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# MEMORANDUM

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Date: November 21, 2013

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator

Re: **Health Care Reform Financial Impact Analysis**

The Patient Protection and Affordable Care Act (ACA) is a federal law, and its implementation is being done through regulations promulgated by various federal agencies such as the Department of Health and Human Services (HHS), Department of Labor (DOL) and Treasury Department (IRS). These regulations have been very intensive relative to the interpretation and impact on employers both in the governmental sector and businesses in general.

Our employee benefit programs will be impacted by this legislation, and I want to ensure we are in compliance with the law as it debuts and unfolds. Although the penalties associated with noncompliance with the law from an employer perspective have been delayed until 2015, the individual mandate for individuals to obtain insurance in 2014 or face a tax penalty is proceeding, despite the challenges faced by the federal government's website.

We retained our employee benefits consultant, CBIZ, to conduct the HealthCare Reform Compliance and Financial Impact Study.

The following summarizes the aspects of ACA with which we must comply by 2014 and how we fared "as if" the Shared Responsibility Excise tax were in force for 2014 (the actual testing of our workforce in preparation for the 2015 deadline). The latter was done to ensure any gaps were identified that would require reclassifications of positions, gaps in the valuation of our benefits, employee cost-sharing or simply having to cover more employees/dependents than we were prepared to address in a timely manner should there be any gaps or shortcomings.

Provisions of the ACA with which Pima County must be in compliance by 2014

- Flexible Spending Accounts (FSAs) – capped at \$2,500 – Pima County is in Compliance
- Notices issued to employees regarding the Federal Marketplace Options Available (the Federally run Arizona Exchange) – Pima County is in Compliance

- Increase in Employee Medicare Withholding Tax for High Wage Earners – Pima County is in Compliance
- Employee eligibility cannot exceed 90 days for health benefit program – Pima County is in Compliance
- No annual limits on the Health Plan benefits – Pima County is in Compliance
- No preexisting conditions on the health plan benefits – Pima County is in Compliance
- Dependent Coverage to Age 26- Pima County is in Compliance
- Wellness outcomes and incentives reward limit increase – Pima County is in Compliance

#### The Employer Shared Responsibility Testing (Effective 2015)

The entire census of our employees consisted of 7,418 employees, while only 5,233 are enrolled in our Medical Benefits Plan. All employees had to be accounted for in the test, including the average hours worked and commensurate compensation. The ACA Health Care Reform testing consists of three aspects:

- Does Pima County provide **“FAIR”** access to employees regularly working more than 30 or more hours per week, with fair access meaning they are eligible to enroll in our health plan? Variable hour and intermittent employees were included in the calculations. **Pima County is in compliance.**
- Is the coverage we offer our employees **“ACCEPTABLE”** coverage that meets the definition of essential health benefits and minimum/maximum out of pocket limits for individuals? This component of the testing required an actuarial calculation of the value of the employee benefits we offer to employees. Pima County employer contributions to the employee Health Savings Accounts is added to the value of the Health Savings Account plan value, as these are monies that can be used by employees to offset their out-of-pocket costs for using healthcare services. **Pima County is in compliance.**
- Is the coverage offered to employees **“AFFORDABLE?”** In this test group, an employee cannot be charged more than 9.5 percent of the employee’s wages for single coverage under the Pima County plan. **Pima County is in compliance.**

The Health Care Reform Testing Study ensured that Pima County met or exceeded all federal testing and is in compliance with the most rigorous aspects of ACA “Employer Shared Responsibility Taxes or Penalties” that will be effective in 2015. We plan to conduct the test annually to ensure compliance.

The Honorable Chairman and Members, Pima County Board of Supervisors  
Re: Health Care Reform Financial Impact Analysis  
November 21, 2013  
Page 3

Clearly, ACA will evolve and may continue to have court challenges. Although we cannot predict future changes or amendments to the law, we need to be prepared to comply with all laws and regulations as they relate to our employee benefit programs. Based on the study conducted by CBIZ, Pima County is in compliance with all aspects of the ACA.

CHH/mjk

Attachment

c: Allyn Bulzomi, Director, Human Resources

# CBIZ HEALTH CARE REFORM (HCR) ANALYZER



# 2015

## Health Care Reform Financial Impact

ILLUSTRATIVE REPORT

Prepared For  
**Pima County**



# Health Care Reform

the  
**changing**  
environment

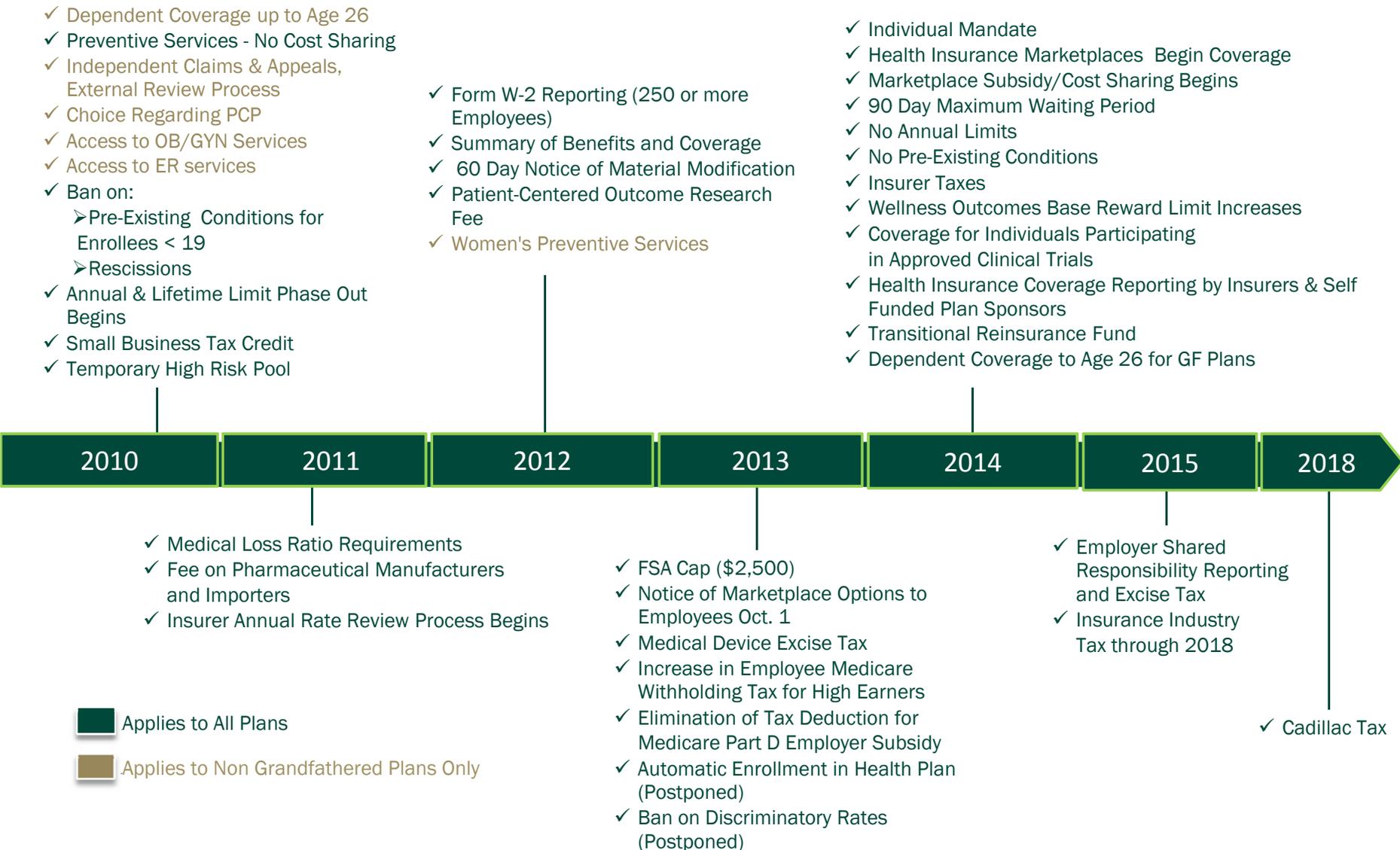


## Background

- ▼ Affordable Care Act (ACA)
  - ↳ Enacted March 2010
  
- ▼ Affects plans effective or renewing September 23, 2010 - 2018 and beyond
  
- ▼ Intent is to broaden coverage for uninsured as well as reduce overall costs of health care through use of:
  - ↳ Individual Mandate
  - ↳ Benefit Marketplaces (Exchanges)
  - ↳ New requirements for health plans & insurers
  - ↳ Medicaid Expansion (up to 138% of the federal poverty level "FPL")
  - ↳ Employer Penalties (applicable to those with 50+ full-time equivalent employees "FTEE")



# Affordable Care Act Timeline



# Today's Focus

## Shared Responsibility - The "Pay or Play" Employer Conundrum

**"Fair" Access** - Employees working on a regular basis of 30 or more hours per week, are deemed "eligible" for medical coverage under health care reform.

Part time and Variable employees are excluded.

"Variable employees" - use reasonable and good faith interpretation. Proposed regulations deem it to be employees working 120 days or less during the year.

**No Coverage Excise Tax Penalty =**  
Total number of full time employees less the first 30 multiplied by \$2,000 per year (calculated monthly)



**"Acceptable" Coverage - Bona fide plan:** one that meets the essential benefits and minimum out of pocket requirements.

**Plan Value:** The richest bona fide plan is evaluated at 100%, the leanest acceptable plan (following the out of pocket provisions) is 60%.

Current plans are actuarially valued.

If a bona fide plan is not offered Shared Responsibility penalties may be triggered (see below).

If the leanest bona fide benefit plan is offered to the employee for less than 9.5% of the employee's house hold income (HHI), the employer's plan is deemed **"Affordable"**.

Because HHI is not available to the Employer, as a "safe harbor", the employee's wages can be used to pass the test.

The affordability test is applicable to Single employee coverage (does not include dependent coverage).

**Unacceptable or Unaffordable Excise Tax Penalty** (if 1 or more employees receives a subsidy) = \$3,000 per employee receiving an Exchange subsidy up to a maximum of \$2,000 \* all full time employees less the first 30



# The HCR Analysis

what do  
the **numbers**  
tell **us**?



# The HCR Analyzer Process

## Introduction

The purpose of the health care reform financial impact study is to estimate the potential cost impact to Pima County. The results are an illustrative guide to assist Pima County in their preparation for the most significant Health Care Reform change - Shared Responsibility penalties. These changes will take place in calendar year 2015.

The CBIZ HCR Analyzer calculates the potential financial impact to Pima County under various scenarios. All scenarios compare the financial impact to Pima County relative to their baseline scenario. The baseline scenario is Pima County's current program trended forward to 2015. The alternative scenarios show potential action plans and their cost impact relative to the baseline.

## Process



### Data Diagnosis

CBIZ gathered pertinent information from Pima County to prepare a custom Health Care Reform Financial Impact Study for your organization.



### Comprehensive Analysis

The data was used to evaluate where the current health care package offered by Pima County stands in relation to the Health Care Reform benchmarks of Fair Employee Access, Acceptable Health Coverage, and Affordable Employee Contributions.



### Cost Impact Analysis - Report & Optimize

The cost to Pima County under multiple scenarios is summarized. There are multiple variables that can be adjusted thus enabling us to work with your organization to optimize your health care package. These variables include:

- |                |                         |                  |                   |
|----------------|-------------------------|------------------|-------------------|
| ▶Plan Value    | ▶Migration Assumptions  | ▶Waiting Periods | ▶Household Income |
| ▶Medical Trend | ▶Employer Contributions | ▶Pay Increases   | ▶Family Size      |

For example, if we set the variable whereby every eligible employee migrates to Pima County's health care plan, the costs to Pima County may be higher than if we assume only 80% of the employees migrate to Pima County's health care plan.

# Data Diagnosis

## STEP



### Pima County Current Census Data

**Total Employees on the Census 7418**

*Remove the following:*

Those in Employer Waiting Period Not to Exceed 90 Days	75
Those averaging <30 hrs/week *	982
Terminated Employees	156

**Final Employees Used in Analysis 6205**

Not Eligible Currently/Tested as Eligible 44

**Total Eligible Employees 6161**

Waived Coverage - Currently 928

**Total Enrolled 5233**

*By Plan:*

HDHP w HSA	3436
HDHP wo HSA	51
PPO	1746

*The Current Census Data shown is based upon the data provided to CBIZ by Pima County.*

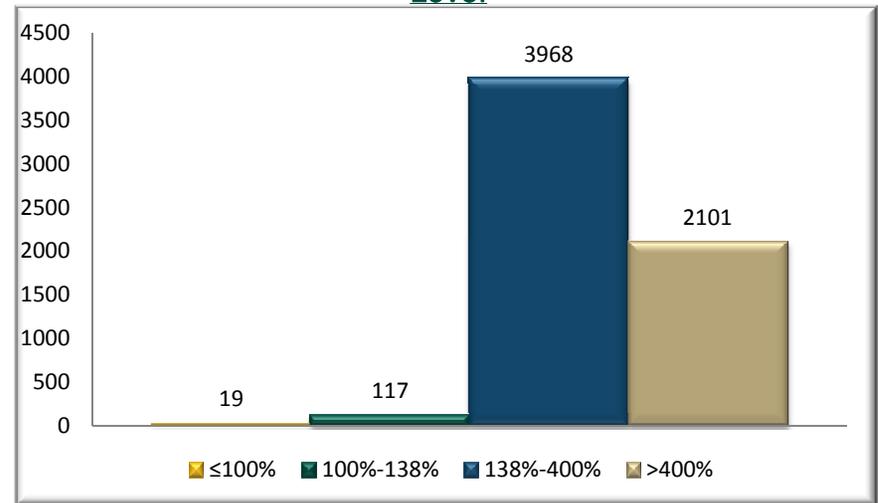
*\* Less than 20 hours if not designated as Temporary or Intermittent – EEs are eligible for coverage at 20 hours.*

### Pay Increase

Current pay is moved to 2015 at a rate of 2% per year.

**Total Pay Adjustment 1.02**

### Distribution of Current Employees by Federal Poverty Level



### Household Income as % of Federal Poverty Level (FPL)

		≤100%	100%-138%	138%-400%	>400%
Eligible For	Medicaid	Yes	Yes*	No	No
	Exchange Subsidy	No	No*	Yes**	No

\* Dependent upon whether Employee's state has chosen to expand Medicaid.

\*\* Eligible for Exchange Subsidy only if Employer plan does not meet the Shared Responsibility test.



# Pima County Current Plan In-Network Design

Plan	HSA/HRA Employer Contribution	Deductible	Coinsurance	Out of Pocket Max (Inc. Deductible)	Primary Care Office Visit	Emergency Room Visit	Inpatient Hospital	Prescription Drug
HDHP w HSA	\$1,000/\$2,000	\$2,000/\$4,000	90%	\$3,000/\$6,000	10% after deductible	10% after deductible	10% after deductible	10% after deductible
HDHP wo HSA	\$0.00	\$2,000/\$4,000	90%	\$3,000/\$6,000	10% after deductible	10% after deductible	10% after deductible	10% after deductible
PPO	\$0.00	\$1,000/\$2,000	80%	\$3,000/\$6,000	\$25 copay	\$125 copay	20% after deductible	\$10/\$30/\$50

# Pima County Current Monthly Premium Rates

Pima County Monthly Totals	
Total Premium	<b>\$4,019,256</b>
Employee Contribution	<b>\$525,114</b>
Employer Contribution	<b>\$3,494,143</b>
Enrolled	<b>5233</b>

Pima County Annual Totals	
Total Premium	<b>\$48,231,074</b>
Employee Contribution	<b>\$6,301,363</b>
Employer Contribution	<b>\$41,929,711</b>

**Contribution Notes:**

Current premiums rates do not include the employee discounts for wellness initiatives. These discounts represent an additional estimated cost to Pima County of \$800,460

		Enrollment	Total Premium Rate	Employee Contribution	Employee %	Employer Contribution	Employer %
<b>HDHP w HSA</b>	E	1392	\$387.76	\$43.33	11.2%	\$344.43	88.8%
	ES	514	\$863.25	\$63.92	7.4%	\$799.33	92.6%
	EC	504	\$845.01	\$63.92	7.6%	\$781.09	92.4%
	F	1026	\$1,158.11	\$102.27	8.8%	\$1,055.84	91.2%
	<b>Total:</b>	<b>3436</b>	<b>\$2,597,578</b>	<b>\$230,315</b>		<b>\$2,367,263</b>	
<b>HDHP wo HSA</b>	E	36	\$304.43	\$43.33	14.2%	\$261.10	85.8%
	ES	8	\$696.58	\$63.92	9.2%	\$632.66	90.8%
	EC	3	\$678.34	\$63.92	9.4%	\$614.42	90.6%
	F	4	\$991.44	\$102.27	10.3%	\$889.17	89.7%
	<b>Total:</b>	<b>51</b>	<b>\$22,533</b>	<b>\$2,672</b>		<b>\$19,861</b>	
<b>PPO</b>	E	802	\$421.18	\$93.02	22.1%	\$328.16	77.9%
	ES	308	\$963.74	\$196.63	20.4%	\$767.11	79.6%
	EC	249	\$938.50	\$192.16	20.5%	\$746.34	79.5%
	F	387	\$1,371.68	\$281.95	20.6%	\$1,089.73	79.4%
	<b>Total:</b>	<b>1746</b>	<b>\$1,399,145</b>	<b>\$292,127</b>		<b>\$1,107,018</b>	

# Comprehensive Analysis - Where You Are Today

## STEP



FAIR ACCESS	Enrolled	Waived	Not Eligible	Total
Employees	5,233	928	44	6,205
% of Total Eligible Under Reform	84%	15%	1%	100%

*Must offer minimum essential coverage to at least 95% of full time employees.*



ACCEPTABLE	HDHP w HSA	HDHP wo HSA	PPO
Actuarial Plan Value	88.5%	77.3%	82.1%

*Minimum Actuarial Plan Value that is deemed Acceptable is 60%.*



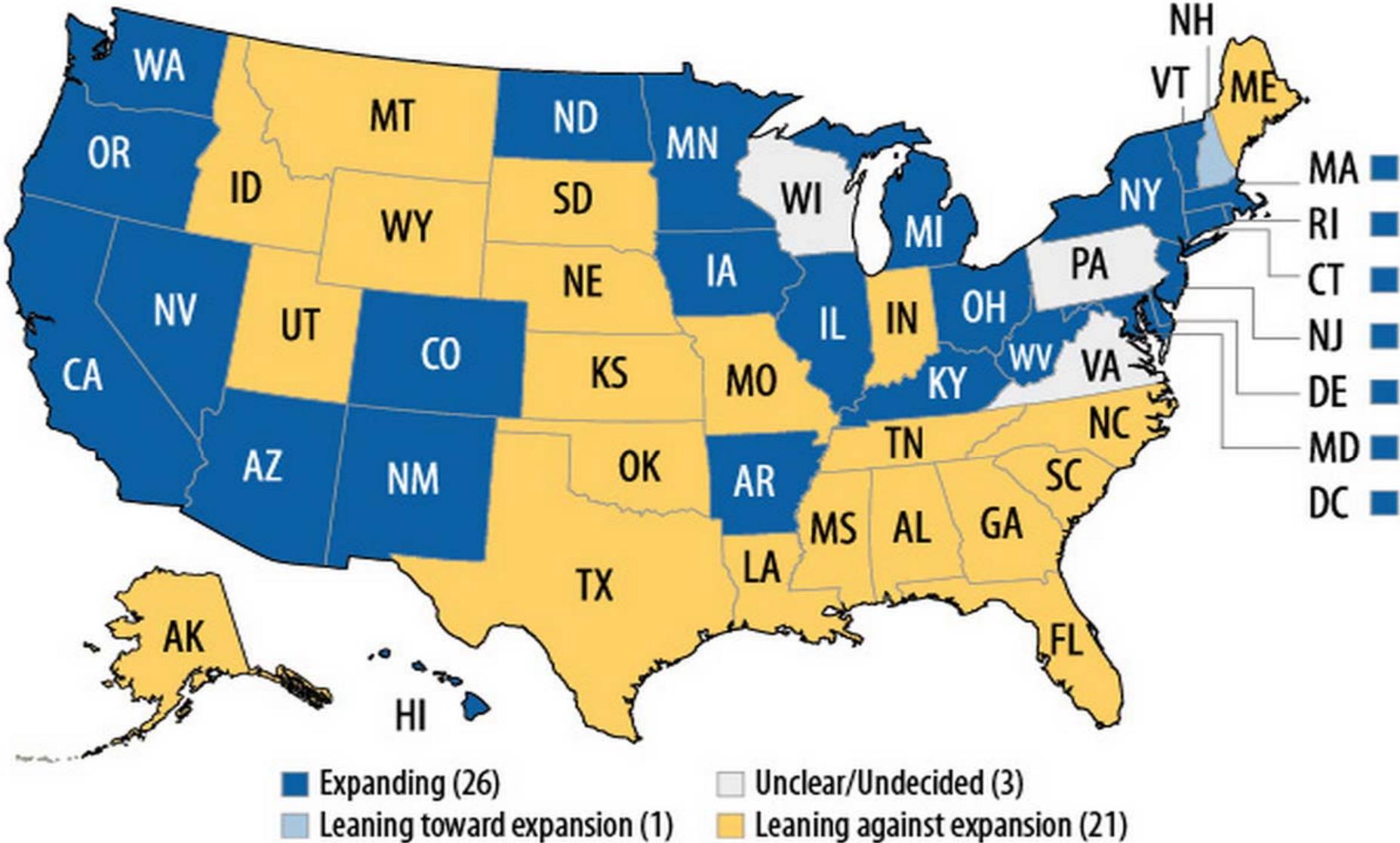
AFFORDABLE	
2015 Pay Trigger	\$6,149
100% of Federal Poverty Level (Household of 1)	\$11,490
Pay Trigger as % of FPL	53.5%

*Coverage is generally deemed Affordable if the 2015 Pay Trigger does not exceed 200% of the Federal Poverty Level.*

# Appendix

# Status for Medicaid Expansion 2014

As of October 30, 2013



Source: "Status of the ACA Medicaid Expansion after Supreme Court Ruling", Center on Budget and Policy Priorities

# The Public Exchange

## ▼ Product Values (Richness of Benefits) are designed using four tiers:

- ↳ Platinum Plan (Actuarial Value of 90%)
- ↳ Gold Plan (Actuarial Value of 80%)
- ↳ Silver Plan (Actuarial Value of 70%)
- ↳ Bronze Plan (Actuarial Value of 60%)

## ▼ Actuarial Value

- ↳ On average a Platinum Plan covers 90% of all essential benefit expenses, Gold 80%, etc.

## ▼ Premium Rates vary by:

- ↳ Plan, Area, Family Size and Age (NOT GENDER and NOT HEALTH STATUS!)
- ↳ Only health factor is tobacco use (premium rate cannot exceed 1.5X non tobacco user rate)

## ▼ Premium Rates for Older Individuals cannot be more than 3X's that of a Younger Individual .

- ↳ If the Younger Individual rate is \$100, the maximum rate for an Older Individual is \$300.

## ▼ Premium Subsidies

- ↳ If an individual's household income is below 400% and above 100% of the Federal Poverty Level (FPL) they may be eligible for premium subsidies

## ▼ No Pre-Existing Condition Exclusions

## Subsidy Rules

- ▼ Must purchase coverage at the Public Exchange to receive a subsidy
- ▼ If Employer offers health insurance AND it is affordable to the Employee:
  - ↳ Employee (and Family Members) are NOT eligible for premium subsidies AND His/Her Employer is not subject to Shared Responsibility penalties
    - ▶ Employer must offer a bona-fide plan meeting essential benefits and out of pocket limits.
    - ▶ Leanest Plan has a 60% Actuarial Value Plan
    - ▶ Cost to employee must be less than 9.5% of their household income.
- ▼ If Employer's Plan is bona-fide but not affordable to the Employee:
  - ↳ Employee (and Family Members) ARE eligible for premium subsidies
  - ↳ Employer is charged an annual penalty of \$3000 per Employee that goes to the Exchange and receives a premium subsidy. (There is an Employer Penalty Maximum of \$2000 multiplied by the number of Full Time Employees Less the first 30).
  - ↳ Penalty is NOT tax deductible
- ▼ If Employer does not offer health insurance (or does not offer a bona-fide plan):
  - ↳ Employee IS eligible for premium subsidies
  - ↳ Employer Penalty equals \$2000 multiplied by the number of Full Time Employees less the first 30 and is not tax deductible.
- ▼ If Full Time Employee is not eligible for the Employer's Plan:
  - ↳ Employee IS eligible for premium subsidies
  - ↳ Employer is not penalized for employees who are not deemed full time.
    - ▶ A Full Time Employee works on average 30 hours or more per week
    - ▶ Special rules apply to temporary workers (working < 120 days)
    - ▶ Variable hour employees have a stability/measurement period to achieve and maintain eligibility

# Federal Poverty Level

Federal Poverty Level Chart for 2013 (Excludes HI and AK)

Household size	100%	138%	150%	200%	300%	400%
1	\$11,490	\$15,856	\$17,235	\$22,980	\$34,470	\$45,960
2	15,510	\$21,404	\$23,265	\$31,020	\$46,530	\$62,040
3	19,530	\$26,951	\$29,295	\$39,060	\$58,590	\$78,120
4	23,550	\$32,499	\$35,325	\$47,100	\$70,650	\$94,200
5	27,570	\$38,047	\$41,355	\$55,140	\$82,710	\$110,280
6	31,590	\$43,594	\$47,385	\$63,180	\$94,770	\$126,360
7	35,610	\$49,142	\$53,415	\$71,220	\$106,830	\$142,440
8	39,630	\$54,689	\$59,445	\$79,260	\$118,890	\$158,520

Premium credit is determined in order for the Exchange Premium to not exceed the below percentages:

Defined percentage of household income is a sliding scale determined by the Federal Poverty Level (FPL) of the family involved:

- Up to 133% FPL: 2.0% of income
- 133-150% FPL: 3.0% – 4.0% of income
- 150-200% FPL: 4.0% – 6.3% of income
- 200-250% FPL: 6.3% – 8.05% of income
- 250-300% FPL: 8.05% – 9.5% of income
- 300-400% FPL: Capped to 9.5% of income (PPACA §§ 1401, 10105; HCERA § 1001; IRC § 36B)

“Adjusted monthly premium” is for the second-lowest-cost Silver plan for the rating area where the taxpayer resides. The premium is adjusted for age as allowed under ACA. If a state is participating in a wellness discount pilot project, the premium, for purposes of determining the tax credit, is determined without regard to any of the discounts offered through the pilot program.