

## Decreasing Costs

### Employee Benefits Tax

#### What It Is

Starting in 2018, the ACA will impose a 40 percent excise tax on high-value plans, where the value of benefits exceeds thresholds of \$10,200 for individuals and \$27,500 per year for families, indexed for inflation.

Amounts potentially subject to the tax will include health coverage, health flexible spending accounts (FSAs), Health Reimbursement Accounts (HRAs), and employer contributions to Health Savings Accounts (HSAs); however, the tax is not applicable to stand-alone dental and vision plans.

#### What it Means for Manufacturers

Sample projections predict that 38 percent of manufacturers will hit the limit to trigger the excise tax in 2018 with approximately 78 percent being affected by 2023. The Internal Revenue Service has not yet proposed regulations governing how the tax will be implemented and levied. The tax needs to be more clearly detailed as to what is included in the calculation determining the value of the benefits so employers can determine what their liabilities are and actions that can take to reduce exposure to the tax. This tax is expected to raise \$80 billion over the next ten years.

### Medical Device Excise Tax

#### What It Is:

A tax beginning in 2013 on certain medical devices imposed on the manufacturer or importer. It places a tax of 2.3 percent of the sale price of the devices, and it is expected to raise about \$30 billion dollars in its first 10 years.

#### What It Means To Manufacturers:

This industry-specific fee will stifle innovation and job growth in the medical device industry by eliminating resources without additional market gains. These fees will translate to higher health care costs for all manufacturers.

### Reporting Requirements

#### What It Is

Employers will be required to report information to prove they are complying with the employer mandate and confirm an employee's coverage status.

Employers who offer minimum essential coverage must provide the government with information to ensure that the mandate is met. Additionally, they must provide the covered employees with their coverage information so that the employees can prove that they met the requirements of the individual mandate. Employers who file more than 250 W-2 forms must provide information to the employees about the general cost of coverage.

In 2015 employers who show a good faith effort to report will not be fined, even if there are omissions in the reporting. The fines will fully take effect in 2016.

#### What It Means For Manufacturers

Manufacturers must provide insurance at an affordable rate to their employees or face a penalty. This will necessarily cause an increase in administrative burdens and costs. The NAM estimates that there will be significant per employee cost to meet the reporting requirements. The IRS announced in 2013 that the Employer Mandate fine and reporting requirements were delayed from 2014 to 2015.

### Wellness Programs

#### What It Is

Programs intended to improve and promote health and fitness that are usually offered through the workplace, although insurance plans can offer them directly to their enrollees. These programs allow employers or plans to offer premium discounts, cash rewards and other incentives in order to participate.

As of the beginning of 2014, the ACA provides guidelines for the continuing support of participatory wellness programs. The rule also outlines standards for nondiscriminatory health-contingent wellness programs, which reward people who meet specific standards related to their health. A widely-used example would be smoking cessation programs.

#### What It Means For Manufacturers

Wellness plans provide flexibility to employers to promote healthy lifestyles for their workers, while employees get discounts and other incentives. Restrictions placed on wellness plans

make them less useful as a tool to incentivize healthy living and lower overall costs for both the employer and employee.

## Medical Liability Reform

### What It Is

Litigation related to medical liability, when taken to include defensive medicine, costs around \$40 billion dollars every year, or about 2 percent of total health care spending as of 2010. This high cost drives up the cost of medical liability insurance, which results in higher costs for procedures. Medical liability reform has been proposed in Congress on multiple occasions but has been unable to find traction beyond passing the House of Representatives.

### What It Means For Manufacturers

While a relatively small percentage of overall costs, efforts to rein in the costs associated with medical liability, in particular so-called defensive medicine, could yield lower premium costs to employers. The Congressional Budget Office (CBO) estimated that enacting medical liability reform could save the federal government alone more than \$50 billion dollars over the next ten years. Money spent on unnecessary procedures, attorney's fees and judgment and settlement pay outs is inevitably passed on to the consumer, and lowering these front-end costs should help reduce the cost of healthcare for both employees and employers.

## Flexibility and Options

### Direct Primary Care Model

#### What It Is

The direct primary care (DPC) model gives employees a meaningful alternative to fee-for-service insurance billing, typically by paying a monthly, quarterly, or annual fee (i.e., a retainer) that covers all or most primary care services including clinical, laboratory, and consultative services, and care coordination and comprehensive care management. Because some services are not covered by a retainer, DPC practices often suggest that patients acquire a high-deductible wraparound policy to cover emergencies and major medical procedures and expenses.

#### What It Means For Manufacturers

While still in its relative infancy, the DPC model has shown to be effective at lowering costs when implemented. Manufacturers, particularly larger ones that can provide their own clinics, may benefit from exploring the DPC model as an alternative to more traditional health care plans.

### Defined Contributions

#### What It Is

Under rules promulgated for the ACA, small businesses are not permitted to contribute a defined contribution to their employees and still qualify as providing affordable health insurance to their employees.

#### What It Means For Manufacturers

Manufacturers need as much flexibility as possible when creating options to help their employees get coverage, but maybe can't foot the whole bill on their own. A defined contribution model allows employers to better manage the cost of providing coverage, which is particularly meaningful for smaller entities.

### ERISA Self-Insured Plans

#### What It Is

ERISA plans use “stop-loss” insurance to provide coverage for their company in the event that a benefits claim exceeds a threshold that the company can afford. The federal government has indicated it may be interested in regulating stop-loss coverage more aggressively in the future, which would make this choice less attractive or even unobtainable.

#### What It Means For Manufacturers

Traditionally ERISA plans were adopted by larger companies who could manage the risk of being self-insured. The Affordable Care Act exempted ERISA plans from some of the taxes and mandates, so some companies are looking to self-insure with stop-loss coverage to manage their risk exposure. To prevent this, the law’s defenders are looking at stop-loss insurance requirements as a means to discourage some employers from self-insuring. Though self-insurance is not subject to state regulation, stop-loss remains regulated by the states. By mandating risk thresholds at the federal level, it would limit manufacturer’s options for providing insurance and drive up costs.

### Private Exchanges

#### What It Is

In 2014, about 2.5 million people across companies of all sizes will be enrolled in health insurance through private exchanges. While these platforms generally offer an “e-commerce” approach to purchasing health insurance – either through a single carrier or multiple carriers offering plans – as the public exchanges do, there remain key differences.

The platforms themselves tend to have a more robust offering of consumer-support tools. These would include physician finders, jargon-free questionnaires to help identify the ideal plans, cost calculators, and they often provide information and access to ancillary offerings such as health savings accounts.

#### What It Means For Manufacturers

Private exchanges can give employers an alternative to the state and federal exchanges that can provide excellent coverage in addition to tools not available through the government plans. While still in the growing stage, these private exchanges should be allowed to flourish as an option available to manufacturers when choosing coverage for their employees.

### Strengthening Health Savings Accounts (HSAs)

#### What It Is

Health savings accounts (HSAs) are a tax-advantaged medical savings account available to people who are enrolled in a high-deductible health plan. The funds contributed to an account are not subject to federal income tax at the time of deposit, and the funds roll over from year to year. Unlike HRAs, they are owned by the individual, not the company. Anyone can put money into the accounts, and the money can be invested.

Under the ACA, when determining the minimum value of a plan, all employer contributions to an HSA for the current plan year are taken into account in determining the plan's share of costs and are treated as amounts available for first-dollar coverage. Under a guidance issued in 2014, HSA contribution maximums were raised by \$50 for individuals and \$100 for families.

#### What It Means For Manufacturers

HSAs are a valuable, flexible tool that employees can use to save for health-related expenses using their own pre-tax money. While the current ACA regulations have largely kept HSAs as-is, the contribution limits should be further raised in order to encourage their use. HSAs incentivize employees to save for health expenses and can be used by patients as needed without a third party to determine what benefits are allowed.

### Hybrid Funding and Ownership Models

#### What It Is

Employers and employees should have access to as many options as possible to meet their health care needs and fulfill the requirements of the ACA. This requires federal agencies to be as flexible as possible and encouraging employers and employees to be innovative in their approach to providing and purchasing coverage.

#### What It Means For Manufacturers

Congress and the Administration should explore options to expand funding and ownership models. For example, by allowing employees to bring in their own individual plan to be augmented by the employer, employees can get the minimum essential coverage that they need and employers can meet their coverage requirements under the ACA or any future health reform laws.

### Expanding Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs)

#### What It Is

Flexible Spending Accounts (FSAs) allow employees to set aside pre-tax dollars to pay for qualified expenses as established in a qualified cafeteria plan. Unlike HSAs, you do not have to have a high-deductible plan to have an FSA, or even have health insurance at all. They are owned by the employer, who can make contributions to the plan. Under the ACA, you can now roll \$500 of your FSA over in to the next year to be used before March.

Health Reimbursement Arrangements (HRAs) are set up by the employer and are used to pay for medical expenses not covered by your health plan, such as deductibles or coinsurance. Any money given to you for medical expenses is tax deductible for your employer, who also decides which expenses are covered by the HRA.

A guidance issued in 2013 prohibits employers from using individual accounts, such as HRAs and FSAs, to reimburse employees for premiums they buy in public or private exchanges. Stand-alone HRAs do not meet the ACA's annual dollar maximums and preventive benefits requirements. The ban on annual dollar limits in health plans and the first-dollar preventive care coverage mandate of the ACA apply to certain FSAs and HRAs. However, employers may use certain "integrated" HRAs to reimburse retirees tax-free for individual policy premiums.

#### What It Means For Manufacturers

HRAs and FSAs provide flexible options to both the employer and employee to pay for health care expenses using pre-tax dollars. HRAs provide the added benefit of helping to pay for uncovered expenses while being tax-deductible for the employer. Manufacturers benefit from having a variety of tools at their disposal to assist employees with their health care costs with a minimum of added expense and interference. The increased restrictions placed on them by the ACA lower their usefulness and take yet more options away from both the employee and employer.

### Medicare Advantage

#### What It Is

Medicare Advantage (MA) is a managed health care program that substitutes for Medicare Parts A and B benefits and is offered by commercial insurance companies who receive capitated payments based on the number of enrollees in the plan. Most MA plans include Part D prescription drug benefits.

# Healthcare Policy Priorities

2015

The ACA made broad reforms to the way that MA operates and reduces federal payments to Medicare Advantage plans over time. In addition, the law requires plans to maintain a medical loss ratio of at least 85 percent and restricts the share of premiums that plans can use for administrative expenses.

## **What It Means For Manufacturers**

MA plans can significantly reduce the out-of-pocket cost of health care to seniors, as well as provide a broad range of expanded benefit packages beyond Medicare Parts A and B coverage. Many employers sponsor MA plans as a way to ease the transition from the employer-based coverage their retirees enjoy during their working years to Medicare coverage once they reach eligibility. Roughly ten percent of MA enrollees are covered by a plan sponsored by their former employer or their spouse's employer.

## **Medicare Part D**

### **What It Is**

Medicare Part D is a federal program enacted in 2003 that provides for a prescription drug benefit Medicare program through the private sector. The ACA increased out-of-pocket premiums for higher income enrollees, as well as made substantive changes to address coverage gaps. Changes were also made to address the availability of the low-income subsidy.

In the past, employers that provided a retiree prescription drug plan equivalent to the coverage available under Medicare Part D received a federal subsidy equal to 28 percent of certain covered charges. This amount was not subject to corporate income tax. Effective for taxable years beginning on or after January 1, 2013, employers are required to report any Medicare Part D subsidies they receive as taxable income. Additionally, pharmaceutical manufacturers are required to provide a 50-percent discount on brand-name and generic medicines to the extent that they exceed the annual limit and are less than the threshold for catastrophic coverage (currently \$4,550). Additional changes resulting in decreased out-of-pocket liabilities for Medicare Part D enrollee expenses are set to occur in future years.

### **What It Means For Manufacturers**

The changes that the ACA made to Part D will result in higher expenses and tax liabilities for manufacturers who provide drug benefits to retirees. Additional proposals to change Medicare Part D, such as implementing a Medicaid-style rebate system would increase costs to beneficiaries and could result in cost-shifting to employer-based plans. Medicare Part D is more than 40 percent under budget and maintains a very high approval among beneficiaries.

## Informed Decisions

### Interoperability

#### What It Is

Currently, most medical devices and health information systems operate separate and apart from other units and do not share information. The idea of interoperability is that patient health information would be shared across medical devices and systems, which would allow health care providers to have full access to a patient's history in order to make the best informed decisions and deliver the best care possible.

#### What It Means For Manufacturers

Having appropriate and secure access to patient records and making more informed decisions would cut down on redundant care and provide more accurate diagnoses and treatment. Consumers should be able to see accurate, real-time information on their health plans. Advances in data analytics are dramatically expanding our capacity to process data in ways that create actionable, more efficient and targeted care. Moreover, increasing efficiency in the delivery of care will result in fewer visits to medical facilities, lower out-of-pocket costs and lower premiums.

### Utilization Rates

#### What It Is

Tracking utilization rates refers to monitoring the extent to which a given group of people uses particular medical services in a specified period of time. Having better access to these records can allow providers, employees and employers to better tailor their health care plans to focus on the services that are most needed, used and effective.

#### What It Means For Manufacturers

Allowing providers to fully access and share health service utilization patterns could lead to more streamlined services and, ultimately, lower premiums and expenses. This will also help ensure that patients are complying with their prescription schedules and medical advice, thus promoting higher value and more efficient care.