

The LINGENFELTER LETTER



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TRANSITIONAL REINSURANCE PROGRAM FEE

The Affordable Care Act (ACA) establishes a temporary Transitional Reinsurance Fee for the 2014 through 2016 calendar years. Recognizing the inevitable impact of adverse selection on the Exchanges due to the low cost of the individual mandate penalty in the initial years, coupled with the elimination of pre-existing condition limitations, ACA establishes a reinsurance pool. The Transitional Reinsurance Fee is designed to raise \$25 billion dollars, which includes \$20 billion for the reinsurance pool and \$5 billion for the U.S. Treasury. The temporary fee would raise \$12 billion in 2014, \$8 billion in 2015, and \$5 billion in 2016.

All insured and self-insured medical plans will pay this fee, calculated against the average number of covered lives in the plan over the course of the calendar year. The fee will be paid by the insurer, or in the event of a self-insured arrangement, by the plan administrator. Certainly, the fee will be passed along to the sponsoring employer through increases in the monthly premium for insured plans and increases in the monthly administrative fees for self-insured plans. The annual fee per covered life is estimated to be \$63 for 2014, \$42 for 2015, and \$26.25 for 2016. For an employer

with 100 covered employees in its medical plan and a contract size of 2.14, consistent with the national average, the fee for the 2014 calendar year will be approximately \$13,482.

This Transitional Reinsurance Fee is significantly greater than the temporary CER (Comparative Effectiveness Research) fee (\$2 per year in 2013, then \$1 per year through 2019). In the course of planning for 2014, sponsoring employers need to determine how this fee will be absorbed in the employer/employee benefit cost structure. Many experts have suggested that the impact of adverse selection on the exchanges is grossly underestimated by the government. If true, this raises the likelihood that the fee will actually increase in subsequent calendar years, and that the fee will become permanent. As the reinsurance pool will apply primarily to the exchanges' individual insurance market, some experts expect self-insured plans will mount a legal challenge to the fee's application in self-insured plans.

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