

Integrity Foremost—to Serve Others with Excellence



The PPACA Update & Employer Responsibility (Mandate)

Workshop April 2013

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The Patient Protection and Affordable Care Act of 2009 and The Health Care and Education Reconciliation Act of 2010

- **President Obama signed PPACA March 23, 2010**
 - House passed HR 3590 On March 21, 2010
 - Bill had passed the Senate on December 24, 2009
- **The President signed HCERA March 30, 2010**
 - Reconciliation bill HR 4872 contains package of “fixes” to the Senate bill
- **SCOTUS**
 - Supreme court upholds the ACA in June 2012
 - No State coercion to expand Medicaid
- **President Obama is reelected November 6, 2012**
 - ACA now is anticipated to hold in its complete scope

The Patient Protection and Affordable Care Act of 2009 and The Health Care and Education Reconciliation Act of 2010

May be the most sweeping legislation in US History

- Impacts over 17% of economy and all legal residents
- Partisan legislation, no Republicans voted for either bill
- Amends Internal Revenue Code (IRC), Public Health Service Act (PHSA), Fair Labor Standards Act (FLSA), Social Security Act (SSA) and other federal laws
- Changes the Health Care Landscape

Goals

- Insure all Americans and legal residents
- Reform health insurance system
- Reduce costs

Disclaimer

- 2,409 page bill plus 150 pages of reconciliation
- Over 1,100 directives of “the Secretary shall...”
- Expecting 100,000+ pages of regulations
- Initial look at main ACA provisions
 - Much detail remains to be fleshed out by Feds
 - 21,000+ pages Regulations and Guidance has been released
 - HHS has met many deadlines, but not all to date, clock is ‘ticking’, American Health Benefit Exchange is key to implementation

ACA Employer Mandate & 105h Compliance Strategies

Thanks and credit for much of the content of the following slides

Erica Storm, JD

Recent Updates

Issues for Employers

Notice of Exchange

- **Delayed until later this year**
- More guidance and maybe model notice expected

Additional Medicare Tax

- Employers must withhold additional 0.9% on wages over \$200,000
- IRS Q&As issued for individuals, employers and payroll service providers

Whistleblower Protections

- OSHA final rule clarifies protections for employees under ACA
- Employers may not retaliate against employees for:
 - Providing information or filing a complaint regarding ACA violations
 - Objecting to or refusing to participate in violations of the ACA
 - Receiving a premium credit or subsidy for coverage through an Exchange
- Employees can file complaints with OSHA if they experience retaliation
 - Discharge, demotion, discipline, etc.

Limits on Out-of-Pocket Expenses and Cost-Sharing

- Non-GF group health plans subject to limits on cost-sharing and out-of-pocket costs
- Out-of-pocket expenses may not exceed HDHP limits
 - 2012: \$6,050/\$12,100
 - 2013: \$6,250/\$12,500
 - **Apply to all group health plans**
- Deductibles may not exceed \$2,000 (single coverage) or \$4,000 (family coverage)
 - **Apply only to insured small group plans**
- Limits indexed for inflation

2014 Plan Design Changes

2014 Changes

Requirement	Applies To
Waiting periods limited to 90 days	Group health plans
Annual limits/preexisting condition exclusions prohibited	Group health plans
Wellness program rewards increased	Standard based wellness programs
Out-of-pocket max limits	Group health plans
Deductible limits	Insured group health plans in the small group market
Insurance premium rating restrictions	Non-GF individual and small group coverage
Guaranteed Issue/renewability	Individual and group markets
Reinsurance fees	Carriers and self-funded plans
Essential health benefits package	Non-GF individual and small group coverage

Individual Mandate and Exchanges

Individual Mandate

- Effective Jan. 1, 2014
- Individuals must have “minimum essential coverage” or pay a penalty
- Exceptions
 - Low income or hardship
 - Coverage is unaffordable
 - Religious exemption
 - Incarcerated
 - Member of Indian tribe or health care sharing ministry
 - Short gap in coverage
 - Not lawfully present

Minimum Essential Coverage

- Employer sponsored coverage
 - Including COBRA and retiree coverage
- Individual coverage
- Medicare
- Medicaid
- Children's Health Insurance Program (CHIP) coverage
- Some veterans' health coverage
- TRICARE

Individual Penalty Amounts

- Flat dollar amount or a % of income → whichever is greater
- Penalty amounts
 - 2014 = \$95 or 1%
 - 2015 = \$325 or 2%
 - 2016 = \$695 or 2.5%
- Family penalty limit:
 - 300% of the adult flat dollar penalty or
 - Bronze level Exchange premium

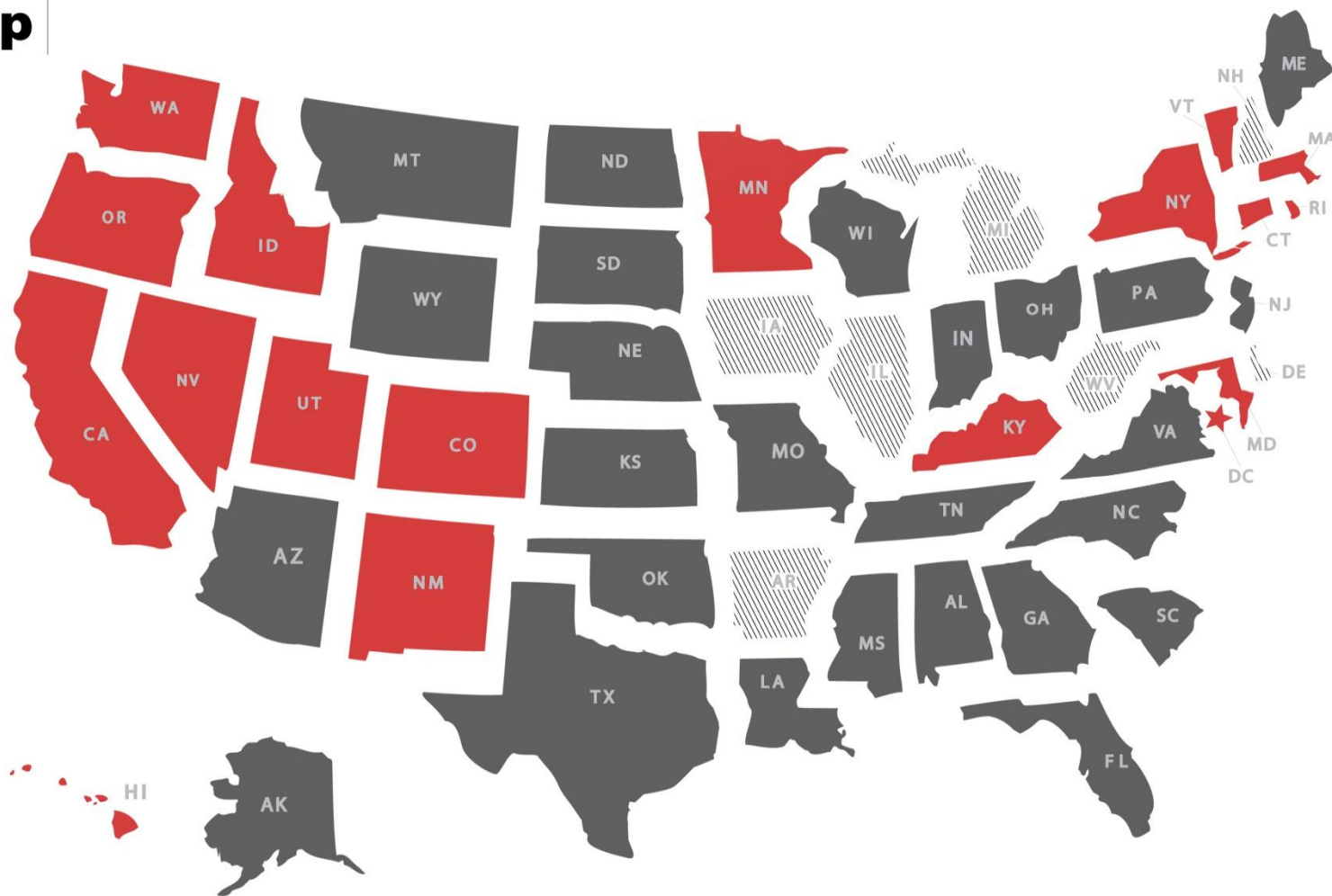
Health Insurance Exchanges

- State options:
 - Establish state Exchange
 - Establish Partnership Exchange with HHS
 - Do nothing (HHS will set up federally-facilitated Exchange)
- State action:
 - 17 (and D.C.) declared state-based Exchange
 - 7 planning Partnership Exchange
 - 26 default to federal Exchange
- Deadlines
 - Open enrollment: 10/1/13
 - Fully operational: 1/1/14

State Health Insurance Exchange Map

- Declared State-based Exchange
- Planning for Partnership Exchange
- Default to Federal Exchange

Updated: 2/25/13



Health Insurance Exchanges

- Individuals and small employers can purchase coverage through an Exchange
- Small Business Health Option Program (SHOP)
 - Small employers = up to 100 employees
 - Before 2016, states can define small employers as having up to 50 employees
- In 2017, states can allow employers of any size to purchase coverage through exchange
- Individuals and small employers can be eligible for tax credits/subsidized coverage

Qualified Health Plans

- Must offer essential health benefits package
 - Provide essential benefits
 - Limit cost-sharing
 - Provides bronze, silver, gold or platinum coverage or catastrophic plan
- Metal levels
 - 60-90% of benefits
 - Allow consumers to compare plans

Individual Exchange Eligibility

- Eligibility for QHP enrollment:
 - Citizen or legal resident for period of coverage
 - Not incarcerated
 - Resides in state covered by Exchange
- Each exchange will determine eligibility
- Exchange will provide notice of eligibility determination

Exchange Enrollment

Type of Enrollment Period	Dates	Rules
Initial enrollment period	Oct. 1, 2013-March 31, 2014	Dec. 15 deadline for Jan. 1 coverage Other coverage dates depend on election date
Annual enrollment period (for 2015 and later years)	Oct. 15-Dec. 7 each year (for coverage for the next year)	Advance written notice to enrollees in Sept. each year
Special enrollment period	60 days from date of triggering event (30 days for SHOP)	Available under certain circumstances (like marriage or birth of a child)

Exchange Subsidies and Tax Credits

- Employees who are **not offered coverage**
 - Not eligible for government programs (like Medicaid)
 - Meet income requirements (less than 400% of FPL) – For 2013, 400% of FPL is **\$45,960** for 1 person, **\$94,200** for a family of 4
- Employees who are **offered coverage**
 - Not enrolled in employer's plan
 - Not eligible for government programs (like Medicaid)
 - Meet income requirements (less than 400% of FPL)
 - **Employer's coverage is unaffordable (greater than 9.5% of income for single coverage) or not of minimum value (covers less than 60% of cost of benefits)**

Determining Large Employer Status for Pay or Play Penalties

Employer Shared Responsibility Penalties

- Large employers subject to “Pay or Play” rule
- Penalties may apply if the employer:
 - Fails to offer minimum essential coverage to substantially all FT employees (and dependents)
 - Offers coverage that is not affordable or does not provide minimum value
- Penalties triggered if any FT employee gets subsidized coverage through Exchange

Large Employers

- Large employer:
 - Average 50 or more full-time/full-time equivalent employees in prior calendar year
 - For 2014, can look back at any **six consecutive months** in 2013
- Common ownership rules
 - Controlled group rules apply
 - All employees taken into account
 - Liability and penalties apply separately to each controlled group member

Full-Time Employee

With respect to a calendar month



An employee who is employed on average at least **30 hours of service per week**



130 hours of service in a calendar month = the monthly equivalent of 30 hours of service/week

Full-Time Equivalent Employees

Add hours of service in a month for PT employees (up to 120 hours/person)

Divide total hours by 120

Result: Number of FTEs for the month

Counting Employees

1. Add full-time employees (including seasonal) for each calendar month in prior calendar year
 2. Add FTEs (including seasonal) for each calendar month in prior calendar year
 3. Add full-time employees and FTES together for each month of prior calendar year
 4. Add 12 monthly totals and divide by 12
- * Special rule for 2014: can use 6 consecutive months in 2013

Special Rules

- Seasonal employees
 - An employer is not a large employer if (1) the employer's workforce exceeds 50 full-time employees for 120 days (4 months) or fewer during the calendar year and (2) the employees in excess of 50 employed during that period were seasonal workers
- New employers
 - Calculation based on the average number of full-time employees the employer is “reasonably expected to employ” on business days in the current calendar year

Providing Coverage to Full-Time Employees

Employer Shared Responsibility Penalties

- Large employers subject to “Pay or Play” rule
- Penalties may apply if the employer:
 - Fails to offer minimum essential coverage to substantially all FT employees (and dependents)
 - Offers coverage that is not affordable or does not provide minimum value
- Penalties triggered if any FT employee gets subsidized coverage through Exchange

Penalty Potential

Not a large employer: Less than 50 full-time equivalent employees	Large employer: 50 or more full-time equivalent employees			
	Does not offer coverage		Offers coverage	
	Scenario A No full-time employees receive credits for exchange coverage	Scenario B 1 or more full-time employees receive credits for exchange coverage	Scenario C No full-time employees receive credits for exchange coverage	Scenario D 1 or more full-time employees receive credits for exchange coverage
No penalty	No penalty	Number of full-time employees minus 30 multiplied by \$2,000	No penalty	Lesser of: Number of full-time employees minus 30, multiplied by \$2,000. Number of full-time employees who receive credits for exchange coverage, multiplied by \$3,000. (Penalty is \$0 if employer has 30 or fewer full-time employees because penalty is based on the lesser of the two calculations)

Employer Penalties

- Penalties triggered if FT employee is certified to employer as enrolling in subsidized Exchange coverage for a month
- **Penalty A:** employer failed to offer substantially all FT employees (and dependents) opportunity to enroll in employer's plan for a month
- **Penalty B:** employer offered substantially all FT employees (and dependents) opportunity to enroll but not all FT employees or coverage is not affordable or does not provide minimum value

Employer Penalty Amounts

- **Penalty A:** employers that do not offer coverage to substantially all full-time employees:
 - \$2,000 per full-time employee (minus the first 30)
- **Penalty B:** employers that do offer coverage:
 - \$3,000 for each employee who receives subsidized coverage through an exchange
 - If too expensive, not generous enough or not offered to enough employees
 - Lesser of Penalty A or Penalty B will apply
- Amounts shown are annual penalties – penalties will be calculated on a monthly basis

Offering Coverage

- Must be offered to substantially all FT employees and dependents
- Substantially all
 - 95% general rule
 - May fail to offer to up to 5% (or 5, if greater)
 - Does not have to be inadvertent
- Dependents must be offered coverage
 - Children up to age 26
 - Not spouses
 - Dependent coverage does not have to be affordable

Affordability Safe Harbors

- **W-2 Safe Harbor**

- Measures employee's required contribution for single coverage against employee's W-2 wages
- Coverage is affordable if cost is 9.5 percent or less of W-2 income

- **Rate of Pay Safe Harbor**

- Affordability based on employee's rate of pay.
- Employee's monthly contribution for single coverage is affordable if 9.5 percent (or lower) monthly wages

- **Federal Poverty Level Safe Harbor**

- Determines affordability based on FPL for single individual.
- Coverage is affordable if the employee's contribution for single coverage is 9.5 percent of that FPL (or lower)

Minimum Value Coverage

- Minimum value measures cost-sharing (similar to metal levels for QHPs)
- To provide MV, plan's share of total allowed costs of benefits provided under the plan must be at least 60%
 - HRA/HSA amounts to be included
- Determining MV:
 - MV calculator
 - Design-based safe harbor checklists
 - Appropriate certification by actuary

Measuring Full-Time Status

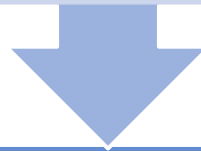
Employees Expected to Work Full-Time

- Employer must offer coverage by the end of the first 3 full calendar months of employment
- Applies to an employee who is “reasonably expected at his or her start date to be a full-time employee (and is not a seasonal employee)”
- If coverage not offered by deadline, penalties can apply for:
 - The first 3 calendar months
 - Any subsequent months where coverage not offered

Safe Harbor for Variable Hour/Seasonal Employees

Measurement Period

Counting hours of service (3-12 months)



Administrative Period

Time for enrollment/disenrollment (Up to 90 days)



Stability Period

Coverage provided (or not) – length depends on type of employee and whether FT or not

Measurement and Stability Periods

Ongoing Employees

Measure for 3-12 months
(Standard MP)

Period chosen by employer

Stability period = same length as SMP and at least 6 months long

New Employees

Measure 3-12 months
(Initial MP)

Period related to start date

Stability period depends on whether FT or not in IMP

Special Rules

- Measurement periods for 2014 stability periods
 - Employers that want to use 12 month measurement period can use 6-12 months for 2013
- Employee expected to work 30+ hours/week
 - Provide coverage by end of 3rd full calendar month of employment
- Terminated employees
 - Not treated as a new employee unless 26-week break in service
 - Shorter period may apply if short employment
- Averaging rules for hours of service in measurement period
 - For school employees and FMLA/USERRA/jury duty leave

Transition Rules

Non-Calendar Year Plan Years

- Penalties will not apply right away on Jan. 1, 2014 if:
 - Plan is changed to avoid penalties at renewal
 - Requirements are met
- No penalties for months of 2013 year that fall in 2014 for
 - Employees who would be eligible for coverage on 1st day of 2014 plan under eligibility terms of plan in effect on Dec. 27, 2012
 - Other employees if at least 1/4 of employees are covered under fiscal year plan as of Dec. 27, 2012 (or at least 1/3 of employees are offered coverage under the plan)
- Employees must be offered affordable, minimum value coverage by 1st day of 2014 plan year
 - Plans will not need to make mid-year or advanced changes

Non-Calendar Year Cafeteria Plans

- Employers may allow employees to change elections in 2013 plan year
 - Employees may want to enroll in employer's plan mid-year to avoid individual penalty
 - Employees may want to leave plan for an Exchange
- Plan must be amended by Dec. 31, 2014
 - Amendment can be retroactive to first day of 2013 plan year

Employer Reporting

New Information Return for Large Employers

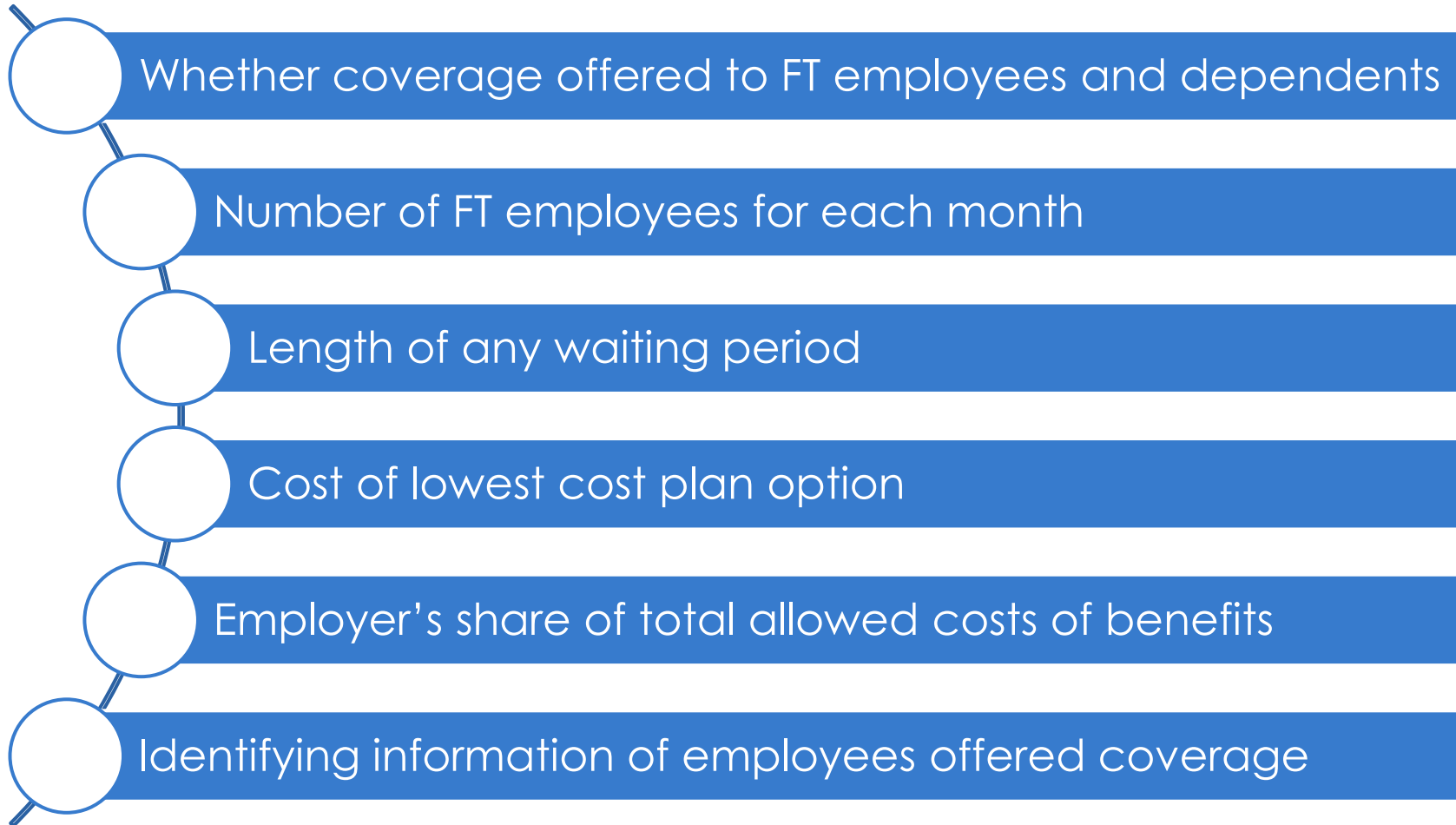
Large employers must file information returns with IRS

First returns due in 2015

- About coverage offered in 2014
- On form issued by IRS

Written report provided to FT employees

Information Required

- 
- Whether coverage offered to FT employees and dependents
 - Number of FT employees for each month
 - Length of any waiting period
 - Cost of lowest cost plan option
 - Employer's share of total allowed costs of benefits
 - Identifying information of employees offered coverage

Still to Come

Upcoming Requirements

Nondiscrimination Rules

- Will apply to fully-insured non-GF plans
- Cannot discriminate in favor of highly compensated employees
- Effective after regulations issued

Automatic Enrollment

- Will apply to large employers (> 200 FT employees)
- Must automatically enroll/re-enroll employees in plan, provide notice and allow opt-out
- Effective after regulations issued

Thank you!

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Patient Protection and Affordable Care Act (PPACA)

2014 Financial Impact Analysis for Employers

Sample Mid-Size City

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This report contains the results of an analysis to estimate plan enrollment and costs for the employer plan sponsor in 2014 under three scenarios. Enrollment projections assess eligibility for Medicaid and Federal Subsidies, as well as costs related to in- and out-migration due to individual mandates, and auto enrollment or movement to State Health Exchanges. Cost projections compare the current health plan options in the absence of PPACA in 2014 to a number of other options, including: 1) employer plan sponsor costs of the current plan under PPACA and related provisions, such as penalties and anticipated enrollment changes; 2) costs for both the employer plan sponsor and for currently enrolled employees were the plan terminated in 2014; and 3) employer costs were the current plan replaced by a plan with a 60% actuarial value assumed to meet the minimum essential coverage requirements.

The calculations are based on data input by the "user" of the "PPACAcalc" actuarial model, including current employer-specific census data and plan enrollment, key cost-sharing provisions of current plan options, and health care cost related information. As such, only the user has reviewed the data, and can attest to the accuracy of the user information input. Similarly, assumptions utilized in the model include a number of user selected variable inputs, beyond those encoded assumptions selected by the model developers from their knowledge and expertise. The "propriety" of specific assumptions relates to their comparability to historical experience levels and reasonable future behaviors and trends in employee demographics, health care costs, and utilization and delivery of services. Results from this product can be extremely sensitive to the assumptions chosen. While only the user of PPACAcalc can attest to the accuracy and propriety of user input information, the developers do confirm that the model and the encoded assumptions are reasonable and consistent with their understanding of the current provisions of PPACA, and their relevant experience working in the employee health benefits and insurance fields.

The results are estimates, based on current data, assumptions, and PPACA provisions. Because many of the assumptions and provisions are subject to external influences (demographic, economic, and regulatory) beyond the control of PPACAcalc developers or users, actual results may vary materially. Determinations for purposes other than estimating potential plan enrollment and employer plan sponsor costs in 2014 under current PPACA provisions may also be significantly different from the results reported herein.

PPACAcalc was developed by health actuaries using generally accepted actuarial principles and practices, and in accordance with the Actuarial Standards Board Actuarial Standards of Practice (ASOPs) relating to health benefits. The health actuaries are independent and unbiased, and have no political agenda for users of this product, or any of its officers or key personnel, that would impair their objectivity in the ongoing development and consulting activities related to PPACAcalc actuarial modeling. They have satisfied the basic and continuing education and experience requirements, and applicable qualification standards, to perform these actuarial services and issue Statements of Actuarial Opinion in accordance with the Qualification Standards in the American Academy of Actuaries' Code of Professional Conduct. Note that the results generated by users of PPACAcalc will not be considered an actuarial statement of opinion.

Employer Play or Pay (Exchange Penalties)

Annual Assessment for Employers that Do Not Offer a Plan that Provides "Minimum Essential Coverage"

Employer groups that employ an average of at least 50 full-time equivalent employees (work more than an average of 30 hours per week, on a monthly basis) during the prior calendar year are required to offer plans that provide at least the "minimum essential coverage" or pay a financial penalty. The penalty is an annual non-deductible federal tax assessment for any month in which any full-time employee is enrolled in a qualified health plan and receives the federal premium tax credit or cost-sharing reduction.

The assessment is equal to \$2,000 annually, which is indexed to inflation, times the number of full-time employees. The assessment excludes the first 30 employees. The assessment is calculated on a monthly basis.

Annual Assessment for Employers that Do Offer a Plan that Provides "Minimum Essential Coverage"

Employer groups that employ an average of at least 50 full-time equivalent employees (work more than an average of 30 hours per week, on a monthly basis) during the prior calendar year and offer plans that provide at least the "minimum essential coverage" are required to pay an annual non-deductible federal tax assessment for any month in which any full-time employee is enrolled in a qualified health plan and receives some form of federal subsidy for insurance purchased on the state exchanges.

The employee must qualify for a federal subsidy to be used at one of the state exchanges. To qualify, the employee must have household income less than 400% of the federal poverty level and the offered employer coverage must be deemed "unaffordable." Coverage with less than 60% actuarial value or "self only" employee contribution costs greater than 9.5% of household income is deemed to be unaffordable.

The assessment is equal to the lesser of the following: (1) \$3,000 per employee receiving a subsidy to purchase insurance on a state exchange OR (2) \$2,000 per employee (excluding the first 30 employees).

The PPACAcalc actuarial model uses customized employer data and makes projections for 2014 that illustrate the expected impact of PPACA based on various sets of assumptions. Please note the following definitions/explanations:

- **Tax Adjustments** - Tax adjustments are made where applicable because the tax treatment of certain aspects of PPACA are different than the pre-2014 environment. The assumed marginal tax rates are disclosed within the report footnotes and in the Actuarial Assumptions section of this report. Taxes included in the analysis include: FICA taxes, individual income taxes, additional or forfeited employer tax deductions, as well as PCORI and Transitional Reinsurance Assessment fees.
- **2014 Eligibility** - The PPACA analysis assumes that in 2014, all employees who work fewer than 30 hours per week will be ineligible for the employer's plan regardless of their current eligibility status.
- **Exchange Penalty** - The user selected migration input assumes that when an employee has household income that is less than 400% of the federal poverty level and an eligible plan's lowest available Self Only coverage contribution is greater than 9.5% of the employee's household income, the employee is assumed to dis-enroll from the employer plan and purchase health insurance at the state exchange. If an employee is offered a plan that provides at least the minimum value and has access to Self Only coverage that is no more than 9.5% of household income, the employer is not assessed a penalty. For other employees, the employer is required to pay a non-deductible annual penalty.
- **State Exchange Plan Designs** - Employees are assumed to purchase a "Silver" level plan at the exchange. Silver plans have an actuarial value of 70%. In many cases, this will be a lower value plan than the existing employer plan.
- **Terminate Current Plan** - This scenario illustrates the financial impact of the employer ceasing group health plan sponsorship in 2014. The analysis includes options in this situation for the employer to increase salaries for certain employees to offset the loss of the employer-sponsored group health benefit. The model allows for the employer to return a percentage share of the employer's "savings" due to plan termination to each employee, or to provide a flat dollar salary increase benefit to employees working over 30 hours per week. Savings are calculated as the projected gross premium reduced by expected employee contributions and a proportionate share of exchange penalties, with applicable tax adjustments, but not less \$0. The model allows for differing assumptions based on income bracket as a percentage of the federal poverty level threshold.
- **Minimum Value Plan** - This scenario illustrates the financial impact of the employer redesigning the group health plan so that it has the minimum actuarial value of 60% while providing at least the "minimum essential coverage" required. This may result in significant savings for an employer whose current plan designs have a much higher actuarial value.
- **Household Income** - The affordability provisions of PPACA are based on household income. Because employers typically don't know the household income of their employees, a multiplicative factor is applied to the non-single employees' projected 2014 salaries to estimate household income.

Sample Mid-Size City

Employer Cost Summary

	-----Without PPACA---		-----Scenarios with PPACA-----		
	2013 Baseline	2014 Baseline	Current Plans	Plan Termination	60% Plan Value
Total Employees	919	919	919	919	919
Enrolled Employees	119	119	123	0	123
Projected Employer Costs	\$1,682,000	\$1,877,000	\$1,963,000	\$1,351,000	\$1,354,000
2014 Projected Cost Change (\$)		\$195,000			
2014 Projected Cost Change (%)		11.6%			
2014 Incremental Costs/(Savings)(\$)			\$86,000	\$(526,000)	\$(523,000)
2014 Incremental Costs/(Savings) (%)			4.6%	-28.0%	-27.9%

Employee Cost Summary

	-----Without PPACA---		-----Scenarios with PPACA-----		
	2013 Baseline	2014 Baseline	Current Plans	Plan Termination	60% Plan Value
2013 Enrolled Employees Only	119	119	119	119	119
Projected Employee Costs	\$12,000	\$13,000	\$13,000	\$234,000	\$8,000
2014 Projected Cost Change (\$)		\$1,000			
2014 Projected Cost Change (%)		8.3%			
2014 Incremental Costs/(Savings) (\$)			\$0	\$221,000	\$(5,000)
2014 Incremental Costs/(Savings) (%)			0.0%	1700.0%	-38.5%

Sample Mid-Size City

Demographic Data

	Not Seasonal	Seasonal	<30 Hours/Week	Total
Employee Count	148	10	761	919
Average Salary (2013) of All Employees	\$52,000	\$18,000	\$2,000	\$10,000
Average Salary (2014) of All Employees	\$54,000	\$18,000	\$3,000	\$11,000
Average Household Income (2014) of Eligibles Only	\$82,000	\$27,000	\$4,000	\$15,000
% of Eligibles < 400% of Federal Poverty Level	65%	100%	100%	95%
400% of Federal Poverty Level - Single (2014 Projected)				\$47,000
400% of Federal Poverty Level - Family of 4 (2014 Projected)				\$96,000

2013 Enrollment Data

Not currently eligible for employer's plan but working 30+ Hours/Week:	10	30+ Hours/Week and input as "Never" in 2014:	0
Currently waiving coverage in employer's plan but could enroll in 2014:	29	30+ Hours/Week and Input as "Waive" in 2014:	29

	Single	EE Plus One	Family	Total Enrolled
HDHP	10	15	85	110
Traditional	1	2	6	9
Total Employees	11	17	91	119

2013 Premium/Funding Rates

Rate Effective Date: Jul 1, 2013	Single	EE Plus One	Family	Composite
HDHP	\$396	\$871	\$1,173	\$1,061
Traditional	\$475	\$1,045	\$1,408	\$1,223

2013 Employee Contribution Rates

	Single	EE Plus One	Family	Composite
HDHP	\$0	\$0	\$0	\$0
Traditional	\$51	\$89	\$123	\$107

Single Coverage In-Network Plan Design Characteristics

	Deductible	Coinsurance	Out-of-Pocket Max	HSA	HRA	Actuarial Value ¹
HDHP	\$2,000	0%	\$2,000	\$768	N/A	88%
Traditional	\$750	20%	\$3,000	N/A	N/A	78%

¹ The actuarial value represents the percentage of allowed medical charges (after network discounts) that are paid by the plan. The complement of the actuarial value is the percentage of allowed medical charges paid by plan members through cost sharing (deductible, coinsurance, copays, etc.). For illustration purposes, the plan benefit actuarial value(s) have been rounded to the nearest 1%. The minimum estimated value in the model is 60%.

Sample Mid-Size City

Impact on Enrollment ³

	----2013 Actual Enrollment ----	-----2014 Projected Enrollment-----						Total
		Covered	Waive	Exchange	Never	<30 Hrs/Wk	Medicaid	
Covered (Not Seasonal)	119	116	0	0	0	0	0	116
Waive	34 ¹	0	29	0	0	5	0	34
Not Eligible	766 ²	7	0	0	0	756	0	763
Covered (Seasonal)	0	0	0	0	0	0	0	0
	919	123	29	0	0	761	0	913

- 1 Some employees currently waiving coverage may join the plan in 2014 due to the individual mandate.
- 2 Employees who are currently not eligible and work more than 30 hours per week may be offered eligibility in the employer sponsored coverage in 2014. Based on user selected inputs, these employees will either join the employer plan, obtain subsidized coverage through the state exchange (if applicable) in 2014 unless eligible for Medicaid in 2014, or not be offered coverage and incur maximum penalties for the employer.
- 3 Assumes that the projected 2014 employer premiums are adjusted by a multiplicative factor of 1.0 relative to the premiums of current in-force medical plans. Employee contributions are assumed to not be impacted by this adjustment.

Impact on Employer Costs ⁴

	Without PPACA ¹	-----With PPACA-----		
		PreTax Cost ¹	TaxAdjustment ³	Tax Adjusted Cost
Covered (Not Seasonal)	\$1,877,000	\$1,825,000	\$26,000	\$1,851,000
Waive	\$0	\$0	\$0	\$0
Not Eligible Pre 2014	\$0	\$110,000	\$2,000	\$112,000
Covered (Seasonal)	\$0	\$0	\$0	\$0
Exchange Penalties ²	N/A	\$0	\$0	\$0
Total	\$1,877,000	\$1,935,000	\$28,000	\$1,963,000
2014 Incremental Cost/(Savings) (\$)				\$86,000
2014 Incremental Cost/(Savings) (%)				4.6%

- 1 Assumes a composite medical trend of 9.5% for the period 2013 to 2014
- 2 Includes penalties of \$3,000 per applicable non-seasonal employee, or prorated for seasonal employees, plus maximum penalties if "Never" >5%.
- 3 Assumes a marginal corporate tax rate of 0% for purposes of determining additional or forfeited tax deductions. The employer will also have an adjusted FICA tax liability and exposure to PCORI and Transitional Reinsurance Assessment fees per covered member (includes covered dependents).
- 4 Assumes that the projected 2014 employer premiums are adjusted by a multiplicative factor of 1.0 relative to the premiums of current in-force medical plans. Employee contributions are assumed to not be impacted by this adjustment.

Sample Mid-Size City

Impact on Employer Costs

	Without PPACA ¹	-----With PPACA-----			
		PreTax Cost	Salary Adjustment ³	TaxAdjustment ⁴	
Covered	\$1,877,000	\$0	\$1,019,000	\$76,000	\$1,095,000
Waive	\$0	\$0	\$0	\$0	\$0
Not Eligible Pre 2014	\$0	\$0	\$0	\$0	\$0
Exchange Penalty ²	N/A	\$256,000	\$0	\$0	\$256,000
Total	\$1,877,000	\$256,000	\$1,019,000	\$76,000	\$1,351,000
2014 Incremental Cost/(Savings) (\$)					\$(526,000)
2014 Incremental Cost/(Savings) (%)					-28.0%

1 Assumes a composite medical trend of 9.5% for the period 2013 to 2014

2 Assumes Spanish Fork City Corporation pays an exchange penalty of \$2,000 for all eligible employees, less the first thirty.

3 Salary adjustments may include a percentage share of the potential employer savings due to plan termination payable to each covered employee, or a flat dollar salary increase benefit to all employees working over 30 hours per week.

4 Assumes a marginal corporate tax rate of 0% for purposes of determining additional or forfeited tax deductions. The employer will also have an adjusted FICA tax liability related to a portion of employee contributions that were previously sheltered from the FICA tax.

Impact on Employee Costs ²

	Without PPACA ¹	-----With PPACA-----			
		PreTax Cost ^{1,3}	Salary Adjustment ⁴	TaxAdjustment ⁵	
Covered	\$13,000	\$971,000	\$(1,019,000)	\$282,000	\$234,000
Waive	\$0	\$0	\$0	\$0	\$0
Not Eligible Pre 2014	\$0	\$0	\$0	\$0	\$0
Total	\$13,000	\$971,000	\$(1,019,000)	\$282,000	\$234,000
2014 Incremental Cost/(Savings) (\$)					\$221,000
2014 Incremental Cost/(Savings) (%)					1700.0%

1 Assumes a composite medical trend of 9.5% for the period 2013 to 2014

2 Assumes that a non-single employee's household income is 150% of the employee's projected 2014 salary.

3 Assumes all employees of who currently elect coverage will purchase insurance on a state insurance exchange unless they are eligible for Medicaid in 2014. Employees are assumed to purchase a "Silver" level plan on the exchange, which has an actuarial value of 70%. The employee costs on the exchange vary by employee depending on their assumed household income.

4 Salary adjustments may include a percentage share of the potential employer savings due to plan termination payable to each covered employee, or a flat dollar salary increase benefit to all employees working over 30 hours per week.

5 Assumes a marginal individual tax rate of 20% The employees are assumed to have an additional FICA tax liability related to the employee contributions that were previously sheltered from the FICA tax.

Sample Mid-Size City

Impact on Enrollment ^{1,2,3}

	----2013 Actual Enrollment ----	-----2014 Projected Enrollment-----						Total
		Covered	Waive	Exchange	Never	<30 Hrs/Wk	Medicaid	
Covered (Not Seasonal)	119	116	0	0	0	0	0	116
Waive	34	0	29	0	0	5	0	34
Not Eligible	766	7	0	0	0	756	0	763
Covered (Seasonal)	0	0	0	0	0	0	0	0
	919	123	29	0	0	761	0	913

1 Assumes that a non-single employee's household income is 150% of the employee's projected 2014 salary.

2 All employees who work less than 30 hours per week are assumed to be ineligible for the employer plan in 2014.

3 Assumes that the projected 2014 employer premiums are adjusted by a multiplicative factor of 1.0 relative to the premiums of current in-force medical plans. Employee contributions are assumed to not be impacted by this adjustment. These adjusted plan designs are further reduced to a 60% actuarial value in this scenario. Employee contributions are then adjusted on a plan relative value basis to a 60% plan.

Impact on Employer Costs ⁵

	Without PPACA ¹	-----With PPACA-----		
		PreTax Cost ^{1,3}	TaxAdjustment ⁴	Tax Adjusted Cost
Covered (Not Seasonal)	\$1,877,000	\$1,250,000	\$26,000	\$1,276,000
Waive	\$0	\$0	\$0	\$0
Not Eligible Pre 2014	\$0	\$76,000	\$2,000	\$78,000
Covered (Seasonal)	\$0	\$0	\$0	\$0
Exchange Penalties ²	N/A	\$0	\$0	\$0
Total	\$1,877,000	\$1,326,000	\$28,000	\$1,354,000

2014 Incremental Cost/(Savings) (\$)	\$(523,000)
2014 Incremental Cost/(Savings) (%)	-27.9%

1 Assumes a composite medical trend of 9.5% for the period 2013 to 2014

2 Includes penalties of \$3,000 per applicable non-seasonal employee, or prorated for seasonal employees, plus maximum penalties if "Never" >5%.

3 The plan cost has been adjusted to reflect a change in plan design to a single plan with an actuarial value of 60%. Employee contributions have been reduced in a manner that holds the employer subsidy percentage constant.

4 Assumes a marginal corporate tax rate of 0% for purposes of determining additional or forfeited tax deductions. The employer will also have an adjusted FICA tax liability and exposure to PCORI and Transitional Reinsurance Assessment fees per covered member (includes covered dependents).

5 Assumes that the projected 2014 employer premiums are adjusted by a multiplicative factor of 1.0 relative to the premiums of current in-force medical plans. Employee contributions are assumed to not be impacted by this adjustment.

Sample Mid-Size City

Medical Trend	Rate
7/13 - 7/14	9.5%
7/14 - 7/15	9.0%
7/15 - 7/16	8.5%
7/16 - 7/17	7.0%
7/17 - 7/18	7.5%
7/18 - 7/19	6.0%
7/19 - 7/20	6.5%
7/20 - 7/21	5.0%
7/21 - 7/22	5.5%
7/22 - 7/23	4.0%
7/23 - 7/24	4.5%
7/24 - 7/25	4.0%
7/25 - 7/26	4.0%
7/26 - 7/27	4.0%
7/27 - 7/28	4.0%

Federal Poverty Level (By Family Size)				
	1	2	3	4
2011	\$10,890	\$14,710	\$18,530	\$22,350
2012	\$11,170	\$15,130	\$19,090	\$23,050
2013	\$11,490	\$15,510	\$19,530	\$23,550
2014	\$11,720	\$15,820	\$19,921	\$24,021

Marginal Tax Rates	
Corporate	0%
Individual	20%
FICA	7.65%
Household Income	
2014 Factor ¹	150%

Assumed Family Size (By Rating Tier)			
	2 Tier	3 Tier	4 Tier
Single	1	1	1
EE Plus Spouse	N/A	2	2
EE Plus Child	N/A	N/A	2
Family	3	4	4

Wage Trend	Rate
7/13 - 7/14	3%
7/14 - 7/15	3%
7/15 - 6/16	3%

¹The household income assumption represents the ratio of household income to a non-single employee's 2014 projected salary.

- Waiving employees who join the employer plan are assumed to enroll in the plan design with the lowest employee contributions. Waiving employees assigned Composite rating tiers follow the same tier mix as employees currently enrolled in the plans. Currently not eligible employees who join the employer plan are assumed to enroll in the respective rating tier using Composite employee contributions, and follow the same tier mix as employees currently enrolled in the plans.
- Currently not eligible employees who work 30+ hours per week are assumed to become eligible in 2014 under PPACA unless input as "Never" to be offered coverage. If more than 5% of employees are Never offered coverage, maximum penalties incur for the employer.
- Inflation (CPI-U) is assumed to be 3% per year.
- Seasonal employees are assumed to work for 100% of the calendar year.
- This actuarial model has been coded to assume that in 2014, a morbidity adjustment of 3% will take place starting in 2014.
- This actuarial model has been coded to assume that in 2014, state Medicaid eligibility ends for employees who earn more than 0% of the federal poverty
- This actuarial model has been coded to assume that in 2014 for the plan termination scenario, *****Example City***** will increase employee salaries 0%/30%/60%/90% of the plan savings associated with employees who earn less than or equal to Medicaid/200% of FPL/400% of FPL/more than 400% of FPL, respectively.
- This actuarial model has been coded to assume that in 2014 for the plan termination scenario, *****Example City***** will increase employee salaries by flat dollar amounts equal to \$0/\$0/\$0/\$0 for employees who earn less than or equal to Medicaid/200% of FPL/400% of FPL/more than 400% of FPL, respectively.

Sample Mid-Size City

Plan Design Parameters	60%	70%	80%	90%
In-Network Deductible (Single/Family)	\$2,000/\$4,000	\$1,500/\$3,000	\$1,000/\$2,000	\$200/\$400
In-Network Coinsurance	30%	20%	10%	10%
In-Network Out-of-Pocket Max (Single/Family)	\$6,150/\$12,300	\$4,000/\$8,000	\$2,000/\$4,000	\$1,000/\$2,000
Out-of-Network Deductible (Single/Family)	\$8,000/\$16,000	\$4,000/\$8,000	\$2,000/\$4,000	\$400/\$800
Out-of-Network Coinsurance	40%	40%	20%	20%
Out-of-Network Out-of-Pocket Max (Single/Family)	\$8,000/\$16,000	\$8,000/\$16,000	\$4,000/\$8,000	\$1,000/\$2,000
In-Network PCP Copay	\$30	\$20	\$15	\$10
In-Network SCP Copay	\$60	\$40	\$30	\$20
In-Network ER Copay	\$150	\$100	\$75	\$75
Rx Copays	\$20/\$40/\$80	\$10/\$30/\$40	\$10/\$20/\$40	\$10/\$20/\$40

¹The plan designs above are intended for illustration purposes only. These plans have not been used in the projections of costs contained elsewhere within this report.