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HEALTH PLAN WEEK

*Health Reform Update*

# Four Key Reform Provisions That Will Affect Insurers This Year

While many significant provisions included in the new health reform law, such as the creation of state-run insurance exchanges, low-income subsidies and fines for not having coverage, don't go into effect until 2014, several changes become effective on Sept. 23 — six months after the health reform law was enacted (see story, p. 1). Here's a look at four provisions that go into effect this year:

***(1) Removal of lifetime and annual limits:*** Beginning with plan years that start after Sept. 23, health plans can no longer place lifetime or annual limits on new or existing group health plans or individual products. The use of annual limits also is prohibited.

While the removal of lifetime limits won't have a significant financial impact on insurers, they likely will see the occasional member "run up enormous bills," says Dave Tuomala, a director of actuarial consulting at Ingenix Consulting, "but those cases will be rare and the risk is small" for health insurers. The bigger issue, he tells *HPW*, is the administrative burden involved in eliminating limits from existing products. Although the rule technically goes into effect on Sept. 23, employers that follow a calendar plan year have until Jan. 1, 2011.

Ed Kaplan, senior vice president and national health practice leader at Segal Co., suggests that eliminating the lifetime maximums will have a minimal effect on premiums — between less than 1% and 1.5% of premium costs. But requiring health plans to remove annual limits could have "dramatic" implications, he warns. That provision could prompt some employers to drop coverage for part-time employees. Kaplan says it's not uncommon for an employer to place an annual cap on drug coverage for part-time employees. But removing a $15,000 annual cap, for example, could nearly double the cost to cover those workers. Under the new law, part-time is defined as an employee who works 30 hours or more per week.

"It could make retail employers reduce hours for their employees to get them below 30 hours a week," he warns. "Benefits tend to be proportional to pay. An employer will be hard pressed to double spending [on coverage] for someone who earns $1,000 a month." Kaplan suggests that limited medical plans will no longer be compliant under the new law and health insurers could face tax penalties for non-compliance beginning in 2014. "The carriers will likely turn those off," he says.

Self-funded employers will need to evaluate their coverage and likely will need to purchase stop-loss insurance to protect themselves against large claims. Employers will need to work with their health insurers to examine past claims to forecast the probability of having large claims. "Some employers know they will have some very large claims," adds Chantel Sheaks, principal of government affairs in Buck Consultant's Washington, D.C., office.

***(2) Dependent coverage:*** Health insurers will need to allow members to extend coverage to their adult children up to age 26. As a result, insurers may need to tweak their products for some employer clients to include multiple tiers for dependents (e.g., member + 1 child, member + 2 children) rather than dividing coverage options into just single coverage and family coverage. Otherwise an employee with family coverage and just one dependent would pay the same as an employee with six dependents, for example. And because there are no restrictions on where premium levels for dependents should be set, this rule could be beneficial to insurers.

The rule could be "an actuarial win" for health insurers if it helps to ensure that more young and healthy people remain in the risk pool, Sheaks says. The biggest challenge for health plans, Tuomala adds, is the administrative burden of altering all policies to comply with the rule. Kaplan agrees that some employers will need to add more tiers to reflect the number of dependents each employee might have. But increasing the age of allowable dependents won't ensure that they'll enroll, particularly if the cost far exceeds the penalty for not having coverage, Kaplan adds.

***(3) Preventive care:*** Health plans purchased six months from now will need to include first-dollar coverage for preventive care. That rule will apply to all

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existing health plans beginning in 2018. Fred Karutz, general manager of health plan solutions at Silverlink Communications, notes that guidance will be needed to define exactly which products will need to incorporate those changes prior to 2018. While the law applies only to "new" health plans this year, it's unclear whether a renewed plan would be viewed as an existing or a new plan, he says.

***(4) Medical loss ratios:*** Beginning on Jan. 1, 2011, health insurers will be required to report the proportion of premium dollars spent on clinical services versus administrative costs. The MLR threshold for large-group plans is 85% and 80% for plans in the individual and small group markets.

But the definition of MLR and what is included as an administrative expense can vary by health insurer. If federal regulators decide that wellness and medical management programs are to be included as administrative expenses, for example, insurers might opt to eliminate those programs to ensure compliance.

"Measures that health insurers take to manage claims can be expensive….Eliminating them could increase costs in the long run," Tuomala says.

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