

ALERT: HEALTH CARE REFORM BILL

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THE DEVIL IN THE DETAILS OF HEALTHCARE REFORM

Employers are asking: What about our employee health care plans? Are they subject to the new health care reform law? Whose job is it to make sure they comply with health care reform? Are any parts of our current plans exempt from the new reform measures? The answers vary and depend on the health care reform provision in question as well as on whether a plan was in effect on March 23, 2010.

For example, some health care reform provisions impose no obligations on employers or their plans; they make insurers or other third parties responsible for compliance. Other provisions apply to employers or employer-sponsored plans, but exempt certain employers or plans. And for some provisions – we just don't know. We must wait for regulatory guidance to clarify who is responsible for compliance and exactly which plans are subject to the requirement.

Even so, some provisions are already effective and others will be soon, so employers need to understand how and where the provisions with the earliest effective dates apply. See the attached chart for an overview of the applicability of several health care reform provisions that become effective during 2010 and 2011. Below, we provide some important background information to consider when reviewing the chart.

WHAT WE LEFT OUT - AND KEPT

The chart provides applicability information for health care reform provisions that become effective during 2010 and 2011 and apply to employer-sponsored plans. To keep the chart as brief as possible, we omitted details of the health care reform provisions, almost all of which are explained in Willis' Human Capital Practice *Alert*, Vol. 3, No. 3, "**First Things First: Health Care Reform in 2010 and 2011.**" (For a short overview of health care reform provisions that will affect employer plans and their effective dates, see Willis Human Capital Practice *Alert*, Vol. 3, No. 1, "**What Do We Do Now? Health Care Reform Timeline.**")

We also omitted the following health care reform provisions from the attached chart, even though they are effective in 2010 or 2011:

- Small employer tax credits, so-called simple cafeteria plans, and other provisions that apply exclusively to small employers (we are covering those provisions and their applicability separately)
- Increased penalties in the case of distributions from HSAs and Archer MSAs for non-qualifying expenses (as long as the employer does not provide guidance on reimbursable expenses or take actions that would make these accounts subject to ERISA, individual owners of these accounts – not employers – are responsible for compliance)
- Preparing and providing uniform explanations of coverage and other health care reform provisions that, although technically effective in 2010 or 2011, will not require compliance before 2012

EMPLOYERS SUBJECT TO THE PROVISIONS

Most health care reform provisions apply across the board to all types of employers that sponsor health plans for their employees, so the attached chart does not include separate categories for plans maintained by different types of employers. For example, plans maintained by church and governmental employers generally are subject to the same requirements as those maintained by private sector employers (although the remedies available for noncompliance differ). Plans of both for-profit and not-for-profit organizations are likewise subject to the requirements, and there is no general exemption for small employers. (Some provisions have specific small-employer carve-outs, however.)

PLANS SUBJECT TO THE PROVISIONS

Any plan that provides, pays for or reimburses the cost of health care may be subject to one or more provisions of the health care reform law. Therefore, non-health plans that incidentally include health benefits (e.g., an accident plan that includes medical evacuation benefits) generally will be subject to health care reform requirements with respect to the health benefits. Similarly, non-health benefits included in a health plan (e.g., a medical plan that provides fitness club reimbursement) generally do not become subject to health care reform provisions.

Health care is defined broadly for purposes of identifying health benefits. It includes “diagnosis, cure, mitigation, treatment, or prevention of disease,” and services and supplies used for “affecting any structure or function of the body.” The definition includes medical, dental and vision coverage, as well as health care flexible spending accounts, executive physical programs, and employee assistance programs. If the plan is available through employment, then the employer

may have responsibility for compliance with respect to that plan. While most employment-based health benefits are provided as group coverage, it is important to note that an employer may have obligations with respect to individual health insurance coverage.

TYPES OF COVERAGE SUBJECT TO THE PROVISIONS

The attached chart shows our current understanding of which types of coverage will be subject to the health care reform provisions listed. Where there are variations in applicability based on the type of employer or plan providing the coverage, those are noted. Each of the coverage types listed in the chart is described below. When the chart notes that a particular coverage type is exempt from a requirement, it is important to read the description of that coverage type carefully. In many cases, the description sets out the conditions that must be met for the coverage to be exempted from a requirement.

Here is how we define the coverage types identified in the overview table.

MAJOR MEDICAL refers to a plan that provides coverage of most medical expenses with either no or very high lifetime or annual limits on coverage. Examples of major medical plans are typical HMOs, PPOs and high-deductible health plans associated with health savings accounts.

MINI-MED plans are those that employers often offer to part-time or low-paid employees for whom the cost of major medical coverage is prohibitive. Some mini-med plans reimburse or pay a percentage of covered medical expenses, subject to very low lifetime or annual limits on benefits. Other mini-med plans provide benefits consisting of indemnity-type payments (e.g., \$15 for a physician visit, regardless of actual cost). In some cases, mini-med plans include both types of benefits. It is possible for mini-med plans to be self-insured, but most are insured.

EXECUTIVE MERP are medical expense reimbursement plans typically provided to a select group of senior executives and often simply reimburse those individuals for any health care expenses that are not covered by the plans made available to employees generally. They are almost always insured in order to avoid nondiscrimination provisions that apply to self-insured plans.



STAND-ALONE DENTAL OR VISION coverage provides dental or vision benefits through a policy, certificate or contract of insurance separate from a major medical plan or is optional, with employees who elect the coverage being required to pay an additional amount.

HEALTH FSA is one type of flexible spending account offered through a cafeteria plan. In most cases, employers do not contribute to health FSAs – all contributions are employee pre-tax amounts. We use this term to refer to a program that: (1) is offered in addition to a major medical plan that has an annual open enrollment, and (2) has a maximum available benefit no greater than twice the employee's pre-tax contribution or, if greater, \$500 plus the employee's pre-tax contribution.

HRA (health reimbursement arrangement) is a plan under which an employer makes a specified dollar amount available to each participant to reimburse health care expenses, with no employee contributions allowed.

HOSPITAL OR FIXED INDEMNITY coverage is provided under a separate policy, certificate or contract of insurance, and pays a specified dollar amount for each day (or other period) that a covered individual is hospitalized or ill, regardless of whether or how much the individual incurs for care while hospitalized or ill and regardless of whether or how much any other plan of the employer pays.

SPECIFIED DISEASE is a separate policy, certificate or contract of insurance that provides coverage, including reimbursement of expenses for treatment, of a specified disease or illness, such as cancer or heart disease.

EAP refers to an employee assistance program that includes coverage for several mental health or substance abuse counseling sessions with a trained professional. Because those sessions are considered health care, EAPs usually are considered to be group health plans.

PROVISIONS UNRELATED TO HEALTH COVERAGE

Two provisions included in the health care reform law will affect employers, but not health plans.

TAX BREAK FOR ADOPTION BENEFITS

Starting this year, the amount of tax-favored benefits that an employer may provide through a qualified adoption assistance program increases to \$13,170 per eligible child.

NURSING MOTHERS

Starting March 23, 2010, all employers that are subject to the federal Fair Labor Standards Act must provide for a nursing mother, during the year after her child's birth, as many unpaid breaks as needed to express breast milk for her child. The employer must also provide a place, other than a bathroom, that is shielded from view and free from intrusion for an employee to use when expressing breast milk.

WORK IN PROGRESS

Because we expect that regulatory guidance will refine our understanding of the employers, plans and coverage subject to various health care reform provisions, our focus in the attached chart is on provisions with early effective dates. This chart will be revised in coming months as guidance becomes available.

OVERVIEW: APPLICABILITY OF HEALTH CARE REFORM PROVISIONS

HEALTH CARE REFORM PROVISION	TYPES OF GROUP HEALTH PLAN COVERAGE								
	MAJOR MEDICAL	HRA	EXECUTIVE MERP	MINI-MED	EAP	QUALIFYING HEALTH FSA	STAND-ALONE DENTAL OR VISION	HOSPITAL OR FIXED INDEMNITY	SPECIFIED DISEASE
Automatic enrollment of new employees and retention of current enrollees (subject to opt-out)	<p>Provision applies directly to employers who are subject to the FLSA and have more than 200 full-time employees with respect to “health benefits plans” (an undefined term that is unlikely to include all of these coverage types)</p> <ul style="list-style-type: none"> ■ Enrollment is to be implemented according to DOL regulations and we believe that employers will not be required to comply until 2014, as we have stated in previous publications ■ Even so, effectiveness is not contingent on regulations being issued and no other effective date is specified, so the most conservative interpretation would say this provision is effective March 23, 2010 (upon enactment), regardless of plan year, grandfathered plan status (see definition below) or applicability of a collective bargaining agreement 								
No lifetime dollar limits on essential health benefits	<p>Provisions apply to these coverage types during plan years starting on or after September 23, 2010 and employer is responsible for compliance, unless item 1, 2 or 3 applies:</p> <ol style="list-style-type: none"> 1. Coverage includes no benefit that pays for or reimburses the cost of health care 								
No annual dollar limits on essential health benefits, except as permitted by HHS	<ol style="list-style-type: none"> 2. Coverage is provided as a voluntary, employee-pay-all program under which: <ul style="list-style-type: none"> ■ Employer involvement is limited to allowing insurance representatives to publicize coverage to employees and collecting premiums through payroll deductions AND ■ The employer does not contribute toward the cost of the coverage, receive any compensation in connection with the program, or endorse the program in any way 								
No rescission of coverage other than for fraud or intentional misrepresentation	<ol style="list-style-type: none"> 3. Coverage is maintained pursuant to one or more collective bargaining agreements ratified before March 23, 2010, so that provisions apply no earlier than the date that the last such collective bargaining agreement terminates 					<p>Provisions do not apply to these coverage types (see descriptions of coverage types for details of the circumstances in which these types of coverage are exempt)</p>			
No preexisting condition exclusions for children under age 19	<p>No exemption from these provisions is available for any “grandfathered plan” (any group health plan in effect and covering at least one individual on March 23, 2010 and any health insurance coverage maintained pursuant to one or more collective bargaining agreements ratified before March 23, 2010)</p>								

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<p>No age limit lower than 26 years on dependent child coverage</p>	<p>Provision applies to these coverage types during plan years starting on or after September 23, 2010 and employer is responsible for compliance, unless:</p> <ul style="list-style-type: none"> ■ Coverage does not provide for enrollment of dependent children ■ Item 1, 2 or 3 above applies <p>Until the 2014 plan year, grandfathered plans (see definition above) may exclude children eligible for other employer coverage</p>					<p>Provision does not apply to these coverage types (see descriptions of coverage types for details of the circumstances in which these types of coverage are exempt)</p>			
<p>No cost-sharing on specified preventive health services</p>	<p>Provisions apply to these coverage types during plan years starting on or after September 23, 2010, unless:</p> <ul style="list-style-type: none"> ■ Coverage is provided through a grandfathered plan (see definition above) ■ Item 1, 2 or 3 above applies 					<p>Provisions do not apply to these coverage types (see descriptions of coverage types for details of the circumstances in which these types of coverage are exempt)</p>			
<p>Requirement for internal and external appeals processes</p>									
<p>Protections regarding access to emergency care, pediatricians and obstetrician/gynecologists</p>	<p>Provision applies to these coverage types during plan years starting on or after September 23, 2010 and employer is responsible for compliance, unless:</p> <ul style="list-style-type: none"> ■ Coverage is not network restricted and does not require designation of a primary care physician ■ Coverage is provided through a grandfathered plan (see definition above) ■ Item 1, 2 or 3 above applies 					<p>Provision does not apply to these coverage types (see descriptions of coverage types for details of the circumstances in which these types of coverage are exempt)</p>			
<p>Extension of nondiscrimination rules to insured plans</p>	<p>Provision applies to these coverage types during plan years starting on or after September 23, 2010 and employer is responsible for compliance, unless:</p> <ul style="list-style-type: none"> ■ Coverage is self-insured (provision changes the law to make insured plans subject to the same rules as self-insured plans) ■ Coverage is provided through a grandfathered plan (see definition above) ■ Item 1, 2 or 3 above applies 					<p>Provision does not apply to these coverage types (see descriptions of coverage types for details of the circumstances in which these types of coverage are exempt)</p>			

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<p>No requiring disclosures about, or providing incentives based on, lawful possession or use of firearms</p>	<p>Provision applies to any “wellness and health promotion activity” and the effective date is specified as plan years starting on or after September 23, 2010, even though the provision apparently applies to wellness and health promotion activities undertaken by anyone in any setting, even if unrelated to health coverage</p> <p>If the provision is interpreted so that employers are responsible for compliance only in connection with the health plans they sponsor, it would apply to these coverage types during plan years starting on or after September 23, 2010 and employer would be responsible for compliance, unless:</p> <ul style="list-style-type: none"> ■ Coverage is provided through a grandfathered plan (see definition above) ■ Item 1, 2 or 3 above applies 					<p>Provision applies to any “wellness and health promotion activity” and the effective date is specified as plan years starting on or after September 23, 2010, even though the provision apparently applies to wellness and health promotion activities undertaken by anyone in any setting, even if unrelated to health coverage</p> <p>If the provision is interpreted so that employers are responsible for compliance only in connection with the plans they sponsor, it would not apply to these coverage types (see descriptions of coverage types for details of the circumstances in which these types of coverage are exempt)</p>			
<p>Federal tax exclusion for adult children’s health coverage</p>	<p>IRS intends to issue regulations making the provision apply to premiums (or premium equivalents) for all of these coverage types starting March 30, 2010, regardless of plan year, grandfathered plan status (see definition above) or applicability of a collective bargaining agreement</p>								
<p>No incentives for employees to drop employer coverage in favor of coverage through temporary high-risk pool</p>	<p>Provision applies to “employment-based health plans” (an undefined term) starting March 23, 2010, regardless of plan year, grandfathered plan status (see definition above) or applicability of a collective bargaining agreement</p>								
<p>Medical loss ratios less than 85% (80% for small groups) result in rebates to enrollees</p>	<p>Provision may result in rebates to enrollees in these coverage types starting not later than January 1, 2011, unless:</p> <ul style="list-style-type: none"> ■ Coverage includes no benefit that pays or reimburses health care costs ■ Coverage is maintained pursuant to one or more collective bargaining agreements ratified before March 23, 2010, so that provisions apply no earlier than the date that the last such collective bargaining agreement terminates ■ Coverage is self-insured <p>No exemption from this provision is available for any grandfathered plan (see definition above)</p>					<p>Provision does not apply to these coverage types (see descriptions of coverage types for details of the circumstances in which these types of coverage are exempt)</p>			

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Restrictions on reimbursement of over-the-counter drugs	Provision applies to all of these types of coverage to the extent that they reimburse over-the-counter drugs starting January 1, 2011, regardless of plan year, grandfathered plan status (see definition above) or applicability of a collective bargaining agreement								
Requirement to report value of employment-based health coverage on W-2s	Provision applies to these coverage types starting with the W-2 issued for earnings during 2011 (usually issued in January 2012), regardless of plan year, grandfathered plan status (see definition above) or applicability of a collective bargaining agreement				To the extent that cost is attributable to coverage of health care, provision applies to this coverage type starting with the W-2 for pay during 2011 regardless of plan year, grandfathered plan status (see definition above) or applicability of a collective bargaining agreement	Provision does not apply to any health FSA, including one that does not meet the conditions noted in the description of this coverage type (except that any non-cashable employer contributions must be reported)	Provision does not apply to this coverage type (except that coverage must be reported if self-insured or provided under the same policy, certificate or contract of insurance as reportable coverage)	Unless payment for coverage is not excludable from employee's income, provision applies to this coverage type starting with the W-2 for pay during 2011, regardless of plan year, grandfathered plan status (see definition above) or applicability of a collective bargaining agreement	

KEY CONTACTS

US BENEFITS OFFICE LOCATIONS

NEW ENGLAND

Auburn, ME
207 783 2211

Bangor, ME
207 942 4671

Boston, MA
617 437 6900

Hartford, CT
860 756 7365

Manchester, NH
603 627 9583

Portland, ME
207 553 2131

Shelton, CT
203 924 2994

NORTHEAST

Buffalo, NY
716 856 1100

Cranford, NJ
908 931 3005

Florham Park, NJ
973 410 4622

Morristown, NJ
973 829 6374
973 829 6465

New York, NY
212 915 8802

Norwalk, CT
203 523 0501

Radnor, PA
610 254 7289

Wilmington, DE
302 397 0171

ATLANTIC

Baltimore, MD
410 584 7528

Bethesda, MD
301 581 4261

Knoxville, TN
865 588 8101

Memphis, TN
901 248 3103

Nashville, TN
615 872 3716

Norfolk, VA
757 628 2303

Reston, VA
703 435 7078

Richmond, VA
804 527 2343

Rockville, MD
301 692 3025

SOUTHEAST

Atlanta, GA
404 224 5000

Birmingham, AL
205 871 3300

Charlotte, NC
704 344 4856

Gainesville, FL
352 378 2511

Greenville, SC
704 344 4856

Jacksonville, FL
904 355 4600

Marietta, GA
770 425 6700

Miami, FL
305 421 6208

Mobile, AL
251 544 0212

Orlando, FL
352 378 2511

Raleigh, NC
704 344 4856

Savannah, GA
912 239 9047

Tallahassee, FL
850 385 3636

Tampa, FL
813 490 6808
813 289 7996

Vero Beach, FL
772 469 2842

MIDWEST

Appleton, WI
414 259 8837

Chicago, IL
312 288 7700
312 621 4843
312 348 7678

Cleveland, OH
216 357 5921

Columbus, OH
614 326 4788

East Lansing, MI
517 349 3226

Grand Rapids, MI
248 735 7249

Green Bay, WI
414 259 8837

Milwaukee, WI
414 203 5248
414 259 8837

Minneapolis, MN
763 302 7131
763 302 7209

Moline, IL
309 764 9666

Pittsburgh, PA
412 645 8537
412 586 3524

Schaumburg, IL
847 517 3469

SOUTH CENTRAL

Amarillo, TX
806 376 4761

Austin, TX
512 651 1660

Dallas, TX
972 715 2194
972 715 6272

Denver, CO
303 765 1564
303 773 1373

Houston, TX
713 625 1017
713 625 1082

McAllen, TX
956 682 9423

Mills, WY
307 266 6568

New Orleans, LA
504 581 6151

Oklahoma City, OK
405 232 0651

Overland Park, KS
913 339 0800

San Antonio, TX
210 979 7470

Wichita, KS
316 263 3211

WESTERN

Fresno, CA
559 256 6212

Irvine, CA
949 885 1200

Las Vegas, NV
602 787 6235
602 787 6078

Los Angeles, CA
213 607 6300

Novato, CA
415 493 5210

Phoenix, AZ
602 787 6235
602 787 6078

Portland, OR
503 274 6224

Rancho/Irvine, CA
562 435 2259

San Diego, CA
858 535 1800
858 678 2130

San Francisco, CA
415 291 1567

San Jose, CA
408 436 7000

Seattle, WA
800 456 1415

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