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UMC Plan Sponsor ACA Impact Model—Executive Summary

The Supreme Court ruled on June 28, 2012 that the Affordable Care Act (ACA, also called the Patient Protection and Affordable Care Act) is constitutional—upholding the law nearly entirely. The ACA will fundamentally change the individual health insurance market in 2014 and will have profound impacts on employer health plans, including United Methodist annual conference health plans. This executive summary of the accompanying quantitative model (Model) created by Mercer and the General Board of Pension and Health Benefits (General Board) is intended to be part of a Toolkit to help HealthFlex plan sponsors assess the impact of the ACA on their health plans and participants. A more in-depth narrative summary of these topics is contained in the accompanying document: UMC Plan Sponsor ACA Impact Model—A Primer.

Mercer Model Assumptions

The Model is based on the ACA provisions as enacted and the regulations issued by the federal agencies (U.S. Department of Health and Human Services, Department of Labor and Internal Revenue Service, i.e., the Departments) as of September 2012. Some regulations remain in proposed or interim form; some provisions have only been detailed in informal guidance from the Departments. The Model uses compensation information from the General Board, supplemented by anonymous household income information for clergy based on previous denominational surveys. There are three main caveats to bear in mind when using the Model:

- The Model assumes, for purposes of the employer responsibility provision and the determination of access to an affordable employer plan, that the local church—i.e., the common-law employer—is the “employer” of United Methodist Church clergy under the ACA.
- Applicability of certain portions of the Model will depend on eventual guidance from the Departments about the viability of health reimbursement arrangements (HRAs) as stand-alone defined contribution accounts, or coupled with Exchange policies, after 2014.
- Challenges to the ACA will continue on legal as well as political fronts. The legislation’s fate may still depend on the outcome of the 2012 presidential and congressional elections.

New Paradigm in 2014

The ACA includes provisions under which certain low-income individuals may qualify for premium tax credits (PTCs) that assist them with purchasing qualified health plans (QHPs) offered through state-based health insurance exchanges (Exchanges). PTCs serve two purposes under the ACA:

- PTCs enable low-income individuals to afford health insurance and comply with the individual mandate; and,
- PTCs influence employer shared responsibility payments imposed on certain large employers (50 or more employees). Such payments may depend on the number of employees who receive a PTC.
Three complex variables in the ACA impact this Model:

1. PTCs are available to individuals earning between 100% and 400% of the federal poverty level (FPL, estimated at $98,000 for a family of four in 2014) who do not have government or affordable employer coverage.

2. Exchanges are connectors or aggregators offering a menu of health insurance plans to individuals and small employers.

3. Employer shared responsibility payments, i.e., the “pay or play” penalties, affect large employers that do not provide affordable health coverage to full-time employees.

Because many UMC clergy and employees have incomes below 400% of the FPL, the Exchange coverage and PTCs may be cost-effective for clergy and lay employees at local churches.

**Exchanges**

The ACA encourages states to establish health benefit Exchanges by January 1, 2014. Exchanges will have web portals through which individuals can purchase qualified health plan coverage. QHPs are fully insured health plans that cover “essential health benefits” established under the ACA. QHPs must provide benefits at various levels—called bronze (60%), silver (70%), gold (80%) and platinum (90%). Individuals will be able to determine through Exchanges whether they qualify for PTCs.

Many states will not have Exchanges ready by 2014. The federal government will administer federally-facilitated Exchanges in these states. The initial open enrollment period will be October 1, 2013 through February 28, 2014. Thereafter, the Exchanges must provide an annual open enrollment period from October 15 through December 7. Individuals would be able to enroll outside of this annual opportunity only if they qualify for special enrollment under circumstances similar to HIPAA (e.g., loss of other coverage, marriage, birth, becoming eligible for a PTC, or becoming a citizen or legal resident).

QHPs cannot discriminate among consumers based on health status, meaning Exchange coverage is “guaranteed issue” and will not be allowed to exclude pre-existing conditions. QHPs can only vary individual rates based upon geographic area, individual or family coverage, age (by no more than 3 to 1) and tobacco use (by no more than 1.5 to 1), and have no more than four different types of family composition tiers: individuals, two-adult families, etc.

**Premium Tax Credits**

The ACA provides federal subsidies (PTCs) to assist lower and middle income taxpayers to purchase coverage through the Exchanges. To be eligible for a PTC, an individual must have a household income for the taxable year between 100% and 400% of FPL for the individual’s family size. Household income is modified adjusted gross income (MAGI, i.e., total earnings or “adjusted gross income’ increased by certain foreign income and tax-exempt interest). Clergy housing allowance is excluded from MAGI. Individuals who are incarcerated or who are not lawfully present in the United States may not enroll in a QHP through an Exchange.

An individual must also be enrolled in a QHP through an Exchange and not be eligible for minimum essential coverage (MEC). MEC includes government-sponsored coverage (such as Medicare, Medicaid, CHIP and TRICARE). Employer plans also may be considered MEC, provided that the employee’s share of the premiums is “affordable” and the coverage provides “minimum value” (see next page). An individual is treated as eligible for MEC if the individual enrolls in an employer plan, even if the coverage does not meet the affordability and minimum value requirements.
Individuals may calculate the PTC when submitting their federal income tax returns, i.e., pay the premium out-of-pocket and wait for reimbursement through a PTC the following April. Alternatively, individuals can apply for advanced payment of PTCs through an Exchange. Exchanges will make advanced determinations of eligibility for individuals seeking PTCs based on information submitted at the time of enrollment. Once an individual qualifies, advanced payments are made monthly to the health insurance issuer of the QHP. However, advanced payments must be reconciled at year-end, and individuals will have to repay at least a portion of any PTC overpayments.

**Minimum Value and Affordability**

An individual who is eligible for employer plan coverage may still qualify for the PTC if the plan fails to provide “minimum value.” A plan provides minimum value if the plan pays at least 60% of the total allowed costs of benefits provided under the plan (an actuarial determination).

An individual who is eligible for employer plan coverage may still qualify for the PTC if the plan is not “affordable.” An employer plan is not affordable if the employee’s required contribution exceeds 9.5% of his or her household income for the taxable year. (This percentage may be adjusted after 2014.) The “required contribution” for this purpose is the portion of the annual premium that would be paid by the individual (the employee share) for participant-only coverage.

How to determine whether spouses and dependents have access to affordable coverage under an employer plan is unclear under current regulatory guidance. Earlier proposed PTC regulations would have treated employer coverage as affordable for all family members if the cost of participant-only coverage did not exceed 9.5% of the employee’s household income. This would have disqualified an employee’s family members from receiving PTCs whenever the employee’s contribution for participant-only coverage—regardless of the cost for spouse or dependent coverage—was affordable. The final PTC rules eliminate this provision and indicate that future guidance (e.g., an amendment to the final rule) will address how to determine affordability for family members seeking PTCs. Many plan sponsors have reduced costs in recent years by keeping employee-only costs relatively low, while pricing family coverage more aggressively. Plan sponsors may need to review this strategy, depending on the final guidance on the PTC.

**Employer Responsibility**

The employer responsibility provisions of the ACA generally require employers with 50 or more full-time equivalent employees (FTEEs) to pay a penalty if any of the employer’s full-time employees (FTEs) are certified to receive a PTC through an Exchange. The penalty varies depending on whether the employer offers to its FTEs an eligible employer-sponsored plan and, if so, whether that coverage provides minimum value and is affordable (as described above).

A large employer is subject to a penalty under two circumstances:

1. An employer fails to offer coverage to its FTEs and at least one employee receives a PTC: the penalty is $2,000 annually per FTE (minus the first 30 FTEs); or
2. An employer makes an offer of coverage, but at least one of its employees receives a PTC from an Exchange: the penalty is equal to $3,000 annually per FTE receiving a PTC, with the penalty capped at the amount described in circumstance 1 above.

In *Notice 2011-73*, the Internal Revenue Service (IRS) proposed a safe harbor under which an employee’s household income is presumed to equal the amount reported in Box 1 of that employee’s *Form W-2* solely for purposes of determining the amount of the employer penalty. In *Notice 2012-58*, the IRS announced that employers could rely on this safe harbor approach through the end of 2014.

Resolving the issue of affordability for both the PTC and the employer penalty involves competing policy considerations, such as the federal budget impact versus the reform law’s goal of maximizing...
individuals’ access to affordable coverage. Future regulations may have differing safe harbors and inconsistent provisions with respect to affordability.

**More Information**

More about health care reform is available on the General Board’s [health care reform webpage](#). Please send your questions to healthcarereform@gbophb.org. General information about health care reform is available from the federal government at [www.healthcare.gov](http://www.healthcare.gov).

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