, 2011			1.65%	\$6.8 million