



EXCISE TAX ON MULTIEMPLOYER PLANS TO FUND HEALTH CARE REFORM

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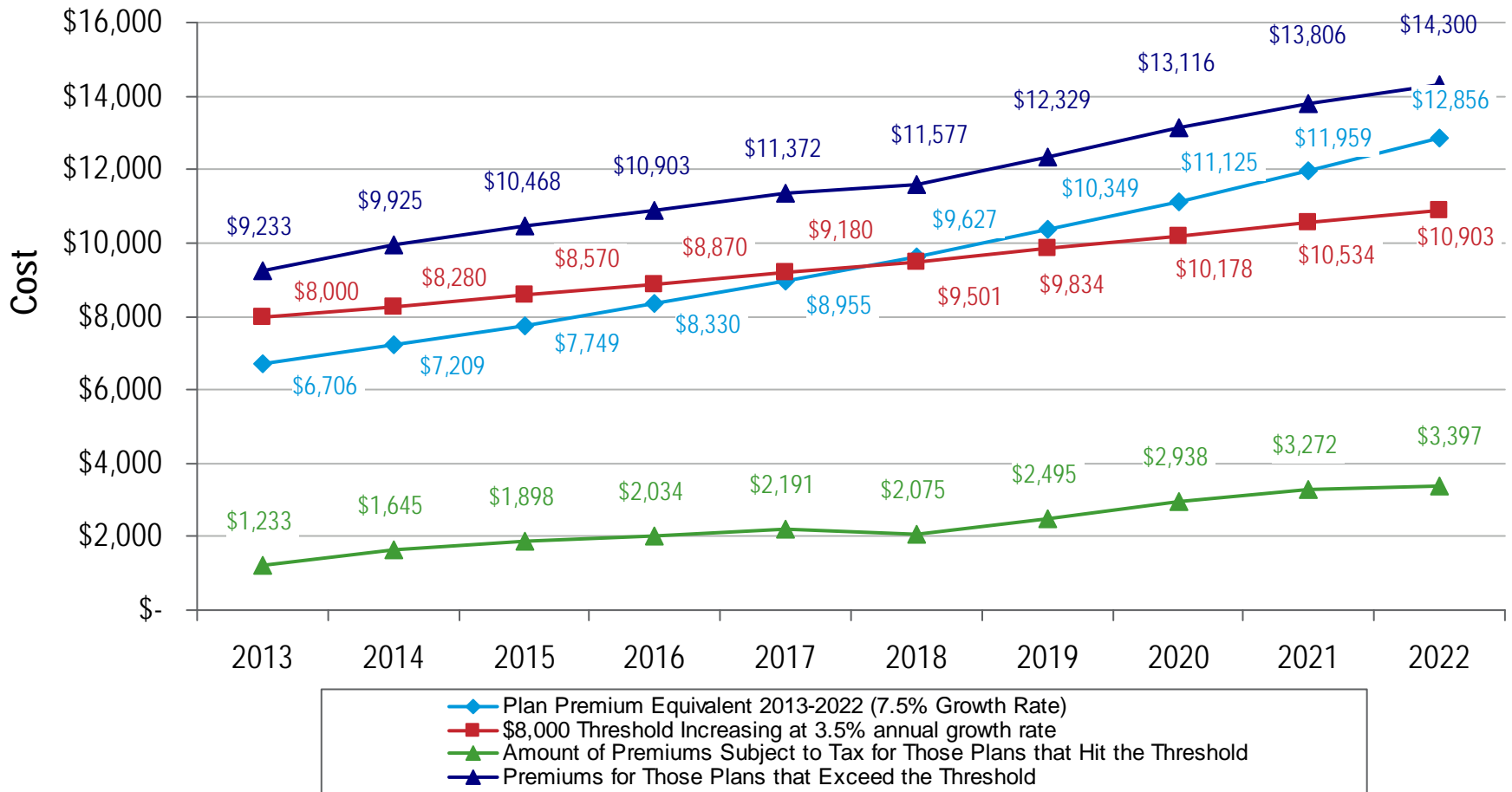


Studying the Effect of an Excise Tax on Multiemployer Health Plans: Key Findings

1. We conducted a study of a sample of Multiemployer Health Funds cost using current COBRA rates to determine the potential taxable events on these sample plans .
2. In 2013, the first year of the assumed effective date of the tax, approximately 24% of plans would exceed the cost threshold and incur a excise tax for single coverage. 18% of plans exceed the threshold that would trigger an excise tax in 2013 for family coverage.
3. 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 two thirds of all Multiemployer Health Funds are projected to have plan costs that exceed the threshold and have tax liabilities.
4. For family coverage, the average amount of excess premium subject to a tax in 2013 would be \$3,432 and would grow to \$9,185 by 2022.
5. 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 south in our sample exceeded the 2013 proposed threshold)
6. The single coverage cost threshold of \$8,000 in 2013 provides approximately 16% buffer or margin over the average of all single coverage COBRA costs of our sample.
7. All plans in the survey had member copays for outpatient treatment copays, prescription drugs, emergency room visits and ancillary services. Some plans also include annual plan deductibles and member coinsurance for inpatient admissions.
8. Based on the proposed 40% excise tax, the average tax for plans exceeding the threshold would be \$493 for single coverage and \$1,373 for family coverage in 2013.

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

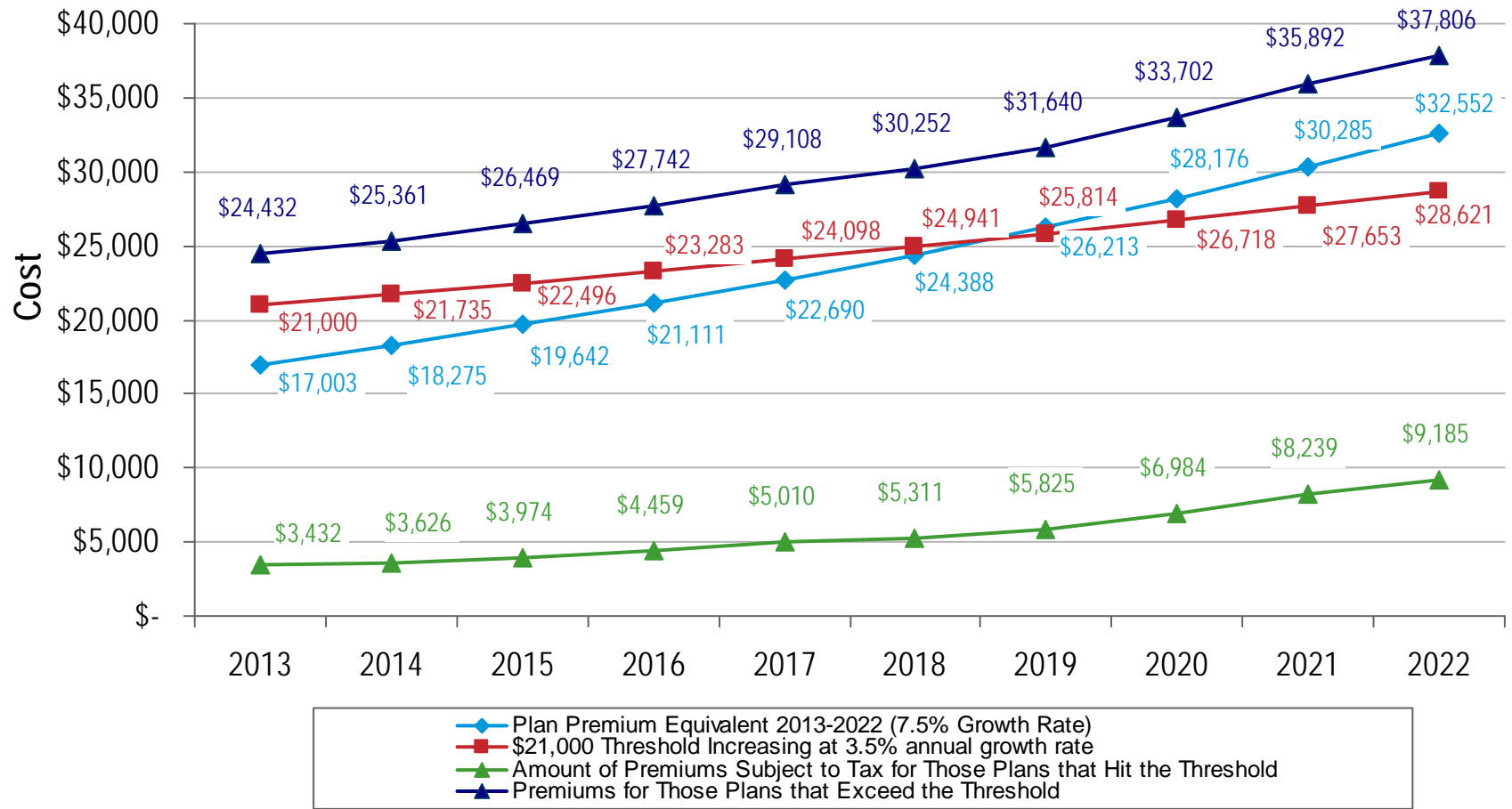
MULTIEMPLOYER HEALTH FUND SAMPLE Average of Single Cobra Actives Rates



NOTE: Based on Segal's growth in health care cost assumption of 7.5% and 3.5% annual increase in tax threshold (5 year average of CPI-U + 1%)

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

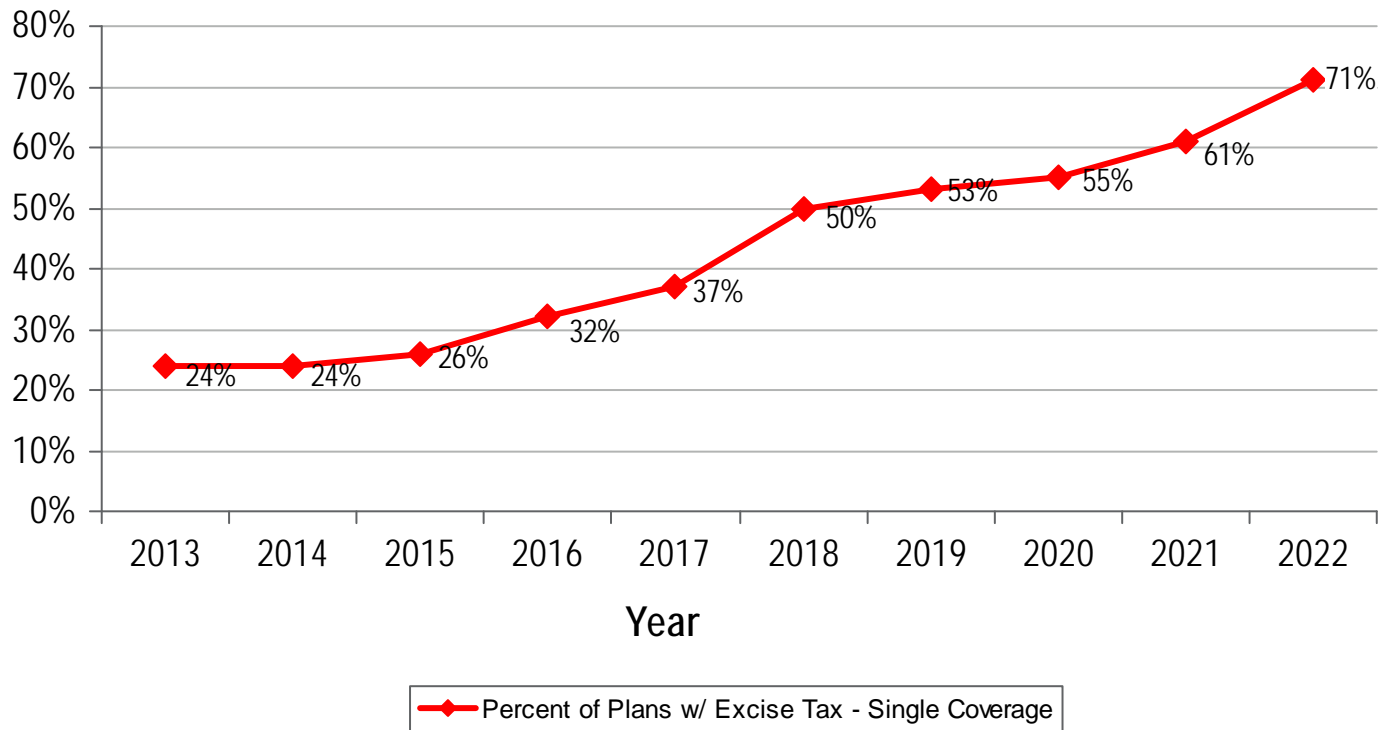
MULTIEMPLOYER HEALTH FUND SAMPLE Average of Family COBRA Active Rates



NOTE: Based on Segal's growth in health care cost assumption of 7.5% and 3.5% annual increase in tax threshold (5 year average of CPI-U + 1%)

Effect of Excise Tax on Multiemployer Health Plans: Plans Subject to Excise Tax – Single Coverage

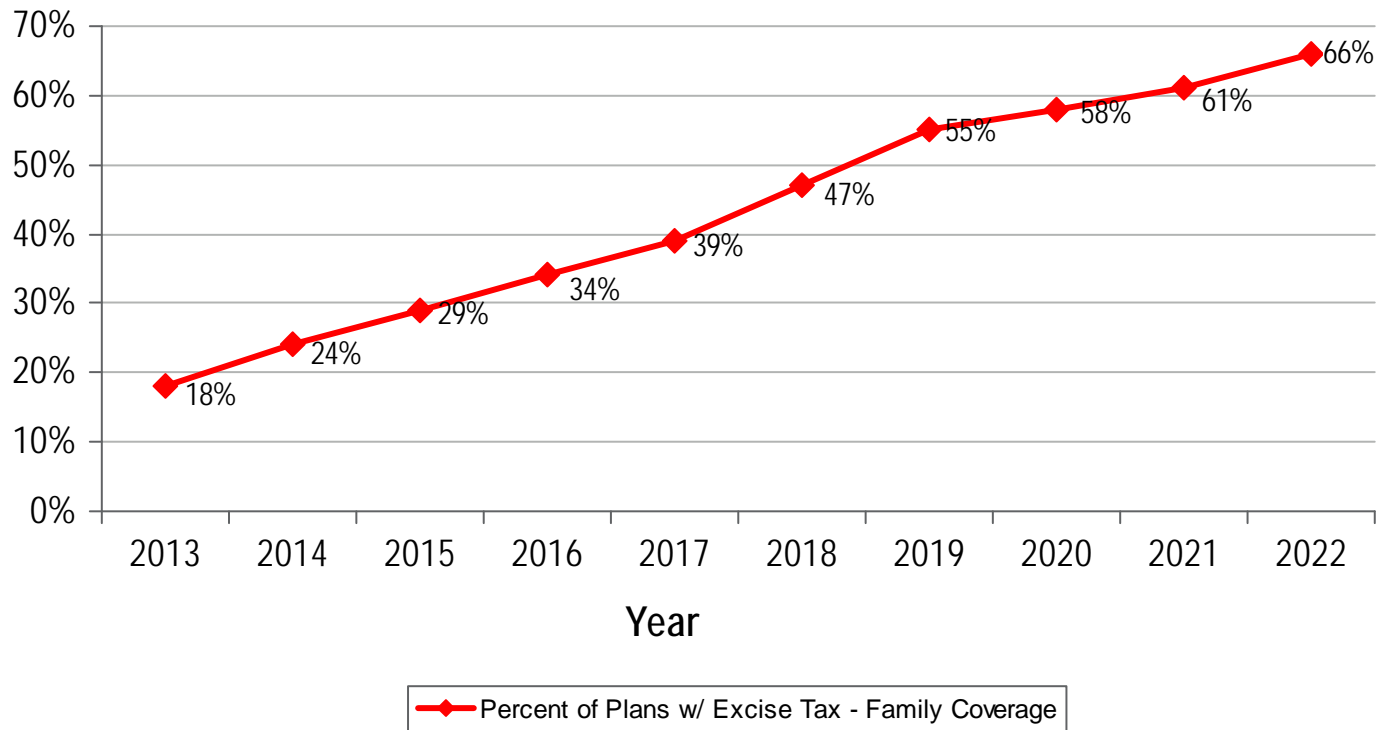
PERCENT OF PLANS W/EXCISE TAX— Single Coverage



- 24 percentage of multiemployer plans exceed the threshold that would trigger an excise tax in 2013 for single coverage. By the year 2022, 71 percentage of multiemployer health plans would be subject to an excise tax for single coverage.

Effect of Excise Tax on Multiemployer Health Plans: Plans Subject to Excise Tax – Family Coverage

PERCENT OF PLANS W/EXCISE TAX— Family Coverage



- 18 percentage of multiemployer plans exceed the threshold that would trigger an excise tax in 2013 for family coverage. By the year 2022, 66 percentage of multiemployer health plans would be subject to an excise tax for family coverage.

Effect of Excise Tax on Multiemployer Health Plans:

Notes and Assumptions

- 2013 Tax threshold is based on a \$8,000 threshold for single coverage and \$21,000 for family coverage, the equivalent of the FEHBP standard option premium in 2009 plus 35%.
- 2013 – 2022 Tax threshold is based on the \$8,000 threshold adjusted by a 5-year average of CPI-U plus 1% indexing (i.e., 3.5% annually).
- To project COBRA rates for the sample, we utilized a trend rate of 7.5% per year based on the low end of the range of The Segal Company estimate for private plan annual cost increases.
- Some 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 Core plus non-core coverage (i.e., medical, prescription drug, dental, and vision, when applicable).
- The sample was based on 38 large groups with fully credible claim and at least 1,000 covered lives per group.
- Groups represented various industry groups and regions throughout the country.
- 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 additional loads for high risk professionals and regional cost adjustments.