



## 7 Important Facts About Health Care Exchanges

Health care exchanges are a key provision of the Patient Protection and Affordable Care Act (PPACA). Our experts have compiled a list of key details business

leaders need to understand about health care exchanges and the impact they will have on employer-sponsored benefits in 2014.

### *Important Fact 1:*

#### **An exchange is a web portal to buy and sell benefits**

A health insurance exchange is a web portal where individuals and businesses can shop for and buy health insurance. There will be two types of exchanges throughout the U.S. that will impact employee benefits:

- 1 **Public exchanges facilitated by the state and/or federal government**
- 2 **Private exchanges facilitated by private industry stakeholders (insurance providers, brokers or benefits consultants)**

### *Important Fact 2:*

#### **Public exchanges will be open for small businesses and individuals to enroll on October 1, 2013 for coverage to go into effect January 1, 2014**

Exchanges facilitated by the state and/or federal government are expected to provide an online marketplace for individuals and small employers.<sup>1</sup>

These exchanges will be open for:

- » Individuals without access to *affordable*\* employer-provided health insurance coverage
- » Small businesses with fewer than 100 full-time employees

In 2017, state-based exchanges may make provision for businesses with more than 100 full-time employees to purchase employee benefits plans through public health care exchanges.

\*Employer-provided coverage in which the employee's required contribution does not exceed 9.5% of their annual income.<sup>2</sup>



### Important Fact 3:

## Private exchanges generally provide cost-controlling options for businesses of all sizes

Unlike the public exchange, private exchanges have more flexibility, because they are not associated with federal guidelines from the PPACA and the Department of Health and Human Services (HHS). Private exchanges will offer health coverage options to multiple workforce segments and sizes. Additionally, private exchanges can sell all products

and services, including voluntary insurance, unlike public exchanges, which can only offer medical and dental insurance. Many of these exchanges help employers to move toward a defined contribution model that can help better control health care costs, while still offering employees robust benefits options through defined contribution.<sup>3</sup>

MOST EMPLOYERS (88%) SAY THEY WILL CONTINUE TO OFFER HEALTH BENEFITS TO ACTIVE EMPLOYEES IN 2014.<sup>4</sup>

### Important Fact 4:

## Tax subsidies are only available through a public exchange

Only public exchanges assess and determine an individual or small business' eligibility for a premium tax credit to help off-set the cost of coverage and defray some costs associated with

using health care services.<sup>5</sup> Therefore, subsidies and credits may not be available to individuals and employers purchasing coverage through a private exchange.

#### Tax Credits and Penalties

##### INDIVIDUAL CREDITS:

Individuals with household incomes between 100% and 400% of the federal poverty level are eligible for tax subsidies if they are not eligible for affordable employer-provided coverage.<sup>5</sup>

##### SMALL BUSINESS CREDITS:

Small businesses may be eligible for a tax credit of up to 50% of their premium payments if they have 25 or fewer full-time equivalents whose average annual wages are no more than \$50,000. While it is still too early to tell exactly how competitive the exchanges will be, tax credits coupled with the options in the exchanges may help your business to provide cost-effective workplace benefits.<sup>5</sup>

##### PENALTIES:

Employers with at least 50 full-time equivalents must offer minimum essential health coverage to their full-time employees or face a penalty.<sup>2</sup> In some cases, it may be cost-effective for employees to purchase coverage through the exchange, despite the employer's responsibility to pay a penalty. Discuss the strategy that is right for your business with your broker or benefits advisor.

### Important Fact 5:

## "Silver" or 70/30 coverage will be the public exchange benchmark

State exchanges will have many unique characteristics, but each will offer four levels of coverage, which vary depending on the proportion of medical expenses the insurance plan is expected to cover. Of these plans, a "silver" plan (one that pays

70 percent of medical expenses or actuarial value) will be the benchmark for calculating subsidies. Individuals can "buy-up" to other plan levels, as well as dental coverage. Additionally, they can purchase voluntary insurance outside of the public exchange.<sup>5</sup>

#### Plan Tiers:<sup>5</sup>

**BRONZE:** plan pays 60 percent of medical expenses (actuarial value)

**SILVER:** plan pays 70 percent of medical expenses

**GOLD:** plan pays 80 percent of medical expenses

**PLATINUM:** plan pays 90 percent of medical expenses



### Important Fact 6:

## Exchanges affirm the importance of employee education

Health insurance reforms and exchanges will provide employees with the option to purchase insurance directly from the individual market, so individuals will need to better understand both their options and health risks. While the PPACA requires businesses to communicate to employees about exchanges and potential eligibility for tax subsidies, employees will be responsible for deciding how they

spend their health care dollars. As some employers move toward defined contribution plans, employees will be in control of how they use and add to their employer's contribution. As health care costs continue to be a concern for many Americans, it is increasingly important for employees to understand their benefits options, make smart benefits decision, and wisely manage their health care dollars.

43% OF EMPLOYEES SAY THEY DO NOT TRULY UNDERSTAND THEIR EMPLOYER'S CONTRIBUTION TO THEIR INSURANCE BENEFITS.<sup>7</sup>

### Important Fact 7:

## Voluntary products work with major medical coverage to provide an essential safety net

Whether purchased at work or through a private exchange, supplemental policies, like the ones offered by Aflac, work together with major medical insurance to help provide protection to policyholders. As health care costs continue to rise, these policies help provide an extra layer of financial protection for your employees without

adding to your overall cost of benefits. *Unlike* major medical insurance, these policies pay cash benefits directly to the policyholder (unless assigned otherwise) if they get sick or injured, and are a way to offer a broader benefits package to your workforce without adding to your benefits costs.

EMPLOYEES WHO ARE OFFERED VOLUNTARY BENEFITS BY THEIR EMPLOYER ARE **15% MORE LIKELY** TO SAY THEIR CURRENT BENEFITS PACKAGE MEETS THEIR FAMILY'S NEEDS EXTREMELY OR VERY WELL.<sup>7</sup>

## For More Information ...

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FOR MORE INFORMATION, VISIT [AFLAC.COM/INSIGHTS](http://AFLAC.COM/INSIGHTS) OR FOLLOW US @AFLAC  

## SOURCE

<sup>1</sup> The U.S. Department of Health and Human Services (HHS) will evaluate each state's readiness to operate their exchange on January 1, 2013. For states that do not establish an exchange, the HHS will operate a federally-facilitated exchange (FFE) for those states, and premium tax credits will be available for those who buy individual coverage in an exchange.

<sup>2</sup> Congressional Research Service (2010). Summary of Potential Employer Penalties under the Patient Protection and Affordable Care Act (ACA), accessed on November 9, 2012, from [ncsl.org/documents/health/EmployerPenalties.pdf](http://ncsl.org/documents/health/EmployerPenalties.pdf).

<sup>3</sup> Booz & Company (2012). The Emergence of Private Health Insurance Exchanges Fueling the "Consumerization" of Employer-Sponsored Health Insurance, accessed on November 9, 2012, from [booz.com/media/uploads/BoozCo-Emergence-Private-Health-Insurance-Exchanges.pdf](http://booz.com/media/uploads/BoozCo-Emergence-Private-Health-Insurance-Exchanges.pdf).

<sup>4</sup> Towers Watson, 2012 Health Care Trends Survey, accessed on November 8, 2012, from [towerswatson.com/assets/pdf/8139/TW-HealthCare-Trends-Survey-NA-2012.pdf](http://towerswatson.com/assets/pdf/8139/TW-HealthCare-Trends-Survey-NA-2012.pdf).

<sup>5</sup> Congressional Research Service (2012). Health Insurance Exchanges Under the Patient Protection and Affordable Care Act (ACA), accessed on November 9, 2012, from [fas.org/sgp/crs/misc/R42663.pdf](http://fas.org/sgp/crs/misc/R42663.pdf).

<sup>6</sup> The White House, Small Business Health Care Tax Credit, accessed on August 8, 2012, from [whitehouse.gov/healthreform/small-business/tax-credit](http://whitehouse.gov/healthreform/small-business/tax-credit).

<sup>7</sup> 2012 Aflac WorkForces Report, a study conducted by Research Now on behalf of Aflac, January 24–February 23, 2012.