Determining Minimum Value of Health Plan Coverage

Beginning in 2014, the Affordable Care Act (ACA) provides premium tax credits and cost-sharing reductions to eligible individuals who purchase qualified health plan coverage through a health insurance Exchange (Exchange). To qualify for these subsidies, an individual cannot be eligible for other minimum essential health coverage, including coverage under an employer-sponsored plan that is affordable and provides minimum value.

A large employer may be liable for a penalty under the ACA’s “pay or play” rules if any of its full-time employees receives a premium tax credit or cost-sharing reduction through an Exchange. This may happen if a large employer’s plan does not provide minimum value. An employer is a “large employer” for a calendar year if it employed an average of at least 50 full-time employees, including full-time equivalents, on business days during the preceding calendar year.

The employer mandate provisions were set to take effect on Jan. 1, 2014. However, on July 2, 2013, the Treasury announced that the employer mandate penalties and related reporting requirements will be delayed for one year, until 2015. Therefore, these payments will not apply for 2014. On July 9, 2013, the Internal Revenue Service (IRS) issued Notice 2013-45 to provide more formal guidance on the delay. The Treasury plans to issue additional regulations on the reporting requirements over the summer. Future guidance may also impact the rules described in this document. No other provisions of the ACA are affected by the delay.

MINIMUM VALUE REQUIREMENTS

Under the ACA, a plan fails to provide minimum value if the plan’s share of total allowed costs of benefits provided under the plan is less than 60 percent of those costs. Minimum value is calculated by dividing the cost of essential health benefits (EHBs) the plan would pay for a standard population by the total cost of EHBs for the standard population (including amounts the plan pays and amounts the employee pays through cost-sharing) and then converting the result to a percentage.

The Internal Revenue Service (IRS) and Department of Health and Human Services (HHS) have released guidance on methods for determining minimum value under the ACA. On Feb. 25, 2013, HHS issued a final rule on EHBs, which finalizes four approaches for determining minimum value. On May 3, 2013, the IRS released a proposed rule to provide additional guidance on the ACA’s minimum value requirements.

FOUR APPROACHES

An employer may use one of the following methods to determine if its health plan provides minimum value:

HHS released an MV Calculator that permits an employer to enter information about its health plan’s benefits, coverage of services and cost-sharing terms to determine whether the plan provides minimum value. HHS also released an MV Calculator Methodology, which provides a detailed description of the data underlying the MV Calculator and its methodology. If a plan uses the MV Calculator and offers an EHB outside of the parameters of the MV Calculator, the plan may ask an actuary to determine the value of the benefit and add it to the result derived from the MV Calculator to reflect that value.
HEALTH BENEFITS MEASURED

In determining the share of benefit costs paid by a plan, the proposed rule does not require employer-sponsored large group plans to cover every EHB category or conform their plans to an EHB benchmark that applies to qualified health plans (QHPs). Employer-sponsored group health plans are not required to offer EHBs unless they are health plans offered in the small group market. Minimum value is measured based on the provision of EHBs to a standard population and plans may account for any benefits covered by the employer that also are covered in any one of the EHB benchmark plans.

The proposed rule provides that minimum value is based on the anticipated spending for a standard population. The plan’s anticipated spending for benefits provided under any particular EHB-benchmark plan for any state counts towards minimum value. The proposed rule provides that the standard population used to determine minimum value reflects the population covered by self-insured group health plans.
HSA AND HRA CONTRIBUTIONS

The proposed rule provides that all amounts contributed by an employer for the current plan year to a health savings account (HSA) are taken into account in determining the plan’s share of costs for purposes of minimum value and are treated as amounts available for first dollar coverage.

Amounts newly made available for the current plan year under a health reimbursement arrangement (HRA) that is integrated with an eligible employer-sponsored plan count for purposes of minimum value, as long as the amounts may be used only for cost-sharing and may not be used to pay insurance premiums.

WELLNESS PROGRAM COST-SHARING REDUCTIONS

In addition, the proposed rule addresses how nondiscriminatory wellness program incentives that may affect an employee’s cost sharing should be taken into account for purposes of the minimum value calculation. The proposed rule provides that a plan’s share of costs for minimum value purposes is determined without regard to reduced cost-sharing available under a nondiscriminatory wellness program.

However, for nondiscriminatory wellness programs designed to prevent or reduce tobacco use, minimum value may be calculated assuming that every eligible individual satisfies the terms of the program relating to prevention or reduction of tobacco use. This exception is consistent with other ACA provisions (such as the ability to charge higher premiums based on tobacco use) reflecting a policy about individual responsibility regarding tobacco use.

Transition relief is provided in the proposed rule for plan years beginning before Jan. 1, 2015. Under this relief, if an employee receives a premium tax credit because an employer-sponsored health plan is unaffordable or does not provide minimum value, but the employer coverage would have been affordable or provided minimum value had the employee satisfied the requirements of a nondiscriminatory wellness program (as in effect on May 3, 2013), the employer will not be subject to the employer penalty.

It is unclear how the delay of the employer mandate penalties will impact this transition relief.