

NATIONAL HEALTH REFORM ANALYSIS OF PROPOSED SENATE EXCISE TAX

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Effect of an Excise Tax on Multiemployer Health Plans:

What we surveyed:

- Using current COBRA rates from a representative sample of Multiemployer Health Plans and expected private sector cost trends, we derived annual plan costs to determine the potential impact of the proposed Senate excise tax on group health plans.
- All plans in the survey had member copays for outpatient treatment, prescription drugs, emergency room visits and ancillary services. Some plans also include annual plan deductibles and member coinsurance for inpatient admissions.
- The sample was based on 38 large fully credible* plans with at least 1,000 covered lives per plan.
- Groups represented various industry groups and regions throughout the country.
- A multiemployer plan:
 - is a health and welfare plan whereby more than one employer is required to contribute funding
 - is maintained pursuant to one or more collective bargaining agreements between one or more labor organization and more than one employer
 - must have employer's contributions in a Trust
 - has joint administration, equal number of employer and employee representatives
 - must use Funds solely for the benefit of the participant

*Fully credible plans are those whose rates are derived using 100% of actual claims experience of the covered members of the plan.

Effect of an Excise Tax on Multiemployer Health Plans: Key Findings

Percentage of plans that exceed threshold:

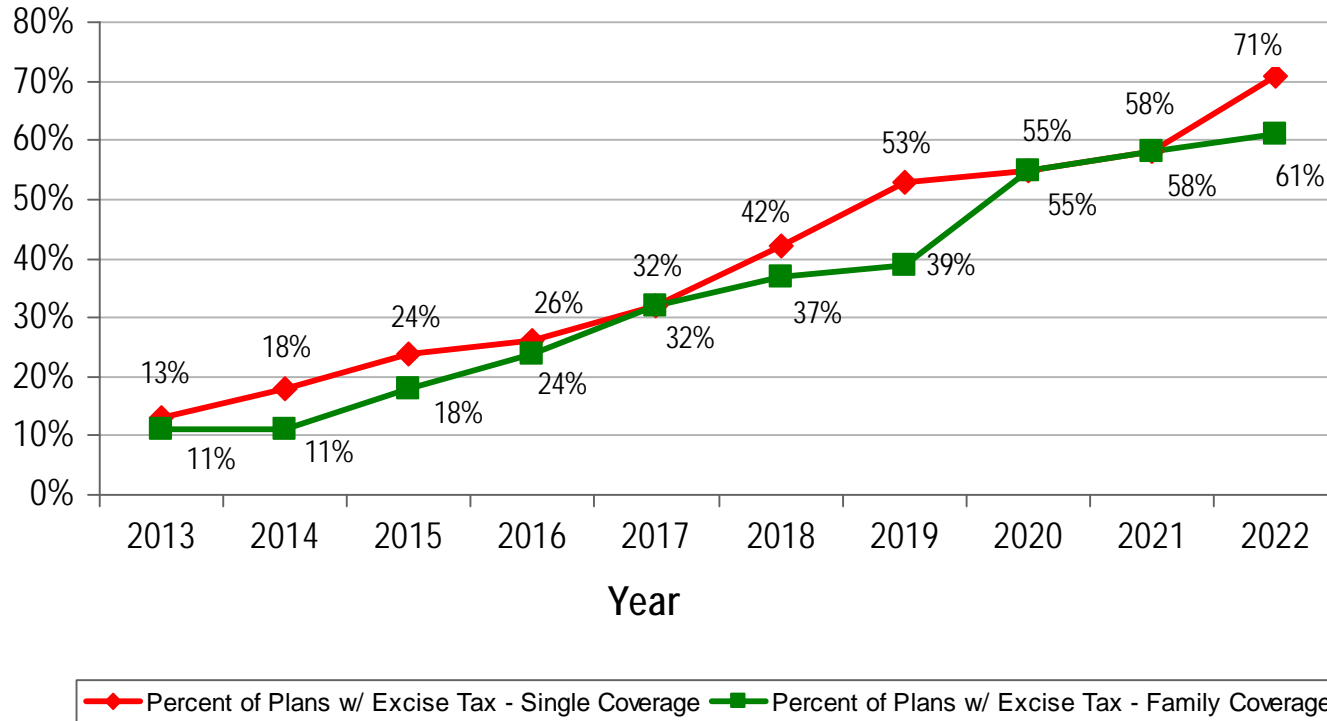
- In 2013, the first year of the assumed effective date of the tax, approximately 13% of plans would exceed the cost threshold and incur an excise tax for single coverage, and 11% of plans would exceed the threshold for family coverage.
- Unless the annual adjustment to the threshold is linked directly to private plan cost trend rates, the tax would reach a majority of plan sponsors overtime. For example, by 2022, more than 60% of all Multiemployer Health Plans are projected to have plan costs that exceed the threshold and have tax liabilities.
- For single coverage, the average amount of excess premium subject to a tax in 2013 would be \$1,604 and would grow to \$3,383 by 2022.
- For family coverage, the average amount of excess premium subject to a tax in 2013 would be \$3,600 and would grow to \$9,043 by 2022.
- There would be significant regional variation, with plans in the Northeast being the hardest hit. Individual plan costs vary dramatically by region and industry (e.g., no plans in the South region had cost that exceeded the proposed tax thresholds). By 2022 the percent of plans with excise tax by region was: 89% Northeast, 75% West, 50% Midwest, 0% South).

Impact on plan participants:

- The amount of cost shifting to plan participants (composite of single and family coverage) required to avoid the tax, for those plans projected to hit the tax threshold, would be approximately 5% (or \$2,802) of projected annual wages (\$56,410) in 2013, rising to 10% (or \$6,779) by 2022.
- Based on the proposed 40% excise tax, the average tax per participant for plans exceeding the threshold would be \$642 for single coverage and \$1,440 for family coverage in 2013. In 2022, these levels would be \$1,353/single and \$3,617/family.

Effect of Excise Tax on Multiemployer Health Plans: Plans Subject to Excise Tax

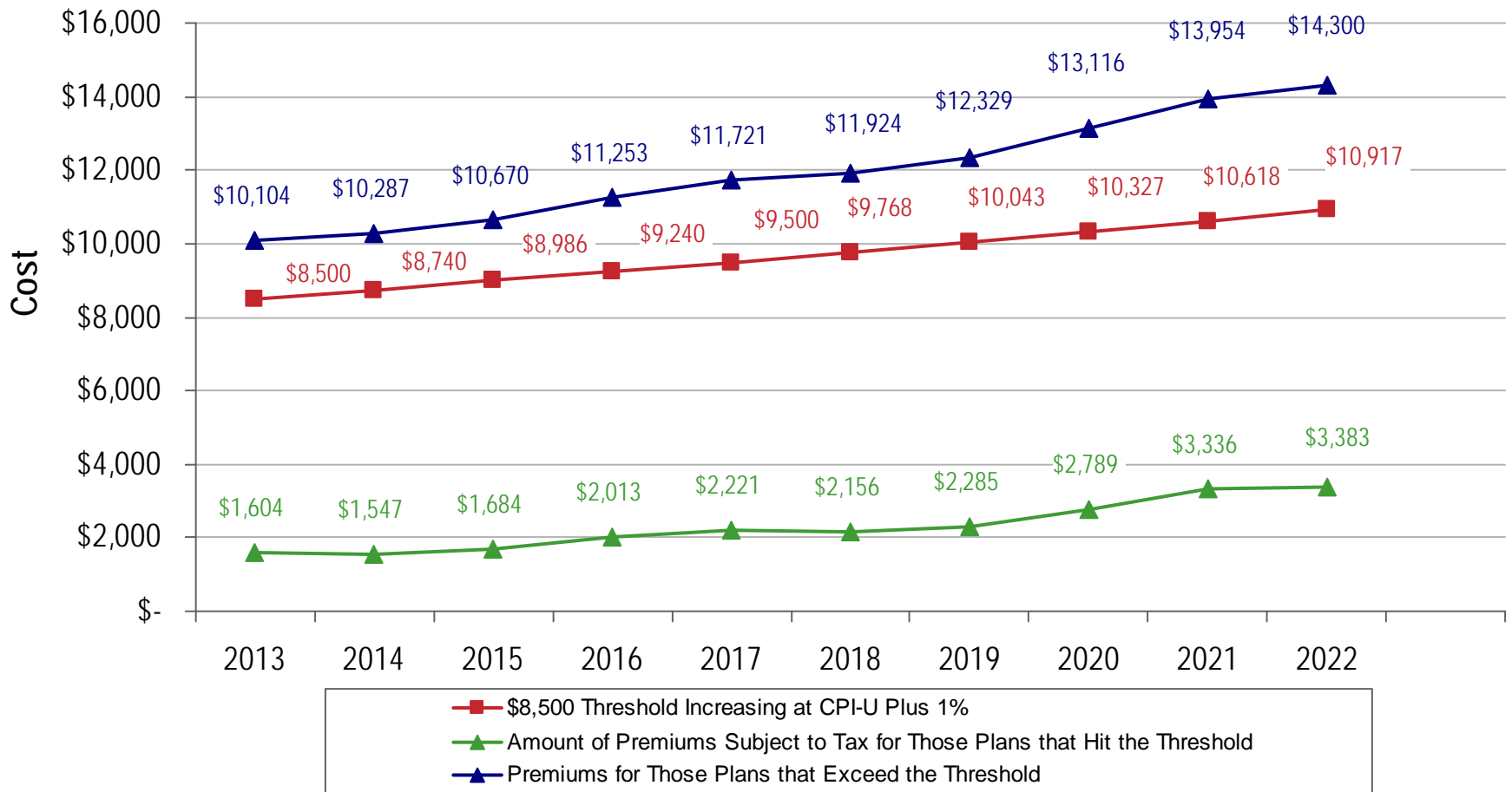
PERCENT OF PLANS W/EXCISE TAX



- 13 percent of multiemployer plans exceed the threshold that would trigger an excise tax in 2013 for single coverage. By 2022, 71 percent of those plans would be subject to an excise tax.
- 11 percent of multiemployer plans exceed the threshold that would trigger an excise tax in 2013 for family coverage. By 2022, 61 percent of those plans would be subject to an excise tax.

Effect of Excise Tax on Multiemployer Health Plans: Average of Single COBRA Active Rates

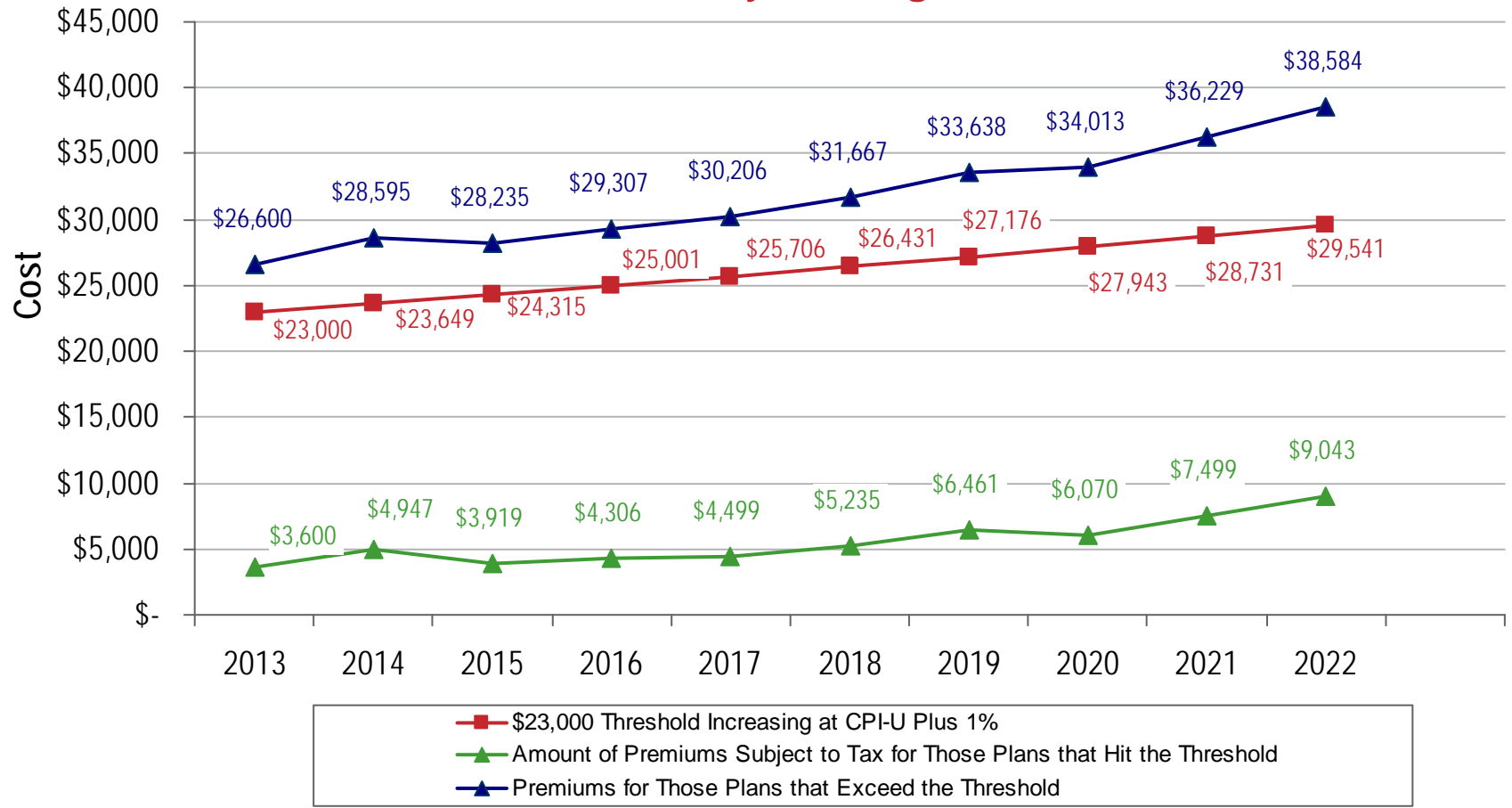
MULTIEMPLOYER HEALTH PLANS THAT EXCEED EXCISE TAX Single Coverage



NOTE: Based on Segal's growth in health care cost assumption of 7.5% and 2.8% annual increase in tax threshold (10 year average of CPI-U + 1%)

Effect of Excise Tax on Multiemployer Health Plans: Average of Family COBRA Active Rates

MULTIEMPLOYER HEALTH PLANS THAT EXCEED EXCISE TAX Family Coverage



NOTE: Based on Segal's growth in health care cost assumption of 7.5% and 2.8% annual increase in tax threshold (10 year average of CPI-U + 1%)

Percent of Plans w/ Excise Tax by Region – Single Coverage

MULTIEMPLOYER HEALTH PLANS Percent of Plans w/Excise Tax by Region – Single Coverage

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
NE	Plan Premium Equivalent	\$9,985	\$10,105	\$10,650	\$11,449	\$11,993	\$12,076	\$12,589	\$13,307	\$14,305	\$14,855
	% of Plans w/ Excise Tax	22%	33%	39%	39%	44%	61%	72%	78%	78%	89%
West	Plan Premium Equivalent	N/A	N/A	N/A	N/A	\$9,891	\$10,264	\$10,727	\$11,532	\$12,021	\$12,354
	% of Plans w/ Excise Tax	0%	0%	0%	0%	13%	25%	38%	38%	50%	75%
South	Plan Premium Equivalent	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	% of Plans w/ Excise Tax	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
MW	Plan Premium Equivalent	N/A	N/A	\$9,249	\$9,942	\$10,688	\$11,490	\$11,424	\$12,281	\$13,202	\$13,281
	% of Plans w/ Excise Tax	0%	0%	17%	17%	17%	17%	33%	33%	33%	50%

NOTE: Regional results are not statistically credible due to limited sample size of the regional breakdowns.

Percent of Plans w/ Excise Tax by Region – Family Coverage

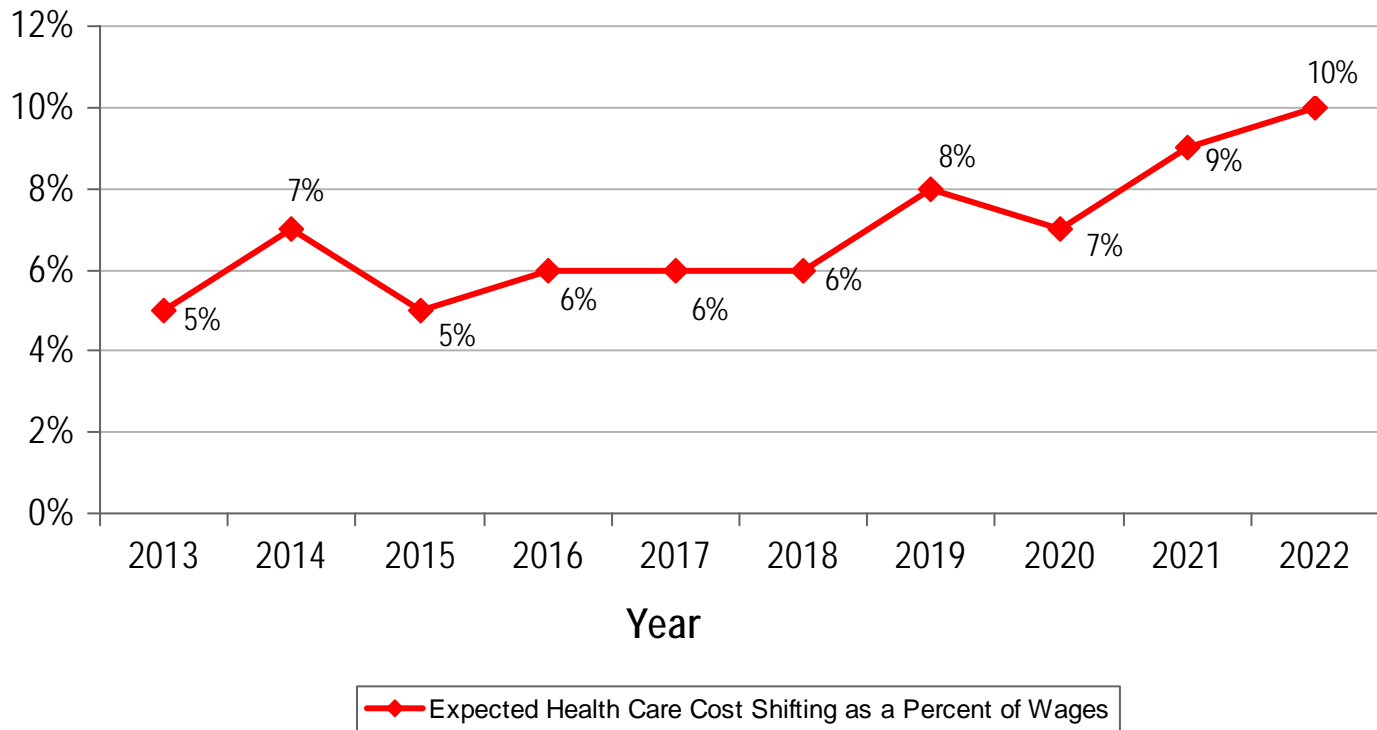
MULTIEMPLOYER HEALTH PLANS Percent of Plans w/Excise Tax by Region – Family Coverage

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
NE	Plan Premium Equivalent	\$26,600	\$28,595	\$28,235	\$30,352	\$31,836	\$33,435	\$35,147	\$35,170	\$37,807	\$39,974
	% of Plans w/ Excise Tax	22%	22%	39%	39%	44%	50%	56%	78%	78%	83%
West	Plan Premium Equivalent	N/A	N/A	N/A	\$25,684	\$27,123	\$29,157	\$31,344	\$31,875	\$33,002	\$35,477
	% of Plans w/ Excise Tax	0%	0%	0%	13%	25%	25%	25%	38%	50%	50%
South	Plan Premium Equivalent	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	% of Plans w/ Excise Tax	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
MW	Plan Premium Equivalent	N/A	N/A	N/A	\$25,618	\$27,539	\$29,605	\$31,825	\$31,644	\$34,017	\$36,568
	% of Plans w/ Excise Tax	0%	0%	0%	17%	17%	17%	17%	33%	33%	33%

NOTE: Regional results are not statistically credible due to limited sample size of the regional breakdowns.

Expected Health Care Cost Shifting as a Percent of Wages

MULTIEMPLOYER HEALTH FUND SAMPLE Expected Health Care Cost Shifting as Percent of Wages



NOTE: Salary based on 2008 BLS National Compensation Survey of average wages for hourly union workers. Assumed annual wage increase of 3%.

Effect of Excise Tax on Multiemployer Health Plans:

Notes and Assumptions

- 2013 Tax threshold is based on a \$8,500 threshold for single coverage and \$23,000 for family coverage.
- 2013 – 2022 tax thresholds are adjusted by a 10-year average of CPI-U plus 1% indexing (i.e., 2.8% annually, source CBO).
- To project COBRA rates for the sample, we utilized an annual trend rate of 7.5%, based on the low end of the range of The Segal Company estimate for private plan annual cost increases.
- Multiemployer plans have multiple family tier structures. Family COBRA rates reflect “family” rates only (i.e., we did not convert 3-tiered, 4-tiered, etc, to a 2-tiered rating structure).
- COBRA premiums include medical, as well as prescription drugs, dental and vision, where applicable.
- Projections do not account for increase in cost due to new government mandates (e.g., removal of pre-existing condition exclusions, plan limits and increased cost shifting to private sector plans as a result of reduction in reimbursement to providers by CMS).
- Projections do not factor in higher premium targets for high risk professions and temporary regional cost adjustments.
- Salary based on the Bureau of Labor Statistics (BLS) 2008 median weekly earnings for union members who are full time wage and salary workers (published in the January 28, 2009 *Economic News Release*). Assumed annual wage increase of 3%.

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