

Supporting Statement – Part A
Disclosure and Recordkeeping Requirements for Grandfathered Health Plans under the Affordable Care Act (OMB CONTROL NO. 0938-1093)

A. Background

The Patient Protection and Affordable Care Act, Pub. L. 111-148, was enacted on March 23, 2010; and the Health Care and Education Reconciliation Act of 2010, Pub. L. 111-152, was enacted on March 30, 2010 (collectively known as the “Affordable Care Act”). The Affordable Care Act reorganizes, amends, and adds to the provisions of title XXVII of the Public Health Service Act (PHS Act) relating to group health plans and health insurance issuers in the group and individual markets.

Under section 1251 of the Affordable Care Act, as modified by section 10103 of the Affordable Care Act and section 2301 of the Reconciliation Act, certain provisions of the Affordable Care Act do not apply to a group health plan or health insurance coverage in which an individual was enrolled on March 23, 2010 (a grandfathered health plan). The interim final regulations titled “Interim Final Rules for Group Health Plans and Health Insurance Coverage Relating to Status as a Grandfathered Health Plan Under the Patient Protection and Affordable Care Act” (75 FR 34538, June 17, 2010) by the Department of the Treasury, Department of Labor and the Department of Health and Human Services (the Departments) implemented the requirements for group health plans and health insurance coverage in the group and individual markets under provisions of the Affordable Care Act regarding status as a grandfathered health plan. An amendment to the interim final rule (75 FR 70114, November 17, 2010) permits certain changes in policies, certificates, or contracts of insurance without loss of grandfathered status. The final regulations titled “Final Rules under the Affordable Care Act for Grandfathered Plans, Preexisting Condition Exclusions, Lifetime and Annual Limits, Rescissions, Dependent Coverage, Appeals, and Patient Protections” finalize the provisions of the interim final regulations and amendments.

B. Justification

1. **Need and Legal Basis**

A grandfathered group health plan or health insurance coverage must include a statement in any summary of benefits provided to participants or beneficiaries (in the individual market, primary subscriber) under the plan or health insurance coverage, that the plan or coverage believes it is a grandfathered plan within the meaning of section 1251 of the Affordable Care Act (“grandfathered health plan disclosure”), and contact information for participants to direct questions and complaints. Plans and issuers may (but are not required to) utilize the model disclosure language in the final regulations to satisfy this disclosure requirement. The disclosure language is a model and thus plans and issuers are permitted to include additional

disclosure elements, such as the entire list of the market reform provisions that do not apply to grandfathered health plans.

To maintain its status as a grandfathered health plan, the final regulations require the plan to maintain records documenting the terms of the plan in effect on March 23, 2010, and any other documents that are necessary to verify, explain or clarify status as a grandfathered health plan (the “recordkeeping requirement”). The plan must make such records available for examination upon request by participants, beneficiaries, individual policy subscribers, or a state or federal agency official.

The final regulations require a grandfathered group health plan that is changing health insurance issuers to provide the succeeding health insurance issuer (and the succeeding health insurance issuer must require) documentation of plan terms (including benefits, cost sharing, employer contributions, and annual limits) under the prior health insurance coverage sufficient to make a determination whether the standards of paragraph §147.140(g)(1) of the final regulations are exceeded (“grandfathered plan change in carrier disclosure”).

The final regulations also require that, for an insured group health plan (or a multiemployer plan) that is a grandfathered plan, the relevant policies, certificates, or contracts of insurance, or plan documents must disclose in a prominent and effective manner that employers, employee organizations, or plan sponsors, as applicable, are required to notify the issuer (or multiemployer plan) if the contribution rate changes at any point during the plan year.

2. Information Users

The disclosure requirement will provide participants and beneficiaries with important information about their grandfathered health plans, such as that grandfathered plans are not required to comply with certain consumer protection provisions contained in the Act. It will also provide important contact information for participants to direct questions regarding which protections apply and which protections do not apply to a grandfathered health plan and what might cause a plan to relinquish its grandfathered status. The recordkeeping requirement will allow a participant, beneficiary, or federal or state official to inspect plan documents to verify that a plan or health insurance coverage is a grandfathered health plan. The disclosure required when a change in carrier occurs will ensure that the succeeding health insurance issuer has sufficient information to determine whether the standards set forth in paragraph §147.140(g)(1) of the final regulations are met.

3. Use of Information Technology

Plans or issuers may use electronic technology to provide either disclosure and to satisfy recordkeeping requirements.

4. Duplication of Efforts

The Affordable Care Act amended the Employee Retirement Income Security Act, the Internal Revenue Code, and the Public Health Service Act. Accordingly, the Department of Health and Human Services (HHS), the Department of Labor (DOL), and the Department of the Treasury (Treasury) require plans and issuers to comply with the disclosure and recordkeeping requirements. There will be no duplication of effort with HHS, DOL and Treasury, however, because only HHS has jurisdiction over state and local government plans and individual market plans.

5. Small Businesses

Small businesses are not affected by this collection.

6. Less Frequent Collection

If this information collection is conducted less frequently, affected individuals would not be informed timely that their plan is a grandfathered health plan and that grandfathered health plans do not have to comply with some of the Affordable Care Act's consumer protection provisions. Without the recordkeeping requirement, it would be more difficult for participants, beneficiaries, or a federal or state official to verify a plan's grandfathered status. Without the change in carrier disclosure, it would be difficult for the succeeding issuer to determine whether the requirements of paragraph §147.140(g)(1) of the final regulations are met.

7. Special Circumstances

There are no special circumstances.

8. Federal Register/Outside Consultation

A Federal Register notice was published on November 18, 2015 (80 FR 72228), providing the public with a 60-day period to submit written comments on the information collection requirements (ICRs). No comments were received.

9. Payments/Gifts to Respondents

No payments or gifts are associated with these ICRs.

10. Confidentiality

CMS will protect privacy of the information provided to the extent provided by law.

11. Sensitive Questions

These ICRs involve no sensitive questions.

12. Burden Estimates (Hours & Wages)

The burden estimates have been updated based on recent data. We generally used data from the Bureau of Labor Statistics to derive average labor costs (including fringe benefits) for estimating the burden associated with the ICRs.¹

Grandfathered Health Plan Disclosure

The final regulations provide model language for the grandfathered health plan disclosure that can be incorporated into existing plan documents. After plans first satisfied the disclosure requirement in 2011, any additional burden is expected to be negligible if a plan wants to maintain its grandfathered status in future years. It is also expected that the cost of removing the notice from plan documents as plans relinquish their grandfathered status would be negligible and therefore it is not estimated.

Issuers of grandfathered group health plans and grandfathered multi-employer plans must also add a prominent disclosure in their policies, certificates, or contracts of insurance that employers, employee organizations, or plan sponsors, as applicable, are required to notify the issuer if the contribution rate changes at any point during the plan year. This only affects issuers of fully insured group health plans and multi-employer plans and after this requirement is first satisfied, any additional burden in future years is expected to be negligible and is therefore not estimated.

Recordkeeping Requirement

It is assumed that most of the documents required to be retained to satisfy the recordkeeping requirement of these final regulations already are retained by plans for tax purposes, to satisfy ERISA's record retention and statute of limitations requirements, and for other business reasons. It was previously estimated that after the one-time cost related to record keeping requirement was incurred in 2011, costs in subsequent years will be negligible, and, therefore, not estimated.

Grandfathered Plan Change in Carrier Disclosure

¹ Estimated 2015 hourly labor rates include wages, other benefits, and overhead are calculated as follows: mean wage from the 2013 National Occupational Employment Survey (April 2014, Bureau of Labor Statistics <http://www.bls.gov/news.release/pdf/ocwage.pdf>); wages as a percent of total compensation from the Employer Cost for Employee Compensation (June 2014, Bureau of Labor Statistics <http://www.bls.gov/news.release/ecec.t02.htm>); overhead as a multiple of compensation is assumed to be 25 percent of total compensation for paraprofessionals, 20 percent of compensation for clerical, and 35 percent of compensation for professional; annual inflation is assumed to be 2.3 percent annual growth of total labor cost since 2013 (Employment Costs Index data for private industry, September 2014 <http://www.bls.gov/news.release/eci.nr0.htm>). Secretaries, Except Legal, Medical, and Executive (43-6014): $\$16.35(2013 \text{ BLS Wage rate})/0.675(\text{ECEC ratio}) * 1.2(\text{Overhead Load Factor}) * 1.023(\text{Inflation rate})$
 $\wedge 2(\text{Inflated 2 years from base year}) = \$30.42.$

A group health plan that is changing health insurance coverage must provide to the succeeding health insurance issuer (and the succeeding health insurance issuer must require) documentation of plan terms (including benefits, cost sharing, employer contributions, and annual limits) under the prior health insurance coverage sufficient to make a determination whether the standards of paragraph §147.140(g)(1) are exceeded.

The number of plans that might change carriers and thus be affected (7,400) is estimated by multiplying the estimated number of grandfathered plans (47,500) by the percent of plans shopping for a new carrier (58 percent) and the number of plans shopping for a new carrier that switched (27 percent).²

Each employer will require about 2 minutes of clerical labor (at an hourly cost of approximately \$30) to send the information required for the disclosure (which is already retained under the recordkeeping requirement) electronically to the issuer. The total annual labor burden for all employers is estimated to be approximately 248 hours with an equivalent annual cost of approximately \$7,500. The cost of transmitting the information electronically to the issuer is negligible, and, therefore, not estimated. The number of disclosures and cost burden may be lower in subsequent years as more plans relinquish their grandfathered status. In the absence of data regarding how many plans will retain grandfathered status in subsequent years, we consider this estimate to be the upper limit for the burden in future years.

13. Capital Costs

Grandfathered Health Plan Disclosure

Grandfathered plans would incur printing and material costs associated with the disclosure requirement. It is estimated that there will be approximately 47,500 grandfathered state and local governmental health plans ($0.37 \times 128,400$ plans³) with approximately 5.5 million policyholders⁴ and approximately 1.4 million policyholders in the individual market with grandfathered coverage⁵ issued by approximately 430 issuers during 2015. Therefore, grandfathered plans and issuers in the individual markets will need to send approximately 6.9 million disclosures notifying plan participants and beneficiaries of their plans' status as a grandfathered health plan. We anticipate that the notice will require one-half of a page and five cents per page printing and material cost will be incurred. We also assume that 38 percent of the notices will be delivered electronically. This results in a total annual cost burden of

² See Section 14. <http://kff.org/health-costs/report/2014-employer-health-benefits-survey/>

³ The estimate of the total number of state and local governmental plans is based on the 2012 Census of Government.

⁴ The Department lacks data on the number of state and local plans that are grandfathered plans. The Kaiser "Employer Health Benefits Survey" has estimates for private employer plans. Those estimates are used here as a proxy. They report that 37 percent of plans are grandfather plans and 26 percent of covered employees are in those plans. <http://kff.org/health-costs/report/2014-employer-health-benefits-survey/>.

⁵ Estimate based on data from the McKinsey Center for US Health System Reform and Medical Loss Ratio submissions for 2013 reporting year.

approximately \$106,000 (\$0.05 per page * 1/2 pages per notice * 6.85 million notices * 0.62).

The number of notices and cost burden is likely to be lower in subsequent years as more plans relinquish their grandfathered status. In the absence of data regarding how many plans will retain grandfathered status in subsequent years, we consider this estimate to be the upper limit for the number of notices and cost burden in future years.

14. Cost to Federal Government

There is no cost to the federal government.

15. Changes to Burden

The burden has been updated to take into account recent data and that the number of grandfathered plans has decreased every year since 2011 and that the one-time costs have already been incurred by grandfathered plans. The burden hours have been increased by 161 hours for grandfathered plan change in carrier disclosures, since there is an increase in the estimated number of plans that are expected to change carriers.

16. Publication/Tabulation Dates

There are no publication or tabulation dates associated with these ICRs.

17. Expiration Date

There is no expiration date for this collection requirement.