



IT TAKES VISION

Supplemental Benefits & the ACA

From Small Potatoes to the Big Cheese

Bill Bade, FSA, MAAA • Milliman Tampa • Bill.Bade@Milliman.com
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Terminology

Health Care Reform Health Insurance Reform

Minimum Essential Coverage Coverage required by the ACA to avoid the individual mandate penalty

Essential Health Benefits Benefits that must be covered by medical plans offered through exchanges

Consumer Market Individuals purchasing insurance outside of a workplace or association

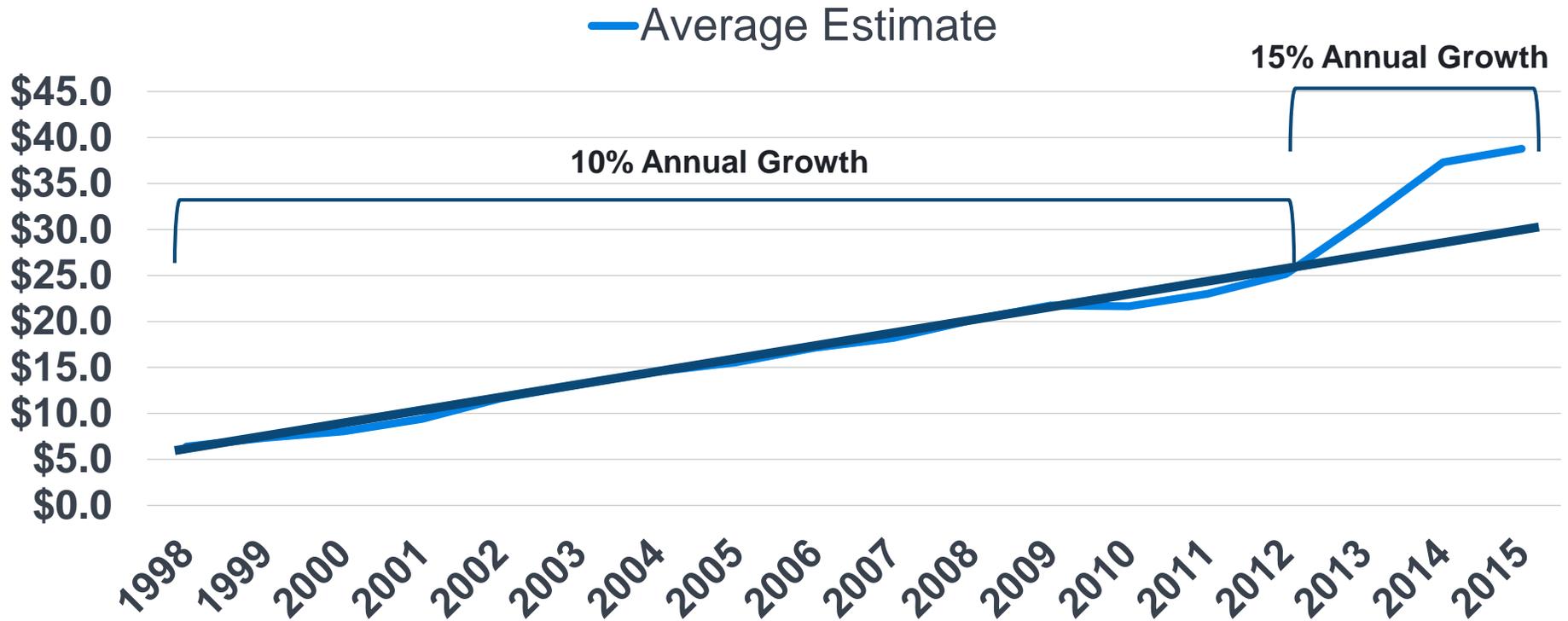
Retiree Market Individuals aged 65 or older purchasing insurance outside of a workplace or association

Worksite Supplemental products sold at the workplace

Supplemental Voluntary or employer paid equivalent Accident, Critical Illness, Hospital Indemnity, Short Term Disability, Long Term Disability, Cancer, Heart/Stroke, Gap Medical, Dental, Vision, Term Life, Universal Life, Whole Life, etc. products. Does not include basic AD&D, employer paid Group Term Life, or major medical products

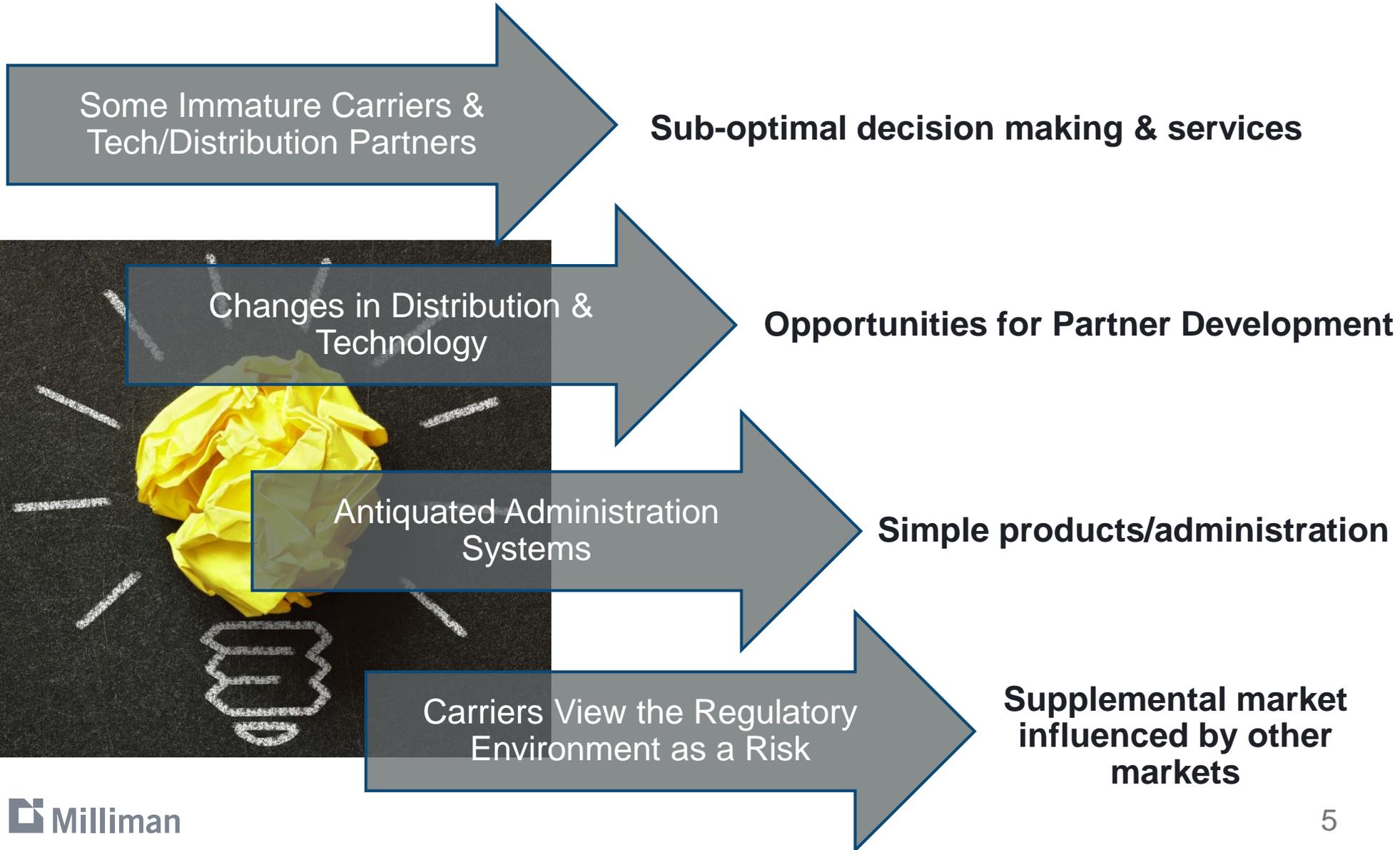
HSAs Health Savings Accounts

Worksite In-Force Premium (in \$ billions)



Source: Eastbridge Consulting
Publicly available inforce premium data is not split by product

Current State of the Supplemental Market



Trends in the Supplemental Market

❖ Carriers and Tech/Distribution Partners are Maturing

- Carriers acknowledge need for heaped commission schedules
- Improvement in technology vendor data (and increased requests to fund technology!)
- Distribution partners asking for detailed claim information

❖ New Entrants Drive Winners, Losers, & Consolidation

- Consolidation across carrier/tech/distribution entities, e.g. Hodges Mace/SmartBen, Towers Watson/Liazon, Mercer/Benefitfocus, Aetna/BSwift

❖ Market Leaders are Replacing Admin Systems

- Allows more complex and efficient administration
- Creates a potential competitive advantage for these carriers
- Usually a 3-5 year project

❖ Carriers are Closely Monitoring Regulatory Activity

- #1 risk in the Hospital Indemnity market

Excepted Benefits and HSAs

Federal Issues – HSA Compatibility

- IRC Section 223 permits eligible individuals to establish HSAs
 - Must be covered under a HDHP
 - May not be covered by any other health plan which is not an HDHP
 - May not be covered by any other health plan which provides any benefit covered by the HDHP
- IRC Section 223 also defines permitted insurance
 - Insurance for a specified disease or illness
 - Insurance paying a fixed amount per day (or other period) of hospitalization
- PLR 200704010 provides analysis of various supplemental plans
 - Accident
 - Hospital Indemnity
 - Specified Disease
- Preventive Care
 - Section 1861 of SSA, Notice 2004-23, Notice 2004-50

Potential State Issues – Supplemental Products

- AK – portability and continuation
- CA – 10198.61
- CO – portability and non-health benefits
- CT – ambulance, accidental ingestion of a controlled substance
- DC – variability of definitions
- FL – rates
- GA – department memos
- MD – second opinion
- MA – critical illness and hospital indemnity rules
- MO – variability
- NH – limits on benefits, no diagnostic codes
- NJ – waiting period, hospital indemnity limits, special critical illness rules
- NY – over-insurance concerns and how they impact multiple product lines
- VT – recurring issues
- WA – high loss ratio

MECs and Short Term Medical

Minimum Essential Coverage (MEC) Plans

- In order to qualify as minimum essential coverage, MEC plans must:
 - meet a prescribed medical loss ratio
 - be offered on a guarantee issue basis
 - be guaranteed renewable
 - etc.
- MEC plans are ideal for employers with 50 or more employees in low wage industries
 - Example: Employer with 50 employees earning \$20,000/year. The lowest cost health plan available is \$3,000/year.
- MEC plans DO NOT have to cover essential health benefits

MEC plans in today's market are self-funded

- Employer accepts risk
- Carrier collects administrative fees
- Governed by ERISA in lieu of state regulations



Short Term Medical

- Features

- Underwritten
- Pre-existing condition limitation
- Lifetime Maximums
- Does not provide MEC
- No immunizations
- Limited preventive care

Excepted Benefit Status

- ACA applies to “individual health insurance coverage” and “health insurance sold in the individual market”
- 45 C.F.R. 144.103: “Individual health insurance coverage means health insurance coverage offered to individuals in the individual market, but does not include short-term, limited duration insurance.”

“Short-term, limited-duration insurance means health insurance coverage provided pursuant to a contract with an issuer that has an expiration date specified in the contract (taking into account any extensions that may be elected by the policyholder without the issuer's consent) that is less than 12 months after the original effective date of the contract.” - 45 C.F.R. 144.103



Tri-Agency Rulemaking

- Primary focus on Expatriate, Short Term Medical and Hospital Indemnity
- Additional disclosure for hospital indemnity & prohibition on products where “dollar amount varies by the type of service”
- **Select Rulings**: Changes to hospital indemnity benefit amounts were deferred, but Short Term Medical plans were capped at three months

Q&A



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Thank you