HEALTH & GROUP BENEFITS

NEWS & DEVELOPMENTS

An Employer Benefits Update

H&G 16-3

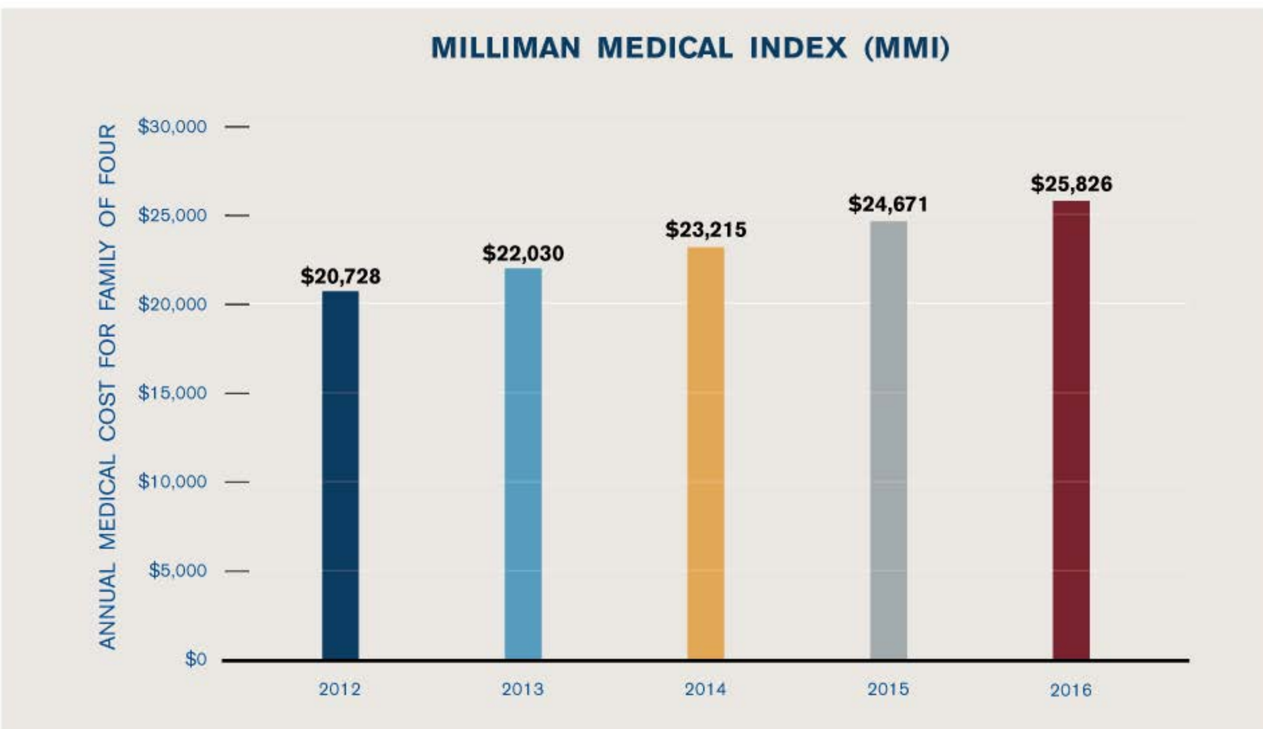
TRENDING

2016 MILLIMAN MEDICAL INDEX: HEALTHCARE COSTS FOR THE TYPICAL AMERICAN FAMILY EXCEED $25,000 IN 2016

Chris Girod, FSA, MAAA, Sue Hart, FSA, MAAA, Scott Weltz, FSA, MAAA

Our annual report on healthcare costs for the typical American Family was released May 24. In addition to the headline number—an average cost of $25,826 for a family of four—there are four other key takeaways:

1) The cost of healthcare has *tripled* since the survey began in 2001.
2) Although last year's 4.7% increase was the lowest we've measured, the rate is still more than double the growth in the CPI or median household income.
3) Employees now pay 57% of healthcare costs while their employers shoulder 43% of the burden.
4) Prescription drug expenses grew at 9.1%. The average annual cost is now $4270—almost four times as much as in 2001.



You can read the full report at www.milliman.com/mmi.

EMPLOYER-SPONSORED INSURANCE: KEY TRENDS FOR LARGE EMPLOYERS FROM 2013 TO 2014

Paul R. Houchens, FSA, MAAA

Effective January 1, 2014, rating reforms in the U.S. individual health insurance market required insurers to provide coverage on a guaranteed issue basis, cover preexisting conditions, and only use age and tobacco-usage in the development of an applicant's premium rate. Calendar-year 2014 also marked the first year of operation for the public insurance marketplaces, which made new financial assistance for health insurance available to millions of Americans who purchase coverage in the individual market.

Did employees migrate to the individual health insurance market?

Some pundits questioned whether the prevalence of employer-sponsored insurance would erode as a result of the individual health insurance market becoming a more accessible alternative to employer-sponsored insurance.

Results from the 2014 Medical Expenditure Panel Survey (MEPS) conducted by the Agency for Healthcare Research and Quality (AHRQ) indicate that 95% of private sector firms with 50 or more employees offered health insurance[1], virtually unchanged from the 2013 survey results. Additionally, the 2014 survey indicates that 77% of eligible private sector employees elected to enroll in a health plan offered by employers[2], up slightly from 75% in 2013.[3] The MEPS results indicate that while the individual health insurance market underwent significant changes in 2014, it did not materially alter employer or employee behavior with regard to the offering of or enrollment in employer-sponsored insurance.

Significant decline in large group fully insured market

However, other data sources suggest that more significant changes occurred in calendar year 2014 in the financing of large employer health insurance (i.e., employer-sponsored plans shifting from a fully insured plan to self-funded). Using data from the medical loss ratio reporting forms compiled by the Center for Consumer Information and Insurance Oversight (CCIIO),[4] we observed that the number of individuals with comprehensive health insurance in the large group fully insured market decreased from 47.2 million in 2013 to 43.2 million in 2014, a national decline of 8.4%. We observed six states[5] with a decline in large group fully insured enrollment of more than 10% from 2013 to 2014.

Percentage Change in Fully Insured Large Group Enrollment, 2013 to 2014

Percentage Change	States
Less than (10%)	6
(10%) - (5%)	10
(5%) - 0%	23
0% - 5%	9
5% - 10%	3

Given the MEPS results, the decline in the large group market enrollment is likely a result of employers moving from a fully insured to a self-funded financing mechanism. Employers may have had additional incentives to self-fund their employer-sponsored insurance coverage in 2014, as doing so could reduce expenses related to the health insurer fee of the Patient Protection and Affordable Care Act (ACA), which amounts to 2% to 3% of total premiums.

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[1] Agency for Healthcare Research and Quality. 2014 Medical Expenditure Panel Survey-Insurance Component, Table I.A.2 (2014). Retrieved April 27, 2016, from http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2014/tia2.htm.
[2] Agency for Healthcare Research and Quality. 2014 Medical Expenditure Panel Survey-Insurance Component, Table I.B.2.a.(1) (2014). Retrieved April 27, 2016, from http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2014/tib2a1.htm
[3] Agency for Healthcare Research and Quality. 2013 Medical Expenditure Panel Survey-Insurance Component, Table I.B.2.a.(1) (2013). Retrieved April 27, 2016, from http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2013/tib2a1.htm
[4] Please see http://us.milliman.com/uploadedFiles/insight/2016/2014-commercial-health-insurance.pdf for more information.
[5] The six states were Missouri, New Jersey, New York, Ohio, Rhode Island, and Vermont.

EMPLOYER STRATEGIES HIGHLIGHTED

INCREASED MOMENTUM FOR VOLUNTARY BENEFITS?

Stephanie Noonan, CERA, MAAA, FSA

Slow economic growth over the past decade, along with continual increases in healthcare costs, have prompted many employers to limit their benefit plan costs by increasing deductibles and cost-sharing provisions. The inevitable result is that employees are now exposed to higher costs. To reduce this exposed benefit gap and provide employees with a way to manage their risk level, numerous employers are expanding their voluntary benefit offerings.

Most employers already offer some form of voluntary benefit programs such as additional life insurance, vision, disability, dental, and accidental death and dismemberment (AD&D) insurance. Increasingly, they're also introducing an expanded line of voluntary benefits, recognizing the changing needs and lifestyles of a more diverse workforce. These benefits include coverages such as ID theft protection, critical illness, financial counseling, student loan repayment programs—and even pet insurance.

Some of the advantages of these additional voluntary benefit programs include:

- These programs are perceived by employees as adding value to their benefit packages—at little to no extra employer cost.
- Employees are able to take advantage of the group purchasing power and lower premium rates available.
- Underwriting qualifications in a group setting can be more relaxed, and guaranteed-issue products are available.
- Employees are able to elect from a variety of product options at annual enrollment, tailoring their selections around their lifestyle needs. Attaching these benefits to their annual benefit election simplifies enrollment. And employees can generally fund them through payroll deductions throughout the year.

Here are other elements that should be considered before offering or opting into these programs:

For Employees:

Employees should consider portability. Many voluntary benefits can be continued on an individual basis without negative consequences when company employment ends. With some coverages, continuation may be available—but the group premium discount may be lost. These portability provisions will typically vary by line of coverage and carrier, and should be reviewed carefully.

For Employers:

ERISA imposes a number of reporting and regulatory requirements on employer-sponsored plans; the applicability of ERISA to voluntary programs depends on employers' involvement. ERISA does not apply to those voluntary plans where employers have limited their involvement with the program by allowing the insurer to publicize the plan at annual enrollment, even remains responsible for collecting premiums by payroll deduction, and remitting them to the insurer. ERISA may apply to voluntary programs in cases where an employer decides to become more involved—for example, engaging in communication campaigns to drive employee participation. Employers should consult with their legal counsel to determine potential ERISA applicability.

Overall, voluntary coverage offerings can add value to the employee benefit program and be beneficial to both employee and employer. Employees may consider it a plus with access to impactful programs and plans that have been vetted and offered at a competitive price. Employers can continue to build employee loyalty and use voluntary benefits to supplement or replace employer-sponsored benefits that have been reduced or eliminated. It is feasible for employers to offer their employees a full menu of benefits (both core and voluntary) that allows each individual the ability to choose the benefits that are right for them.

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PLAN SPONSOR COMPLIANCE CALENDAR WITH KEY 2016-2017 DATES

MAY 2016
- **31**: 2015 Paper Forms1094-B and 1094-C to IRS

JUNE 2016
- **30**: 2015 Electronic Forms 1094-B and 1094-C to IRS

AUGUST 2016
- **1**: Patient Centered Outcomes Research Institute (PCORI) Fee Due
- **1**: 2015 Form 5500 Annual Report to Employees

SEPTEMBER 2016
- **30: 2015 Summary Annual Report to Employees**

OCTOBER 2016
- 15: Notice of Rx Drug Creditable Coverage to Employees
- 31: Summary of Benefits and Coverage to Employees

NOVEMBER 2016
- 1: Enrollment Report for Transitional Reinsurance Fee to HHS
- 15: 2016 Transitional Reinsurance Fee Payment Due

DECEMBER 2016
- 31: Election Notice of Opt-Out From Certain HIPAA Portability Requirements

JANUARY 2017
- 16: 2017 Transitional Reinsurance Fee Payment Due
- 31: 2016 Form W-2 to IRS whether filing using paper forms or electronically. (See page 1 of 32, at: https://w6w.irs.gov/pub/irs-pdf/iw2w3.pdf)
- 31: 2016 Form 1099-R to employee (See page 11 of 11, at: https://www.irs.gov/pub/irs-pdf/f1099r.pdf)

FEBRUARY 2017
- 28: 2016 Form 1099-R to IRS (See page 11 of 11, at: https://www.irs.gov/pub/irs-pdf/f1099r.pdf)
- 28: 2016 Forms 1095-B and 1095-C to IRS, if filing on paper.*

MARCH 2017
- 1: RX Drug Coverage Disclosure to CMS
- 31: 2016 Electronic Form 1099-R (See page 11 of 11, at: https://www.irs.gov/pub/irs-pdf/f1099r.pdf)
- 31: 2016 Forms 1095-B and 1095-C to IRS if filing electronically.*

REGULATORY ROUNDUP

EMPLOYEES IN ERISA CLASS ACTION CLAIM THEY WERE MOVED TO PART-TIME STATUS TO AVOID ACA ELIGIBILITY

Charles Clark, ASA, EA, MAAA

When the Affordable Care Act (ACA) was signed into law, employers were concerned. Rising benefits costs, scrutinized hiring practices, and potential lawsuits topped the list. Currently, we're watching an important case that's making its way through the federal court system. It focuses on ACA's impact on employers' ability to reduce employee hours.

The first class action of its kind concerns ACA's mandate to provide health benefits to employees working 30 or more hours per week. The U.S. District Court for the Southern District of New York allowed the case to proceed in mid-February. The lawsuit alleges that an employer deliberately cut employees' hours to avoid providing them with health care benefits.

The plaintiffs filed their suit under Section 510 of ERISA, which prohibits employers from interfering with the ERISA-stipulated rights of employees to receive benefits like health care. The class is a made up of some 10,000 claimants working for a nationwide restaurant chain. The lead litigant alleges that her hours were more than halved in order to avoid the ACA mandate—and, as a result, she was deprived of benefits and wages.

Some aspects of this case made the company vulnerable to a potential suit. Local managers, for example, allegedly informed employees that a reduction to part-time status was made to avoid paying additional health care benefits. Subsequently, the restaurant's full-time roster of employees fell by more than 50%. There was enough evidence of intent to interfere with ERISA benefits for the court to deny dismissal.

Three things to keep in mind:
- Clear communications are critical when hiring new employees or changing their status. All non-full-time employees should have their status clearly documented—particularly when part-time workers replace a full-time employee.
- Many employers continue to manage their exposure to ACA penalties by limiting the working hours of some employees. We urge employers to be careful in communicating these strategies to employees—and to consult with ERISA insurance and legal professionals before adopting them.
- This suit has yet to be decided. Yet the court's denial of dismissal will doubtless encourage plaintiffs' attorneys, who now have a model for complaints under ERISA's Section 510. Expect more litigation to follow.

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