The Affordable Care Act (ACA) imposes a range of new fees and taxes on health insurance issuers (e.g., Coventry health plans) and sponsors of group health plans (e.g., employers). These fees and taxes are meant to offset some of the costs incurred by the federal government.

A few key points:
- Some of these new fees and taxes will be paid directly by health insurance issuers, while others will be paid directly by the sponsors of self-funded health plans.
- Some fees and taxes begin in 2013 and 2014, while others are imposed in later years.
- Some are temporary, and others are permanent.

The bottom line is that, in total, these new fees and taxes will impact premiums for all individuals covered under fully insured or self-funded plans and policies. Coventry Health Care is dedicated to offering our customers affordable, quality health coverage. In keeping with this, we are implementing strategies to minimize the impact of ACA fees and taxes.

This flyer gives an overview of six of the fees and taxes imposed under the ACA:
1. Patient-Centered Outcomes Research Institute (Comparative Effectiveness) Fee
2. Annual Health Insurance Industry Fee
3. Transitional Reinsurance Program Assessment Fee
4. Risk Adjustment Program and Fee
5. Marketplace (i.e., Exchange) User Fees
6. Cadillac Excise Tax (tax for high-cost plans)

Please note: This guide provides a general overview of ACA fees/taxes. You should not consider this information to be legal or compliance advice. Furthermore, the information contained in this document is subject to change. Please consult legal counsel for complete information and guidance concerning these fees/taxes.

1. Patient-Centered Outcomes Research Institute (Comparative Effectiveness) Fee

What is the purpose of this fee? Issuers of individual and group health insurance policies (e.g., Coventry health plans) and health plan sponsors (e.g., self-funded groups) will be required to pay a new fee to help fund the Patient-Centered Outcomes Research Institute (PCORI). The PCORI was authorized by the U.S. Congress to provide evidence-based research that is intended to help people make informed health care decisions.

How much will the fee cost?

<table>
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<tr>
<th>Policy or plan years ending…</th>
<th>Fee amount</th>
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<tr>
<td>after September 30, 2012, through September 30, 2013</td>
<td>$1 per covered life ($0.08 per member per month [PMPM])</td>
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<tr>
<td>October 1, 2013, through September 30, 2014</td>
<td>$2 per covered life ($0.17 PMPM)</td>
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<tr>
<td>after September 30, 2014, through September 30, 2019</td>
<td>For each subsequent year, the fee will be equal to the sum of the fee in the prior year plus an adjustment by the Secretary of Treasury based on medical inflation.</td>
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<tr>
<td>after September 30, 2019</td>
<td>$0 (Fee will be phased out.)</td>
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Who is responsible for paying this fee?
- Fully insured plans — Coventry health plans pay the fee. This fee applies to both grandfathered and non-grandfathered plans.
- Self-funded plans — The employer pays the fee. It applies to both grandfathered and non-grandfathered plans. The Internal Revenue Service (IRS) does not intend to develop a process to allow third parties to file and pay this fee on behalf of self-funded employer groups.

When will this fee go into effect, and when will it end? Health insurance issuers and self-funded groups must file an excise tax return form 720 by July 31 of the year after the plan/policy year ends. For example, if the last day of a plan/policy year was October 30, 2012, then form 720 must be filed by July 31, 2013. The fee ends for plan/policy years beginning on or after October 1, 2019.
2. Annual Health Insurance Industry Fee

What is the purpose of this fee? Health insurance issuers (e.g., Coventry health plans) will be assessed an annual fee to fund some of the provisions of the ACA. For instance, this fee will help fund premium subsidies or cost-sharing reductions for some individuals who purchase health insurance on the exchanges.

How much does this fee cost? The total amount collected from the fee will be $8 billion in 2014 and will increase to $14.3 billion in 2018. After 2018, the amount will be determined by the annual rate of premium growth. The fee will be divided proportionately between all health insurance issuers, although for-profit insurers will pay twice the amount as not-for-profit insurers. This fee is not applicable to self-funded health plans.

Based on estimates from Oliver Wyman, a national consulting group, the fee could increase premiums by 2-2.5 percent in 2014 and by 3-4 percent in later years.

Who is responsible for paying this fee? Health insurance issuers will be responsible for paying this fee. The fee applies to Coventry health plans’ fully insured, Medicare, Medicaid and dental business. It also applies to both grandfathered and non-grandfathered fully insured plans.

When will this fee go into effect, and when will it end? This fee will begin to be assessed in January 2014 and is permanent.

3. Transitional Reinsurance Program Assessment Fee

What is the purpose of this fee? The ACA establishes a transitional reinsurance program to help stabilize premiums for coverage in the individual market during calendar years 2014 through 2016. The statute requires all health insurance issuers and third-party administrators on behalf of self-insured group health plans to pay into the program to fund payments to individual market issuers covering high-cost individuals. Each state may establish its own reinsurance program or require supplemental reinsurance contributions. If a state does not establish its own program, the U.S. Department of Health and Human Services (HHS) will operate the reinsurance program for the state.

How much will this fee cost? The program will be funded over a three-year period through a transitional reinsurance assessment on health plan sponsors ($20 billion) and contributions from the U.S. Treasury ($5 billion).

HHS proposes that the annual assessment will cost $63 per individual enrolled under a plan/policy in 2014. There will also be a small administrative fee. HHS will require plan administrators to submit enrollment counts by November 15, 2014. The agency will send out assessment bills by December 15, 2014. Payments will be due 30 days later.

Who is responsible for paying this fee? Health insurance issuers (e.g., Coventry health plans) will be responsible for paying this fee. This fee applies to both grandfathered and non-grandfathered plans.

When will this fee go into effect, and when will it end? Quarterly collections will begin in January 2015 when the initial payments are due. This fee will be phased out after calendar year 2016.
4. Risk Adjustment Program and Fee

**What is the purpose of this fee?** This fee is intended to cover the administration of the risk adjustment program. The primary goal of the program is to spread the financial risk borne by health insurance issuers in the individual and small-group markets more evenly. In turn, HHS anticipates the program will stabilize premiums and provide issuers the ability to offer a variety of plans to meet the needs of a diverse population. More specifically, the risk adjustment program is intended to reduce or eliminate premium differences between plans based solely on the following:

1. Expectations of favorable (i.e., healthier individuals) or unfavorable (i.e., less healthy individuals) risk selection
2. Choices by higher-risk enrollees in the individual and small-group market

The risk adjustment program may also serve to level the playing field inside and outside the exchanges and could reduce excessive premium growth or instability in markets.

**How much does this fee cost?** Under the risk adjustment program, payments will be transferred from issuers with relatively lower-risk populations to issuers with relatively higher-risk populations. Coventry estimates that the risk adjustment fee will cost about $0.08 PMPM.

**Who is responsible for paying this fee?** Fully insured plans that participate in the individual and small-group markets in a given state will pay the fee. The fee does not apply to large-group plans or self-funded plans. It also does not apply to any grandfathered plans.

**When will this fee go into effect, and when will it end?** This fee will go into effect in 2014 and is permanent.

5. The Health Insurance Marketplace (i.e., Exchange) User Fees

**What is the purpose of these fees?** The ACA requires health insurance marketplaces (i.e., exchanges) to be financially self-sustaining by 2015 and contemplates the imposition of user fees on health insurance issuers (and potentially others in the health care sector who may benefit from or use the marketplaces).

**How much will these fees cost?** In proposed federal rules released in late 2012, HHS proposed a monthly user fee equal to 3.5 percent of the monthly premium for each policy in federally facilitated marketplaces. Coventry estimates the marketplace user fees in state marketplaces will be similar.

**Who is responsible for paying these fees?** Health insurance issuers who offer qualified health plans in the marketplaces will largely be responsible for paying this fee. They will likely allocate the cost of this fee to premiums on the individual and small-group plans offered through marketplaces. This fee does not apply to any grandfathered plans.

**When will these fees go into effect?** Marketplace fees will take effect for the 2014 benefit year and will likely be a permanent feature of marketplaces.
6. Cadillac Excise Tax (tax for high-cost plans)

What is the purpose of this tax? The ACA requires health insurance issuers (e.g., Coventry health plans) and self-funded plans to pay a 40 percent tax on annual premiums that exceed defined thresholds for single and family coverage. The tax will generate revenue to finance health reform. Many observers believe the Cadillac tax will provide an incentive to health plans to control the cost of health insurance or for individuals and employers to purchase less expensive plans.

How much does this tax cost? In 2018, the thresholds are $10,200 for single coverage and $27,500 for family coverage. In the case of retirees over age 55 and individuals employed in high-risk professions, these thresholds are increased to $11,850 and $30,950 for individuals and families, respectively. If a plan’s annual premiums for single coverage exceed $10,200, the dollar amount over that threshold will be taxed at a 40 percent rate. For example, if an individual plan’s annual premiums in 2018 are $12,200 — or $2,000 over the $10,200 threshold — the Cadillac tax would equal 40 percent of $2,000, or $800.

The thresholds may increase depending on actual medical inflation between 2010 and 2018 using a measure that is linked to the Federal Employees Health Benefits (FEHB) Program.

Who is responsible for paying this tax? The health insurance issuer will be responsible for paying this fee if the plan is fully insured, and self-funded plans will be responsible for paying it themselves. This fee will apply to both grandfathered and non-grandfathered plans.

When will this tax go into effect, and when will it end? This tax will begin in January 2018 and is permanent.

For more details and guidance, consult with your legal counsel and/or tax advisor. Please visit www.cvty.com for more information on health care reform.