

Analysis: Section 125 Plans and a Virginia Health Insurance Exchange

Presented to the:

Joint Commission on Health Care

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Agenda

- Study Background
- Section 125 Plans
- Health Insurance Exchange
- Other Issues
 - Access to Health Insurance Options
 - Update: Riverside Share Program
 - Update: Maryland Health Insurance Partnership
- Policy Options

Organizations Contacted

- Agency for Healthcare Research and Quality
- Anthem
- Asset Protection Group, Inc.
- BB&T Insurance Services, Inc.
- Benefit Solutions Inc.
- Connecticut Business and Industry Association
- Connecticut General Assembly Office of Legislative Research
- Independent Insurance Agents of Virginia
- Internal Revenue Service
- Iowa Insurance Division
- JLARC
- Maryland Health Care Commission
- Massachusetts Commonwealth Connector
- Massachusetts Joint Committee on Health Care Financing
- Minnesota Department of Health
- Missouri Joint Committee on Legislative Research
- National Conference of State Legislators
- National Federation of Independent Businesses
- Office of the Secretary for Health and Human Resources
- Rhode Island Office of the Health Insurance Commissioner
- Riverside Health System
- State Corporation Commission
- Total Administrative Services Corporation
- Virginia Association of Health Underwriters
- Virginia Attorney General's Office
- Virginia Commonwealth University
- Virginia Association of Health Plans
- Virginia Chamber of Commerce
- Virginia Department of Business Assistance
- Virginia Department of Health
- Virginia Department of Tax
- Virginia Employment Commission
- Virginia Farm Bureau
- Virginia Health Underwriters Association
- Virginia Local Commissioner's of Revenue
- Your Benefits Partner

3

Study Background

Health Insurance Affordability Is the Primary Barrier

- Estimates range from 9% - 15.5%
 - 632,000 – 1 million non-elderly Virginians
- “Affordability is the primary barrier to obtaining health insurance”
 - JLARC health insurance study finding

Source: Options for Extending Health Insurance to Uninsured Virginians, Slide 4 and 5, JLARC, December 11, 2006 5

Employers Have Been a Primary Source of Working Non-Elderly Obtaining Health Insurance

60% of firms offered health insurance in 2006; down from 69% in 2000

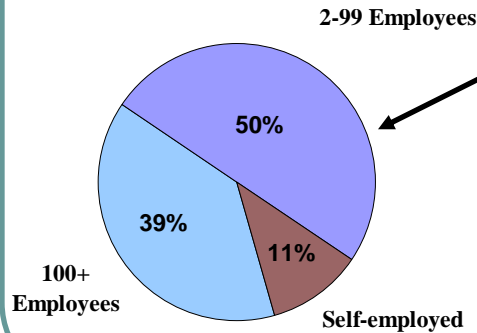
- Approximately 77% of covered employees pay 0% - 50% of premium costs (2006)
- Virginia health insurers often require significant employer contribution for small group plans
 - frequently 50% of premium

# Employees	% Offering Health Benefits (2006)
3 to 9	45%
10 to 24	76%
25 to 49	83%
50 to 199	94%
200 or more	99%
All Firms	60%

Sources: KFF/HRET 2007 Employer Health Benefits Survey and discussion with Virginia Association of Health Plans 6

50% of the Working Uninsured Work for Smaller Employers

Distribution of Uninsured In Working Families



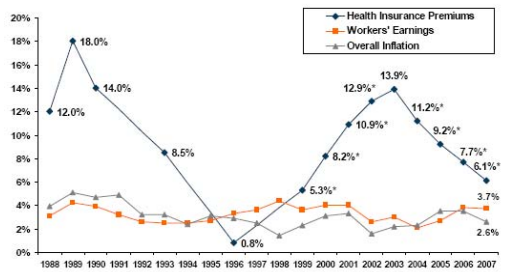
Uninsured employees that work in smaller businesses (2-99 employees) account for 50% of Virginia's working uninsured

Note: Only 48% of small employers (2-50) offer health insurance to their employees

Source: *Options for Extending Health Insurance to Uninsured Virginians*, JLARC, December 11, 2006

Health Insurance Premiums Continue to Increase

Exhibit 1: Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2007



*Estimate is statistically different from estimate for the previous year shown (p<.05). No statistical tests are conducted for years prior to 1999.
 Note: Data on premium increases reflect the cost of health insurance premiums for a family of four. The average premium increase is weighted by covered workers.
 Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2007; KPMG Survey of Employer-Sponsored Health Benefits, 1990, 1996; The Health Insurance Association of America (HIAA), 1989, 1999, 1990; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1988-2007; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2007 (April to April).

- Premiums are rising at a slowing rate
- Rate of increase is still greater than workers' earning increases

Sources: Kaiser Family Foundation and Health Research Educational Trust, *Employer Health Benefits* (2007) Catlin, et al., *National Health Spending In 2005: The Slowdown Continues*, *Health Affairs* 26 (1): 142 (2007)

Background: Health Care Costs Study

- JCHC recommended in 2008 JCHC study the advisability of:
 - i) establishing a Virginia health insurance exchange targeted for small businesses,
 - ii) increasing employer adoption of Section 125 plans, and
 - iii) any other health insurance issues as deemed appropriate.

9

Section 125 Plans

Section 125 Plans Defined

- Enables employees to purchase health insurance policies with pre-tax dollars
 - Refer to Section 125 of the U.S. Internal Revenue Code
 - Group Plans (with or without employer contribution)
- Employee savings can be 25%-40% per dollar contributed towards health insurance
 - FICA (Social Security and Medicare payroll tax), federal and state income taxes
- Employers can decrease tax liability by decreasing its payroll tax if employees contribute to their health care premiums

Source: States use 'Cafeteria plans' to expand health insurance coverage, Cauchi NCSL Health Program, September 2008

11

About Section 125 Plans

- Employers which do not offer health insurance are not benefited as there would be no reduction in payroll taxes paid
- Not all entities and individuals can participate including:
 - Self-employed individuals
 - Partners in a partnership
 - Outside directors, limited partners and members in an Limited Liability Corporations (LLCs)

Source: Section 125 Flexible Benefit Plans, Benefit Solutions.

12

Section 125 Plans Are Not Helpful When

- Low-income employees do not make enough to afford health insurance
 - Less than 200% of the Federal Poverty Guideline
- Employers that pay 100% of the employees' premiums are not benefited by setting up a plan
 - No payroll tax for employers or employees to deduct from wages or salary

Sources: Interviews with representatives from Independent Insurance Agents of Virginia and Virginia Health Insurance Underwriters, August 2008.

13

Types of Section 125 Plans

- Section 125 plans can address
 - Premium Only Plans
 - Flexible Spending Accounts (FSA)
 - Medical Expenses
 - Dependent Care Expenses
 - Full Flexible Benefit Plan with Benefit Credits

Focus of the Presentation is increasing employer adoption of Section 125 - Premium Only Plans

14

Section 125 Plan Requirements

- Plan must delineate:
 - Description of the benefits that may be elected
 - Eligibility rules
 - Method, timing and irrevocability of participant elections
 - Manner of any employer contribution
 - Maximum amount of employer and employee contributions under the plan
 - The Plan Year
- Plan must be adopted by employer

Source: Helping Your Employees Connect to Good Health: Section 125 Plan Handbook for Employers, Massachusetts Commonwealth Connector, Version 2.0 (July 1, 2007)

15

Section 125 Effect on Premium Cost: Employee Illustration # 1

Individual earning \$50,000 Annually (~\$24/hour) = 409% of Federal Poverty Guidelines

	Single
VA Small Group avg. monthly premium (2006)	\$ 246
Payroll deduction amount (through 125 plan)	\$ 246
Reduction in FICA tax → 7.65%	\$ 19
Reduction in federal tax liability → 18%	\$ 44
Reduction in VA state tax liability → 9.2%	\$ 13
Net premium cost to employee (including after tax-savings)	\$ 170
Total Monthly Tax Savings → 31%	\$ 76

Sources: Internal Revenue Service and Virginia Department of Taxation

16

Section 125 Effect on Premium Cost: Employee Illustration # 2

Married Worker with Two Children earning \$70,000 Annually
(~\$33.65/hour) = 339% of Federal Poverty Guidelines

		Family of 4
VA Small Group avg. monthly premium (2006)		\$ 645
Payroll deduction amount (through 125 plan)		\$ 645
Reduction in FICA tax → 7.65%		\$ 49
Reduction in federal tax liability → 15%		\$ 97
Reduction in VA state tax liability → 5.4%		\$ 35
Net premium cost to employee (including after tax-savings)		\$ 464
Total Monthly Tax Savings → 39%		\$ 181

Sources: Internal Revenue Service and Virginia Department of Taxation

17

Section 125 Effect on Premium Cost: Employee Illustration # 3

Married Worker with Two Children earning \$50,000 Annually
(~\$25/hour) = 235% of Federal Poverty Guidelines

		Family of 4
VA Small Group avg. monthly premium (2006)		\$ 645
Payroll deduction amount (through 125 plan)		\$ 645
Reduction in FICA tax → 7.65%		\$ 49
Reduction in federal tax liability → 13%		\$ 87
Reduction in VA state tax liability → 5.2%		\$ 33
Net premium cost to employee (including after tax-savings)		\$ 476
Total Monthly Tax Savings → 39%		\$ 169

Sources: Internal Revenue Service and Virginia Department of Taxation

18

Section 125 Effect on Premium Cost: Employer Illustration # 1

Small firm with 10 employees has an annual payroll cost of \$500,000

	\$ 125 Plan w/o POP	\$ 125 Plan w/ POP
Annual Payroll	\$ 500,000	\$ 500,000
Employee payroll deduction amounts (VA small group premium average (2006) – 5 single and 5 families of 4)	\$ 0	\$ 53,460
Taxable Payroll →	\$ 500,000	\$ 446,540
Annual Social Security Tax Rate 7.65%		
Annual Social Security Tax →	\$ 38,250	\$ 34,160

Employer Annual Tax Savings with Section 125 Plan	\$ 4,090
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Source: Internal Revenue Service

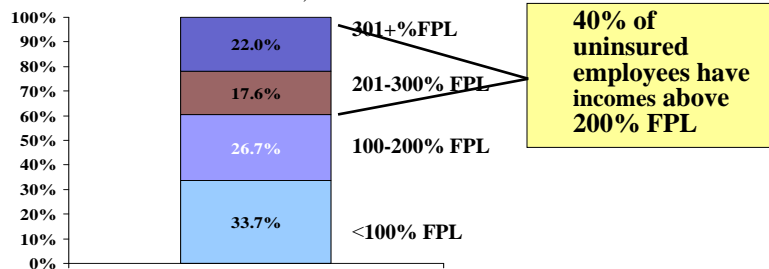
19

Which Employees Would Be Affected?

- Employees that can afford and purchase health insurance policies can be assisted

Note: 200% FPL is a lower-end affordability threshold

Virginia Uninsured by Federal Poverty Level (FPL) (2005 & 2006)



Source: Profile of Virginia's Uninsured, Urban Institute Presentation to Governor's Health Reform Commission, Health Care Access Workgroup, December 7, 2006

20

Virginia Small Businesses Are Much Less Likely to Offer Pretax Savings

Employers Offering Health Coverage w/o Pretax Savings	# of Employees	
	Less than 50	50+
% of Employers	68%	8%
% of Employees Enrolled	52%	5%

291,000 employees	139,000 employees
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Arrows point from the 291,000 employees box to the 52% cell and from the 139,000 employees box to the 5% cell in the table above.

Note: If employer pays 100% of health insurance cost then there is no need for a Section 125 plan

Source: Unpublished estimates for Virginia provided by the Agency for Healthcare Research and Quality

21

Why Haven't More Businesses Adopted Section 125 Plans

- Employer lack of knowledge
- Perception of:
 - Significant increased administrative burden
 - Cost
 - Time it takes to learn and develop plans
- Not all business owners can receive pretax benefits toward their premiums
- Tax consequences if plan not correctly set-up

Sources: Interviews with representatives from Independent Insurance Agents of Virginia, Virginia Association of Health Plans, and Virginia Health Insurance Underwriters, August 2008.

22

Potential Benefits of 125 Plans

- Section 125 plans can be set up for as little as \$100
- Profits can increase for employers that offer health insurance
- Employee health insurance costs can be reduced
- Increased health insurance adoption can improve health of employer's workforce
- Many parties can assist in creation of plans:
 - Health insurance brokers
 - Health insurers
 - Third-party administrators
 - CPAs
 - Attorneys

Sources: Interviews with representatives from Independent Insurance Agents of Virginia, Virginia Association of Health Plans, and Virginia Health Insurance Underwriters, August 2008.

23

Initiatives in Other States

- Massachusetts – requires employers with 11 or more employees to offer at least a “premium only” Section 125 plan
 - Tax consequence if the employer does not contribute a portion to employee health insurance
 - State created document detailing how to set up plan with sample form
- Rhode Island – requires use of Section 125 plans for employers with 25 or more employees
 - No requirement for employers to contribute to the plans

Source: States use 'Cafeteria plans' to expand health insurance coverage, Cauchi NCSL Health Program, September 2008

24

Initiatives in Other States

- Minnesota –employers affirm that they have read about Section 125 Plans or have a Section 125 Plan in place
- Iowa – Commissioner of Insurance required to assist small employers with implementing and administering Section 125 plans through information on website

Source: States use 'Cafeteria plans' to expand health insurance coverage, Cauchi NCSL Health Program, September 2008

25

Possible Avenues to Encourage Section 125 Plan Adoption

- Websites
 - Virginia Business Portal
 - Business One-Stop - Virginia Department of Business Assistance
 - Virginia Health Information (VHI)
 - InsureMoreVirginians - Department of Health
 - Bureau of Insurance – State Corporation Commission
- Agencies that can assist small businesses regarding health insurance
 - Department of Business Assistance
 - Bureau of Insurance
 - Department of Health
- Professionals that serve small businesses
 - Brokers
 - Insurers
 - Third-party administrators
 - CPAs
 - Attorneys

Sources: Interviews with representatives from Independent Insurance Agents of Virginia, Virginia Association of Health Plans, and Virginia Health Insurance Underwriters, August 2008.

26

Methods to Increase the Adoption of Section 125 Plans

- Amend the *Code of Virginia* to mandate that employers offer a Section 125 Plan if all of the following provisions are met:
 - 11 or more full-time employees,
 - Group health insurance is offered, and
 - Employee pays some part of the health insurance premium
 - (Option 2)
- Provide Section 125 Plan information to employers on state website, information may include:
 - Brief document highlighting Section 125 Plan benefits
 - Detailed document with Section 125 Plan requirements and adoption details
 - Detailed document with Section 125 Plan requirements and adoption details with sample Section 125 Plan adoption forms
 - (Options 3, 4 and 5)

27

Methods to Increase the Adoption of Section 125 Plans (Continued)

- Amend the *Code of Virginia* to require employers with 11 or more full-time employees to affirm either:
 - Employer has read the state-created document regarding Section 125 Plans, or
 - Employer has a Section 125 Plan
 - (Option 6)
- Consider including Section 125 plan information on the State's health insurance broker examination.
 - (Option 7)

28

Methods to Increase the Adoption of Section 125 Plans (Continued)

- Work to increase adoption through awareness of Section 125 Plans through public-private partnership with:
 - Virginia Chamber of Commerce Newsletter
 - National Federation of Independent Businesses – Area Action Council meetings
 - (*Options 7 and 8*)

29

Health Insurance Exchange

Health Insurance Exchange Benefits and Types

- **BENEFITS:** Exchanges' goals are:
 - Promote competition
 - Provide consumers a single access point for:
 - A wide variety of high-quality of health insurance products
 - Understandable and complete information of products
- **TYPES:** Exchanges may:
 - Be a state or private entity
 - Be of large or small scope
 - Apply to either the individual or small group insurance market, or both
- Other state insurance reforms have occurred in concert with the creation of a health insurance exchange to further its ability to execute its role

Source: Health Insurance Exchange Study, Minnesota Department of Health, February 2008,

31

Functions of a Health Insurance Exchange

- Single point of:
 - access to multiple insurance products
 - payment to multiple health insurers
- Exchange Does Not purchase policies
- Employees are allowed to choose best health insurance product for their situation, if other reforms are in place

Source: Health Insurance Exchange Study, Minnesota Department of Health, February 2008,

32

Functions of a Health Insurance Exchange (Continued)

- Limited health benefits administration provided for employers
- Exchange may allow for:
 - Decreased premium cost by increasing competition between insurers
 - Individuals with multiple employers combine employer contributions toward health insurance

Source: Health Insurance Exchange Study, Minnesota Department of Health, February 2008.

33

Current Health Insurance Exchanges

States with Exchanges:

Connecticut, Massachusetts, Washington



Massachusetts Role for Its Exchange

- Promote cost-effective high quality plan
- Decrease administrative health benefits burden for smaller business
- Facilitate pretax premium purchases through Section 125 plans

Sources: State Coverage Initiatives website at statecoverage.net and an interview with Sara Nolan, Senior Researcher, *Massachusetts Joint Committee on Health Care Financing*, August 2008.

34

Establishing a Health Insurance Exchange is a Significant Investment

- An organization (public or private) would need to take on the administrative role of:
 - Deciding which insurers may offer products
 - Deciding types and standards of product offerings
 - Advising employers and employees on health products offered
 - Monthly billing to employers for insurance premiums
 - Payment of policy premiums to insurers

Initial Operational Cost of Massachusetts Exchange
\$25 Million (2006)

Sources: Health Insurance Exchange Study, Minnesota Department of Health, February 2008, and an Interview with Sara Nolan, Senior Researcher, *Massachusetts Joint Committee on Health Care Financing*, August 2008.

35

Health Insurance Exchanges Are Costly and May Not Decrease Premium Costs

Implications for Creating an Exchange in Virginia

Substantial state funding needed

Premium rates may not decrease

Initial appropriation was \$25 million for exchange in Massachusetts

Virginia's Small-group health plan premiums were ranked 3rd least expensive in the U.S (2006)

Source: American Health Insurance Plans' Center for Policy and Research, *Small Group Health Insurance in 2006*, September 2006.

36

Other Issues

Finding All Health Insurance Options

- There is no place employers can go to consistently find all of the health insurance options in their area
- Market Breakdown: Some employers are not aware/misinformed of health insurance options

Enhancing Consumer Avenues to Virginia's Health Insurance Options

Remedy: Establish website listing of health insurers that offer coverage by locality with contact information

- Workgroup to develop website:
 - National Federation of Independent Businesses
 - Virginia Association of Health Plans
 - Virginia Association of Health Underwriters
 - Virginia Chamber of Commerce
 - Virginia Department of Health
 - Virginia Department of Business Assistance
 - Virginia Health Information (VHI)
 - (*Option 10*)

39

Riverside Share Program for the Working Uninsured

- Riverside Health System Foundation donated \$1 million over two years
 - \$100 per individual per month
 - Can serve 500 individuals
 - Working with Anthem to include HMO products
- Plan Specifics
 - Employee pays 1/3 of health insurance cost
 - Employer could not have offered insurance in the last 6 months
 - Employee's income is \leq 200% FPL
 - Open to employee and spouse
 - Children can be enrolled in FAMIS

Source: Interview with Sally Hartman, Vice President, Riverside Health System, August 2008.

40

Maryland Health Insurance Partnership

Partnership Facts

- Employer assistance:
 - up to 50% of the premium cost
- Expected enrollment
 - 1500 employers
- Year 1 appropriation
 - \$15 million
- Enrollment starts September 9th
- Coverage begins October 1st

Employer Requirements

- 2-9 employees
- Did not offer insurance in previous 12 months
- Average employee wage
 - under \$50,000
- Must have Section 125 Plan

Source: Interview with Nicole Stallings, Maryland Health Care Commission, August 2008.

41

Policy Options

Policy Options

Option 1: Take no action

Option 2: Amend the *Code of Virginia* to mandate that employers offer a Section 125 Plan if all of the following provisions are met:

- 11 or more full-time employees,
- Group health insurance is offered, and
- Employee pays some part of the health insurance premium

Note: No requirement for employers to provide health insurance or contribute to plan premiums.

43

Policy Options

Option 3: Request by letter of the Chairman that the Department of Human Resources Management (DHRM) in consultation with the Department of Business Assistance (VDBA) create a:

- Brief electronic document that highlights Section 125 benefits to post on the VDBA website and on Virginia's business portal website.

Option 4: Request by letter of the Chairman that the Department of Human Resources Management in consultation with the Department of Business Assistance (VDBA) create a:

- Detailed electronic document that highlights Section 125 benefits; requirements for adoption; and COBRA, ERISA and HIPPA implications for posting on the VDBA website and on Virginia's business portal website.

44

Policy Options

Option 5: Request by letter of the Chairman that the Department of Human Resources Management in consultation with the Department of Business Assistance (VDBA) create a:

- Detailed electronic document that highlights Section 125 benefits; requirements for adoption; COBRA, ERISA, and HIPPA implications; and a simple Section 125 plan form for posting on the VDBA website and on Virginia's business portal website.

Option 6: Amend the *Code of Virginia* to require that employers affirm on the Virginia Department of Taxation Form VA-6 that:

- Employer has a Section 125 Plan, or
- Employer has read the State-created document regarding Section 125 Plans.

45

Policy Options

Option 7: Request by letter of the Chairman that the State Corporation Commission consider and report to JCHC on including Section 125 Plan information on both the Health and the Life & Annuity & Health insurance examinations.

Option 8: Request by letter of the Chairman that the Virginia Chamber of Commerce inform its membership of Section 125 Plans and associated benefits through its newsletter.

46

Policy Options

- **Option 9:** Request by letter of the Chairman that the National Federation of Independent Businesses/Virginia include Section 125 Plans as part of the Federation's Area Action Council meetings with small businesses.

47

Policy Options

- **Option 10:** Include in the 2009 workplan, that the Joint Commission convene a workgroup to compile information needed for an informational website on health insurers to be hosted by Virginia Health Information (VHI) with appropriate linkages on other state websites.
 - The workgroup to develop the website should include:
 - National Federation of Independent Businesses
 - Virginia Association of Health Plans
 - Virginia Association of Health Underwriters
 - Virginia Chamber of Commerce
 - Virginia Department of Health
 - Virginia Department of Business Assistance
 - Virginia Health Information.

48

Public Comments

- Written public comments on the proposed options may be submitted to JCHC by close of business on October 6, 2008.
- Comments may be submitted via:
 - E-mail: sareid@leg.state.va.us
 - Fax: 804-786-5538
 - Mail: Joint Commission on Health Care
P.O. Box 1322
Richmond, Virginia 23218
- Comments will be summarized and presented to JCHC during its October 23rd meeting.