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Understanding how the Health Insurer Fee and Transitional Reinsurance Contribution will impact you

Health care reform update for insured and self-funded health plans

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Understanding the new industry-wide fee and contribution that impact health plans

The Affordable Care Act (ACA) includes a number of provisions that are expected to impact insured and self-funded health benefits and health insurance plans. As additional regulatory guidance has become available we have shared information with you. In that spirit, this communication is focused on two of the four ACA-mandated taxes and fees that are expected to directly impact health plans going forward.

- Health Insurer Fee (HIF)
- Transitional Reinsurance Contribution (RC)

Because these new federal fees will impact the cost of plans going forward, we feel it's important for you to understand the fees. By doing so, you can better anticipate and plan for the expected impacts.

This flyer will help you understand:

- What each fee is about
- Which plans are impacted
- How much is each fee and the expected cost to plans
- Who pays the fees
- When we expect each fee to impact Aetna plans

Health Insurer Fee

What is it?

One key component of the Affordable Care Act (ACA) is to make sure everyone has access to health insurance. As a result, an estimated 29 to 33 million people will enter the insurance market in 2014.

Many of these new entrants are lower-income families and individuals that may not have coverage today who will receive federal subsidies toward the purchase of insurance. The ACA established the Health Insurer Fee (HIF) to help fund these subsidies. The HIF will be assessed on health insurers and payable beginning in 2014.

Which plans?

HIF applies to most forms of health insurance

This includes:

- Insured new business and renewals
- Grandfathered and non-grandfathered plans

The federal government will determine the amount to be collected, based on each insurer's portion of total premiums that are impacted by the fee. We are waiting for details from the government about which premiums will be included in the market share calculation used to determine each insurer's share of the fee. The table below represents our assumptions of what is likely to be included in and excluded from the fee calculation, taking the statutory language into account.

How much is the HIF?

The federal government will collect these amounts from health insurers to pay for the subsidies

- 2014: $8 billion
- 2015 and 2016: $11.3 billion
- 2017: $13.9 billion
- 2018: $14.3 billion
- Years after 2018: preceding year amount increased by the rate of annualized premium growth

Under the current law, the fee has no expiration date. The Secretary of the Treasury, through the IRS, will determine the amount of the fee due by each health insurer based on net premiums written for U.S. health risks, and bill each carrier annually.

HIF includes*	HIF does not include*
• Plans that cover U.S.** health risks including medical, dental and vision • Plans that cover U.S. citizens and U.S. residents • Plans that cover individuals located in the U.S. (only during the location period) • Federal Employee Health Benefit Plans (FEHBP) • Medicare Advantage and Medicare Part D • Medicaid risk	• Medicare Supplement • Disability and accident-only coverages • Long-term care • Coverage for specific diseases if offered as independent non-coordinated benefits • Hospital indemnity/other fixed indemnity insurance • Self-insured business • Stop loss

*Based on our assumption.

**U.S. defined as U.S. states, D.C., Puerto Rico and the U.S. possessions.

Here's how independent analysts estimate the HIF

Research conducted by the National Federation of Independent Businesses (NFIB)* in November 2011 suggests that insurance premiums will increase by 2 percent to 3 percent as a result of this fee.

The former director of the Congressional Budget Office, Douglas Holtz-Eakin conducted a study in March 2011** suggesting premium increases of 2.4 percent to over 3 percent.

A letter from the Joint Committee of Taxation to Arizona Senator Jon Kyl in June 2011***, premiums would decrease by 2.0 percent to 2.5 percent if this fee is repealed.

A study**** published by Oliver Wyman in October of 2011 found that the Health Insurer Fee will, when fully implemented, increase the average cost of family coverage by $530 in the small group market, and $550 in the large group market. Oliver Wyman estimated the impact to 2014 premiums as 1.9 to 2.3 percent of premiums in fully insured markets, with this percentage expected to increase over time.

Your renewal package or plan proposal will include details about how much the fee will impact your specific plans.

Who pays?

Health insurance issuers are responsible for paying the fee

The Secretary of the Treasury will determine the amount of the fee due by each health insurance issuer and bill each issuer annually. The total annual fee is allocated to each insurer based on its share of aggregated impacted premiums and each insurer is required to remit the payment to the Federal Government.

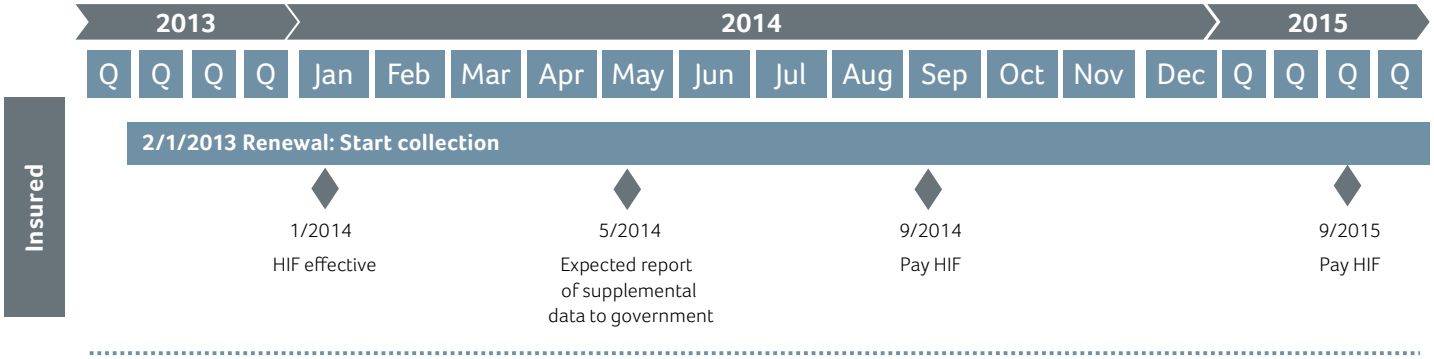
The fee is not assessed on self-funded plans.

When and how will the HIF impact Premiums?

HIF will impact health insurance premiums as early as February 2013

Our 2014 assessment, which will be payable by no later than September 30, will be spread across customers whose policies include coverage for some portion of calendar year 2014. This means we will start to include some provision for the HIF in the rates of customers renewing in February 2013, since some of those customers' annual premiums are for 2014 coverage. The extent to which premiums are impacted by the HIF depends on the fraction of the 12-month policy period that represents 2014 coverage.

Here's when we intend to collect and pay our assessment of HIF.



*Effects of the PPACA Health Insurance Premium Tax on Small Businesses and Their Employers. Michael J. Chow, NFIB Research Foundation, November 9, 2011. Available at: **www.nfib.com/Portals/0/PDF/AllUsers/research/studies/ppaca/health-insurance-tax-study-nfib-2011-11.pdf**.

Higher Costs and the Affordable Care Act: The Case of the Premium Tax. Douglas Holtz-Eakin, American Action Forum, March 9, 2011. Available at: **http://americanactionforum.org/sites/default/files/Case%20of%20the%20Premium%20Tax.pdf.

***A copy of the letter is available at: **www.ahipcoverage.com/wp-content/uploads/2011/11/Premium-Tax-JCT-Letter-to-Kyl-060311-2.pdf**.

****Chris Carlson, FSA, MAAA. 2011. Estimated Premium Impacts of Annual Fees Assessed on Health Insurance Plans. Available at **www.ahip.org/Issues/Premium-Tax.aspx**.

Transitional Reinsurance Contribution (RC)

What is it?

Under the Affordable Care Act (ACA), health insurance issuers and third-party administrators, on behalf of self-funded plan sponsors, will make contributions to raise funds for transitional non-profit reinsurance entities that will help offset the costs of high-risk individuals in the individual market.

Which plans?

This new contribution applies to insured and self-funded plans

- Insured new business and renewals
- Grandfathered and non-grandfathered plans
- Self-funded group health plans

RC includes*

All major medical products:

- Insured plans (policies written by U.S.** licensed insurance companies)
- Self-funded group health plans
- Grandfathered plans
- State and local government employee plans
- Federal Employee Health Benefit Plans (FEHBP)

RC does not include*

- Medicare Advantage and Medicare Part D
- Medicaid risk
- State Children's Health Insurance Program (SCHIP)
- Medicare Supplement and similar group supplemental coverage
- Stop loss
- Excepted benefits:
  - Disability and accident-only coverages
  - Benefits offered separately: Limited-scope dental, limited-scope vision, long-term care
  - Specified disease/illness if offered as independent, non-coordinated benefits
  - Hospital indemnity/other fixed indemnity insurance

*Based on our assumption.

**U.S. defined as U.S. states, D.C., Puerto Rico and the U.S. possessions.

How much?

The contributions will be in effect from January 1, 2014, through December 31, 2016

The Department of Health and Human Services (HHS) and/or state governments plan to collect $25 billion in fees from health insurers and third-party administrators, on behalf of self-funded group health plans, over the three-year period 2014 through 2016.

- $12 billion in 2014
- $8 billion in 2015
- $5 billion in 2016

In addition, states may set higher contribution rates in order to collect further funding for high-risk individuals in that state. This would be in addition to the federal assessment.

The HHS determines each health insurer's and self-funded group health plan's contribution amount on a per-capita basis

Under final regulations adopted in March 2012, the contribution amount will be expressed as a per capita rate. At the time of this writing, we are expecting the fee to be expressed in per-member terms, rather than per-employee terms. HHS will announce the national contribution rate for 2014 in the annual HHS Notice of Benefit and Payment Parameters.

Insured plans

Insurer contributions will be based on the national per capita contribution rate.

The fee applies to member months in 2014, but our premiums are level throughout the policy year, which (except for policies issued or renewed in January) spans two different calendar years. In order to collect the reinsurance contribution for all policies that cover 2014 risks, we need to begin building this fee into any policy year that includes coverage for 2014. That means the fee will be included in premiums for renewals and new business beginning February 1, 2013.

Self-funded plans

Each self-funded plan's contribution will be based on the national per capita contribution rate released by HHS multiplied by the self-funded plan's lives subject to the contribution. The national and state per capita rates will be known well before customers will need to fund the contribution.

Your renewal package or plan proposal will include details about how much the fee will impact your specific plans.

Here's how independent analysts estimate the RC

- Recent Crowell & Moring webinar* for the American Benefits Council discussed a range of $61 to $105 per member, per year (PMPY) with emphasis on the lower end of the range.
- Milliman recently published a report for the Society of Actuaries that indicates an increased premium estimate of $73 to $78 per member per year (PMPY) for the Reinsurance Contribution.**

*Webinar was accessed on August 28, 2012, at: **www.appwp.org/documents2012/perretta_p4p-reinsurance080712.pdf**.

The Milliman/Society of Actuaries study is "Design and Implementation Considerations of ACA Risk Mitigation Programs", Adrian Clark and James T. O'Connor, June 2012. Accessed at: **www.soa.org/Files/Research/Projects/research-health-aca-risk-mitigation.pdf.

Who pays?

Health Insurance issuers for insured plans and self-funded group health plans are responsible for the contribution

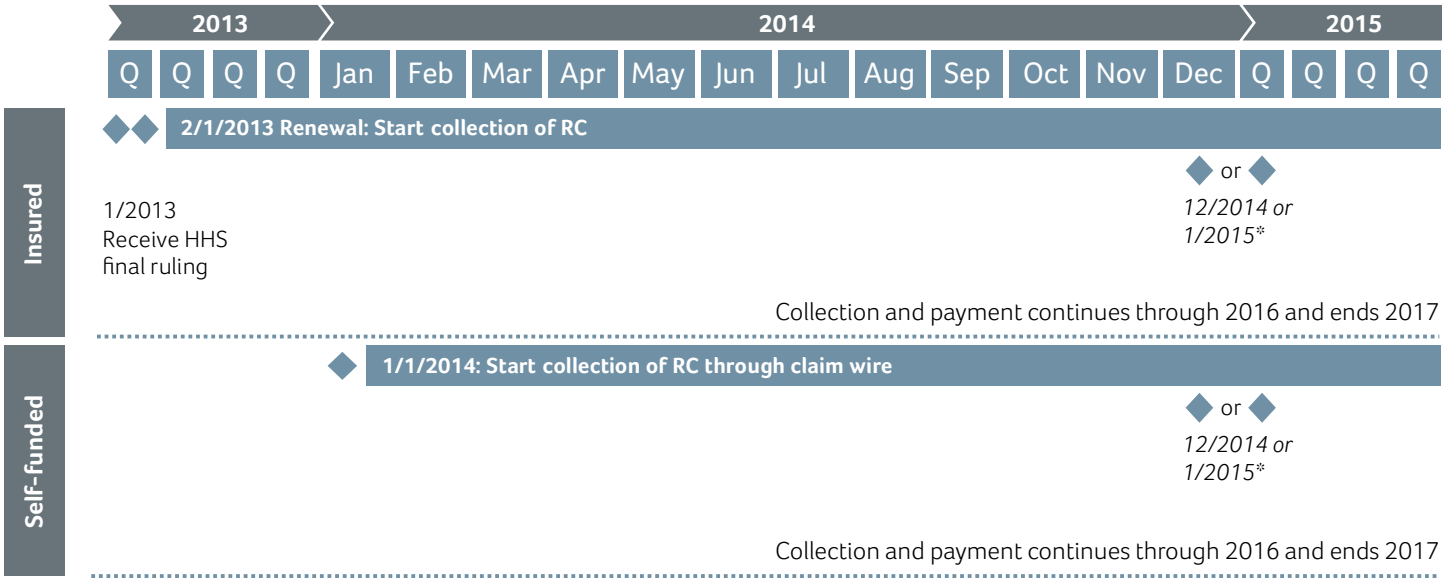
The Secretary of HHS will provide the method for determining the amount each health insurance issuer and self-funded group health plan is required to contribute. Self-funded group health plans are responsible for funding the contribution and third-party administrators may collect and remit the payment on behalf of the plan.

When?

RC will begin impacting some health plans as early as February 2013

We intend to collect and remit payments for this contribution as follows, subject to regulatory approval:

- **Insured:** Our 2014 assessment will be spread across all customers whose policies include coverage for some portion of calendar year 2014. This means that we will start to include some provision for the RC in the rates of insured customers renewing in February 2013, since some of those customers' annual premiums are for 2014 coverage. The extent to which premiums are impacted by the RC depends on the fraction of the 12-month policy period that represents 2014 coverage.
- **Self-funded:** Self-funded plans are responsible for funding the contribution and third-party administrators, such as Aetna, may collect and remit the payment on behalf of the plan. Beginning January 1, 2014, we intend to collect the contribution amount through a claim wire billing process and remit payments annually.



*Payment to HHS may be submitted on December 2014 or January 2015.
Note: In some states rates are subject to regulatory approval and therefore treatment of taxes and fees may not be finalized at this time.

Find more information on our website

Visit **www.HealthReformConnection.com**, where you can learn more about the ACA, its many requirements, and how Aetna is preparing for the changes ahead.

The website includes:

- Detailed descriptions of many provisions of the law including those that are already in effect and that will take effect between now and 2018
- Answers to the most common questions on the law and its requirements
- Our vision for creating a sustainable health care system

We hope you'll find the information on the site helpful.

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