

Joint Ways and Means Subcommittee on Human Services
Phase 2 Additional Information

Several questions arose during the PEBB and OEBB Phase 2 presentation to the Joint Ways and Means Subcommittee on Human Services on Wednesday, April 22, 2015. This document provides additional information in response to those questions.

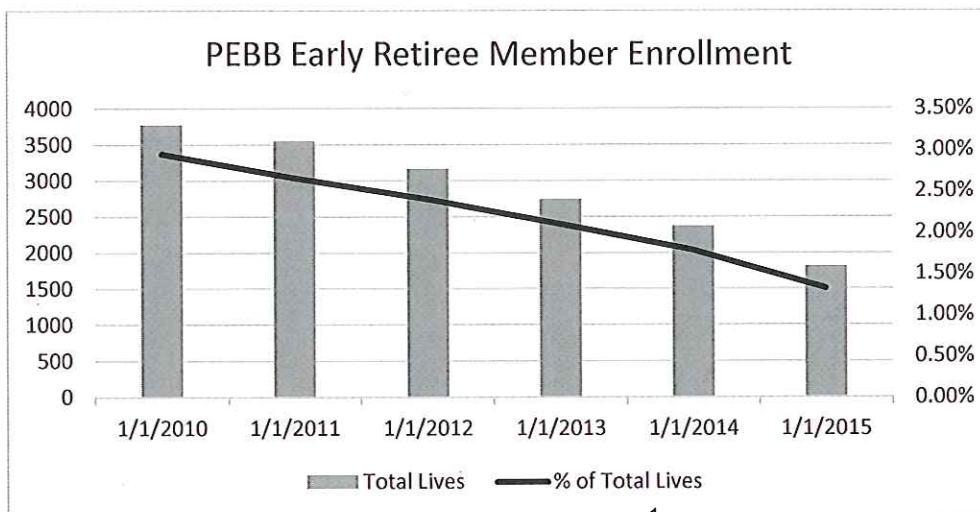
Sen. Steiner-Hayward – Are you providing insurance for retirees that are pre-65 and not on Medicare?

PEBB

PEBB members under the age of 65, not eligible for Medicare and in PERS eligible status can stay on a PEBB medical, dental and/or vision plan when they retire. The retiree pays 100% of the premiums, and there are no explicit employer-paid subsidies offered, such as stipends, towards the payment of their monthly premiums. Once a retiree leaves PEBB insurance, they are not permitted to re-enroll. Retired members cannot stay on PEBB's group optional life policy, however they can take a portion of the coverage with them as a private policy.

PEBB statutes allow the retirees to be experience-rated separately from active employees, however the board has chosen to keep them in the same pool as the active employees. This keeps the retiree rates lower than they would be if retirees were rated separately. PEBB's premiums are high, but the plans have very low deductibles and copayments/coinsurance.

Since the Affordable Care Act removed the preexisting condition exclusions from all health plans, the number of retirees has decreased. Below is a chart showing PEBB retiree enrollment over time.

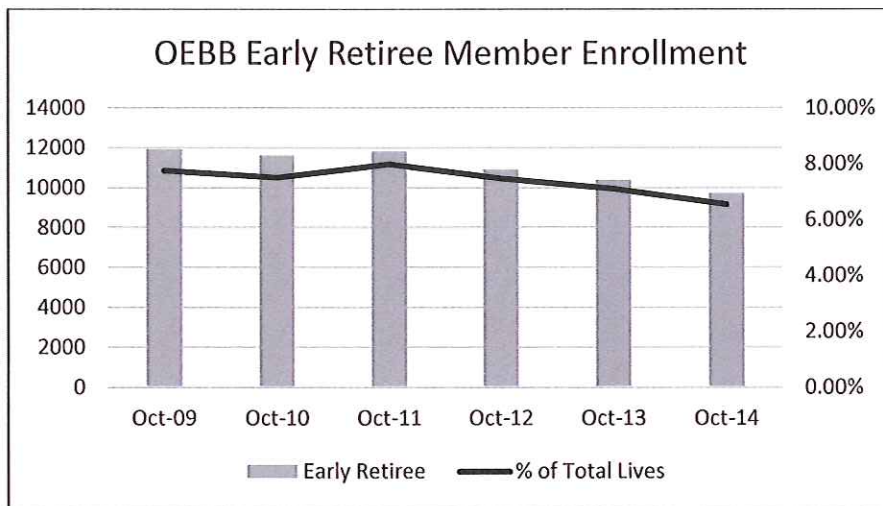


OEBB

OEBB members under the age of 65 and not eligible for Medicare can stay on an OEBB medical, dental and/or vision plan when they retire. Some employers pay all or a portion of the premiums until the members turns 65 as part of the member's contractual compensation package. Some retired OEBB members also have employer-paid life insurance through the OEBB group plan as part of their retirement package, others are allowed to continue the group life coverage on a self-pay basis. Once a retiree leaves OEBB insurance, they are not permitted to re-enroll.

OEBB's retiree enrollees are pooled with active employees for rate setting purposes. ORS 243.303(3) prohibits rating retirees for local governments (to include school districts) separately from the active employee group.

The Affordable Care Act has had little impact on OEBB's retiree population as most have access to plans with higher deductibles and lower monthly premiums.



Sen. Bates – How do we adjust the PEBB/OEBB programs to avoid the Affordable Care Act (ACA) Excise Taxes? What are the expected premiums per person and per plan?

Following is an overview of the ACA regulation (as of today), PEBB and OEBB's current status regarding the tax and possible solutions being considered by both boards.



ACA Excise Tax PEBB / OEBB Implications

In 2018, the Affordable Care Act (ACA) calls for a 40 percent tax on employer-sponsored health care premiums that exceed a maximum threshold. The purpose of the tax is to support the expansion of coverage to the uninsured and Medicaid, support cost-effective delivery mechanisms and reduce the current tax subsidization of rich benefit plans. This tax is applied to both fully and self-insured plans and is payable by the fully insured vendor or the self-insured group.

The maximum annual premiums thresholds are \$10,200 for employee only coverage and \$27,500 for employee and family coverage. Contributions to flexible spending accounts (FSAs), health reimbursement arrangements (HRAs) and health savings accounts (HSAs) will likely be included in the calculation of the premiums. The threshold includes a CPI + 1 percent increase in 2019, CPI increase will apply in subsequent years.

The regulations and advice from the IRS continues to be released and is being watched by both boards and their consultants. The mechanisms to mitigate the impact of the tax are different for each program.

Ultimately, the costs of a tax would be borne by the state, participating entities (OEBB only school districts) and members.

OEBB

Current State

All OEBB health plans are fully insured. Any tax will be payable by their contracted vendors, but would most likely be passed onto OEBB-participating entities and members in the form of premium increases.

OEBB's enrolled groups can offer benefits using tiered rates or composite rates. Under the tiered rate structure, employee only, employee and spouse/domestic partner, employee and child(ren) and employee and family groups have different monthly premiums. Under the composite rate structure, all the different tiered rates are averaged to develop a single premium that will be used by employees covering only themselves and by those employees covering eligible dependents. Also, many entities currently make contributions to FSA, HRA and HSAs on behalf of employees.

Below is a chart showing OEBB's annual premium rates for the 2015-16 plan year. The highlighted rates indicate the premiums that would exceed the 2018 threshold if the tax were to be implemented this year, Plan A is the only plan in jeopardy of a tax when the tier-rated methodology is used. Using a composite rated methodology, all current plans would be in jeopardy of a tax, except the three bronze-level plans and Plan H (Synergy/Summit) for an individual employee, but none of the current plans would exceed the family threshold.

Contributions to an FSA, HRA, or HSA are not reflected in these rates and may impact the number of plans above the threshold.

Plans projected to exceed the threshold in 2018 are identified with an asterisk and assume annual premium increases of 8.0 percent.

	Tier-Rated Groups		Composite-Rated Groups	
	Employee Only	Employee & Family	Employee only	Employee & Family
Moda PPO Plans				
Plan A	\$10,523*	\$32,624*	\$25,047*	\$25,047*
Plan B	\$8,432*	\$26,141*	\$20,069*	\$20,069
Plan C	\$7,038	\$21,816	\$16,749*	\$16,749
Plan D	\$6,532	\$20,249	\$15,546*	\$15,546
Plan E	\$6,112	\$18,947	\$14,546*	\$14,546
Plan F	\$5,631	\$17,457	\$13,402*	\$13,402
Plan G	\$5,100	\$15,811	\$12,139*	\$12,139
Plan H	\$4,586	\$14,217	\$10,915*	\$10,915
Bronze	\$3,898	\$12,085	\$9,278*	\$9,278
Moda Synergy/Summit Networks				
Plan A	\$9,751*	\$30,230*	\$23,209*	\$23,209*
Plan B	\$7,814	\$24,223*	\$18,596*	\$18,596
Plan C	\$6,521	\$20,216	\$15,520*	\$15,520
Plan D	\$6,053	\$18,764	\$14,406*	\$14,406
Plan E	\$5,663	\$17,557	\$13,479*	\$13,479
Plan F	\$5,215	\$16,168	\$12,413*	\$12,413
Plan G	\$4,722	\$14,640	\$11,239*	\$11,239
Plan H	\$4,250	\$13,174	\$10,114*	\$10,114
Bronze	\$3,612	\$11,198	\$8,597*	\$8,597
Kaiser				
Plan 1	\$7,033	\$21,802	\$16,743*	\$16,743
Plan 2	\$6,438	\$19,959	\$15,323*	\$15,323
Plan 3	\$4,314	\$13,373	\$10,267*	\$10,267
Bronze	\$2,936	\$9,100	\$6,987	\$6,987

- OEBB Plans Annual Premiums 2015-16 (Rounded up to the nearest \$1).
- FSA, HRA and HSA contributions are not included, but may have to be included in the excise tax calculation. Awaiting final regulations and clarification.

Estimated overall tax impact in dollars in 2018 is \$13.5 million, 2019 is \$16.9 million and 2020 is \$21.5 million if annual increases are 8.0 percent and no other actions are taken.

Possible Solutions

1. Require all groups to use tier-rated premiums or be subject to the additional tax.

This option has been discussed by the Board and is still a topic of consideration. Entities have the ability to discontinue the use of the composite rate structure at this time. This is a subject of collective bargaining for most groups in OEGB. The Board has promulgated a rule to limit new local government entities to use of the tiered rate structure.

2. Reduce the number of plan options to only those that would eliminate the potential tax.

This option would cause the least disruption to participating entities and members but would not remove the most significant liability and risk posed by the composite rate structure. The longevity of this solution would depend on how many higher level options were discontinued.

3. OEGB could implement a different ratio for the current tiers on that rate structure to increase the portion of overall premium charged for employee and child(ren) and employee and spouse/domestic partner coverage and reduce the employee only and employee and family tiers.

This option has been discussed by the Board and is still a topic of consideration.

Note: May need to address the current practices of entities contributing to health reimbursement arrangements (HRAs) and health savings accounts (HSAs) if the final regulations factor these amounts in when calculating the cost of the health plan.

PEBB

Current State

Premiums are set using a predetermined ratio between the employee only, employee and spouse/domestic partner, employee and child(ren) and employee and family. With PEBB's current tier ratios, employee and family premiums are 1.37 times the employee only premium. The Excise Tax Threshold ratios has the family premiums being 2.7 times the employee only premium. PEBB's premiums are designed to keep the family tier premiums low when compared to the employee only tier.

Solutions

The board has been exploring ways to mitigate the risk of paying the excise tax through a redistribution of the tier ratios. PEBB's actuarial consultants developed a phase-in approach to lessen the impact on families in 2018.

Below is an example of a gradual change in ratios:

Phase in of Recommended Tier Ratios	Current Tier Ratio	Adjusted Tier Ratio	Adjusted Tier Ratio
Year	2016	2017	2018
Employee Only	1.00	1.00	1.00
Employee & Family	1.37	2.00	2.70

Below is a chart showing the estimated 2016, 2017 and 2018 premiums for PEBB Statewide plan, ODS Traditional dental and VSP vision. PEBB Statewide medical and ODS Traditional are the plans with the highest premiums so this chart represents the most expensive combination of premiums. Highlighted plans would be subject to the excise tax if it were implemented in 2015.

In 2016 and 2017, the employee only premium rates will be over the threshold (highlighted). In 2018, the employee only and the employee and family will be under the threshold resulting in no tax implications.

Annual Statewide Plan Premiums with ODS Traditional and VSP	Current Tier Ratio	Adjusted Tier Ratio	Adjusted Tier Ratio
Year	2016	2017	2018
Employee Only	\$14,256	\$11,412	\$9,408
Employee & Family	\$19,536	\$22,824	\$25,416

- Assumes trend rate of 3.4 percent
- Premiums are rounded to the nearest \$1
- FSA and HSA contributions are not included

Impact of Excise Tax Penalties

The table below illustrates PEBB’s potential exposure to the Excise Tax and how moving to the recommended tier ratios would reduce if not eliminate that exposure.

- Assumes 3.4 percent medical trend, excluding dental and vision
- Excise tax includes FSA contributions by employees per IRS guidance
- Excise tax would reduce from \$19M for actives in 2018 to \$0
- Initial year of excise tax for actives would be 2018 as a few employees have FSA contributions that take them above the threshold
- Tax remains less than \$1M until 2021

The FSA contributions are included in the excise tax info below.

Active Employee Excise Tax (\$M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Current Tier Ratio	\$16	\$16	\$17	\$17	\$18	\$19	\$20	\$21	\$22	\$23	\$187
Recommended Tier Ratio	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Retiree Excise Tax (\$M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Current Tier Ratio	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2
Recommended Tier Ratio	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0