GUIDE FOR COSTING AND THE AFFORDABLE CARE ACT

Most health insurance costing remains similar under the Affordable Care Act as previously. However, a few elements need to be considered which have not been historically. Fortunately, in most cases making these determinations is easy, because online calculators mean all we need to do is collect data and input it.

Determining the Actuarial Value of Existing Plans:

The federal government has generated an "actuarial value calculator" which can be used to determine, for the average person, how the overall coverage of plans compares. This is a standalone excel file – you input all of required information from a schedule of benefits regarding deductibles, coinsurance, and copays, and it gives you a baseline percentage of annual medical costs which would be covered for the average person.

The beauty of this system is for the first time there's an objective yardstick to compare value across plans. It can be used any time either party in bargaining wants to consider shifting to a different insurance plan. But it is of the most use when considering exchange insurance options (either as part of an individual or small employer exchange). Moving to a "gold" exchange plan (which is set at 80% coverage) might make lots of sense for a plan which now has 78% coverage, but it would be a substantial concession if the existing plan has 87% coverage.

That said, the excel file is complicated, although it includes its own guide. No math skills are needed, but it is not organized identically to most schedules/statements of benefits, and it may take an hour or more to hunt down all of the different copays it asks you to enter. Some options in your own plan (for example, lower costs for 90-day mail order prescriptions) may not be provided as an option. While we are attaching the actuarial value calculator, for the time being we are suggesting field staff send the schedule/statement of benefits to the Research Department, and let us make the calculation in house. If staff would like advanced training on how to do these calculations themselves, please contact the Research Department.

Determining if a Plan Will Hit Excise Tax Thresholds:

The best existing online calculator is the Alliance Excise Tax Calculator. All you need to make an estimate is:

- The total annual cost (employer + employee) for single and family coverage. Exclude dental/vision premiums, and put in pharmacy premiums separately if it is through a different plan
- The estimated annual percentage increase in premiums
- Any annual employer or employee contributions to Flexible Spending Accounts (FSAs), Health Reimbursement Accounts (HRAs), Health Savings Accounts (HSAs), and Medical Savings Accounts (MSAs)
- Any supplemental health benefits provided. In most workplaces we won't need to include any value here, but in rare cases the cost of an onsite medical clinic needs to be considered
- The number of unit members enrolled in single/family coverage

The calculator should then spit back the excise tax paid per person annually for single and family, along with the unit-wide cost, for 2018, 2021, and 2025.

The calculator does not allow for intermediate premiums besides single/family (e.g., employee+1, employee + children, or employee + spouse). The Affordable Care Act, oddly enough, doesn't set excise tax limits on such levels of coverage. These plans seem to fall under the "family" excise tax threshold. This is important, because it means for those policies at this "intermediate" level the employer is in no serious risk of hitting the excise tax limits. We may actually be able to reduce excise tax liability by adding these tiers of coverage where we don't have them currently – keeping in mind this may raise family premiums as well.

Determining if the Individual Exchange is a Valid Option:

By far the most detailed calculations are required when considering the possibility of going over to the individual exchange (e.g., eliminating employer-provided health insurance). Generally speaking, this is only something worth considering if two characteristics are met.

1. The average shop wage is under $15.75 per hour. Any higher than this and a substantial number of people (mainly two-income households with no children) will make too much money to qualify for exchange subsidies, and have to pay 100% of the cost of insurance out of their own pocket. We cannot realistically bargain with the employer wage increases high enough to cancel out these costs.

2. The employer must be fairly small. Due to the way the fine for being uninsured works, it costs an employer the same amount if 5% of their full time workforce is uninsured, or if 100% of their full-time workforce is uninsured. Therefore, only employers willing to change the policy for all workers – even those not in our bargaining unit – would be willing to consider this.

   If a shop meets the above requirements, we have four questions to answer.

1. How would members fare with exchange subsidies?

The Affordable Care Act sets premium subsidies based upon household income. This means they take into account all income reported on the last W-2, including that from spouses, second jobs, and non-wage sources like gifts and investments. <u>Hence we cannot use wage information requested by the employer to determine subsidy levels for members. We must survey them on their household income, despite it being a sensitive/private issue for many people.</u>

The Legal Department has crafted a sample membership survey. It is anonymous, which should hopefully deal with many members jitters about telling us how much their household made. **Getting as close to 100% in terms of survey coverage as feasible is key**. It is entirely possible even in a low-paid shop there will be a handful of people (skilled trades, or those with high-earning spouses) who won't qualify for subsidies lowering premiums, and would be really unhappy to be “singled out” to get huge premium increases.

If we go the survey route, we then need to manually enter the data for each individual onto an online subsidy calculator. Provided members accurately listed their income, along with all claimed dependents in their household, the dollar amounts given should not be 100% accurate. Currently the best web-based calculator is offered by the UC Berkeley Labor Center, although all state exchanges are mandated to have their own online calculators up and running by the start of the enrollment period in October of 2013.

The membership survey also tells us several other important pieces of information we need to consider if moving to an individual exchange. Undocumented immigrants are barred from the exchange entirely, so if anyone in the shop enrolls in insurance now and is undocumented, we shouldn’t move forward. In addition, any shop members who have access to insurance through their spouse, but don’t enroll currently, would not get exchange subsidies, and be forced to take their spouse’s insurance – another thing we should be very wary about.

If the membership seems dead-set against telling us how much money their household made in a year, even anonymously, we could leave it up to them to calculate their subsidy level themselves. There are even smartphone-based apps, like Obamacare411, which would make it relatively easy to do this as part of a group at a membership meeting. While this may be a more rapid way to survey the membership, it’s more likely to be subject to error. For example, people may not realize a claimed tax dependent they aren’t seeking to insure, like an elderly parent, should be listed as part of their household, and will reduce their monthly premiums.

After conducting an assessment of all unit members, if we find everyone is either eligible for exchange subsidies, or has access to health insurance of equal or better value elsewhere (e.g., through a spouse), we can continue to the next step.

2. How do the Exchange Plans Compare To the Existing Plan(s)?

Exchange subsidies are benchmarked on a silver plan, which covers 70% of medical expenses. More comprehensive plans (gold, covering 80% of expenses, and platinum, covering 90%) are offered, but enrollees must pay the entire difference out of pocket. If through the actuarial assessment outlined at the beginning of this section we find the current insurance is significantly better than 70%, we should not consider going over to the individual exchange option.

3. How will we deal with our increased costs?

In most cases, the value of exchange subsidies will not be as great as the percentage of premium previously paid by the employer. However, the employer should be saving significant money by not insuring us. Thus, we need to consider what method to bargain for increased compensation to make up the difference.

The first question we need to ask is what level of replacement are we looking for. Some people in the shop (those with very low wages, or large families) may actually pay less for premiums on the individual exchange. Others may pay anywhere from $100 to $300 per month more than they did previously. The results of the survey should make it clear, when for each worker we subtract the amount paid currently per month from the amount the calculator returns. The next question is political – how much of the membership do we want to make whole to make it a good deal? 50%? 100%? Somewhere in between? This needs to be discussed by the committee.

See the related article **Replacing the Lost Value of Members Health Insurance Benefits** for full details of the options available.

4. What is the Cost to the Employer?

Once we know what our unit needs to be "made whole" (including both the general compensation increase we'd like for all members along with any reclassifications), we need to calculate the cost for the boss above and beyond what we desire.

The primary cost to the employer beyond this is the fine they pay for not providing insurance. This fine is levied based upon $2,000 times the total full-time (30-hour plus) headcount, minus the first 30 workers. Keep in mind the fine is levied on a monthly basis, so seasonal workplaces (like school districts) may have little to no fine in portions of the year. The fine is paid on all full-time workers however, so we need to budget the cost of the fine for managers and those who will be enrolled on spousal insurance into the equation. Small employers (those with less than 50 workers) forgo this fine entirely.

Another cost we need to consider is the loss of any tax subsidies or tax deductions due to not providing insurance. Both wages and insurance are tax deductible in general for employers as a cost of doing business. However, employers do not need to pay FICA taxes (Social Security and Medicare) on their health insurance premium contributions. Because of this, they would need to pay an additional 6.2% in payroll-related costs for a wage increase. Some employers (particularly small ones) may get additional tax credits for providing insurance. We need to request from the employer all information regarding tax benefits they gain from providing health insurance.

These three areas – making us whole +fines (if any) + loss of tax benefits – cover the vast majority of costs the employer faces due to being uninsured. There may be ancillary costs, such as the expense of setting up Flexible Spending Account, but until we get into detailed negotiations with the employer, these can be left aside.