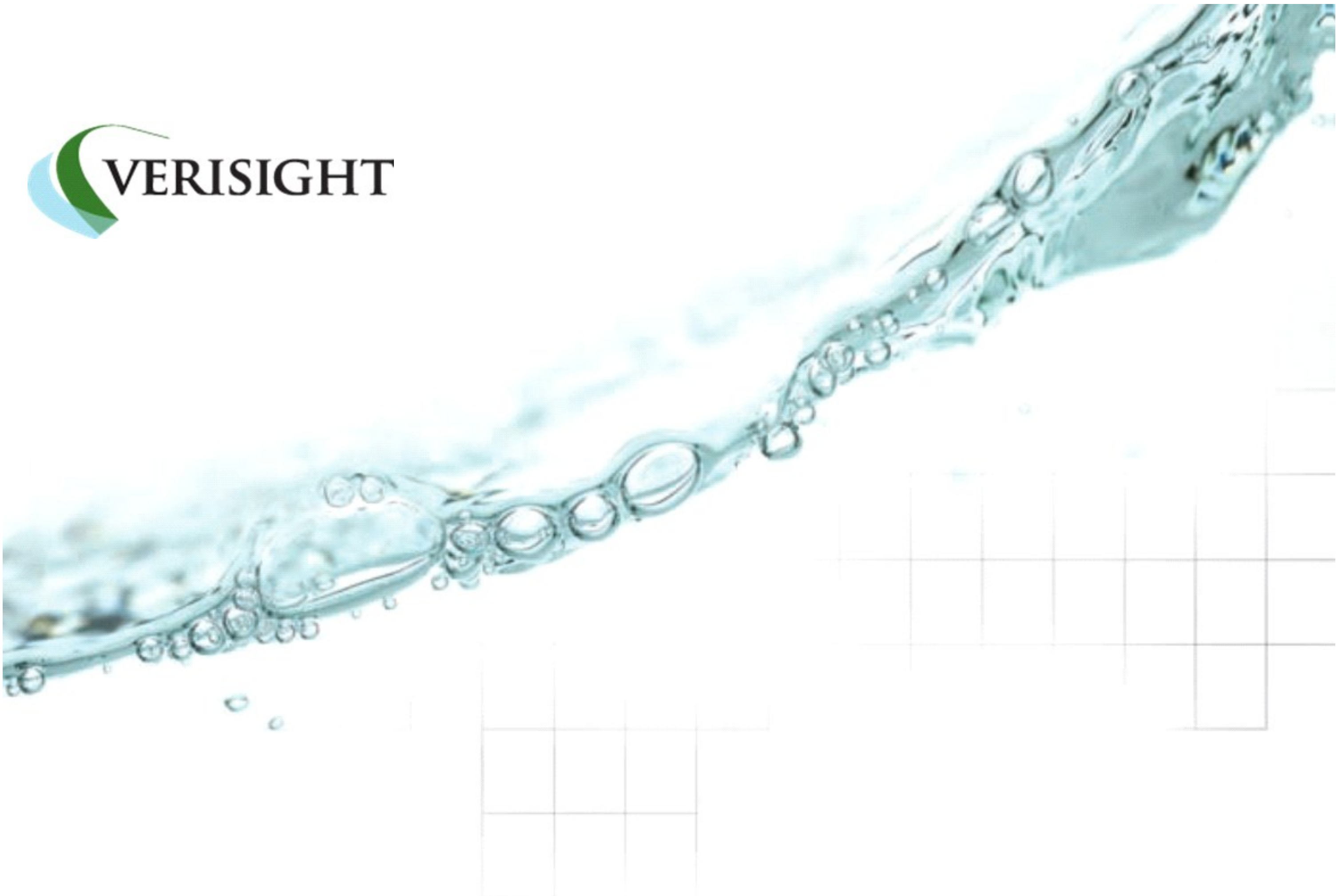

Patient Protection and Affordable Care Act (PPACA)

2014 Financial Impact for Employers

Sample Verisight Client

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Actuarial Certification

This report contains the results of an analysis to estimate plan enrollment and costs for the employer plan sponsor in 2014 under three scenarios. A separate yet similar report contains the results of the "Cadillac" excise tax impact in 2018. Enrollment projections assess eligibility for Medicaid and Federal Subsidies, as well as costs related to in- and out-migration due to individual mandates, and auto enrollment or movement to State Health Exchanges. Cost projections compare the current health plan options in the absence of PPACA in 2014 to a number of other options, including: 1) employer plan sponsor costs of the current plan under PPACA and related provisions such as penalties and anticipated enrollment changes; 2) costs for both the employer plan sponsor and for employees were the plan terminated in 2014; and 3) costs were the current plan replaced by a plan with a 60% actuarial value to meet the minimum requirements for essential benefits.

The calculations are based on data input by the user of the PPACAcalc actuarial model, including current employer specific census data and plan enrollment, key cost-sharing provisions of current plan options, and health care cost related information. As such, Verisight has not reviewed the data, and cannot attest to the accuracy of the user information input. Similarly, assumptions utilized in the model include a number of user selected variable inputs, beyond those encoded assumptions Verisight health actuaries have selected from our knowledge and expertise. The “propriety” of specific assumptions relates to their comparability to historical experience levels and reasonable future behaviors and trends in employee demographics, health care costs, and utilization and delivery of services. Results from this product can be extremely sensitive to the assumptions chosen. While we may not be able to attest to the user input assumptions, we do confirm that the model developed and the assumptions encoded are reasonable and consistent with our understanding of the current provisions of PPACA, and our relevant experience working in the employee health benefits and insurance fields.

The results are estimates, based on current data, assumptions, and PPACA provisions. Because many of the assumptions and provisions are subject to external influences (demographic, economic, and regulatory) beyond our control or that of a PPACAcalc user, actual results may vary materially. Determinations for purposes other than estimating potential plan enrollment and employer plan sponsor costs in 2014 under current PPACA provisions may also be significantly different from the results reported herein.

The Verisight health actuaries that developed PPACAcalc have done so using generally accepted accounting principles, including the Actuarial Standards Board Actuarial Standards of Practice (ASOPs) relating to health benefits. We have satisfied the basic education, experience, and continuing education requirements and are qualified to issue Statements of Actuarial Opinion in accordance with the Qualification Standards in the American Academy of Actuaries' Code of Professional Conduct. However, since this product was specifically developed as an online, easy-to-use, do-it-yourself product for health insurance brokers and consultants to use for clients, as well as for employer plan sponsors to use directly themselves, the results generated won't be considered an actuarial statement of opinion.

Verisight is independent and unbiased, and has no political agenda for users of this product, or any of its officers or key personnel, that would impair our objectivity in the ongoing development and consulting activities related to PPACAcalc modeling. We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate.

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PPACA Key Provisions

Employer Play or Pay (Exchange Penalty)

Annual Assessment for Employers that Do Not Offer Minimum Essential Coverage

● Employer groups that employ an average of at least 50 full-time employees (work more than an average of 30 hours per week, on a monthly basis) during the prior calendar year are required to offer minimum essential coverage OR pay a financial penalty. The penalty is an annual non-deductible federal tax assessment for any month in which any full-time employee is enrolled in a qualified health plan and receives the federal premium tax credit or cost-sharing reduction.

● The essential benefit package will provide a comprehensive set of benefits, including Ambulatory patient services (i.e. outpatient services), emergency services, hospitalization, maternity and newborn care, mental health and substance use disorder services (including behavioral health treatment), prescription drugs, rehabilitative and habilitative services and devices, laboratory services, preventive and wellness services and chronic disease management, pediatric services (including oral and vision care). In addition, an essential benefit package must cover 60 percent of the actuarial value of the covered benefits and limit annual cost-sharing to the current law HSA limits ($5,950/individual and $11,900/family).

● The assessment is equal to $2,000 annually, which is indexed to inflation, times the number of full time employees. The assessment excludes the first 30 employees. The assessment is calculated on a monthly basis.

Annual Assessment for Employers that Offer Minimum Essential Coverage

● Employer groups that employ an average of at least 50 full-time employees (work more than an average of 30 hours per week, on a monthly basis) during the prior calendar year and offer minimum essential coverage are required to pay a annual non-deductible federal tax assessment for any month in which any full-time employee is enrolled in a qualified health plan and receives some form of federal subsidy for insurance purchased on the state exchanges.

● The employee must qualify for a federal subsidy (have household income < 400% of the federal poverty level) , to be used at one of the state exchanges, because the employees share of the premium exceeds 9.5% of household income. Coverage that costs more than 9.5% of household income is deemed to be unaffordable.

● The assessment is equal to the lesser of the following: (1) $3,000 per employee receiving a subsidy to purchase insurance on a state exchange OR (2) $2,000 per employee, excluding the first 30 employees.

● Part time employees, on a full time equivalent basis, are considered when making the determination of whether an employer has 50 employees.

PPACA Actuarial Modeling

● The PPACA Actuarial Modeling uses customized employer data from 2011 and makes projections for 2014 that illustrate the expected impact of PPACA based on various sets of assumptions. Please note the following definitions/explanations:

● Household Income Assumption - The affordability provisions of PPACA are based on household income. Because employers typically don't know the household income of their employees, a multiplicative factor is applied to the employees projected 2014 salary to estimate household income. The scenario modeled in these exhibits assume that employee's household income is equal to 150% of their projected 2014 salary.

● 2014 Eligibility - The PPACA analysis assumes that in 2014, all employees who work fewer than 30 hours per week will be ineligible for the employer's plan regardless of their current eligibility status.

● Exchange Penalty - The modeling assumes that when an employee has a household income that is less than 400% of the federal poverty level and has a minimum employee contribution that is greater than 9.5% of household income, the employee is assumed to dis-enroll from the employer plan and purchase health insurance at the state exchange. For these employees, the employer is required to pay a penalty that amounts to $3,000 on an annual basis that is not tax deductible. While labeled a "penalty", this typically has a favorable impact on the employer plan because it typically costs the employer significantly more money to cover the employee on the group health plan.

● State Exchange Plan Designs - Employees are assumed to purchase a "Silver" level plan at the exchange. Silver plans have an actuarial value of 70%. In many cases, this will be a lower value plan than the existing employer plan.

● Plan Termination - One situation illustrated is the impact of the employer terminating the group health plan in 2014. The analysis assumes that in this situation, the employer will increase salaries for certain employees to offset the loss of the group health benefit. The method used was to make salary adjustments such that no employee would have to pay more than 9.5% of his household income on health insurance purchased at a state exchange. This approach tends to result in a salary increase for non-executive employees that earn greater than 400% of the federal poverty level. Lower earning employees don't need a salary gross up because they receive a subsidized benefit at the state exchange. The highest earning employees are assumed to not receive a gross up because the cost of insurance at the exchange does not exceed 9.5% of their household income.

● Minimum Value Plan - The modeling illustrates the employer impact of redesigning the group health plans so that they have a minimum actuarial value of 60%. This results in significant savings for the typical employer plan whose current plans have a much higher actuarial value.

● Tax Adjustments - Tax adjustments are made where applicable because the tax treatment of certain aspects of PPACA are different than the pre-2014 environment. The assumed marginal tax rates have been disclosed.

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2014 Health Care Reform Summary

Sample Verisight Client

Employer Cost Summary

	2014 w/o PPACA		2014 Scenario w/ PPACA		
	2012 Baseline	2014 Projected	Current Plans	Plan Termination	60% Plan Value
Total Employees	275	275	275	275	275
Enrolled Employees	202	202	44	0	114
Projected Employer Costs	$1,146,000	$1,374,000	$1,094,000	$819,000	$1,351,000
2014 Projected Cost Change ($)		$228,000			
2014 Projected Cost Change (%)		19.9%			
2014 Projected v 2014 Baseline ($)			$(280,000)	$(555,000)	$(23,000)
2014 Projected v 2014 Baseline (%)			-20.4%	-40.4%	-1.7%

Employee Cost Summary

	2014 w/o PPACA		2014 Scenario w/ PPACA		
	2012 Baseline	2014 Projected	Current Plans	Plan Termination	60% Plan Value
Enrolled Employees	202	202	202	0	202
Projected Employee Costs	$535,000	$642,000	$341,000	$505,000	$376,000
2014 Projected Cost Change ($)		$107,000			
2014 Projected Cost Change (%)		20.0%			
2014 Projected v 2014 Baseline ($)			$(301,000)	$(137,000)	$(266,000)
2014 Projected v 2014 Baseline (%)			-46.9%	-21.3%	-41.4%

Demographic and Plan Data

Sample Verisight Client

Demographic Data

	Full Time	Part Time	Total
Employee Count	275	0	275
Average Salary (2012)	$21,000	$0	$21,000
Average Salary (2014)	$22,000	$0	$22,000
Average Household Income (2014)	$30,000	$0	$30,000
% of Employees < 400% of Federal Poverty Level	97.5%	0.0%	97.5%
400% of Federal Poverty Level - Single (2014 Projected)			$46,000
400% of Federal Poverty Level - Family of 4 (2014 Projected)			$95,000

2012 Enrollment Data

Waive Coverage	73
Not Eligible	0

	Single	EE Plus Spouse	EE Plus Child	Family	Total Enrolled
PPO	80			122	202
Total Employees	80			122	202

2012 Premium/Funding Rates

	Single	EE Plus Spouse	EE Plus Child	Family	Composite
PPO	$328.63			$932.62	$693.42

2012 Employee Contribution Rates

	Single	EE Plus Spouse	EE Plus Child	Family	Composite
PPO	$146.81			$269.19	$220.72

Benefit Plan Actuarial Values

	Benefit Ratio [1]
PPO	76.4%

1 The plan benefit ratio represents the percentage of allowed medical charges (after network discounts) that are paid by the plan. The complement of the benefit ratio is that percentage of allowed medical charges paid by plan members through cost sharing (deductible, coinsurance, copays, etc.).

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Scenario - Household Income Equals 150% of Employee Salary

Sample Verisight Client

Enrollment Impact - No Plan Changes

	2012 Actual	2014 Projected Enrollment				
		Covered	Waived	Exchange	Not Eligible	Total
Covered	202	44	0	158	0	202
Waived	73	0 [1]	0	73	0	73
Exchange	0	0	0	0	0	0
Not Eligible	0	0 [2]	0	0	0	0
	275	44	0	231	0	275

1 Some employees waiving coverage are assumed to join the plan in 2014 due to the individual mandate. We assume that 50% of waiving employees whose household income is less than 400% of the federal poverty level will enroll in the plan. The other 50% of these employees are assumed to have coverage elsewhere. We assume that 0% of waiving employees earning more than 400% of the federal poverty level will enroll in the plan.

2 Employees who are not currently eligible and work more than 30 hours per week will become eligible for employer coverage in 2014. We assume that 100% of these employees will join the employer plan in 2014 when they gain eligibility.

2014 Impact on Employer Costs - No Plan Changes

	2014 w/o PPACA [1]	2014 w/ PPACA		
		Base Cost [1,2]	Tax Adjustment [3]	Tax Adjusted Cost
Covered	$1,374,000	$302,000	38,000.00	$340,000
Waived	$0	$0	0.00	$0
Exchange Penalty	N/A	$490,000	$264,000	$754,000
Free Choice Voucher	N/A	$0	$0	$0
Not Eligible for Medical Coverage Pre-2014	$0	$0	0.00	$0
Total	$1,374,000	$792,000	$302,000	$1,094,000

2014 Incremental Cost	$(280,000)
% Increase	-20.4%

1 Assumes a composite medical trend of 9.5% for the period 2012 to 2014

2 The Exchange penalty cost is $3,000 for each employee with a projected household income that is less than 400% of the federal poverty level and a employee contribution that exceeds 9.5% of household income.

3 Assumes a marginal corporate tax rate of 35%. The employer is assumed to have an additional FICA tax liability related to a portion of employee contributions that were previously sheltered from the FICA tax subject to the annual individual limit of $110,100, adjusted for inflation.

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Scenario - Household Income Equals 150% of Employee Salary

Sample Verisight Client

2014 Impact on Employer Costs - Employer Terminates Medical Plan

	2014 w/o PPACA [1]	2014 w/ PPACA			
		PreTax Cost [2]	Salary Adjustment [3]	Tax Adjustment [4]	Tax Adjusted Cost
Covered	$1,374,000	$0	$15,000	$50,000	$65,000
Waived	$0	$0	$0	$0	$0
Exchange Penalty	N/A	$490,000	$0	$264,000	$754,000
Free Choice Voucher	N/A	$0	$0	$0	$0
Not Eligible for Medical Coverage Pre-2014	$0	$0	$0	$0	$0
Total	$1,374,000	$490,000	$15,000	$314,000	$819,000

2014 Incremental Cost	$(555,000)
% Increase	-40.4%

1 Assumes a composite medical trend of 9.5% for the period 2012 to 2014

2 Assumes Sample Verisight Client pays a Exchange penalty of $2,000 for all eligible employees, less 30.

3 Assumes a salary adjustment is made for certain employees. Salaries are adjusted so that no employee will pay more than 9.5% of his pre-tax household income for insurance coverage on the state exchange. The amount of the salary adjustment attributable to the employer is based on the "household income" adjustment factor.

4 Assumes a marginal corporate tax rate of 35.0%. The employer is assumed to have an additional FICA tax liability related to the employee contributions that were previously sheltered from the FICA tax subject to the annual individual limit of $110,100, adjusted for inflation.

2014 Impact on Employee Costs - Employer Terminates Medical Plan

	2014 w/o PPACA [1]	2014 w/ PPACA [2]			
		PreTax Cost [1,3]	Salary Adjustment [4]	Tax Adjustment [5]	Tax Adjusted Cost
Covered	$642,000	$374,000	$(15,000)	$146,000	$505,000
Waived	$0	$0	$0	$0	$0
Exchange Penalty	N/A	N/A	N/A	N/A	N/A
Free Choice Voucher	N/A	N/A	N/A	N/A	N/A
Not Eligible for Medical Coverage Pre-2014	$0	$0	$0	$0	$0
Total	$642,000	$374,000	$(15,000)	$146,000	$505,000

2014 Incremental Cost	$(137,000)
% Increase	-21.3%

1 Assumes a composite medical trend of 9.5% for the period 2012 to 2014

2 Assumes that the employee's household income is 150.0% of the employee's projected 2014 salary.

3 Assumes all employees of who currently elect coverage will purchase insurance on a state insurance exchange. Employees are assumed to purchase a "Silver" level plan on the exchange, which has an actuarial value of 70%. The employee costs on the exchange vary by employee depending on their assumed household income.

4 Assumes a salary adjustment is made for certain employees. Salaries are adjusted so that no employee will pay more than 9.5% of his pre-tax household income for insurance coverage on the state exchange. The amount of the salary adjustment attributable to the employer is based on the "household income" adjustment factor.

5 Assumes a marginal individual tax rate of 20.0% The employees are assumed to have an additional FICA tax liability related to the employee contributions that were previously sheltered from the FICA tax subject to the annual individual limit of $110,100, adjusted for inflation.

Scenario - Household Income Equals 150% of Employee Salary

Sample Verisight Client

Enrollment Impact - Employer Replaces Medical Plan with 60% Actuarial Value Plan Design

2012 Enrollment		2014 Projected Enrollment				
		Covered	Waived	Exchange	Not Eligible	Total
Covered	202	100	0	102	0	202
Waived	73	14	14	45	0	73
Exchange	0	0	0	0	0	0
Not Eligible	0	0	0	0	0	0
	275	114	14	147	0	275

1 Assumes that the employee's household income is 150.0% of the employee's projected 2014 salary.

2 All employees who work less than 30 hours per week are assumed to be ineligible for the employer plan in 2014.

2014 Impact on Employer Costs - Employer Replaces Medical Plan with 60% Actuarial Value Plan Design

	2014 w/o PPACA [1]	2014 w/ PPACA			
		PreTax Cost [2,3]	Salary Adjustment	Tax Adjustment [4]	Tax Adjusted Cost
Covered	$1,374,000	$605,000	$0	40,000.00	$645,000
Waived	$0	$78,000	$0	0.00	$78,000
Exchange Penalty	N/A	$408,000	$0	$220,000	$628,000
Free Choice Voucher	N/A	$0	$0	$0	$0
Not Eligible for Medical Coverage Pre-2014	$0	$0	$0	0.00	$0
Total	$1,374,000	$1,091,000	$0	$260,000	$1,351,000

2014 Incremental Cost	$(23,000)
% Increase	-1.7%

1 Assumes a composite medical trend of 9.5% for the period 2012 to 2014

2 The Exchange penalty cost is $3,000 for each employee with a projected household income that is less than 400% of the federal poverty level and a employee contribution that exceeds 9.5% of household income.

3 The plan cost has been adjusted to reflect a change in plan design to a single plan with an actuarial value of 60%. Employee contributions have been reduced in a manner that holds the employer subsidy percentage constant.

4 Assumes a marginal corporate tax rate of 35.0%. The employer is assumed to have an additional FICA tax liability related to a portion of employee contributions that were previously sheltered from the FICA tax subject to the annual individual limit of $110,100, adjusted for inflation.

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Actuarial Assumptions

Sample Verisight Client

Medical Trend	Rate
2012/2011	0.0%
2013/2012	9.7%
2014/2013	9.3%
2015/2014	9.0%
2016/2015	8.7%
2017/2016	8.3%
2018/2017	8.0%
2019/2018	7.7%
2020/2019	7.3%
2021/2020	7.0%
2022/2021	6.7%
2023/2022	6.3%
2024/2023	6.0%
2025/2024	5.7%
2026/2025	5.3%

Federal Poverty Level (By Family Size)				
	1	2	3	4
2011	$11,170	$15,130	$19,090	$23,050
2012	$11,170	$15,130	$19,090	$23,050
2013	$11,350	$15,374	$19,397	$23,421
2014	$11,533	$15,621	$19,710	$23,798

Assumed Family Size (By Rating Tier)			
	2 Tier	3 Tier	4 Tier
Single	1	1	1
EE Plus Spouse	N/A	2	2
EE Plus Child	N/A	N/A	2
Family	3	4	4

Marginal Tax Rates	
Corporate	35.0%
Individual	20.0%
FICA	7.65%

Household Income Factor	
2014 Factor [1]	150.0%

Wage Trend	Rate
2012/2011	0.0%
2013/2012	3.0%
2014/2013	3.0%

1 The household income factor represents the ratio of household income to the employee's 2014 projected salary.

- It was assumed that 50% of eligible employees who are currently waiving, have household income of less than or equal to 400% of the federal poverty level, and have an employee contribution that is less than 9.5% of their household income will elect to join the employer's benefit plan in 2014 once the individual mandate is effective. We assume that 0% of employees who have household income less than or equal to 400% and an employee contribution greater than 9.5% of their household income will elect to join the employers plan in 2014. We assume that 0% of waiving employees who have household income greater than 400% of the federal poverty level will join the employer's benefit plan in 2014. It is assumed that these employees have access to another employee benefit plan and will not be impacted by the individual mandate. Waiving employees who join the employer plan are assumed to enroll in the plan with the lowest employee contribution.

- Waiving employees are assumed to enroll in the same tier mix as the employees currently enrolled in the plan.

- Employees who are not eligible for employee benefits pre-2014 are properly accounted for in the PPACA modeling. If an employee is ineligible pre-PPACA but works over 30 hours per week, the employee is assumed to be an eligible employee in 2014. If the employee is assumed to have a household income less than 400% of the federal poverty level with an employee contribution greater than 9.5% of household income, the employee is assumed to get coverage at the state exchange in 2014. Otherwise the employee is assumed to join the employer plan in 2014.

- Inflation (CPI-U) is assumed to be 3% per year

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Sample Alternative Plan Designs

Sample Verisight Client

Plan Design Parameters	60%	70%	80%	90%
In-Network Deductible (Single/Family)	$4,000/$8,000	$2,000/$4,000	$1,000/$2,000	$200/$400
In-Network Coinsurance	20%	20%	10%	10%
In-Network Out-of-Pocket Max (Single/Family)	$8,000/$16,000	$4,000/$8,000	$2,000/$4,000	$1,000/$2,000
Out-of-Network Deductible (Single/Family)	$8,000/$16,000	$4,000/$8,000	$2,000/$4,000	$400/$800
Out-of-Network Coinsurance	40%	40%	20%	20%
Out-of-Network Out-of-Pocket Max (Single/Family)	$16,000/$32,000	$8,000/$16,000	$4,000/$8,000	$1,000/$2,000
In-Network PCP Copay	$20	$20	$15	$10
In-Network SCP Copay	$40	$40	$30	$20
In-Network ER Copay	$100	$100	$75	$75
Rx Copays	$10/$30/$40	$10/$30/$40	$10/$20/$40	$10/$20/$40