



**MDS Insurance Services, Inc.**  
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## **MASSACHUSETTS HEALTH CARE REFORM**

### **JUNE 2007**

**THE GOAL OF THE MASSACHUSETTS HEALTH CARE REFORM** – (1) expand coverage to cover the approximately 380,000 uninsured's in Massachusetts and thereby reduce the uncompensated care pool; (2) provide a healthcare/insurance framework to satisfy the federal governments requirements thereby availing the state to \$385 Million in federal funding; (3) provide more low cost health insurance options to the buying public; (4) provide medical data and reporting transparency to empower an educated health care consumer. **ALL Massachusetts residence must have insurance by July 1, 2007.**

#### **KEY TERMS, NUMBERS AND DATES:**

**Section 125 Plans** – EACH and EVERY COMPANY in Massachusetts must have a 125 plan in place. Whether it is a requirement or not, Section 125 plans save companies and employees money on their insurance costs. **Call MDSIS to get yours started today!!**

**The Connector** – The state agency that will coordinate the implementation of the health care reform. Agent/Brokers such as MDS Insurance Services, Inc. will work with the Connector to offer companies and individuals health insurance options.

**Fair Share Assessment** – Employers with 11 or more employees are subject to the mandate. The financial penalty is calculated on 11+ Full Time Equivalents (FTE) and the employers must make a “fair and reasonable contribution” to health coverage. The effective date is 10/1/2006, but enforcement is more likely to be seen in 2007. **See Page 2 for more details.**

**Free Rider Surcharge** – Surcharge will be imposed on “non-providing employers” whose employees access health care paid by the state’s uncompensated care pool. Triggered when aggregate free care usage exceeds \$50,000. The employer can avoid the Free Rider Surcharge by offering a health insurance product and or having a Section 125 plan in place.

**Health Insurance Responsibility Disclosure (HIRD)** – HIRD is an administrative form to be completed once a year by all employers and employees doing business in Massachusetts. Documentation of the offer of insurance and Section 125 plans are contained in the form.

**Non-Discrimination Provision** – Health plans are prohibited from contracting with groups that fail to offer the same health benefit coverage to all of their full-time employees (> 35 hours/week) who reside in Massachusetts. Requires the same premium contribution percentage for each employee in a given plan design. *Exceptions include:* (1) Greater contribution percentage for lower paid employees; (2) Different contributions for employees working under collective bargaining agreements; (3) Different contribution levels for different plan choices; (4) Different contribution levels based on length of service; (5) Fixed dollar contributions for premium payments for all employees.

**Dependent Coverage** – Dependents can be covered under their parent’s insurance plan until the day before their 26<sup>th</sup> birthday OR up to 2 years after the loss of dependent status, whichever comes first. **The implementation date was January 1, 2007.**

#### **KEY DATES:**

- October 1, 2006 – Employers with 11 FTEs or more must offer health insurance or be subject to annual fee of \$295 per employee. Enforcement pushed off to mid to late 2007 for enforcement purposes.
- May 1 – July 1, 2007 – Open enrollment for individuals and small groups to utilize agents (MDS Insurance Services, Inc.) / connector health insurance products.
- July 1, 2007 – ALL Massachusetts Residents are required to have health insurance.
- July 1, 2007 – Individual and Small Group insurance markets will be merged.



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## **MASSACHUSETTS HEALTH CARE REFORM & Your Business**

MDS Insurance Services, Inc. is your **#1 resource** concerning the Massachusetts Health Care Reform. Consider these key questions, terminology and dates when you think about Health Care Reform and call **MDSIS** at **800-821-6033** to assist you in fulfilling these requirements:

- ***Do you have a Section 125 Plan?***  
EACH and EVERY COMPANY in Massachusetts must have a Section 125 plan in place. Whether it is a requirement or not, Section 125 plans save companies and employees money on their insurance costs. **Call MDSIS to get yours started today!!**
- ***How many total employees do you have?***  
You must account for **ALL** employees in terms of health insurance, whether an employee works 1 hour or 50 hours per week. **ALL Massachusetts residents MUST have health insurance by July 1, 2007**. MDSIS can guide you with the management and documenting of this task.
- ***Of the total employees, how many are “ineligible”?*** (i.e. part-time, uninsured, etc.)  
Call MDSIS to enroll any ineligible or part-time employees through the Connector to access Commonwealth Choice plans and/or help determine which category an employee falls into.
- ***How is the Fair Share Contribution determined?***  
Effective October 1, 2006. All fully-insured and self-insured groups. Employers with more than 10 FTEs (full time equivalent) employees must make a “fair and reasonable” contribution to health insurance for all FTEs (>35 hours/week) at Massachusetts worksites.
  - At least 25% participation in employer-sponsored plan; OR
  - Employer offers a subsidy of at least 33%
  - Penalty for non-compliance is capped at \$295 per FTE per year
- ***What is the Free Rider Surcharge?***  
Effective July 1, 2007. All fully-insured and self-insured groups. Surcharge will be imposed on “non-providing employers” whose employees access health care paid by the state’s uncompensated care pool. Triggered when aggregate free care usage exceeds \$50,000. Non-providing employers are those groups that:
  - Employ more than 10 FTEs
  - Fail to adopt and maintain a Section 125 Plan in accordance with the rules set by the Connector
  - Fail to comply with the Health Insurance Responsibility Disclosure (HIRD) requirements
- ***Non-Discrimination Provision***  
Takes effect July 1, 2007. Fully-insured groups only. Health plans are prohibited from contracting with groups that fail to offer the same health benefit coverage to all of their FTEs (>35 hours/week) who reside in Massachusetts. Requires the same premium contribution percentage for each employee in a given plan design. Call MDSIS to review the exceptions to this provision.

**Contact MDS Insurance Services, Inc. today to answer all your questions concerning the  
Massachusetts Health Care Reform.**



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## **MASSACHUSETTS HEALTH CARE REFORM**

### **Determination of Employer Fair Share Contribution**

**JUNE 2007**

The Massachusetts Division of Health Care Finance and Policy (“Division”) will determine whether employers with 11 or more employees are exempt from paying the “fair share contribution” (also known as the surcharge). Employers are exempt from the surcharge if they make a “fair and reasonable” premium contribution.

The regulation establishes two tests for deciding whether an employer meets the fair and reasonable premium contribution requirement:

- 1. Primary test:** An employer with at least 25% of fulltime employees (35 hours a week) who are enrolled in the employer’s group health plan is exempt from the fair share contribution or surcharge. All fulltime employees employed in MA are included in the calculation of the 25%, even if the employee is not a MA resident.
- 2. Secondary test:** If an employer does not meet the 25% test, but the employer offers to pay at least 33% of the premium of any group health plan it offers to its full time employees that were employed at least 90 days between October 1, 2006 and September 30, 2007, then the employer is exempt from the fair share contribution. The group health plan can be a self-insured plan.
  - Independent contractors, seasonal employees, and temporary employees, as defined in the regulation, are not full time employees and are not included in calculating the % of enrolled employees.
  - The annual “fair share contribution” or surcharge is the lower of \$295 per employee or the sum of the “fair share employer contribution” and the “per employee cost of unreimbursed physician care.”

The Division, with the Department of Labor, will calculate the annual fair share contribution. The formula is based on the private sector liability for the uncompensated care pool (“UCP”) and calculates the portion of the private sector liability that can be attributed to employers that do not meet the “fair and reasonable” premium contribution. The Division will also calculate how many UCP funds were actually used by non-elderly, uninsured Massachusetts residents, then come up with the per employee cost of uncompensated care. The sum of these two calculations is the annual “fair share contribution.”



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## **MASSACHUSETTS HEALTH CARE REFORM**

### **Dependent Eligibility**

Effective January 1, 2007, dependent coverage under Massachusetts Health Care Reform has been modified. Dependents are now eligible to stay enrolled on a subscriber's policy until the dependents 26<sup>th</sup> birthday or for 2 calendar years after the loss of their dependent status per the IRS guidelines; whichever comes first. The following are the requirements:

1. Dependents must be under the age of 26.
2. Dependents must be Massachusetts residents. There are two exceptions:
  - Dependents on PPO plans do not have to be Massachusetts residents to be eligible for the new dependent age coverage;
  - Full-time students who are attending school outside of Massachusetts but maintain their legal residency in Massachusetts can remain on the plan, but are only covered for selected services (including emergency services) while outside the plan service area.
3. Dependents must be eligible dependents of the subscriber or the subscriber's family for federal income tax purposes, or must have lost dependent status eligibility within the last two years.

#### **Verifying student status**

- Beginning immediately, student verification letters will no longer be sent by the insurance companies. \* Rather, a new verification of dependent status letter will be sent by the carrier.
- Termination will be effective April 1 for non-responders and those not eligible.

#### **Re-enrolling a dependent**

- If considered a dependent for income tax purposes for the tax year, then the dependent may be considered for the purpose of obtaining dependent health coverage.
- If the dependent is currently on COBRA, the dependent should check with his or her employer for instructions about how to dis-enroll from COBRA and obtain dependent coverage.

**\* The expanded guidelines do not apply to self-insured accounts or the Federal Employees Health Benefits Program. For self-insured accounts, student verification will continue in the fall.**



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## **MASSACHUSETTS HEALTH CARE REFORM** **What Health Insurance Coverage Qualifies for July 1, 2007?**

All Massachusetts residents must have health insurance by July 1, 2007.

In order to meet the state's requirements on July 1, 2007, an individual must either be covered by an insurance product that is licensed to be sold in Massachusetts or by a self-funded product in accordance with ERISA.

Minimum Creditable Coverage requirements (MCC) will be phased in by **January 2009**. The MCC will apply to all plans covering a Massachusetts resident, not those just designated under the Commonwealth Choice program.

### **Minimum Creditable Coverage Mandates to be implemented by January 2009:**

- Plans must cover preventative and primary care, emergency services, hospitalization benefits, ambulatory patient services and mental health services.
- Prescription drug coverage will be required – any groups that have No RX plans will have to change their plans for the January 1, 2009 requirement.
- Annual deductibles are capped at \$2,000 Individual / \$4,000 family. The plans must allow three preventative care visits for individuals, and six for families before the deductible applies.
- Out-of-pocket costs are capped – for in-network services at \$5,000 individual / \$10,000 family.
- Out-of-pocket maximums must include deductibles, co-insurance and any services with a \$100 or more co-payment.
- Any separate deductible for drug coverage is capped at \$250 individual / \$500 family.
- Plans cannot have either an annual or a per-sickness benefit maximum.
- An indemnity fee schedule of benefits is NOT allowed.

### **Excluded under its definition of “Minimum Creditable Coverage”:**

- Self-insured plans – don't have to cover state mandates due to ERISA.
- Lifetime benefits maximums are allowed.
- Qualified high-deductible health plans that meet federal guidelines to be compatible with Health Savings Accounts are permitted.



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## **MASSACHUSETTS HEALTH CARE REFORM** **You Must Account For All Employees**

Businesses have to account for all of their employees in terms of health insurance. What this means is that each business needs to know, in writing, what each employee is doing for their own health insurance.

*What must an employer/business do?*

**First off, take an accounting of all your employees. You will have 4 segments:**

1. Eligible Insured – Meet office eligibility requirement and are enrolled in office group health insurance plan.
2. Eligible Spousal Waiver – Meet office eligibility requirement but waive off the plan - covered by spouse's plan.
3. Eligible Not Insured – Meet office eligibility requirement but choose not to take the office group health insurance plan for a variety of reasons – Considered uninsured?
4. Ineligible – Does not qualify under the office eligibility requirement – can be part time employee or an independent contractor – Either gets insurance on their own, through a spouse or is uninsured.

Regardless of the size of your operation, it is imperative that you account for and identify which of the 4 segments each of your employees fall into. If they fall into categories 3 or 4, the rules have changed and the employee/business can do the following:

**Segment 3 – Eligible Not Insured** - This category can either enroll in the group health plan offered through the office or get insurance through the Commonwealth Connector offered by MDS Insurance Services, Inc. They will be required to utilize the Section 125 plan to help pay for the insurance. **NOTE:** If enrolled under the health insurance plan of the business, it would fall under the subsidy policy set forth by the business. If the uninsured employee gets insurance through the Connector via MDS Insurance Services, Inc., they must pay the entire premium themselves.

**Segment 4 – Ineligible** - The uninsured employee can get insurance through an insurance agent or the Connector directly that fits their individual needs. **They will not be eligible for subsidized insurance through the business.** However, depending on their income level, they may be able to received subsidized insurance premiums through the Commonwealth Care. If not, they can enroll in an individual connector insurance product offered by agents such as MDS Insurance Services, Inc.

You must be precise in the management and documentation of your health insurance benefits for those who work 1 hour to those who work 50 hours a week. Failure to do so can result in fines and more.

**Contact MDS Insurance Services, Inc. today for more information.**