



**State of Vermont
Employer Group Migration
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Julia Lambert, FSA, MAAA
Crystal Bradley, ASA, MAAA

Overview

- Key Findings
- Reasons for Migration from Fully Insured ESI
- Employer market response that will impact migration
- Wakely estimates of the movement

Key Finding #1

20-40% of the small employer market will drop ESI.

Small Employer Market To Drop Coverage Number of Lives/% of the Small Group Market

	<u>Low</u>	<u>Low (%)</u>	<u>Best Estimate</u>	<u>Best Estimate (%)</u>	<u>High</u>	<u>High (%)</u>
Small Group	12,000	20%	18,000	30%	24,000	40%

- These estimates include all employees and their families that drop, including those employees that would be eligible for Medicaid or subsidy eligible coverage.

Key Finding #1 - cont'd

- Range is between 20%-40% of small employers will drop coverage.
 - Based on survey data of 50 groups, up to 1/3 of the small employer market may drop ESI.
 - More if high value to employees under the exchange.
 - We estimate that 55% of the employees where coverage is dropped will be eligible for some type of subsidy.
 - National estimates for percent of small employers that drop coverage are between 9% and 20%.
- Vermont estimates of dropped coverage are higher than national averages
 - Given that all small groups must switch into new exchange structure (i.e. there is no market outside the exchange), employers must make a change; therefore more likely to consider dropping coverage when evaluating all possible options
 - Combined individual and small group exchange.
 - Employees have same options under individual or employer sponsored plans
 - Individuals with unaffordable employer sponsored coverage have potentially a smoother transition to individual exchange under combined individual and small group exchange.
 - State is making efforts to educate employers on alternatives and provide decision making tools

Key Finding #2

Approximately 4,000 to 11,000 employees will be eligible to drop ESI coverage and obtain subsidies.

- For those employers that keep providing coverage, the portion of employees eligible to move to individual exchange and collect subsidies is approximately 5% of the SG ESI market and 2% of the LG ESI/Self-insured association market.
 - Approx. 1,000 to 3,000 of the small group ESI market
 - Approx. 3,000 to 8,000 of the large group ESI/Self-insured association market

	Small Group to Individual	Large Group to Individual
Low	3%	1%
Best Estimate	5%	2%
High	7%	3%

Key Finding #2 (cont'd)

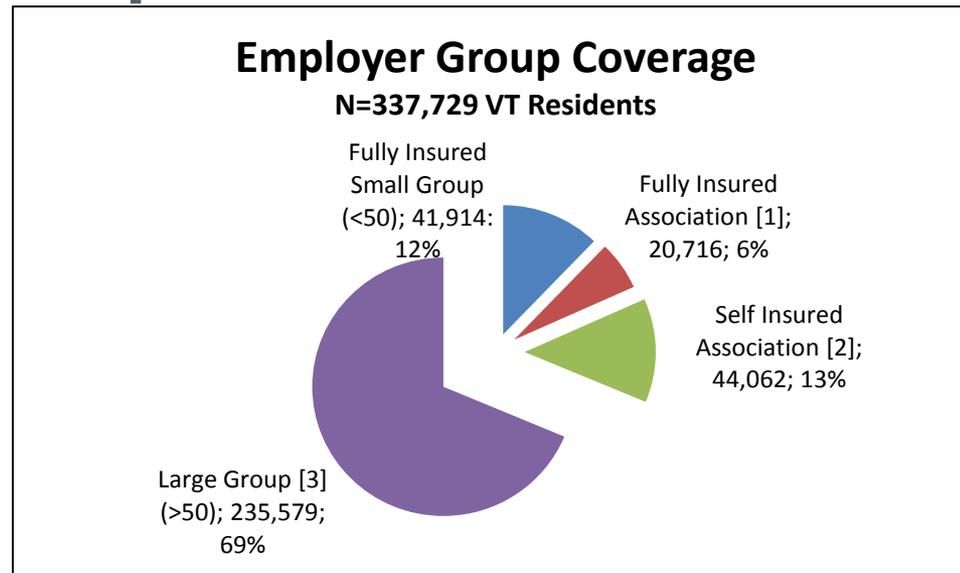
- Estimate excludes the Medicaid eligible membership (which is 9% of the small group market and 3% of the large group market).
- Expect 100% of the small group subsidy eligible employees to move to the exchange.
 - Combined individual and small group exchange facilitates easy move
- Expect less than half of the large group subsidy eligible employees to move to the exchange
 - Fewer large group employees are expected to move because they'd have to actively choose to enter the exchange.

Key Finding #3

The self-insured market in Vermont will not significantly change with the introduction of the ACA.

- Neither the small group or the large group market has a significant change in incentives to move to the self-insured market.
- Many of the small group rating provisions for the ACA have already been in place (age rating restrictions, no underwriting factor allowed).
- The small group market already has a self-insured option.

Employer Sponsored Insurance in Vermont



[1] Reported as small group, includes Associated Industries of Vermont Insurance Services (AIVIS), Vermont League of Cities and Towns (VLCT), Business Resource Services (BRS), Vermont Assoc of Chamber Executives (VACE), Vermont Dental Society (MVP), and Vermont Health Services Group (VHSG)

[2] Includes Vermont Education Health Initiative (VEHI) and Auto Dealers (VADA). Included with Large group for the remainder of the report.

[3] Large Group is reported as the balance.

Reasons for Migration from Fully Insured ESI

1. Employer drops coverage - small group
 - Cost issues
 - More choice for employees
 - Especially if employees could obtain lower cost coverage - low income employees may have lower cost through exchange with subsidies than through ESI

Reasons for Migration from Fully Insured ESI, *cont'd*

2. Decision to self-insure

▫ Under ACA

- Self-insured groups will not be part of the exchange's rating pool, or the risk adjustment pool. They do not have to meet essential health benefits nor the 60% minimum AV requirement.
- Large groups who self-insure are still subject to the penalty (See slide 11)
- Generally states are worried about the adverse selection of the healthy groups being self-insured, and leaving a higher cost risk pool in the exchange (Vermont is unique – see slides 17, 18, 19)

▫ Current market

- No significant self-insurance in small group market, except for those in association
- About 40% of the large group market self-insures

3. Employees are eligible to move to exchange if employer is

- Offering AV < 60%
- Not meeting contribution requirements

Employer market response that will impact migration

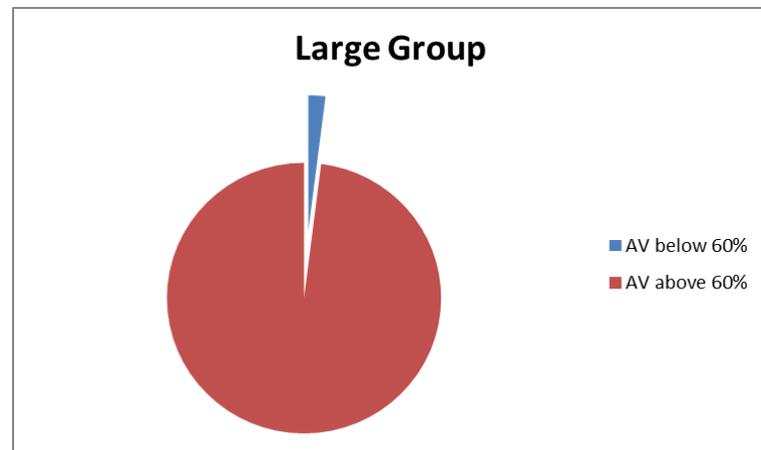
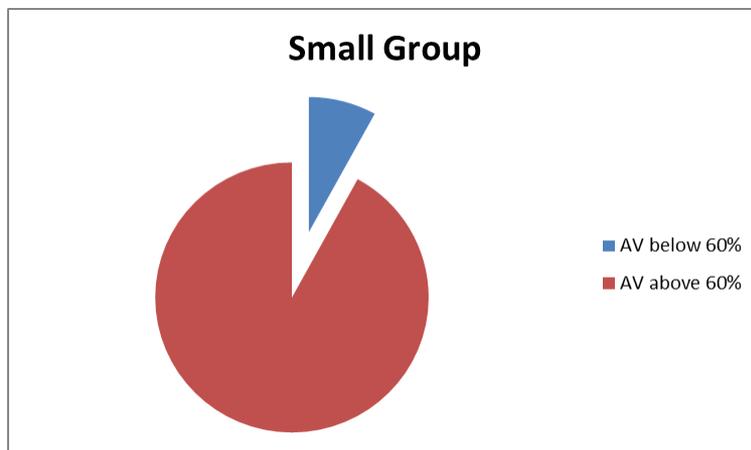
- Employer response driven by employer penalty
- Who pays?
 - Only large groups pay the penalty
 - Only pay on full-time employees
 - Large employers who don't offer insurance and employee gets premium tax credit (EE household income < 400% FPL)
 - Large employers who do offer insurance and both (1) and (2)
 - (1) Either
 - If benefit plan is under 60% AV OR
 - If employee contribution is > 9.5% of the household income
 - (2) Employee gets premium tax credit (EE household income < 400% FPL)
 - Non-intuitive results
 - Employers with only high wage earners never have to pay penalty, even if they don't offer insurance as no employees would qualify for premium tax credit.
 - Don't pay any penalty unless worker is putting in more than 30 hours/week (includes seasonal).

Employer market response that will impact migration, *cont'd*

- Some large groups may consider changing the amount of full-time vs. part-time employees
 - Employers could reduce the amount of hours that employees work.
 - In Vermont, insurers must allow employers option to provide full benefits to employees working as little as 17.5 hours/week. Anecdotal information suggests most employers do not provide employee benefits down to this part-time level of employment.
 - Per ACA rules, full-time employees are those with more than 30 hours a week. Employers could reduce hours for full time down to under 30 to avoid penalty on those members.
 - Although this is one strategy for avoiding the penalty, Wakely does not anticipate a significant movement of employees currently covered by ESI to move to part-time status in order to avoid the penalty.

Employer market response that will impact migration, *cont'd*

- Change in coverage to meet 60% AV – Large group and Small group
 - Current AV
 - Less than 10% of small group members have coverage with AV's less than 60%
 - About 2% of large groups have coverage with less than 60% AV
 - Expectations
 - Small group will have to increase coverage or will self-insure or drop coverage
 - Large group will have to increase coverage to avoid the penalty



Employer market response that will impact migration, *cont'd*

- Manipulate coverage/contribution to meet 9.5% requirement¹ – Large Group
 - Drop coverage amount, keep employer contribution the same, employee contribution becomes less
 - Keep coverage same, reduce employee contribution, increase in employer contribution
 - Change contribution of single vs. family contribution
 - Proposed Tax Credit rule indicated that test applied to single coverage.
 - Final Tax Credit rule left 9.5% test undefined as to whether it applies to single coverage or family coverage.

¹The 9.5% requirement described on Slide 11.

Employer market response that will impact migration, *cont'd*

- **Current contributions in Vermont**
 - Single contributions are highest, Family contributions are less. Varies by small group/large group
 - See table below from the 2011 Fringe Benefit Study performed by the VT Department of Labor

Medical Insurance Premiums - Share of Cost by Type of Coverage

	% of Firms, Grouped by Employment Size				
	<u>1-9</u>	<u>10-19</u>	<u>20-49</u>	<u>50-249</u>	<u>250+</u>
Single					
Employer Pays All	45%	29%	32%	22%	3%
Employer Pays None	0%	0%	0%	4%	0%
Most frequent % of premium paid by employer	50%	50%	50%	75%	n/a*
*n/a - near uniform distribution					
Single + 1					
Employer Pays All	26%	10%	15%	12%	0%
Employer Pays None	0%	5%	4%	7%	0%
Most frequent % of premium paid by employer	50%	50%	50%	50%	80%
Family					
Employer Pays All	28%	8%	12%	10%	0%
Employer Pays None	0%	4%	4%	5%	0%
Most frequent % of premium paid by employer	50%	50%	50%	75%	80%

Employer market response that will impact migration, *cont'd*

- 47% of the total ESI market have less than 400% FPL
 - Average small group salary 12% lower than average ESI, estimate 55% of small group less than 400% of FPL
 - Average large group salary 10% higher than average ESI, estimate 41% of large group and self-insured association less than 400% of FPL

FPL	Number of individuals	Current ESI Distribution (combined Small and Large)	Where will they go in 2014?
<133%	16,872	5.0%	Eligible for Medicaid
133%-150%	3,803	1.1%	
151%-200%	15,764	4.7%	
201%-250%	24,805	7.3%	
251%-300%	29,876	8.8%	
301%-350%	32,203	9.5%	
351%-399%	36,745	10.9%	
400%+	177,661	<u>52.6%</u>	Stay in ESI (if offered and affordable coverage) or move to exchange as subsidized individual
Total	337,729	100.0%	

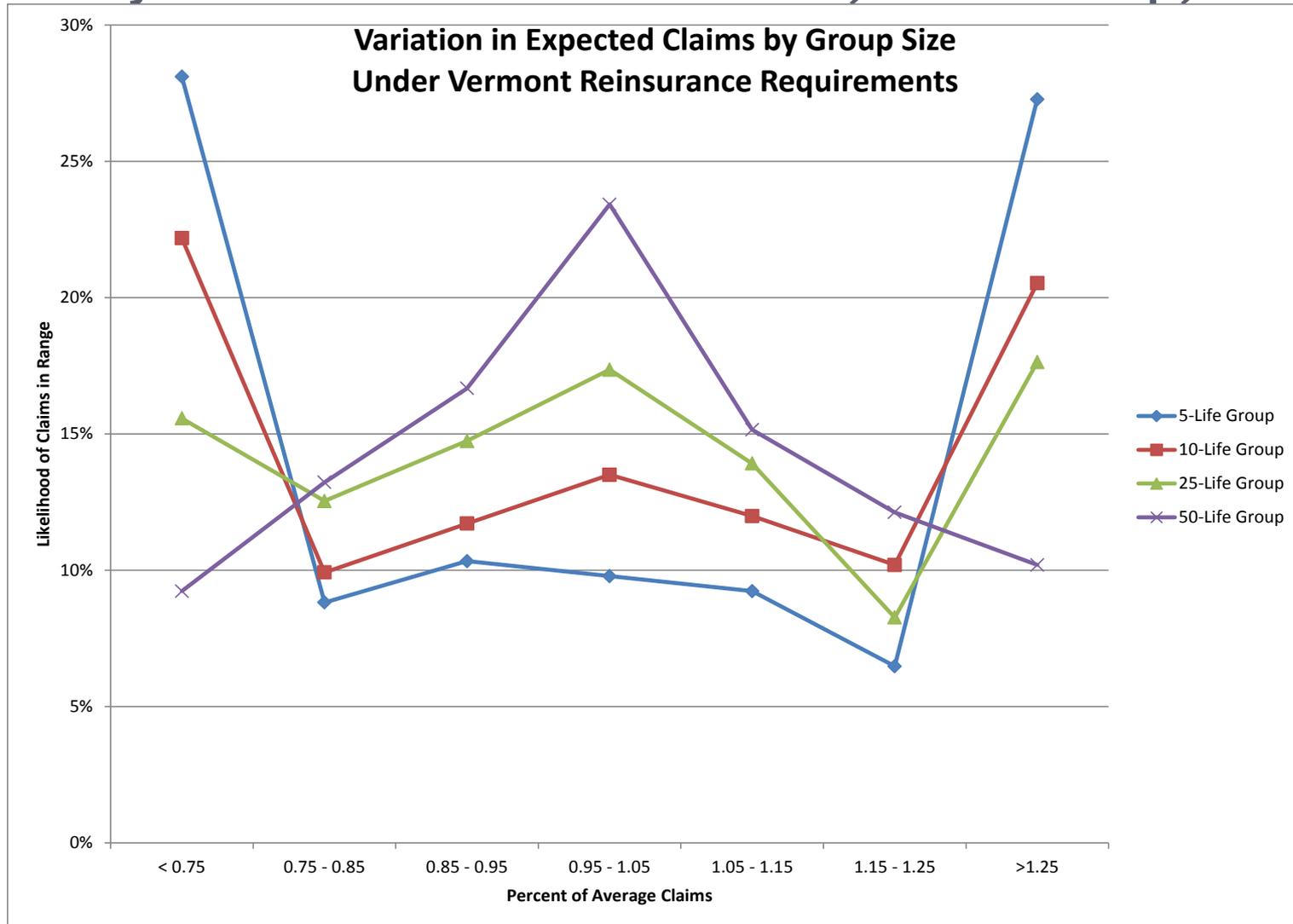
Wakely estimates of the movement, Small Group

- Self-insure
 - Don't expect that the small group self-insured market will change as there is no change in Vermont of rating requirements.
 - Cigna offers a self-insurance option to the small group market but there is no take-up of the option.
 - Under Vermont law - Regulation H-2009-02 Health Care Stop Loss Insurance restricts/discourages small group stop loss insurance (see graph on slide 18 and graph description on next slide)

Wakely estimates of the movement, Small Group

- Graph on next slide provides results of simulation of the variability of claims for small groups who self-insure under Vermont regulated stop loss requirements.
- Each different colored line reflects a different size of group.
- The horizontal axis reflects the ratio how actual claims compare to expected claims for a year. E.g. An A:E ratio of 1.25 means that claims are 25% higher than expected.
- The vertical axis reflects how often that that A:E ratio occurs. E.g. A 5 life group will have an A:E ratio of higher than 1.25 more than 25% of all years.
- The result is that small groups have a large variation of costs when self-insuring under Vermont regulations, which dis-incentivizes them from self-insuring. Even the largest small groups (of size 50) have costs more than 15% different from their expected costs about 40% of the time (20% of the time favorable, and 20% of the time unfavorable).

Wakely estimates of the movement, Small Group, *cont'd*



Wakely estimates of the movement, Small Group, *cont'd*

- Estimated number of employers who drop coverage
 - Per Wakely study, 1/3 of Vermont employers said they would drop coverage and go to the Exchange on their own.
 - Over half (53%) indicated they would drop coverage if their employees “could get as good of coverage as we can get now and if there is a financial benefit to them. It is imperative that they can go get health coverage at a reasonable rate.”
 - Low income employees may have lower cost through exchange than through ESI
 - Coverage will be dropped for approximately 18,000 (includes both Medicaid eligible and other subsidy eligible individuals)

Wakely estimates of the movement, Small Group, *cont'd*

- A portion of the small group market will be eligible for individual exchange subsidies due to unaffordable ESI coverage (approx. 2,000)
- The estimate is based on a distribution of single employee contributions and a distribution of salaries for those employees.
- High take-up rate for employees who are eligible for the individual exchange (small group)
 - Combined SHOP/exchange
 - No outside market
- Change in premium for members moving to individual exchange
 - Depends on employer contribution, % FPL, benefit plan chosen
 - Generally those eligible for subsidy will pay less in the individual exchange, those not eligible for the subsidy will pay more because of the loss of the employer contribution
 - Can use any available HSA to offset costs

Wakely estimates of the movement, Large Group/Self-insured Associations

- Self-insure
 - Don't expect that the large group self-insured market will change
- A portion of the large group market will be eligible for individual exchange subsidies due to unaffordable ESI coverage (only 1-3%, approx. 5,500)
- The estimate is based on a distribution of single employee contributions and a distribution of salaries for those employees.
- Large group/Self-insured associations have a lower take-up rate for employees who are eligible for the individual exchange
 - Depends on employer and consumer education
 - Believe only 25% of those eligible will ultimately enroll in the exchange (approx 1,500).
- Change in premium for employees moving to individual exchange
 - Depends on employer contribution, % FPL, benefit plan chosen
 - Generally those eligible for subsidy will pay less in the individual exchange, those not eligible for the subsidy will pay more because of the loss of the employer contribution
 - Can use any available HSA to offset costs

Wakely estimates of the movement - Summary

Total Current ESI Membership Expected to Migrate – Best Guess:

Migration out of ESI – Summary of Best Estimates (including Medicaid)					
		Total	To Medicaid ¹	To Individual Exchange w/Subsidy	To Individual Exchange w/o Subsidy
Small Group					
Dropping Coverage		18,000	1,500	8,500	8,000
Unaffordable coverage		2,000		2,000	
Eligible for Medicaid		5,500	5,500		
Large Group/Self-insured Associations					
Dropping Coverage		None	None	None	
Unaffordable coverage		1,500		1,500	
Eligible for Medicaid		2,000	2,000		
Total Migration out of ESI					
		29,000	9,000	12,000	8,000

¹Although not the focus of the analysis, we included Medicaid membership to assist with other Vermont analysis currently taking place.