



Broker Briefing

What will it cost to maintain Grandfathered Status?

The Departments of Treasury, Labor and Health & Human Services recently issued Interim Final Regulation concerning the Grandfathering provision of PPACA. According to the Departments' estimate, as many as 80 percent of small employer plans (mid-range estimate is at 66 percent) and 64 percent of large employer plans (mid-range estimate at 45 percent) could lose Grandfathered status by 2013.

Based on the criteria required to maintain Grandfathered status, we believe the percentage of non-grandfathered plans will increase after 2014.

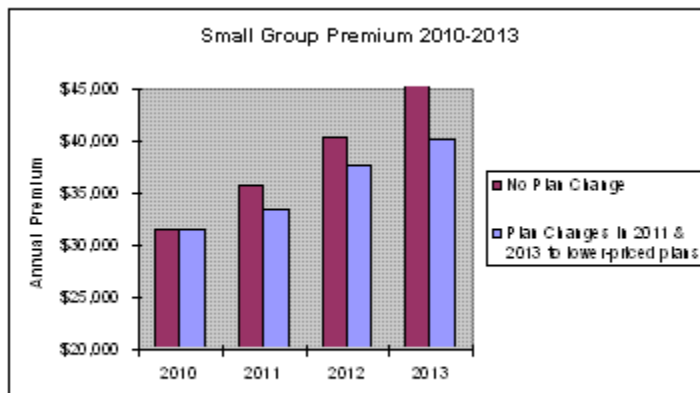
For a printable version of this document, [visit here](#).

Health Care Reform brings confusion and uncertainty to the market.

An urgent concern: Should employers maintain Grandfathered status, and can they afford to do so?

Small Employers

In the small case market, an employer can not switch to a new benefit plan if it wishes to maintain grandfathered status. For example, an employer could not move from a \$1,000 deductible plan to a plan with a \$1,500 deductible. In the chart below, we illustrate what the cost gap could be between maintaining the current plan or switching to a new benefit plan to moderate cost:



- **Current Group Plan**
 - \$1,000 Deductible
 - 70% Coinsurance
 - \$3,000 OOP Max
 - Annual premium at 50% contribution (\$31,609)
- **Plan Change in 2011**
 - \$1,500 Deductible
 - 75% Coinsurance
 - \$3,000 OOP Max
 - Annual premium at 50% contribution 7.1% increase
- **Plan Change in 2013**
 - \$2,000 Deductible
 - 70% Coinsurance
 - \$3,000 OOP Max
 - Annual premium at 50% contribution 6.9% increase

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The Small Group Premium chart represents a small employer with seven employees and average age of 38 with employer contribution of 50 percent.

No Plan Change assumes an annual premium increase of 13 percent (total increase over a 3 year period = 44 percent).

If the small employer switched to a new plan of benefits in 2011 and 2013, the premium would increase by 29 percent over 3 years, instead of the 44 percent illustrated above (In both scenarios, a 13 percent underlying annual premium increase was used).

Large Employers

The question a large employer must ask itself is how much of a premium increase can it absorb in order to maintain its grandfathered status.

To answer this question, let's look at how the cost-sharing limits operate under PPACA. In 2010/2011, a large employer on a custom health plan may increase cost-sharing by 19 percent (15 percent plus the rise in the CPI) on specific benefit elements. This translates roughly into a 2 percent - 4 percent reduction in premium.

If an employer were to take the full 19 percent in 2011, future plan modifications can not exceed the annual growth in CPI. Since the CPI has historically tracked significantly below the rate of medical inflation used by carriers to set prices, the cost spread between a grandfathered plan and the employer's actual claims cost could be significant over time. The following illustrations and chart shows how large that spread could get.

Allowable Plan Design Change indicates a small savings over medical trend by making the following "allowable" benefit changes to a grandfathered plan when the 19 percent increase in cost sharing is applied:

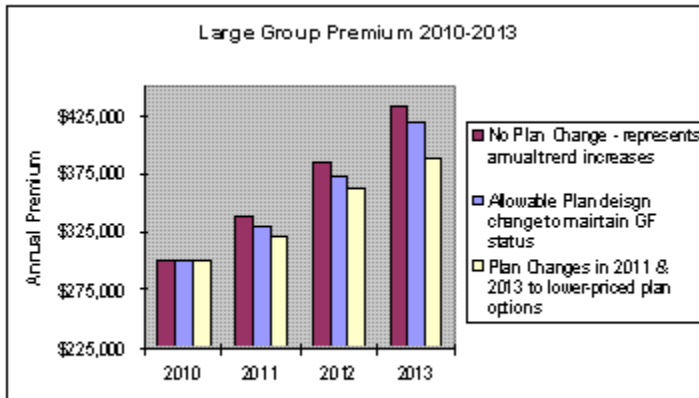
The diagram consists of two bulleted lists on the left, a large green curly bracket on the right, and a text box on the far right. The top list is titled 'Current Group Plan' and includes: \$1,000 deductible, 80% coinsurance, \$3,000 OOP Max, and \$35 OV copay. The bottom list is titled 'Allowable (Year 1) modifications to maintain Grandfathered status' and includes: \$1,190 deductible, 80% coinsurance, \$3,570 OOP Max, and \$40 OV copay. A large green curly bracket groups both lists. To the right of the bracket is a text box stating: 'The resulting premium reduction for this benefit change is between 2% - 4%'.

- **Current Group Plan**
 - \$1,000 deductible
 - 80% coinsurance
 - \$3,000 OOP Max
 - \$35 OV copay
- **Allowable (Year 1) modifications to maintain Grandfathered status**
 - \$1,190 deductible
 - 80% coinsurance
 - \$3,570 OOP Max
 - \$40 OV copay

The resulting premium reduction for this benefit change is between 2% - 4%.

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As illustrated below, modest plan changes to control cost could reduce premiums by 12 percent in the third year when compared to "allowable" plan changes, represented in the blue column in 2013. It should be noted, if the employer tries to maintain grandfathered status beyond 2013, the premium gap is likely to grow since increases in employee cost sharing are limited the increases in the CPI.



- **Current Group Plan**
 - \$1,000 deductible
 - 80% coinsurance
 - \$3,500 OOP Max

- **Plan Change in 2011**
 - \$1,500 Deductible
 - 75% Coinsurance
 - \$3,500 OOP Max

Annual premium at 50% contribution
5.6% increase

- **Plan Change in 2013**
 - \$2,000 Deductible
 - 70% Coinsurance
 - \$4,000 OOP Max

Annual premium at 50% contribution
7.6% increase

The Large Group Premium chart represents a large employer with 75 employees and average age of 42 with employer contribution of 50 percent.

No Plan Change assumes an annual premium increase of 13 percent (total increase over a 3 year period = 44 percent).

Whether an employer maintains its grandfathered status is a decision it must make. This analysis is limited to the premium and benefit impacts. Other factors should be considered based on the group's specific circumstances.

The interim final regulations on which this briefing is based are not final and may be changed.

As always, if you have any questions, comments or need assistance, please call your Rocky Mountain Health Plans or CNIC Account Executive.

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