

EXCISE TAX SUMMARY

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EXECUTIVE SUMMARY

- Initial exposure to the excise tax is expected in 2020.
- Excise tax penalties are unavoidable beginning in 2020 based on status quo budget rate projections.
 - 2020 status quo projected cost is \$75,000.
 - 2025 status quo projected cost is \$464,000.
- Penalties may be reduced by managing plan costs, altering current tier ratios, or adjusting rate relationships between plans. The lowest cost approach uses a combination of these strategies.
- There are many unknowns related to how the excise tax will be calculated.
 - These results reflect Mercer's point of view as to one likely set of rules (as described in later pages)
 - Formal regulations are expected between now and 2020.
- Additional legislative change — even repeal — is still possible.

EXECUTIVE SUMMARY

DEMOGRAPHICS ADJUSTED

	Actives
Initial Exposure	2020
Responsible Plans	Aetna Traditional, Aetna Classic
2020 penalty	\$75,000
2025 penalty	\$464,000

- There are many unknowns related to how the excise tax will be calculated
 - The demographics are calculated based on the census provided by Everett School District
 - These results reflect Mercer's point of view as to one likely set of rules (as described in later pages)
 - Formal regulations are expected between now and 2020
- Additional legislative change — even repeal — is still possible

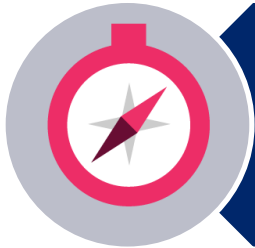
EXECUTIVE SUMMARY

NOT DEMOGRAPHICS ADJUSTED

	Actives
Initial Exposure	2020
Responsible Plans	GHC, Aetna Traditional, Aetna Standard, Aetna Classic
2020 penalty	\$623,000
2025 penalty	\$1,795,000

- There are many unknowns related to how the excise tax will be calculated
 - The demographics adjustments were excluded
 - These results reflect Mercer’s point of view as to one likely set of rules (as described in later pages)
 - Formal regulations are expected between now and 2020
- Additional legislative change — even repeal — is still possible

PRELIMINARY ANSWERS TO KEY QUESTIONS



How will the tax work?

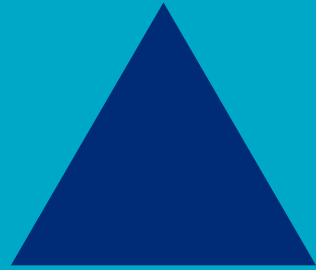


When will it impact our plans,
and how much will it be?



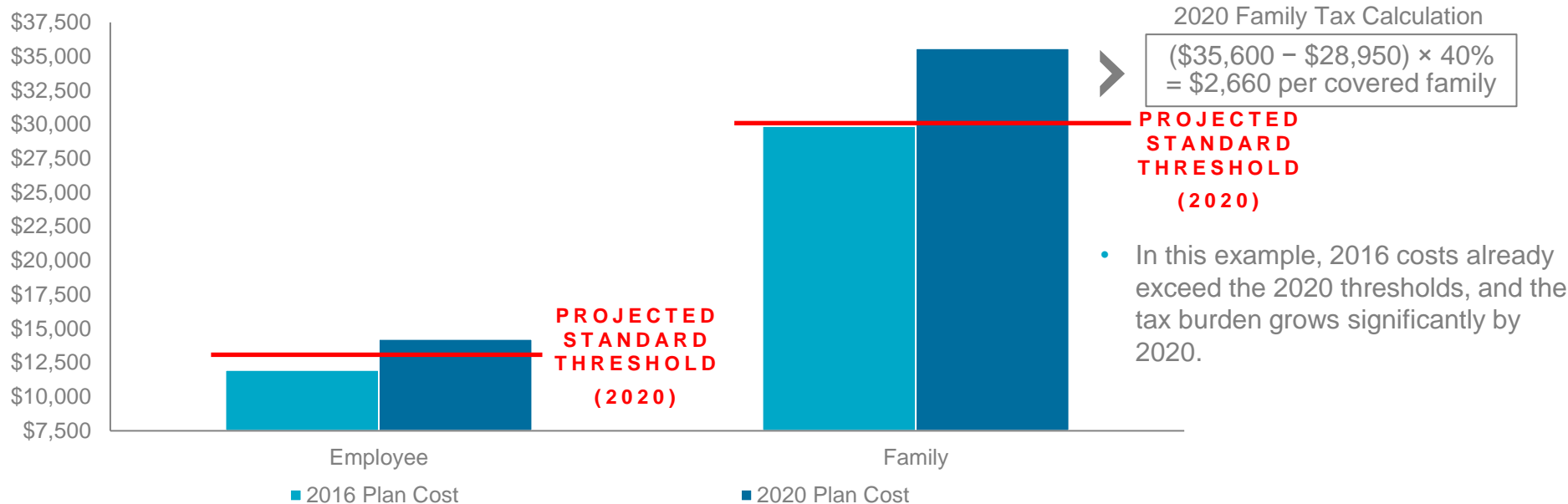
What can we do to delay and
reduce our exposure?

HOW DOES IT WORK?



EXCISE TAX ON HIGH-COST PLANS AT A GLANCE

- Effective in 2020, a 40% excise tax (deductible) will apply to the total cost of an active or former employee's health-related coverages exceeding the following estimated dollar levels: single, \$10,750; other-than-self-only (family), \$28,950.*
- Retiree coverage (ages 55–64) will be subject to a higher limit.
- Includes medical coverage (employer and employee contributions), health FSAs, HRAs, HSAs (both employer and employee pre-tax contributions), many on-site clinics, and EAPs.
- Projected thresholds index 2018 baseline levels (CPI + 1% in 2019; CPI thereafter), and apply beginning in 2020
- There are many further details and regulatory uncertainties that impact the determination of the excise tax.



* Projected assuming CPI of 2.15%

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HOW THE TAX MIGHT WORK

WHAT WE KNOW

- No controlling guidance issued yet — two IRS notices provide insight on how the tax may be calculated.
- Statute generally describes included/excluded coverages.
- Cost generally determined using a methodology similar to that used for determining COBRA applicable premium (minus 2% admin fee).
- Cost includes employer- and employee-paid portions of coverage.
- For retiree coverage, employer may elect to value benefits of pre-65 retirees together with post-65 retirees.
- Excise tax is calculated on a monthly, employee-by-employee basis.
- Age and gender-adjustments to the thresholds will be permitted.

WHAT WE THINK

- Based on current projections, we don't expect the baseline 2018 thresholds (\$10,200 / \$27,500) to be adjusted upwards due to experience on the federal standard plan; IRS informally agrees.
- "Benefit package" (e.g., PPO, HDHP, HMO) as basis to determine cost of coverage.
- Cost calculated separately for self-only and "other-than-self-only" coverage tiers within a benefit package.
 - But, other-than-self-only tiers within a benefit package may be combined for excise tax calculation.
- Disaggregation might be permitted for bona fide employment-related criteria (for example, nature of compensation, specified job categories, collective bargaining status) and bona fide geographic distinctions (for example, based on employee residence or employer location).
- Payment of the first excise tax liability (if any) likely assessed/payable in 2021.

WHO KNOWS?

- Will the tax be repealed, further delayed, or amended?
- When will IRS issue regulations?
- Will a plan's excise tax coverage tiers need to be aligned with the plan's COBRA tiers and/or employee contribution structure, or will differentiation be permitted?
- What will be a specific client's age/gender adjustment? Use of IRS tables?
- Will the tax be applied on a controlled group basis?
- How will the tax be allocated among applicable taxpayers?
- When, how, and by whom will the excise tax be paid?
- Who will be liable for the tax? (Define "person that administers the plan benefits." – Notice 2016-52 sets out two approaches.)
- Will there be special relief for non-calendar-year plans?
- What type of recordkeeping/reporting will be required?

WHAT TYPES OF COVERAGES ARE INCLUDED/EXCLUDED FROM THE EXCISE TAX? ¹

INCLUDE

- Employee and employer share of major medical cost/premium (for example, PPO, HMO, HDHP, Rx).
 - Including executive medical/physical benefits and some expatriate coverage
- Health FSA
- HRA
- “Employer contributions” to an HSA, *including employee pre-tax contributions made through a cafeteria plan.*
- On-site medical clinics offering more than “de minimis” medical care .
- Medigap, TRICARE supplemental insurance, and other “similar supplemental coverage.”
- Specified disease or illness coverage, or hospital or other fixed indemnity insurance, if payment for coverage is excluded from employee’s gross income (for example, employee pays for coverage with pre-tax salary reduction contributions and/or employer-paid without imputed income).

EXCLUDE

- Employee HSA contributions made on an after-tax basis.
- Insured limited-scope dental and vision plans.
- Specified disease or illness coverage, or hospital or other fixed indemnity insurance, if payment for coverage is included in employee’s gross income (for example, employee-pay-all on an after-tax basis and/or employer-paid with imputed income).
- Long-term care insurance.
- Some expatriate coverage.
- Certain non-medical “excepted benefits” including:
 - Accident-only (including AD&D).
 - Disability income insurance.
 - Liability insurance, including any automobile or supplemental liability insurance.
 - Workers’ compensation.
 - Automobile medical payment insurance.
 - Credit-only insurance.
 - Other “similar” insurance coverage.
- Limited-purpose dental/vision-only FSAs or HRAs.
- Employee assistance programs, if HIPAA-excepted benefit.²
- Self-insured limited-scope dental and vision plans, if HIPAA-excepted benefit.²

1. This description is largely based on Mercer’s current interpretation, as official regulatory guidance is not yet available.

2. Although ACA’s statutory language appears to include self-insured dental/vision plans and EAPs, the IRS is considering excluding such plans if they qualify as HIPAA-excepted benefits

WHAT'S YOUR EXPOSURE?



EVERETT SCHOOL EMPLOYEE BENEFIT TRUST'S EXCISE TAX PROJECTION

WHAT'S INCLUDED

Included in Tax?	Included in Calc.?	Types of Health Coverages	Comments
Yes	Yes	Employee and employer share of major medical cost/premium (e.g., PPO, HMO, HDHP, Rx)	<ul style="list-style-type: none"> • Aetna Traditional • Aetna Standard • Aetna Core • Aetna Classic • Aetna Saver (HSA) • GHC
Yes	No	Health FSA, including employee pre-tax salary reduction contributions	
Yes	N/A	“Employer contributions” to an HSA, including employee pre-tax contributions made through a cafeteria plan	

EVERETT SCHOOL EMPLOYEE BENEFIT TRUST'S EXCISE TAX PROJECTION WHAT'S INCLUDED

Included in Tax?	Included in Calc.?	Types of Health Coverages	Comments
Yes	N/A	HRA	
Yes	N/A	On-site medical clinics offering more than “de minimis” medical care	
Yes	No	Medigap, TRICARE supplemental insurance, and other “similar supplemental coverage”	
Yes	No	Specified disease or illness coverage, or hospital or other fixed indemnity insurance, if payment for coverage is excluded from employee’s gross income (e.g., employee pays for coverage with pre-tax salary reduction contributions and/or employer paid without imputed income)	
Probably No	No	Self-insured limited-scope dental & vision plans, as well as Employee Assistance Programs, if excepted benefit	While ACA’s statutory language appears to include self-insured dental/vision plans and EAPs, the IRS is considering excluding such plans if they qualify as excepted benefits

ESTIMATED EXCISE TAX IMPACT (DEMOGRAPHICS ADJUSTED) ACTIVES

Current Trend 4-Tier (SQ Ratio)		Total Current	
Employer Tax (in \$ '000s) - Status Quo Employees		Tax	Affected Employees
		1,637	
2015	\$	-	-
2016	\$	-	-
2017	\$	-	-
2018	\$	-	-
2019	\$	-	-
2020 (first year of tax)	\$	75	149
2021	\$	108	149
2022	\$	145	355
2023	\$	224	531
2024	\$	338	531
2025	\$	464	531
2026	\$	594	531
2027	\$	762	584
2028	\$	951	584
2029	\$	1,216	718
2030	\$	1,516	718
First Year Excise Tax Applies (2020-2030)			
EE Only		2020	
EE + SP/DP		2027	
EE + Child(ren)			
Family		2020	

Aggregate amount of estimated tax assessed to Everett School Employee Benefit Trust in a given year

Number of employees enrolled in a plan and coverage tier mix that triggers the excise tax

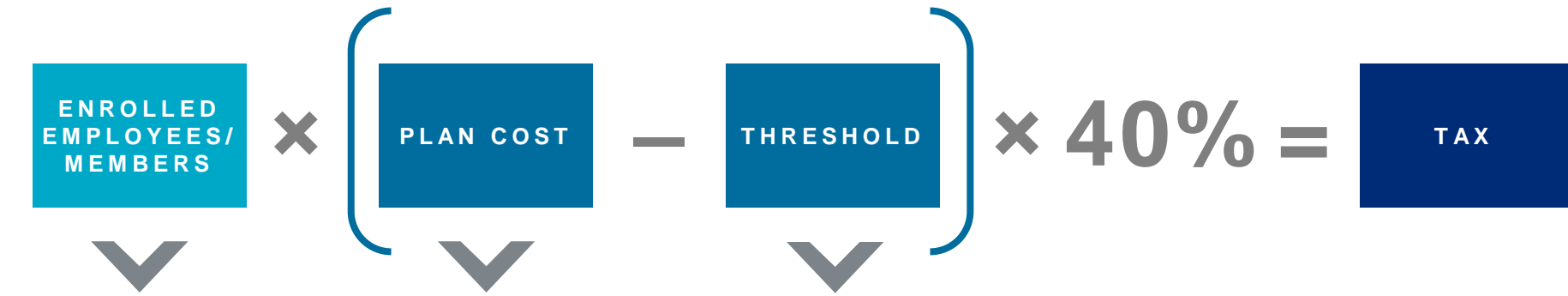
ASSUMPTIONS

- Tiered enrollment and plan elections are based on active census information provided by Everett School District
- FSA contributions, HSA contributions, and VEBA/MERP contributions are not included.
- Medical composite funding rates based on 2017 Benefits Rate worksheet, developed by Everett School District and Mercer
- Trend is assumed to be 8.0% for medical plans from 2017 to 2020 and 6% thereafter
- Excise tax thresholds assumed to trend at CPI (+1% in 2019 only): CPI is assumed to be 3.00% from 2018 onward
 - Non-demographic adjusted: \$10,900 single excise tax threshold, \$29,450 family excise tax threshold in 2020
 - Demographic adjusted: \$13,800 single excise tax threshold, \$37,300 family excise tax threshold in 2020
- All scenarios assume no plan design changes
- Tier structure
 - Regulations do not allow the use of composite rates to estimate excise tax liability
- A complete list of assumptions can be found in the appendix

RISK MITIGATION STRATEGIES



EXCISE TAX MITIGATION OPPORTUNITIES



- Who is covered?

- Underlying cost of care.
- How cost is measured.
- Plan design.
- Accounts.

- Age/gender adjustments.
- High-risk adjustments.
- Retiree adjustments.

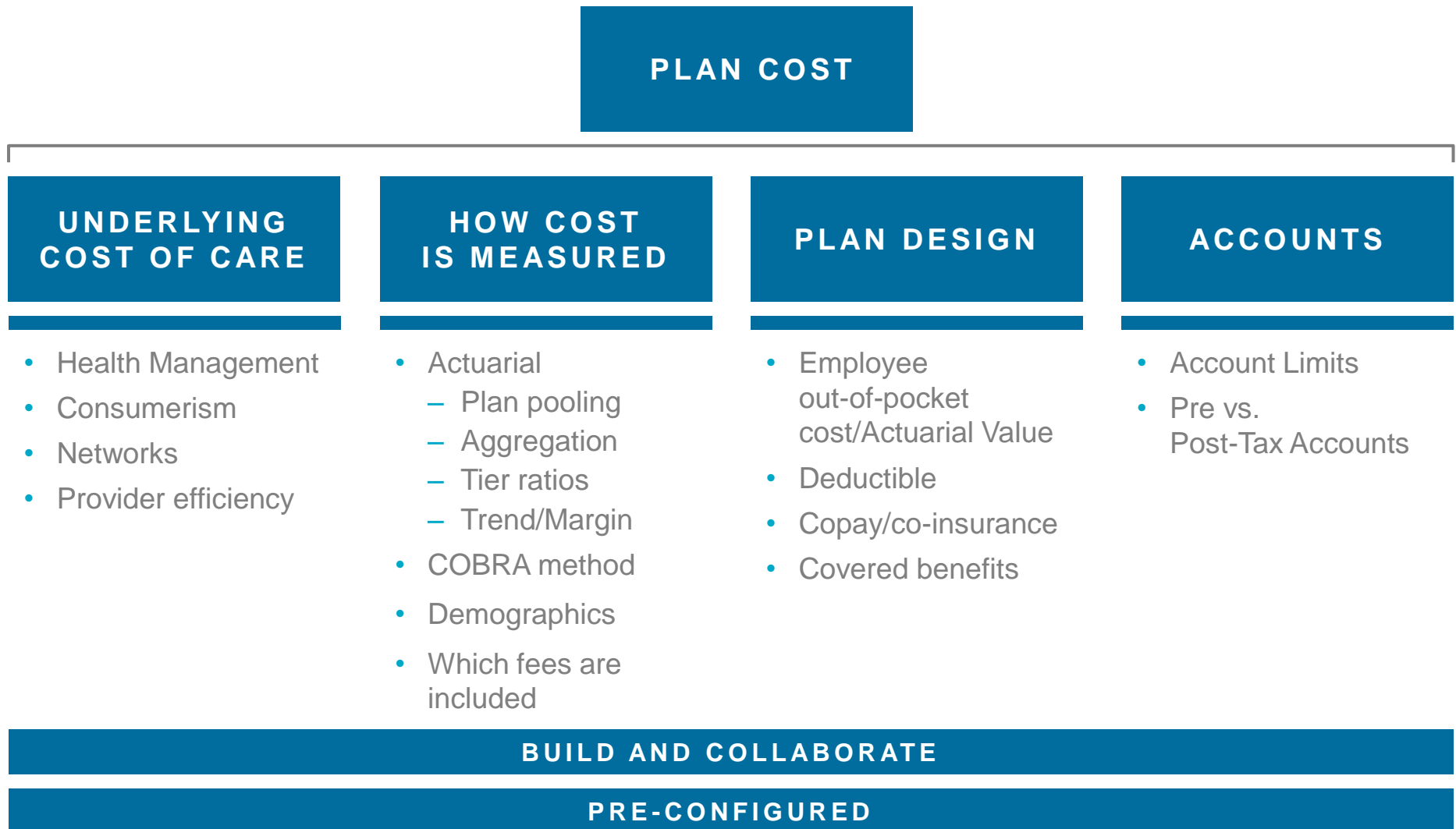
TRADITIONAL MITIGATION STRATEGIES

- Plan design.
- Accounts.

ADVANCED MITIGATION STRATEGIES

- Age/gender adjustments.
- High-risk adjustments.
- Retiree adjustments.
- How cost is measured.

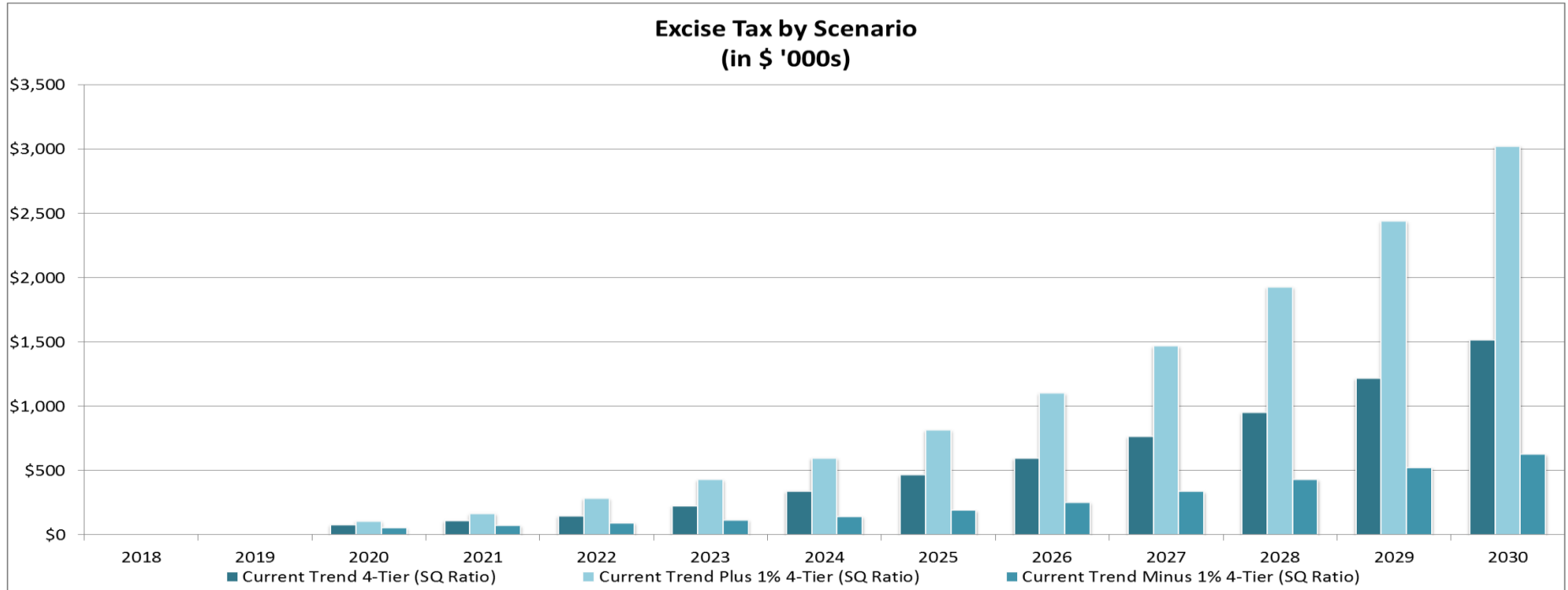
EXCISE TAX CONSIDERATIONS AND MITIGATION



DETAILED RESULTS



PROJECTED TIMING AND AMOUNT OF THE 40% EXCISE TAX(INCLUDING DEMOGRAPHIC ADJUSTMENT) STATUS QUO RATE STRATEGY



- Beginning in 2020, projected excise tax penalties are estimated to be \$75,000.
- By 2025, the projected excise tax penalty could increase to about \$464,000 under the status quo budget rating scenario.

DETAILED RESULTS BY PLAN (INCLUDING DEMOGRAPHIC ADJUSTMENT) STATUS QUO TREND

Current Trend 4-Tier (SQ Ratio)			GHC			Aetna Traditional		
Employer Tax (in \$ '000s) - Status Quo Employees	Tax	Affected Employees 1,637	Tax	Affected Employees 519	Tax	Affected Employees 225	Tax	Affected Employees
2015	\$ -	-	\$ -	-	\$ -	-	\$ -	-
2016	\$ -	-	\$ -	-	\$ -	-	\$ -	-
2017	\$ -	-	\$ -	-	\$ -	-	\$ -	-
2018	\$ -	-	\$ -	-	\$ -	-	\$ -	-
2019	\$ -	-	\$ -	-	\$ -	-	\$ -	-
2020 (first year of tax)	\$ 75	149	\$ -	-	\$ 17	95	\$ 17	95
2021	\$ 108	149	\$ -	-	\$ 34	95	\$ 34	95
2022	\$ 145	355	\$ 3	206	\$ 52	95	\$ 52	95
2023	\$ 224	531	\$ 39	206	\$ 71	95	\$ 71	95
2024	\$ 338	531	\$ 79	206	\$ 93	95	\$ 93	95
2025	\$ 464	531	\$ 123	206	\$ 116	95	\$ 116	95
2026	\$ 594	531	\$ 168	206	\$ 141	95	\$ 141	95
2027	\$ 762	584	\$ 219	206	\$ 185	132	\$ 185	132
2028	\$ 951	584	\$ 275	206	\$ 236	132	\$ 236	132
2029	\$ 1,216	718	\$ 400	340	\$ 290	132	\$ 290	132
2030	\$ 1,516	718	\$ 547	340	\$ 350	132	\$ 350	132
First Year Excise Tax Applies (2020-2030)								
EE Only	2020		2022		2020			
EE + SP/DP	2027							
EE + Child(ren)								
Family	2020		2029		2027			

DETAILED RESULTS BY PLAN (INCLUDING DEMOGRAPHIC ADJUSTMENT) STATUS QUO TREND

Current Trend 4-Tier (SQ Ratio)		Aetna Standard		Aetna Core		Aetna Classic		Aetna Saver + HSA	
Employer Tax (in \$ '000s) - Status Quo Employees		Tax	Affected Employees	Tax	Affected Employees	Tax	Affected Employees	Tax	Affected Employees
			465		308		90		30
2015		\$ -	-	\$ -	-	\$ -	-	\$ -	-
2016		\$ -	-	\$ -	-	\$ -	-	\$ -	-
2017		\$ -	-	\$ -	-	\$ -	-	\$ -	-
2018		\$ -	-	\$ -	-	\$ -	-	\$ -	-
2019		\$ -	-	\$ -	-	\$ -	-	\$ -	-
2020 (first year of tax)		\$ -	-	\$ -	-	\$ 58	54	\$ -	-
2021		\$ -	-	\$ -	-	\$ 74	54	\$ -	-
2022		\$ -	-	\$ -	-	\$ 91	54	\$ -	-
2023		\$ 6	176	\$ -	-	\$ 109	54	\$ -	-
2024		\$ 38	176	\$ -	-	\$ 128	54	\$ -	-
2025		\$ 75	176	\$ -	-	\$ 150	54	\$ -	-
2026		\$ 112	176	\$ -	-	\$ 173	54	\$ -	-
2027		\$ 153	176	\$ -	-	\$ 205	70	\$ -	-
2028		\$ 199	176	\$ -	-	\$ 241	70	\$ -	-
2029		\$ 246	176	\$ -	-	\$ 280	70	\$ -	-
2030		\$ 298	176	\$ -	-	\$ 322	70	\$ -	-
First Year Excise Tax Applies (2020-2030)									
EE Only		2023				2020			
EE + SP/DP						2027			
EE + Child(ren)									
Family						2020			
	0								

NEXT STEPS



WE NEED TO PLAN FOR WHEN — NOT IF — IT HAPPENS...

A LOT CAN HAPPEN BETWEEN NOW AND 2020, BUT HOPING
FOR A REPEAL OF THE TAX IS NOT A PRUDENT STRATEGY

IRS REQUESTS FOR INFORMATION PROVIDE INSIGHT, BUT NO FORMAL
GUIDANCE HAS BEEN RELEASED

ADVANCE PLANNING IS REQUIRED, ESPECIALLY WITH RESPECT TO
HEALTH ACCOUNTS, FOR PLANS EXPECTED TO TRIGGER THE TAX IN
2020.

THERE ARE STRATEGIES THAT NEED TO BE ASSESSED
AND IMPLEMENTED DUE TO BOTH ACA EXCISE TAX AND GENERAL
COST REDUCTION

2020 IS NOT THAT FAR AWAY

CAVEAT

Mercer has prepared these projections exclusively for Everett School Employee Benefit Trust, to estimate the range of the impact of Affordable Care Act's (ACA) excise tax on high cost employer-sponsored coverage (Section 4980I of the Internal Revenue Code). These estimates may not be used or relied upon by any other party or for any other purpose than for which they were issued by Mercer. Mercer is not responsible for the consequences of any unauthorized use.

All projections are based on the information and data available at a point in time and the projections are not a guarantee of results which might be achieved. The projections are subject to unforeseen and random events and so must be interpreted as having a potentially wide range of variability from the estimates.

For the purpose of these projections we assume that adjustments made to the cost thresholds in section 4980I of the Internal Revenue Code are not changed by the extension of the effective date of the excise tax until 2020 and other amendments made to section 4980I in Public Law No. 114-113, the Consolidated Appropriations Act of 2016 ("the excise tax extension"). The 2020 excise tax thresholds are expected to be the same indexed amounts as they would have been before the excise tax extension. Additional assumptions used to make the excise tax projections include those described in the Appendix..

Further, the estimates set forth in this report have been prepared before all regulations needed to implement the ACA's excise tax on high cost employer-sponsored coverage have been issued, including clarifications and technical corrections, and without guidance on complex financial calculations that may be required. Accordingly, these estimates are not Actuarial Opinions. Everett School Employee Benefit Trust is responsible for all financial and design decisions regarding the ACA. Such decisions should be made only after Everett School Employee Benefit Trust's careful consideration of alternative future financial conditions and legislative changes and not solely on the basis of the estimates illustrated here.

Everett School Employee Benefit Trust understands that Mercer is not engaged in the practice of law and this report, which may include commenting on legal issues or regulations, does not constitute and is not a substitute for legal advice. Accordingly, Mercer recommends that Everett School Employee Benefit Trust secures the advice of competent legal counsel with respect to any legal matters related to this report or otherwise.

MAKE
TOMORROW,
TODAY

