

# State Employees Health Insurance: Impact of Patient Protection and Affordable Care Act

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# Underlying Program

Financial Outlook	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>
(Dollars in Millions)	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
Beginning Cash Balance	\$ 197.8	\$ 313.9	\$ 256.7	\$ 171.9	\$ 0.0
Revenues	\$ 1,903.4	\$ 1,885.2	\$ 1,972.6	\$ 1,969.5	\$ 1,975.3
Expenses	\$ 1,787.3	\$ 1,942.4	\$ 2,057.4	\$ 2,232.2	\$ 2,443.3
Operating Gain/(Loss)	\$ 116.1	\$ (57.2)	\$ (84.8)	\$ (262.7)	\$ (468.0)
Ending Cash Balance	\$ 313.9	\$ 256.7	\$ 171.9	\$ (90.8)	\$ (468.0)

Note: Assumes no carry forward of negative cash balance from prior year beginning FY 2015-16.

- Total expenditure growth averages just over 8.1% per year during the forecast.
- The Trust Fund is expected to remain solvent through FY 2013-14; however, projected revenue (\$1.89 billion) will first fall short of meeting the anticipated growth in health plan expenses in FY 2012-13 (\$1.94 billion in total).
  - There is a projected cash surplus of \$256.7 million in FY 2012-13.
  - There is a smaller surplus in 2013-14 as the operating loss begins to erode the available balance.
  - There is a projected ending cash deficit of \$90.8 million in FY 2014-15.

# What's Included in the Estimate...

- The impacts associated with the **Patient Protection and Affordable Care Act (PPACA)** that have already been implemented by the Division of State Group Insurance are included in the affected revenue and expense line items for each year of the outlook. The impacts to the Program that will occur in the future and have yet to start are excluded.
- The major health care reform provisions with potential employer impact that have been implemented, or are in the process of being implemented, for the Program, include:
  - Elimination of overall lifetime plan maximums;
  - Removal of annual limits for essential health benefits;
  - Elimination of pre-existing condition exclusions for children under age 19;
  - Patient-centered outcome research institute fees (\$1 per participant for the 1<sup>st</sup> year and \$2 per participant for subsequent years through 2019);
  - Extended coverage for employees' adult children to age 26 without regard to dependency; and
  - Imposition of pass-through fees relating to the pharmaceutical industry.

# Costs of Previously Implemented Provisions...

Effective January 1, 2011, the adopted outlook began to reflect the following:

- No lifetime dollar maximum...**\$3.06 million in FY 11-12**
- Restricted annual dollar limits...no estimated impact
- Elimination of preexisting conditions for subscribers and dependents under age 19...**\$1.7 million in FY 11-12**
- Extension of coverage for all adult children until age 26...**\$10.21 million in FY 11-12**

# What's Excluded from the Estimate, but Addressed Separately...

- Major changes, effective January 1, 2014, which include:
  - Reinsurance, risk corridors, and risk adjustment;
  - Elimination of all remaining pre-existing condition limitations;
  - “Shared responsibility” provisions requiring employers to offer affordable coverage meeting minimum standards to full-time workers (30 or more hours per week) or face potential penalties; and
  - Individual mandate to maintain health coverage or face a penalty.
- In some instances, implementation of reforms may require changes to state law for compliance or to avoid significant penalties. For example, current law prohibits employees in the Other Personal Services (OPS) category from being covered by the State Group Insurance Program.

# Opt-Outs and OPS

- Single largest cost piece of the remaining issues to be implemented.
- Over 20,000 State and State University System employees will potentially be affected.
- Employer penalty for failing to offer health coverage for all “full-time” employees = \$2,000 per year, per employee as to all employees, if one or more the affected employees enroll in an exchange and receives a premium credit. The penalty would potentially exceed \$318 million annually.
- Since the cost of this provision is far less than the penalty (about one-third of the penalty in FY 2015-16), the Self-Insurance Estimating Conference assumes the Legislature will change the current law and offer the coverage to the employees meeting the hours of work requirement.
  - Assume 6,291 qualifying OPS workers (\$28.67 million in FY 2013-14, and grows to \$67.62 million in FY 2015-16).
  - Assumes the return of 13,723 qualifying Opt Outs (\$8.31 million in FY 2013-14, and grows to \$39.22 million in FY 2015-16).

**Summary of Fiscal Impact to Forecast of Federal Patient Protection Affordable Care Act (PPACA)**  
(In Millions)

Reform	Effective Date	Revenue(R) Expense (E) Net <sup>(1)</sup>	FY 2012-13 Total	FY 2013-14 Total	FY 2014-15 Total	FY 2015-16 Total <sup>(2)</sup>
1. Early retiree medical reinsurance		<b>Net</b>	<i>NO ESTIMATED IMPACT ON THE TRUST FUND</i>			
2. No lifetime dollar maximum	Jan 2011	<b>Net</b>	<i>ALREADY EMBEDDED</i>			
3. Restricted annual dollar limits		<b>Net</b>	<i>NO ESTIMATED IMPACT ON THE TRUST FUND</i>			
4. Eliminate preexisting condition limitations for dependent children under 19	Jan 2011	<b>Net</b>	<i>ALREADY EMBEDDED</i>			
5. Patient-centered outcomes research institute fees (\$1 per participant in first year, \$2 in 2nd year, assumes 3rd year is same as 2nd year)	Jan 2012	R E <b>Net</b>	- 0.38 <b>(0.38)</b>	- 0.75 <b>(0.75)</b>	- 0.75 <b>(0.75)</b>	- 0.75 <b>(0.75)</b>
6. Other pass-through fees include: Pharmaceutical industry fees 2.3% excise tax on medical devices Reinsurance, Risk Corridors, and Risk Adjustment	Jan 2011 Jan 2013 Jan 2014	R E <b>Net</b>	- - -	- 20.41 <b>(20.41)</b>	- 42.82 <b>(42.82)</b>	- 42.82 <b>(42.82)</b>
7. Extension of coverage for all adult children until age 26	Jan 2011	<b>Net</b>	<i>ALREADY EMBEDDED</i>			
8. Eliminate all preexisting condition limitations	Jan 2014	R E <b>Net</b>	- - -	- 2.03 <b>(2.03)</b>	- 4.30 <b>(4.30)</b>	- 4.30 <b>(4.30)</b>
9. Free choice vouchers		<b>Net</b>	<i>REPEALED BY CONGRESS</i>			
10. Shared responsibility "free rider surcharge"		<b>Net</b>	<i>NO ESTIMATED IMPACT ON THE TRUST FUND</i>			
11. Medicaid Expansion and migration into Exchange		<b>Net</b>	<i>PENDING FUTURE ACTION BY THE LEGISLATURE AND GOVERNOR</i>			
12. Individual Mandate with federal subsidies	Jan 2014	R R E E <b>Net</b>	- - - -	10.01 27.01 8.31 28.67 <b>0.04</b>	27.16 46.30 26.98 62.04 <b>(15.56)</b>	34.30 46.30 39.22 67.62 <b>(26.24)</b>
<b>TOTAL REVENUES <sup>(7)</sup></b>			0.00	37.02	73.46	80.60
<b>TOTAL EXPENSES</b>			0.38	59.79	137.27	155.09
<b>NET TOTAL <sup>(8)</sup></b>			<b>(0.38)</b>	<b>(22.77)</b>	<b>(63.81)</b>	<b>(74.49)</b>

# Conference Expenditure Summary

(millions)	2012-13	2013-14	2014-15	2015-16
Expenses Related to Previously Implemented Provisions (Embedded)	16.2	17.5	18.9	20.5
Expenses Related to New Provisions (Required Future Additions)	0.4	59.8	137.3	155.1
	<b>16.6</b>	<b>77.2</b>	<b>156.1</b>	<b>175.6</b>

Enrollees	170,100	169,869	170,325	171,018
Per Member Per Year Impact	\$97.30	\$454.70	\$916.60	\$1,027.00

- The revenues to meet these expenses are derived largely from state-paid premiums. However, the final funding methodology will be set by the Legislature.
- The Conference results showed that the existing revenue structure would be insufficient to meet the expenses related to the new provisions in their entirety.



# Next Conference

- Scheduled for February 28<sup>th</sup>.
- Continuing to refine the OPS numbers; however recent guidance has added even more complications and decision points. The “seasonality” associated with university employment is particularly challenging.
- Updated information relating to the cost projections associated with the mandated pharmaceutical industry (Pharma) fee, medical device fee, and transitional reinsurance program fee has just been received and is being evaluated.

