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Determining "Minimum Value" of Health Plan Coverage

Effective for 2014, a large employer may be liable for a penalty under the Affordable Care Act's (ACA) "pay or play" rules if any of its full-time employees receives a premium tax credit through a state-based health insurance exchange (Exchange). A "large employer" is an employer with at least **50 full-time equivalent employees** during the preceding calendar year.

To qualify for the premium tax credit, an individual cannot be eligible for other minimum essential health coverage, including coverage under an employer-sponsored plan that is affordable to the individual and provides minimum value. Thus, an individual may receive a premium tax credit if his or her employer's group health coverage does not provide minimum value.

MINIMUM VALUE REQUIREMENT

Under ACA, a plan does not 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.

For employers that offer health coverage that does not meet ACA's minimum value requirement, the monthly penalty amount under ACA for each full-time employee who receives a premium tax credit through an Exchange will be 1/12 of $3,000 for any applicable month. However, the total penalty for the employer would be limited to the total number of the company's full-time employees (minus 30), multiplied by 1/12 of $2,000 for any applicable month.

METHODS FOR DETERMINING MINIMUM VALUE

In May 2012, the Internal Revenue Service (IRS) issued Notice 2012-31 to propose the following approaches for determining whether an employer-sponsored plan provides minimum value.

- ***Approach One: Calculator –*** A minimum value (MV) calculator would be made available by the Department of Health and Human Services (HHS) and the IRS. The calculator would permit an employer-sponsored plan to enter information about the plan's benefits, coverage of services and cost-sharing terms to determine whether the plan provides minimum value.
- ***Approach Two: Checklists –*** HHS and the IRS would provide an array of design-based safe harbors in the form of checklists that employers could use to compare to their plans' coverage. If the employer-sponsored plan's terms are consistent with or more generous than any one of the safe harbor checklists, the plan would be treated as providing minimum value. This method would not involve calculations and could be completed without an actuary. Each safe harbor checklist would describe the cost-sharing attributes of the four core categories of benefits and services: physician and mid-level practitioner care, hospital and emergency room services, pharmacy benefits, and laboratory and imaging services.
- ***Approach Three: Actuarial Certification –*** An actuarial certification approach would be established for plans with nonstandard features that preclude the use of the calculator or checklist methods. Nonstandard features would include quantitative limits (for example, limits on covered hospital days or physician visits) on any of the four core categories of benefits and services. Under this approach, plans would be able to generate an initial value using a calculator and then engage a certified actuary to make appropriate adjustments to take into consideration the nonstandard features.

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On Nov. 26, 2012, HHS issued proposed regulations that address minimum value and generally follow the IRS' approach in Notice 2012-31. In addition, to determine if a plan satisfies the minimum value standard, the proposed regulations would allow employers to take into account:

- All benefits provided under the plan that are included in any essential health benefit (EHB) benchmarks; and
- Employer contributions to a health savings account (HSA) and amounts newly made available under a health reimbursement arrangement (HRA).

Also, if a plan uses the MV calculator and offers an EHB outside of the parameters of the MV calculator, the proposed regulations would allow an actuary to determine the value of the benefit and add it to the result derived from the MV calculator based on generally accepted actuarial principles and methodologies.

AVAILABILITY OF CALCULATOR

In conjunction with the proposed regulations, HHS provided an AV calculator for health insurance issuers to use to determine the "metal" status (that is, bronze, silver, gold or platinum) of non-grandfathered plans in the individual and small group markets. This AV calculator uses assumptions and claims data specific to the individual and small group markets, and does not directly relate to the MV requirement for large employers. However, HHS indicated that the MV calculator that will be provided for large employers to use will be similar to the AV calculator.