

Affordable Care Act Taxes and Fees: What employers need to know



The Affordable Care Act (ACA) has mandated funding from all health insurers to build a pool of funds for several initiatives. The funds will be used to help stabilize premiums for the newly insured, and develop best practices to improve the quality of medical outcomes. This includes three new taxes and fees that health insurers like Independence Blue Cross must collect to pay for these new initiatives. We developed this flyer to help you and your customers understand how these taxes and fees will impact health plan costs.

What are the taxes and fees?

After basic medical rates have been calculated, health insurers will now add several lines to the rate renewal worksheet to reflect the new taxes and fees listed below:

- Patient-Centered Outcomes Research Trust Fund Fee
- Reinsurance Program Contribution
- Health Insurance Provider Tax/Fee

What do they mean?

Patient-Centered Outcomes Research (PCOR) Trust Fund Fee

This fee funds research to help patients and their health care providers make more informed decisions. The fee started at \$1 in 2011 and then doubled to \$2 in 2012. The \$2 fee was implemented beginning with January 2012 renewals. Effective each policy anniversary ending after October 1, 2012, and continuing through September 30, 2019, health insurers and plan sponsors of self-funded plans (employers) must pay a fee based on the average number of covered lives in their plans.

- **Fee:**
 - For fully-insured groups of 2-50 and 51-99, the applicable charge is incorporated into the renewal premium rates.
 - For fully-insured groups of 100+, the applicable charge is a separate line item labeled "PPACA PCOR Trust Fund."
 - For self-funded customers, the plan sponsor (normally the employer) is responsible for paying the fee.
- **Impact:** For fully-insured customers, the health insurer must collect the fees. For self-funded customers, the plan sponsor is responsible for paying the fees.
- **Timing:** 2012 to 2019.

Reinsurance Program Contribution

The ACA established a state-based transitional reinsurance program to help stabilize premiums for coverage in the individual health insurance market during the first three years of operation of the Exchanges (2014-2016). This is a not-for-profit fund that supports reinsurance payments to non-grandfathered plans of individual market health insurance that covers high cost individuals.

Contributions to the fund will be allocated among health insurers so that the fund will accumulate \$25 billion over a three-year period. Contributions will be a flat per-capita amount that each contributory entity must pay for the average number of covered lives for each enrollee who resides in a particular state. Insurers are required to contribute to each state reinsurance fund in which they have membership. Additional funds will also be collected for deposit into the general funds of the U.S. Treasury.

| Fiscal year | Reinsurance fund | Treasury fund |
|-------------|------------------|---------------|
| 2014 | \$10 billion | \$2 billion |
| 2015 | \$6 billion | \$2 billion |
| 2016 | \$4 billion | \$1 billion |
| Total | \$20 billion | \$5 billion |

The contribution will be set each year by the Department of Health and Human Services, and for 2014 is estimated to be within a range of \$61 to \$105 per year per enrollee.

Experience-rated groups of 51-99 (renewal and new business) will incorporate the applicable charge into the medical rate. In renewal rating models (groups of 100+), the charge will appear as a separate line item labeled "PPACA Reinsurance Program Funding."

The rating models take into account the implementation date of the fee along with the group's rating period. This will be reflected in a separate line item labeled "Pro-rated for Months in 2014" (renewal rating model for 100+ groups). This line includes the prorated amount for both the cumulative Reinsurance Fund Contribution and Health Insurance Provider Tax/Fee.

- **Impact:** Affects all fully-insured and self-funded customers. The health insurer must collect the fees.
- **Timing:** 2014 to 2016

Health Insurance Provider Tax/Fee

The ACA requires entities that provide health insurance to pay an annual non-deductible tax/fee to the Internal Revenue Service according to market share based on premiums written. This tax/fee, shown on the Rate Renewal Worksheet as the Health Insurer Fee (HIF), is intended to fund the provisions of the ACA.

This is an annual tax/fee due in September of each year and increases annually based on the health insurer's percentage of premium growth. Health insurers' contributions will be set so that the fund will accumulate \$58.8 billion over a

Need more information?

For more information on Health Care Reform, visit ibx.com/reform.

You can also use the following links to obtain additional information about PPACA taxes and fees:

PCOR Trust Fund

Federal Register

Legal Information Institute

Health Insurance Provider Tax

NFIB Research Foundation

five-year period. The tax/fee will be based on the insurer's share of the total of the net written premiums of all covered entities. This tax will only apply to insured business. The fee is ongoing beginning in 2014.

| Year | Fee |
|-------|----------------|
| 2014 | \$8.0 billion |
| 2015 | \$11.3 billion |
| 2016 | \$11.3 billion |
| 2017 | \$13.9 billion |
| 2018 | \$14.3 billion |
| Total | \$58.8 billion |

This tax/fee is projected to add an additional cost of 2.3% to medical and prescription drug coverage. However, we have elected to allocate the full tax/fee to the medical coverage only. This means that to remain revenue neutral, the tax/fee charged to the medical coverage increased 2.5%.

For small groups (2-50), the applicable tax/fee will be incorporated into the base medical rate. For groups of 51+, the experience-rated models (renewal and new business) incorporate the applicable charge. In renewal rating models for 100+ groups, the charge will appear as a separate line item labeled "PPACA HIF."

The rating models take into account the implementation date of the tax/fee along with the group's rating period. This will be reflected in a separate line item labeled "Pro-rated for Months in 2014" (renewal rating model for 100+ groups). This line includes the prorated amount for both the cumulative Reinsurance Fund Contribution and Health Insurance Provider Tax/Fee.

- **Impact:** For fully-insured customers, the health insurer must collect the fees. For self-funded customers, the plan sponsor is responsible for paying the fees themselves, or through their TPA, on behalf of the plan.
- **Timing:** Ongoing beginning in 2014

How it works

The following page shows an example of a Medical Rate Renewal Worksheet for a fully-insured group. Review the highlighted area to see where the charges appear, and how they affect the renewal rate.

Medical Rate Renewal Worksheet

Consolidated Medical Rate Renewal Worksheet ABC COMPANY

| | | | | | |
|--------------------------|----------|------------|---|-------------------|--------------------------|
| | | | | Method of Rating: | Prospective |
| Claims Experience Period | Incurred | 08/01/2011 | - | 07/31/2012 | Contract Months: 101,625 |
| | Paid | 08/01/2011 | - | 08/31/2012 | Member Months: 241,490 |
| Renewal Period: | | 07/01/2013 | - | 06/30/2014 | |

| | | | | |
|------|---|---|---------------|---|
| 1) | Allowable charges | | \$270,257,082 | |
| 2) | - Discount savings | | \$182,778,916 | |
| 3) | - Subscriber responsibility | | \$5,332,865 | |
| 4) | = Net payment | | \$82,145,301 | |
| 5) | - Stop loss claims | | \$3,253,099 | |
| 6) | + Incurred but not reported claims | | \$2,562,533 | |
| 7) | + Capitation \ Network Operating Expense | | \$2,537,947 | |
| 8) | = Incurred claims & Capitation \ Network Operating Expense | | \$83,992,681 | |
| 9) | Incurred claims & Capitation \ Network Operating Expense (PMPM) | | \$347.81 | |
| 10) | Incurred claims adjusted for credibility (PMPM) | | \$347.81 | |
| 11) | x Demographic adjustment factor | | 1.004 | |
| 12) | + Benefit adjustment (PMPM) | | \$0.02 | |
| 13) | + Adjustment for mandated benefits (PMPM) | | \$0.00 | |
| 14) | = Claims adjusted to current benefit and demographic level (PMPM) | | \$349.22 | |
| 15) | Annual trend | | 9.79% | |
| 16) | Number of months midpoint to midpoint | | 23 | |
| 17) | = Projected incurred claims (PMPM) | | \$417.65 | |
| 18) | + Charge for stop loss claim provision (PMPM) | | \$22.44 | |
| 19) | = Projected incurred claims and stop loss (PMPM) | | \$440.09 | |
| 20) | Target medical cost ratio | | 95.54% | |
| 21a) | PPACA PCOR Trust Fund (PMPM) | | \$0.17 | 1 |
| 21b) | PPACA Reinsurance Program Funding (PMPM) | 2 | \$5.71 | |
| 21c) | PPACA HIF | | 2.5% | 3 |
| 21d) | x Pro-rated for Months in 2014 | | 6 | |
| 21e) | Impact of PPACA Taxes | | \$8.99 | |
| 21) | + PPACA Taxes + Premium tax (PMPM) | | \$16.23 | |
| 22) | + Broker Commission (PMPM) | | \$0.00 | |
| 23) | = Required premium (PMPM) | | \$477.60 | |
| 24) | + Charge for retrospective refund provision (PMPM) | | \$0.00 | |
| 25) | = Adjusted required premium (PMPM) | | \$477.60 | |
| 26) | Premium at current benefit level (PMPM) | | \$438.59 | |
| 27) | Renewal action | | 8.89% | |

Key to PPACA Taxes and Fees

1. Patient-Centered Outcomes Research (PCOR) Trust Fund Fee
2. Reinsurance Program Contribution
3. Health Insurance Provider Tax/Fee

