

# Fees and Taxes in Healthcare Reform

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**MEDICAL MUTUAL®**

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# Legal Disclaimer

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# Healthcare Reform Taxes and Fees

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The following taxes and fees were enacted by the ACA and assessed on the Company and its policyholders

- **Market Share Fee (Annual Fee on Health Insurance Providers)**
- **Transitional Reinsurance Program Fee**
- **Federally-facilitated Exchange User Fee**
- **Patient-Centered Outcomes Research Institute (PCORI) Fee**
- **Risk Adjustment User Fee**

These taxes and fees will be collected from the applicable policyholders by the Company. They will be separately disclosed on their invoices for transparency.

# Market Share Fee

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- The market share fee, referred to as the annual fee on health insurance providers in ACA regulations, is based on each carrier's market share of net annual health insurance premiums collected
- The permanent fee is effective beginning in 2014
- The fee will fund premium tax subsidies for low-income individuals and families purchasing insurance through the public exchanges
- The total amounts to be collected are \$8 billion in 2014, \$11.3 billion in both 2015 and 2016, \$13.9 billion in 2017 and \$14.3 billion in 2018.
  - After 2018, the fee will increase in proportion to overall premium growth
- The fee is not deductible for federal income taxes

# Transitional Reinsurance Program Fee

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- The ACA requires creation of a transitional reinsurance program designed to partially subsidize individual insurance carriers covering high-cost individuals
- The purpose of this program is to stabilize the individual market
- The program is effective in 2014, 2015 and 2016
- A fee will be assessed from 2014 through 2016 on a per member basis for both fully insured and self-funded plan members to fund the reinsurance program
  - The fee will be \$5.25 per member per month (\$63 per member annually) in 2014 but is anticipated to decrease for 2015 and 2016

# Federally-facilitated Exchange User Fee

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- The ACA provided for the government to assess a user fee on health insurance issuers to generate funding to support the administration of the federally-facilitated exchanges (FFE)
- Health insurance issuers will be assessed 3.5% of premium on all business written on an FFE (both individual and small group exchanges)
- The fee is effective in 2014

# PCORI Fee

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- The Patient-Centered Outcomes Research Institute (PCORI) fee was established by the ACA to fund research to identify the most effective treatments for diseases, disorders, health conditions
- Health insurers and plan sponsors must pay the PCORI fee annually based on the average number of covered lives in their plan(s)
- The fee was effective for groups whose plans years ended after September 23, 2012 and continues until September 23, 2019
- The amount of the fee is \$1 per member per year annually for fiscal year 2013, \$2 per member per year for fiscal year 2014 and thereafter increased for inflation through 2019
- Plan sponsors of self-insured business are responsible for filing the remitting payment for the fee on their own, independent of their third party administrator

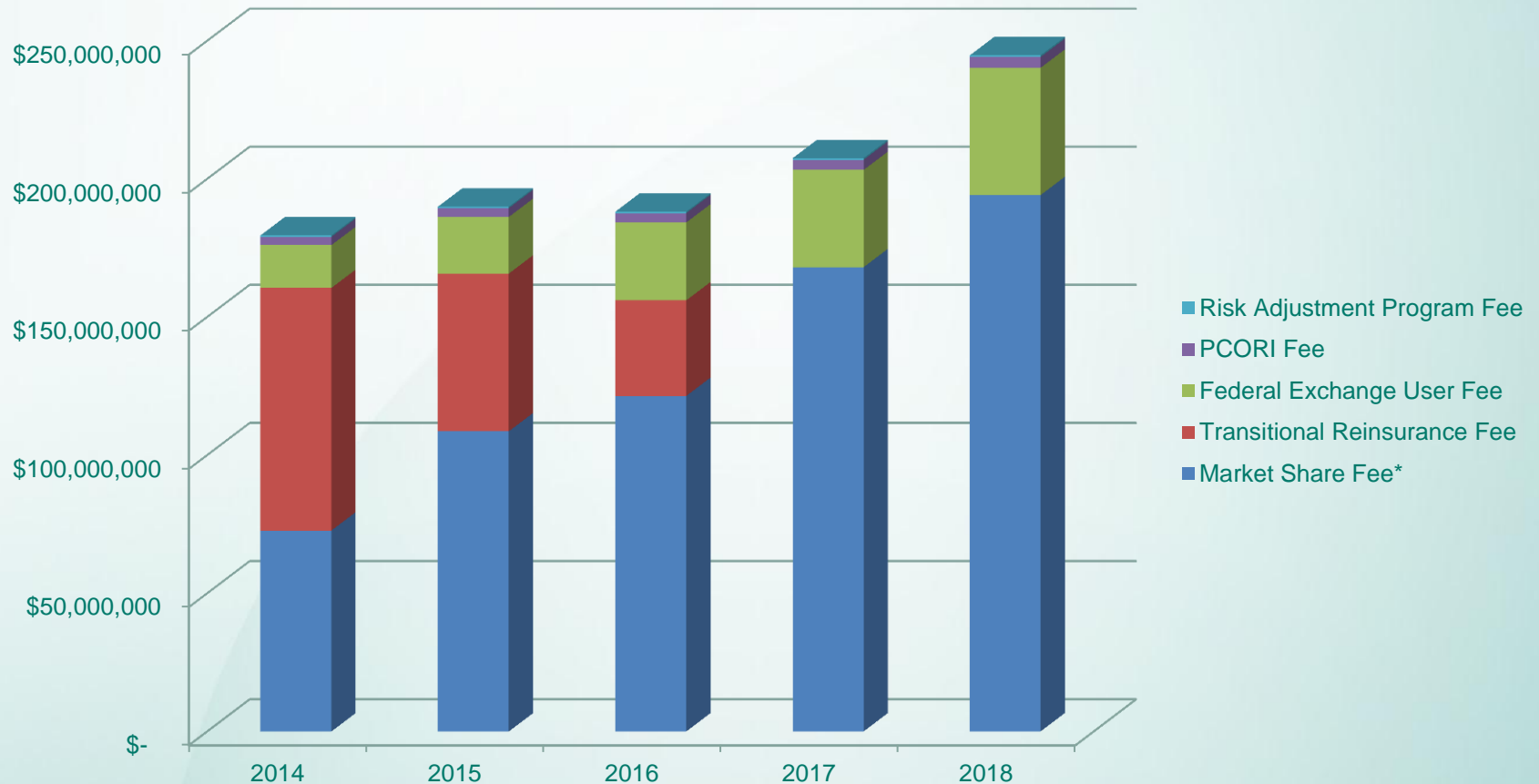
# Risk Adjustment User Fee

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- Health insurers will be assessed an annual risk adjustment user fee on all individual and small group policies that are compliant with the new ACA underwriting restrictions
- The fee is to fund the government's cost to administer the Risk Adjustment Program
- The fee is anticipated to be \$1 per member per year
- The fee is effective in 2014

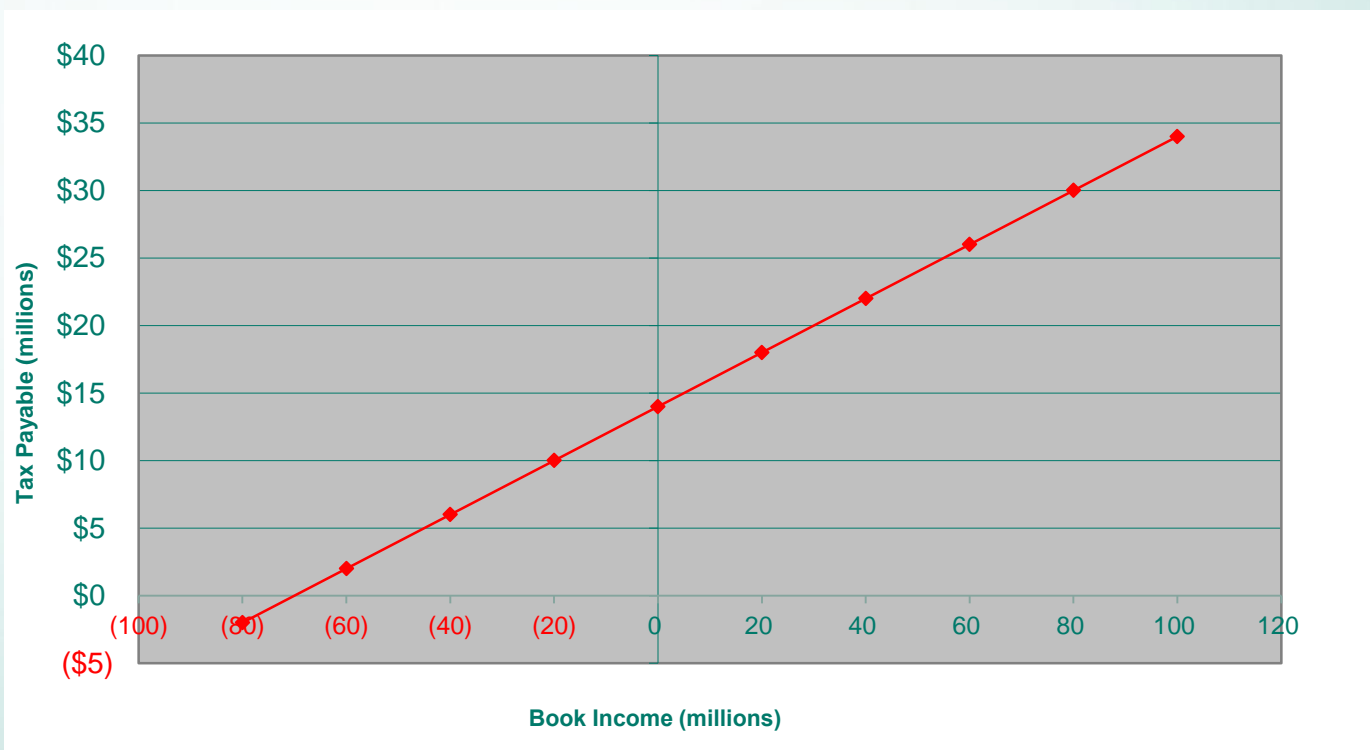


# Estimated Federal Taxes and Fees for Medical Mutual



\*Amount reflects fee to be collected inclusive of the gross-up for federal income taxes

# Federal Income Tax Payable Illustration (assuming a \$70 million market share fee)



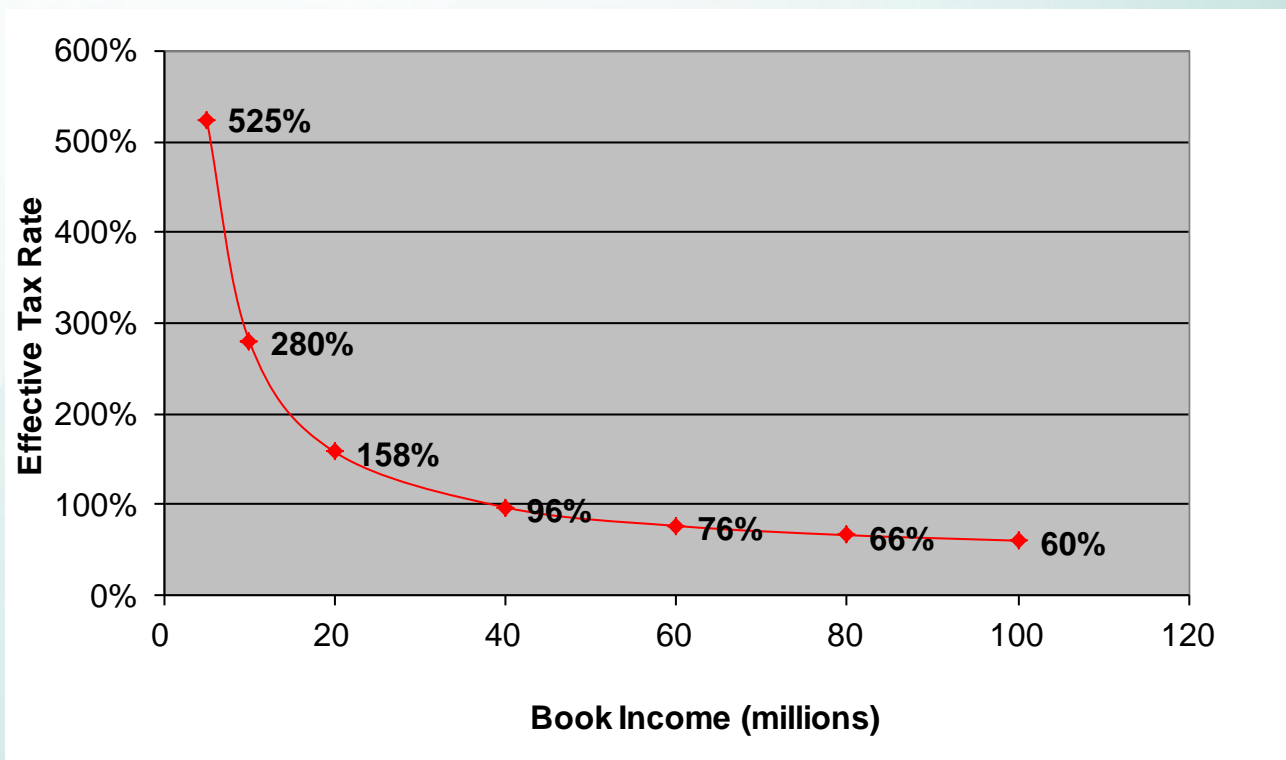
Book Income	(80)	(60)	(40)	(20)	0	20	40	60	80	100
Tax Payable	(2)	2	6	10	14	18	22	26	30	34

# Effective Income Tax Rate Illustration

## (assuming a \$70 million market share fee)

### Example

Book Income	5,000,000
Non-ded Exp.	<u>70,000,000</u>
Taxable Inc.	75,000,000
Tax Rate	<u>35%</u>
Tax	<u>26,250,000</u>
Book Income	5,000,000
Eff. Tax Rate	<b>525%</b>



Book Income	5	10	20	40	60	80	100
Effective Tax Rate	525%	280%	158%	96%	76%	66%	60%