

HEALTH CARE REFORM: NEW STANDARDS FOR OUT-OF-POCKET MAXIMUMS

The Departments of Labor (DOL), Health and Human Services (HHS) and Treasury (collectively, the “Departments”) have “clarified” guidance regarding the cost sharing rules for large group health plans relative to out-of-pocket maximums (OOPM)¹ including its application to High Deductible Health Plans (HDHP). This *Briefing* will address the new limits and provide examples.

OUT-OF-POCKET MAXIMUMS FOR NON-HSA QUALIFIED PLANS

Non-grandfathered plans must not exceed any annual maximum out-of-pocket costs for essential health benefits. For plan or policy years beginning in 2015, the maximum annual limitation on out-of-pocket costs for non-HSA (Health Savings Account) qualified plans is \$6,600 for self-only coverage (\$6,850 for 2016) and \$13,200 for other than self-only coverage (\$13,700 for 2016).

OUT-OF-POCKET MAXIMUMS FOR HSA-QUALIFIED PLANS AND OTHER LIMITATIONS

| 2015 | Self-Only | Other Than Self-Only |
|--|-----------|----------------------|
| Minimum Annual Deductible ² | \$1,300 | \$2,600 |
| OOPM | \$6,450 | \$12,900 |
| Annual Contribution Limit | \$3,350 | \$6,650 |
| 2016 | Self-Only | Other Than Self-Only |
| Minimum Annual Deductible | \$1,300 | \$2,600 |
| OOPM | \$6,550 | \$13,100 |
| Annual Contribution Limit | \$3,350 | \$6,750 |

NEW GUIDANCE

The Departments have confirmed that the self-only maximum annual limitation on out-of-pocket costs applies to each individual, regardless of whether the individual is enrolled in self-only or other than self-only coverage. Moreover, it applies to all non-grandfathered plans including self-insured plans and large group health plans.

This change is effective for plan or policy years that begin on or after January 1, 2016.

¹ FAQs about Affordable Care Act Implementation (Part XXVII) can be found at <http://www.dol.gov/ebsa/faqs/faq-aca27.html>.

² For other than self-only coverage, some HDHPs have both an individual deductible and family deductible. Benefits would be paid when an individual satisfies the individual deductible. However, the individual deductible must not be less than the minimum annual deductible for other than self-only coverage (i.e. \$2,600 for 2015 and 2016) in order to maintain the group health plan’s status as an HDHP. Visit IRS Pub. 969 at: <http://www.irs.gov/pub/irs-pdf/p969.pdf>.

EXAMPLE 1

A group health plan that is a non-HSA compatible HDHP, sets the annual out-of-pocket limitation of \$6,850 for self-only and \$13,000 for family coverage. A family of four participates in the plan. An individual family member incurs \$10,000 of medical expenses during the plan year. No other family member incurs medical expenses that year. Because the self-only maximum annual limitation on cost sharing (\$6,850) applies to each individual, the plan must pay benefits at 100% once that individual satisfies the self-only OOPM of \$6,850. In order to satisfy the family OOPM, the other three family members must incur a combined out-of-pocket expense of \$6,150 (i.e. \$13,000 - \$6,850).

EXAMPLE 2

It is not uncommon for plans to have much lower out-of-pocket limitations for self-only coverage as compared to family coverage. For example, a plan may have a \$1,500 self-only OOPM and a \$10,000 other than self-only OOPM.

Suppose that same family of four participates in a plan with \$1,500/\$10,000 OOPMs. Must the plan pay at 100% once an individual family member satisfies the \$1,500 OOPM? No. A plan may be designed to have a self-only OOPM embedded in family coverage that is higher than the self-only OOPM of the plan. In this example, if an individual family member incurs \$10,000 of medical expenses during the plan year, the plan can impose an embedded self-only OOPM of up to \$6,850 for 2016 before it must pay at 100%. In order to satisfy the family OOPM, the other family members must incur a combined out-of-pocket expense of \$3,150 (i.e. \$10,000 - \$6,850).

Please contact your Keenan Account Manager for questions regarding this *Briefing* or if you require any additional information regarding the Affordable Care Act.

Keenan & Associates is not a law firm and no opinion, suggestion, or recommendation of the firm or its employees shall constitute legal advice. Clients are advised to consult with their own attorney for a determination of their legal rights, responsibilities and liabilities, including the interpretation of any statute or regulation, or its application to the clients' business activities.