From: Ringo, Molly
Sent: Tuesday, December 15, 2009 1:17 PM
To: Selders, Elizabeth; Lindsey, Susan; 'Morrill, John'; Jones, David; Gunn, Mike
Cc: Newcomb, Kellee; Vanduren, Darla
Subject: FW: Health Reform and the Excise Tax - Issues to Consider

Hello Fellow Trustees:

As I shared with you at the last Trust meeting, Kim Mead recently requested information regarding the impact of the Federal Health Care legislation's proposed excise tax. Sean White had provided an initial response. Since then Mike Gunn did a preliminary financial analysis and then I asked Sean White at Mercer to delve further into the issue. You will see below Sean's response which will be provided to Kim. Kim and I will both have been in Washington DC before our January Trust meeting, so there may be more insights to share at that time.

Happy Holidays,

Molly

-----Original Message-----
From: White, Sean [mailto:Sean.White@mercer.com]
Sent: Tuesday, December 15, 2009 11:55 AM
To: Ringo, Molly
Cc: Heller, Janice
Subject: Health Reform and the Excise Tax - Issues to Consider

Hi Molly,

I reviewed the work-up that Mike preformed and have a few comments on that specifically, and some other general commentary on this particular provision of the current Senate legislation and it's potential impact on the Everett Trust.

As you know, in the legislation put forth by the Senate last month (the Patient Protection and Affordable Care Act), there is a provision for an excise tax on high cost coverage. As currently proposed, the excise tax of 40% would be effective in 2013. Included in the definition of "coverage" are medical, dental, vision, and health FSA expenses. The initial caps would be set at $8,500 for single coverage and $23,000 for family coverage. Higher thresholds would apply for retirees, employees in high risk professions, as well as some temporary higher thresholds for employees in the highest cost states, but none of these higher thresholds are likely to apply to the Everett School Trust. Finally, the thresholds would be indexed to the CPI plus 1%.

Looking at Mike's analysis, the math is generally correct, in terms of applying the growth rate assumptions and converting the thresholds to monthly amounts. However, the starting points represent medical and vision only, and would need to be adjusted to reflect cost for the dental and health FSA plans. In terms of the reasonableness of the assumptions, I would say that 15% is quite conservative. However, the work-up does illustrate the potential exposure to the excise tax for the Trust's plans. Even under a more realistic trend growth assumption, given the fact that the indexation to CPI+1% is likely to be well below actual health care cost growth seen by the Trust (and other plans), for most plan sponsors, it's become a question of "when" and not "if" they will exceed the threshold at some point.

Now, as we have discussed, it's not clear at this point whether this particular provision will make it into the final bill to be signed by the president. It is worth noting that the House bill did not include such a provision, and there is some fierce opposition to it both in the House and from some key constituent groups. Assuming the Senate is successful in getting 60 votes around a bill that includes this provision, the next step is for the Senate and the House to reconcile the two bills. It's possible that the House could just rubber-stamp the Senate bill (and the White House is urging them to do so), but because there are some very key differences between the two (including the excise tax provision), that result may be unlikely.

One additional item worth pointing out is in regard to the payment of the excise tax. While the employer will be responsible for calculating the value of the plans, the TPA or the insurer will be responsible for paying the tax. The insurers probably can't directly pass the cost on to the group immediately, but TPAs would likely include it in administrative fees.

In the event that this provision makes it through to the final bill, the Trust would have several options to consider. You could reduce coverage (or eliminate higher cost plans) to get below the threshold. According to a recent Mercer survey, this is the approach that a majority (63%) of employers said they would take. Another approach would be to maintain current plans, but pass along the tax to affected employees; 23% of employers said they would take this approach in the Mercer survey. Finally, you could elect to maintain current plans and just pay the tax out of Trust assets; just 2% of employers said they would take this approach. Other approaches to avoid the tax could include some basic strategies (e.g. eliminate dental or convert to voluntary coverage, eliminate FSA) and more advanced strategies (e.g. narrower medical networks, strengthened incentives for wellness and consumerism behavior change). Should this provision make it through to the final bill, we can discuss mitigating strategies.

In response to the proposed legislation, Mercer's Actuarial and Financial Group has recently developed a model that, based on some client-specific inputs and reasonable assumptions, will provide a multi-year future projection that included the excise tax threshold by year, projected health care cost by year, excess cost above the cap by year, and the excise tax by year, if applicable. If this sort of analysis would be helpful to you in your internal discussions, please let me know and we could put that together for you.

I hope this gives you what you need for now on this topic. Please let me know if you have any questions.

Thanks,
Sean

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