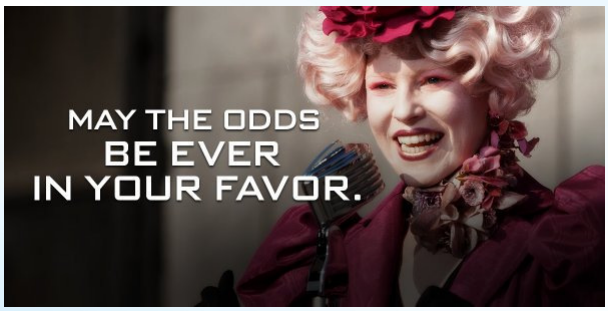
Healthcare Trends in North America



Peter Greenberg
Aerospace Conference 2018
IAM Strategic Resources

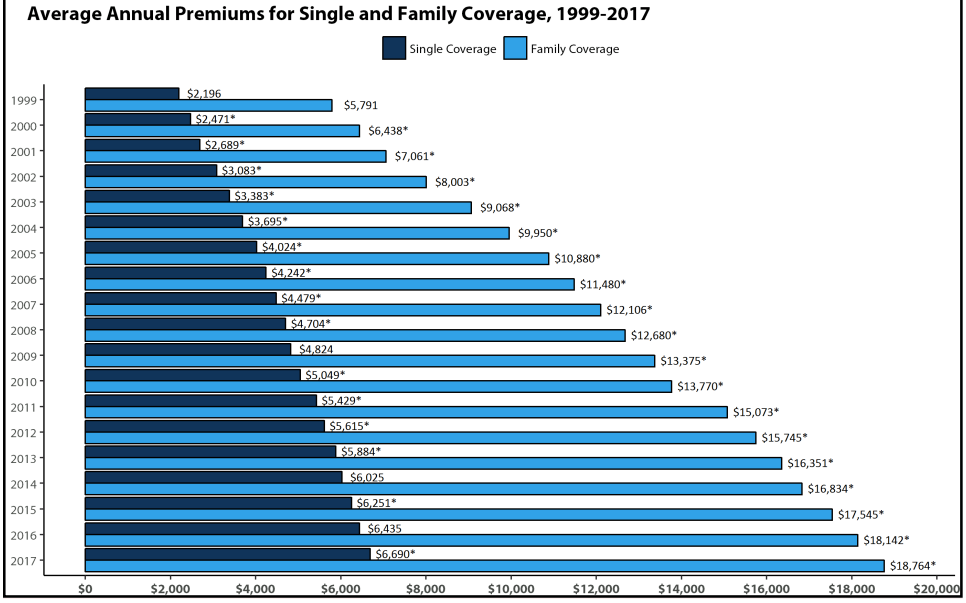
Agenda

- Current Healthcare Issues and Costs
- Affordable Care Act (aka Obamacare)
- High Deductible Health Plans: The 401(k) of Healthcare

Costs Continue to Rise

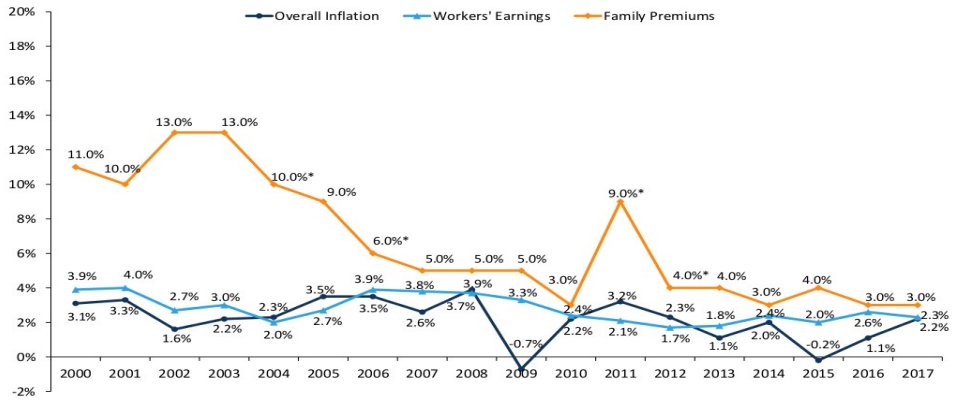
- Healthcare costs continue to be a huge issue across North America
- 12%-17% of total labor costs in the US
- Small and midsized employers have less purchasing power
- Demographics work against us
- Employers trying to pass on costs to employees
- Republican plans would make this worse

Average Annual Premiums (U.S.)



Inflation, Earnings & Family Premiums(U.S.)

Figure 3
Average Annual Increases in Premiums for Family Coverage Compared to Other Indicators, 2000-2017

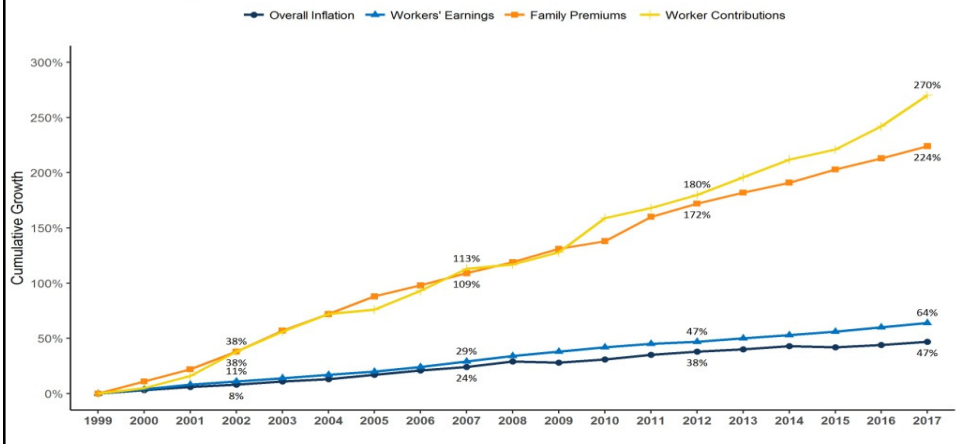


* Estimate is statistically different from estimate for the previous year shown (p < .05).

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2017. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2017; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2017 (April to April).

Inflation, Earnings &Family Premiums (U.S.)

Figure 5
Cumulative Increases in Family Premiums, Worker Contributions to Premiums, Inflation, and Workers' Earnings, 1999-2017



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2017. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2017; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2017 (April to April).

The Situation in Canada

The Situation in Canada

- It's not as dire as in the US, due to universal healthcare
- However, this does not provide for dental, drug, or "paramedical" benefits
- These are provided by employers & a subject of bargaining
- Costs continue to rise and employers, like those in the US, are trying to pass costs onto our members

The Situation in Canada

- These extended healthcare benefits currently run about $4,000-$5,000 per year for family coverage
- Approximately half that for single coverage
- 70% of costs are related to prescription drug benefit
- 25% are medical, dental, paramedical benefits
- Drug price inflation running about 5% per year
- Demand for drugs increasing as baby boomers age
- Companies passing on drug costs
  - Dispensing fees
  - Increased cost-sharing

How Do We Manage This?

- Generic drugs (Mandatory in most provinces)
- Paramedical benefits, such as massage, can be costly
- Get claims info-which benefits are members using?
- 25% are medical, dental, paramedical benefits
- Closely monitor plan design changes
- Use of pharmacy management companies might reduce costs
  - ExpressScripts, HealthWATCH
- Mobilize and educate membership

The ACA Today

- Republican efforts in Congress to dismantle ACA have failed
- "Easy to hate, hard to kill" –Politico magazine
- GOP divided, can't repeal, can't fix ACA
- Now it's moved to the courts
  - Justice Department not defending the law
  - Urging courts to throw out pre-existing condition rules
- Assault on the ACA marketplaces
- 52 million people have pre-existing conditions

Key Provisions of ACA

- 100% coverage for preventive care
- Coverage for dependents up to age 26
- No lifetime maximum
- Maximum out of pocket (OOP) limits:
  - $7,350 in 2018 for Single
  - $14,700 for any other coverage level
  - These are crucial as HDHPs become more common

Key Provisions of ACA

State Exchanges, the main foundation of coverage

- 22 states have some form of their own exchanges
- 28 have exchanges provided by Federal government
  - Healthcare.gov portal
- Financial assistance provided to those earning between 100% and 400% of the poverty line
- $12K-$48K for single, $25K-$100K for family
- Trump Administration shortened the 2018 enrollment period and slashed advertising budget

Medicaid Coverage Gap

- Expansion of Medicaid in 32 states
- States can opt out, and in these states there is now a Coverage Gap
- People who are not poor enough to qualify for Medicaid, but below 138% of poverty line so don't qualify for subsidies
- Approximately 2.2 million people fall into this gap because of the state in which they live

SCA and the ACA

- SCA does not change the employer's obligation to offer affordable health care or pay a penalty
- Neither SCA nor ACA require that employees participate in the employer's health plan
- Cash payouts in lieu of health plan are legal
- Must be correctly structured to avoid penalties
- Taking cash-in-lieu of health care does not count as having coverage for the Individual Mandate

Tricare and the ACA

- Employers can offer TriCare-eligible employees a cash pay-out for not participating in the company plan if:
  - All bargaining unit employees are offered a cash-in-lieu option
  - Cash-in-lieu must be offered through a cafeteria plan
  - Incentives cannot be offered to TriCare-eligible employees

Cadillac Tax

- Scheduled to start in 2022
- Threshold will be adjusted based on CPI
- For 2018 it is $10,200/$27,500
- Excise tax is 40% on the value above the threshold
- Tax applied to insurer/health plan
  - Will most likely be passed on
  - Tax-deductible expense to insurer/health plan

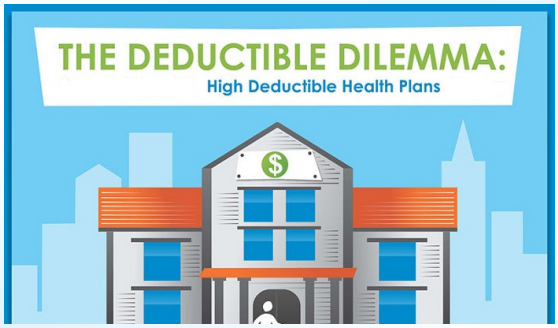
Benefits of the ACA

- Insurers can no longer deny coverage to those with pre-existing conditions
- Financial protections such as OOP maximums and elimination of lifetime maximums
- Dependent coverage to age 26
- Plans cannot discriminate based on gender or race
- Plans have to include essential benefits
- This works because of the health insurance marketplace:
  - Consumer based
  - Competition amongst providers

Benefits of the ACA

- This works because of the health insurance marketplace
  - Consumer based
  - Competition
  - Pooling of risk
- Repealing subsidies, penalties would undermine this
- 19.2 million people gained coverage under the ACA
  - Includes 2.8 million children
- A full repeal would lead to 22-30 million people becoming uninsured

Our Latest Challenge in Negotiations



High Deductible Health Plans

- The next phase in shifting cost burden onto workers
- The 401(k) of Healthcare
- Similar to 401(k)s, they are not going away
- Employers try to drive members into these plans
  - Closing off existing plans to new hires
  - Increasing the costs in the PPO/HMO options
- Now we must learn how to deal with them and protect our members

High Deductible Health Plans

- Employers attempt to sell these plans with positive spin
- Lower monthly premiums
- "Triple Tax Advantage"
  - HSA contributions are using pre-tax dollars
  - Withdrawals for qualified expenses are tax-free
  - Interest earned does not incur tax

High Deductible Health Plans

- Health Savings Accounts are the key vehicle used to market HDHPs to consumers
- Both employee and employer can make contributions
- Annual max of $3,450/$6,900 (EE/ER combined)
- Research has shown that, like with 401(k) plans, HDHPs favor higher earners who have more room in their paychecks to contribute

HDHP by the Numbers

- HDHP must meet certain thresholds under IRS rules
- Annual deductible of at least $1,350/$2,700
- Annual OOP maximum of at most $6,650/$13,300
- “Family” applies to any coverage tier that is not single
- These are figures for in-network coverage
- Out-of-network services do not usually count towards the in-network deductibles and OOP max

HDHP by the Numbers

- Preventive services must be 100% coverage due to ACA
- After deductible is reached, services are paid via cost-sharing (usually 80/20 split)
- After OOP max is reached , plan will pick up 100% of expenses

HDHP by the Numbers

- Average Total Monthly Premiums for HDHP, 2017
  - $502 for Single
  - $1,465 for Family
- About 10-15% lower than PPO, HMO options
- Average HDHP Employee Premium Contributions, 2017
  - $85 for Single
  - $383 for Family
  - HDHPs have a lower % premium share than other types of plans (26% vs 31% for all plans at Family level)
  - Source: Kaiser Family Foundation 2017 Health Benefits Survey

HDHP by the Numbers

- Average Annual Deductible in HDHP, 2017
  - $2,304 for Single Coverage
  - $4,527 for Family Coverage
- This is roughly double the average PPO/HMO deductibles
- Average Out of Pocket Maximum for HDHP Single Coverage ranged from $4,000-$5,000
- Average for all plans ranged from $3,000-$4,000
- Approximately double this number for Family OOP max
  - Source: Kaiser Family Foundation 2017 Health Benefits Survey

How Do We Protect Our Members?

- Especially in situations where other plans have become expensive, HDHP plans might be the “least bad” option
- Work towards limiting deductibles and OOP maximums
  - Negotiate a deductible close to the $1,350/$2,700 minimums
  - Limit out of pocket maximums
- Employer contributions are key
  - Only limit is combined $3,450/$6,900
  - Contribution increases for Family, other coverage tiers

How Do We Protect Our Members?

- Contribution should be made by employer at the beginning of the year
- Auto-enrollment for employee contributions
  - Similar to 401(k) plan (default = encourages savings)
  - Helps to build their HSA balance
- Reduce or cap monthly premium share
  - Make sure employer is not rolling their HSA contribution into their total contributions

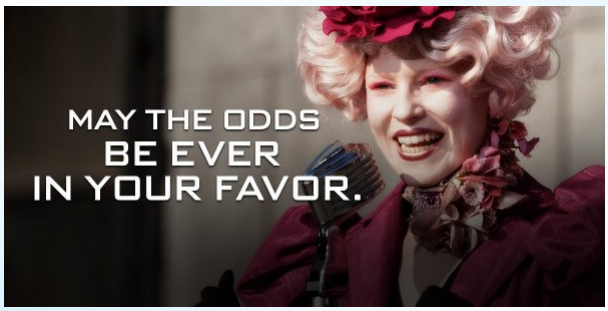
How Do We Protect Our Members?

- Preventive medications not subject to deductible
- Limit plan design changes
- Ensure HSA is easy-to-use
  - Online, app access
  - Administrative fees and investment options
  - Use of HSA debit card

How Do We Protect Our Members?

- Negotiations issues surrounding HDHPs are similar to what we have dealt with for years in healthcare
- Stay current on funding issues which change yearly
- Being educated can help ensure the members get the best benefits possible
- Strategic Resources is here to assist you

Healthcare Trends in North America



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