



## MEMORANDUM

**DATE:** June 14, 2010

**RE:** White House Briefing on the Grandfathering Rule / Affordable Care Act Implementation

Today senior officials from the White House, Health and Human Services Department, and Labor Department introduced the new grandfather rule of the Affordable Care Act. This new rule allows plans that existed on March 23, 2010 to contain costs by permitting insurers and employers to make small changes without losing grandfather status. However, the rule also requires all health plans to provide new benefits to consumers, such as no lifetime limits on coverage and the extension of parents' coverage to young adults under 26 years old. These benefits must be extended by September 23, 2010.

Nancy-Ann DeParle, Counsel to the President and Director of Health Care Reform, explained the importance of the Grandfathering Rule. By grandfathering all health coverage plans that existed on March 23, 2010, the rule ensures that insurers and employers have adequate flexibility in making routine changes in the plans they offer until the competitive Exchanges start in 2014. These routine changes might include slightly raising costs to adjust for medical inflation. The rule is also important as it allows for consumers to not only maintain but also receive extra benefits in their coverage.

Jeanne Lambrew, Director of the Health and Human Services Office of Health Reform, clarified how the grandfathering rule will work. She explained that the rule did not state how insurers and employers should behave to achieve grandfather status for their plans; rather, the rule states what not to do, or what disqualifies them, from grandfathered status. First, significantly cutting benefits (such as removing coverage for people with diabetes) will "de-grandfather" a plan. Also, if a company significantly raises a co-payment charge or deductible or lowers the employer's contributions to the premium, the plan loses its grandfathered status. However, the rule provides a 15% buffer for employers or insurers so that medical inflation is taken into account. For example, an employer that raises its copayment from \$30 to \$50 over a 2 year span would lose its grandfathered status. Plans cannot raise co-insurance charges at all, and annual limits cannot be lowered or added into a plan. Lastly, if an employer changes insurance companies, the new insurer will not be considered a grandfathered plan. (This does not apply when employers that provide their own insurance to their workers switch plan administrators or to collective bargaining agreements).

Phyllis Borzi, Assistant Secretary of Labor of the Employee Benefits Security Administration, explained that while the new grandfather rule announced today will be the one implemented,

comments are always welcome; the team who created the grandfather rule may make small changes depending on the comments received.