LLexiNews

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ALLEXIAN
Global Health Care Advisors

Earlier this month we were invited to join a panel discussion attended by 120 CEOs. In our panel's presentation we focused on how to reduce health care expenses. A lively discussion followed covering employer and employee viewpoints. As a sidebar, who could have imagined five years ago that health care expenses would have 'moved into' the CEO's office?

A Fortune 50 company recently noted that its healthcare expenses are $2.4 billion and the penalty for not providing coverage (under health care reform) would be $650 million.

Our panel broke the topic of expense management into two pieces: what health care expense increases to expect from PPACA – the health care reform bill. Next, we focused on ways employers can reduce expenses by sharing the cost burden through consumer driven health care plans and wellness programs. In this newsletter we'll highlight a few of the sources of probable additional expense as a result of PPACA. In future newsletters we'll explore expense reduction.

PPACA adds 30 million new insured lives. Many new requirements for employers and employees will be phased in over the next 6 years – some are already in effect. We can also expect ongoing litigation, already begun in 20 states.

Panel and CEO sentiment was that employer healthcare expenses would continue to increase in the years ahead, as they have in years prior. Health care expenses are up three fold in 20 years from $2,500 to $7,500 per employee per year, is 16% of the Federal budget and 3.5% of GDP. Medicare expenditure is $1.4 billion/day. In March, AT&T booked a $1 billion first quarter charge as a result of a change in the tax treatment of Medicare subsidies. We've selected a few of the upcoming requirements to illustrate the likely sources of expense growth, underscoring the need to reduce expenses.

Now or soon to come

Automatic Enrollment. Employers with more than 200 employees must automatically enroll all full-time employees as soon as they are eligible for coverage. (Effective date not clear from legislation, but employers may be required to comply as soon as regulations are issued).

Grandfathered Plans. Some, perhaps most, existing plans will be grandfathered. Reform grandfathers plans in existence on March 23, 2010 from complying with certain requirements. Reform does not specify what will cause a plan to lose grandfathered status, except to say that enrolling new employees or adding family members will not affect grandfathered status.

September 23, 2010

Coverage of Children. Adult children up to age 26 must be covered.

Restrictions on Lifetime and Annual Limits. Employers may no longer set lifetime limits on essential benefits.

First Dollar Coverage for Preventive Care. Employers may not impose cost sharing with employees for preventive coverage.

January 1, 2014

Minimum Essential Coverage Requirement (or else pay a penalty) of Employees. Reform requires employers with 50 or more "full-time equivalent employees" to provide minimum essential coverage to all full-time employees (those working 30 or more hours per week) and their dependents. For some employers the penalty appears to be less than the cost of providing health care insurance. A Fortune 50 company recently noted that its healthcare expenses are $2.4 billion and the penalty for not providing coverage would be $650 million. This company might not be the future 'employer of choice' but it makes you think…

No Preexisting Condition Exclusions. Employers may not exclude coverage for preexisting conditions.

Out of Pocket Limits. Employers may not impose cost sharing in amounts greater than the current out of pocket limits for high deductible health plans

Allexian delivers operational improvement and strategy focused on bottom line and value creation.

As former CEOs we assist health care companies with planning and execution.

We are experienced in performance improvement, strategy, M&A due diligence, interim management,

As employers accelerate the trend of shifting health care cost to their employees, the employees will need to become smarter consumers of health care.