



## **Patient Protection and Affordable Care Act Taxes and Fees Frequently Asked Questions**

*The following answers are for general educational and informational purposes only and not for the purpose of providing legal, actuarial, accounting or other advice. The information in this document is based on the Michigan Blues' current understanding of the Patient Protection and Affordable Care Act; however, interpretations of PPACA vary and the federal government continues to issue guidance on how it should be interpreted and applied.*

*Blue Cross Blue Shield of Michigan and Blue Care Network are working to determine how best to comply with PPACA's taxes and fees mandate, so these answers are subject to change as we get further guidance from the federal government.*

*Please advise customers to consult with their attorney for legal advice on complying with PPACA mandates.*

*As required by United States Treasury Regulations, we also inform you that any tax information contained in this communication is not intended to be used and cannot be used by any taxpayer to avoid penalties under the Internal Revenue Code.*

## General

### 1. What are the major taxes and fees under the Affordable Care Act? **{Updated since last release.}**

The Affordable Care Act established taxes and fees that affect different stakeholder groups, including issuers, plan sponsors (usually the employer), those working with medical devices, and pharmaceutical companies. Here are some important details on the major taxes and fees that affect the Blues.

ACA tax or fee	Impact date	Description	Paid by	Calculation rules*	Scope	Exclusions
Federal Insurance Premium Tax	January 2014 invoice	Annual tax. Will raise \$8 billion in 2014, with that amount increasing in subsequent years.	Health insurance issuer to the IRS.	Based on fully insured net premiums written in the preceding calendar year.	Fully insured (group and individual) including Medicare Advantage plans  Tax also expected to apply to underwritten insurance products purchased by self-funded groups (e.g., stop-loss).  Medicaid plans  Dental and vision	Self-funded  Individual Medigap plans  Group Medicare supplemental if excepted benefit

*\*As written in the current regulations and guidance; the rules do not reflect actual amounts that the customer will be billed by the Blues.*

# HealthReform

From the Blues Office of National Health Reform



ACA tax or fee	Impact date	Description	Paid by	Calculation rules*	Scope	Exclusions
Comparative Effectiveness Research Fee, or PCORI Fee – fully insured	January 2014 invoice	Annual fee  Funds health outcomes and clinical effectiveness research at the Patient-Centered Outcomes Research Institute, a nonprofit organization created by the ACA.	Health insurance issuer for fully insured business to the IRS.	\$2 per member per year from 2014 to 2019.  The Blues will cover the initial payment due July 2013 without collecting additional funds from fully insured customers.	Fully insured (group and individual markets)	Medicaid plans  Group and individual Medicare Advantage  Excepted benefits such as individual Medigap, standalone dental and vision  Group Medicare supplemental if excepted benefit
Comparative Effectiveness Research Fee – self-funded	July 31, 2013	Same as above for fully insured.	Plan sponsor (typically the employer) to the IRS.	\$1 per member per year for 2013. \$2 per member per year from 2014 to 2019.	Self-funded	Medicare Advantage, group Medicare supplemental if excepted benefit

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ACA tax or fee	Impact date	Description	Paid by	Calculation rules*	Scope	Exclusions
Reinsurance Fee	January 2014 invoice	Annual fee also known as reinsurance contribution.  Subsidizes individual plans on and off the Marketplace.	Health insurance issuer for fully insured business to Health and Human Services.  Plan sponsor or third-party administrators for self-insured group plans to HHS.	\$63 per member per year.	Fully insured (group and individual)  Self-funded	Individual and group Medicare Advantage  Medicaid plans  Excepted benefits such as individual Medigap, standalone dental and vision  Group Medicare supplemental, regardless of excepted benefit status

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ACA tax or fee	Impact date	Description	Paid by	Calculation rules*	Scope	Exclusions
Marketplace Fee (formerly Exchange User Fee)	January 2014 invoice	Monthly fee  User fee to self-sustain Marketplace by Jan. 1, 2015.	Any health insurance issuer participating and offering health plans on the state or federal Marketplace.	3.5 percent of monthly premium.	Individual and small group markets  Small group is defined as 1 to 50 full-time equivalent employees.	Fully insured middle and large groups  Self-funded groups  Individual and group Medicare Advantage  Medicaid plans  Excepted benefits such as individual Medigap, standalone vision and dental  Group Medicare supplemental regardless of excepted benefit status

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ACA tax or fee	Impact date	Description	Paid by	Calculation rules*	Scope	Exclusions
Risk Adjustment Fee	January 2014 invoice	Annual fee  Pays for administrative expense of running the federal risk adjustment program.	Health insurance issuer	\$0.96 per member per year	Individual and small group markets  Small group is defined as 1 to 50 full-time equivalent employees.	Fully insured middle and large groups  Self-funded groups  Group and individual Medicare Advantage  Medicaid plans  Excepted benefits such as individual Medigap, standalone vision and dental  Group Medicare supplemental regardless of excepted benefit status

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# HealthReform

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ACA tax or fee	Impact date	Description	Paid by	Calculation rules*	Scope	Exclusions
High Cost Health Plan Excise Tax	Beginning Jan. 1, 2018	Annual tax Tax on the value of employer-sponsored health benefits.	Health insurance issuers for fully insured business, and by plan sponsors, normally the employer, for self-insured business.	40 percent on employer-sponsored health benefits in cases where the annual total benefit costs exceed the applicable threshold. The threshold will be no lower than \$10,200 for an individual and \$27,500 for family.	Fully insured and self-funded groups, including Medicare Advantage, grandfathered and retiree opt out.  Group Medicare supplemental regardless of excepted benefit status.	Individual Medicaid plans  Generally excludes excepted benefits including individual Medigap, standalone dental and vision

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## 2. Do we have complete guidance and information about all of the taxes and fees?

No. Final regulations have been released for the Comparative Effectiveness Research Fee (PCORI). The Federal Insurance Premium Tax, Reinsurance Fee, Marketplace Fee, Risk Adjustment Fee and High Cost Health Plan Excise Tax are still being finalized. Despite the lack of full regulatory guidance, the Blues are diligently working with policy, legal and industry experts to determine the ramifications and best courses of action to ensure compliance with these new taxes and fees. We'll share more information when the regulatory guidance becomes available.

**3. Will the calculation rules outlined in the charts above match what customers will see on their bill?**

No. The rules represent what's written in the current regulations and guidance, and what the insurer pays to the government. The amount we charge customers will be affected by rating factors and, as a result, will not match exactly the calculation amounts as written in the regulations.

**4. Where did these additional costs — taxes and fees — come from?**

The federal government introduced a number of taxes and fees through the Affordable Care Act. These costs are intended to:

- Raise revenues to support the individual health insurance market
- Help fund the state and federal insurance marketplaces
- Assist with research that compares the effectiveness of treatments

**5. How are the different Blues customer groups affected by these taxes and fees?**

All groups and individual customers are affected by the ACA taxes and fees to varying degrees. The plan sponsor, usually the employer, is responsible for paying the federal government for self-funded business. The Blues are continuing our analysis to understand fully how different customers will be affected.

**6. When will ACA taxes and fees be included in quotes, renewal packages and invoices from the Blues?**

We will include the taxes and fees for 2014 fully insured quotes and renewal packages issued on or after August 2013. The Blues will begin billing for the taxes and fees in the January 2014 invoices. Tax collection does not depend on renewal dates, and will apply to all group and individual plans beginning Jan. 1, 2014. We plan to notify all customers who **do not** have a January renewal of the taxes and fees before they receive their January 2014 invoice statement

**7. If a customer's 2013 coverage carries into 2014, will the customer still be charged for the relevant taxes and fees in January?**

Yes. Tax collection does not depend on renewal dates, and will apply to all group and individual plans on Jan. 1, 2014.



## 8. Which taxes will the Blues begin billing for on the January 2014 invoices?

Starting in 2014, customers will be billed for these taxes and fees as applicable:

- Comparative Effectiveness Research Fee (fully-insured plans only)
- Federal Insurance Premium Tax
- Reinsurance Fee
- Risk Adjustment Fee
- Marketplace Fee

Effective in 2018, there will be a High Cost Health Plan Excise Tax on the value of employer-sponsored health benefits. It will affect group plans (both fully and self-insured) that exceed cost thresholds. We'll give customers additional details on this tax when the information becomes available to us.

## 9. Can the Blues give customers tax estimates now?

Regulations are not final on all of the taxes and fees. With this limitation, we are continuing to analyze the full costs to our customers. We cannot provide estimates at this time. We believe ACA taxes and fees will result in cost increases of 4 to 6 percent, depending on market segment (i.e., individual, small group, large group).

## 10. Can the Blues advise customers on taxes?

We will not provide tax advice. Guidance from the Blues is meant to be educational; it's not tailored to a customer's specific plan or intended to serve as the primary source for plan decisions.

**11. If an employer switches from a fully insured health plan to a self-funded plan, will the employer save on ACA taxes and fees? {New question since last release.}**

The employer will not have to pay the Federal Insurance Premium Tax—unless they have stop loss insurance. In that case, the employer is expected to be required to pay the FIPT tax. Self-funded groups also do not have to pay the Risk Adjustment Fee. However, that employer is solely responsible to select a calculation method and remit the Comparative Effectiveness Research Fee and the Reinsurance Fee to the federal government. In addition, the employer must assume other responsibilities under the ACA, such as having to generate their own *Summary of Benefits and Coverage* documents.

**12. Will the Blues provide support to self-funded groups regarding ACA taxes and fees?**

We will provide general information regarding any applicable taxes and fees to self-funded customers, but **we cannot provide tax advice**. Many of the new taxes and fees require self-funded businesses to make payments directly to the government. We encourage businesses to consult with their legal counsel regarding compliance.

**13. Do the Blues make money from these taxes and fees?**

The Blues **do not make any money** from these taxes and fees. We're required to pay these taxes to the federal government.

**14. What happens if a customer decides not to pay the ACA taxes and fees?**

The bill is treated as "one" entity. If customers do not pay their entire bill, it may trigger delinquency processes, and they risk cancellation of their insurance policy.

**15. Are other insurance carriers charging these taxes and fees?**

All insurance carriers must pay these taxes and fees initiated by the ACA.

**16. Where can I find more information about these taxes and fees under the Affordable Care Act?**

You can visit [healthcare.gov](http://healthcare.gov). We cannot provide tax advice. Customers should consult their tax advisor to determine how any of these taxes or fees might affect their situation.

## Comparative Effectiveness Research Fee

**17. What is the Comparative Effectiveness Research or PCORI fee?**

This is an annual fee that funds research on the effectiveness, risks and benefits of various medical treatments through the Patient-Centered Outcomes Research Institute or PCORI, a nonprofit center created through the ACA.

**18. When is this fee effective?**

This fee becomes effective in 2013. For our fully insured customers, we will make the first payment on July 31, 2013, without collecting first from our individual and group customers. This one-time payment will be absorbed by current administrative fees as we modify systems and processes to support the collection beginning with the January 2014 invoice.

**19. What is the cost of this fee?**

The fee is \$2 per member per year beginning in 2014. The initial fee due on July 2013 is \$1 per member per year.

**20. Who is responsible for paying this fee?**

For fully insured business, the health insurance issuer is responsible for collecting this fee and paying the IRS.

For self-funded business, the plan sponsor (typically the employer) is responsible for collecting this fee and paying the IRS.

**21. Are we collecting the Comparative Effectiveness Research Fee for self-funded groups?**

No. The self-funded group is responsible for paying the IRS. The first payment is generally due July 31, 2013. The Blues will make that first, quarter payment **for fully insured plans only**. This is a one-time occurrence. We will begin billing for this fee on customers' January 2014 invoice when the fee increases from \$1 to \$2 per member per year.

**22. Will we help self-funded groups calculate the Comparative Effectiveness Research fee? {New question since last release.}**

No, the Blues will not help self-funded groups estimate or calculate this fee. However, if these groups have already selected a method to calculate this fee, we will provide them with a count for contracts or members based on our records. We will provide general information regarding any applicable taxes and fees to self-funded customers but cannot provide any tax or legal advice. We encourage businesses to consult with their legal counsel and tax advisor regarding compliance.

**23. Does the fee include dependents?**

Yes, the fee applies to covered lives, which includes dependents.

**24. Does the fee apply to Health Reimbursement arrangements? {New question since last release.}**

That depends on how the HRA is structured. If the HRA is offered in coordination with a fully insured group health plan, or if the HRA is not integrated with a group health plan (i.e., stand-alone HRA), the HRA is generally treated as distinct coverage concerning this fee, and the plan sponsor, usually the employer, pays the fee for the HRA. So, for example, if a group offers an HRA in conjunction with a fully insured medical product, BCBSM will bill the group for the Comparative Effectiveness Research Fee for the fully insured medical product and the group will also have to pay the Comparative Effectiveness Research Fee for each covered life directly to the IRS. HRAs are excluded if they are offered in coordination with a self-insured group health plan established and maintained by the same plan sponsor with the same plan year—in which case the HRA and the coordinated self-funded group health plan are treated as one applicable self-insured health plan with respect to the Comparative Effectiveness Research Fee.

## 25. Where can I find out more about this fee?

For more details regarding the Comparative Effectiveness Research Fee, read the [Reform Alert](#). You can visit [healthcare.gov](http://healthcare.gov). **We cannot provide tax advice. Customers should consult their tax advisor to determine how any of these taxes or fees might affect their situation.**

## Federal Insurance Premium Tax

### 26. What is the Federal Insurance Premium Tax? {Updated since last release.}

This is an annual tax that is assessed on fully insured premiums.

### 27. Who does it apply to?

This tax applies to all fully insured business, both individual and group. It also applies to Medicare Advantage and Medicaid business.

### 28. Do self-insured businesses have to pay this tax?

This tax is only assessed on fully insured business. Self-funded business is excluded from paying this tax. However, this tax is expected to be assessed if a self-funded group purchased a fully insured product such as a stop-loss policy.

### 29. When does this tax become effective?

This tax becomes effective in 2014.

### 30. Is this tax the same for both BCBSM and BCN? {Updated since last release.}

The tax for BCN is about 50 percent less than for BCBSM. The premium revenue that is included in the fee determination is reduced by 50 percent for federally tax-exempt health maintenance organizations.

**31. I heard that this tax used to have another name. If so, what was it?**

The Blues formerly referred to it as the Market Share Tax. We're now referring to it as the Federal Insurance Premium Tax so that our customers clearly understand the intent of this tax. In its proposed regulations, the IRS refers to this tax as the Health Insurance Providers Fee.

## Reinsurance Fee

**32. What is the Reinsurance Fee?**

This is an annual fee that is intended to support the Transitional Reinsurance Program.

**33. What is the Transitional Reinsurance Program?**

This is a temporary program, in place from 2014 through 2016 that will fund insurers that incur high claim costs for enrollees in the individual market, both on and off the Marketplace. The goal of the program is to help stabilize premiums costs in the individual market.

**34. How does this fee affect my customer?**

It is expected to cost on average \$63 per member for 2014. Initially, this will be the largest of all the ACA taxes and fees, and is calculated at a rate per member per month.

**35. Does this fee apply to both fully insured and self-insured business?**

Yes, it applies to both.

**36. Who is responsible for paying this fee?**

For fully insured business, the insurance issuer.

For self-insured business, the plan sponsor, which is normally the employer. However, third-party administrators may collect and pay the Reinsurance Fees on behalf of self-funded businesses.

**37. How long is this fee in effect?**

This fee is effective from 2014 to 2016.

**38. Does this fee apply to retiree-only groups?**

Yes, retiree-only groups are subject to this fee.

## Risk Adjustment Fee

**39. What is the Risk Adjustment Fee?**

This fee was established to pay for the administrative expense of running the Federal Risk Adjustment Program.

**40. What is the Risk Adjustment Program?**

This is a permanent program that will pay carriers who insure more members who are likely to have high-claim costs.

**41. How much is this fee? {Updated since last release.}**

The cost is estimated to be \$0.96 per member per year.

**42. Who is affected by this fee?**

This fee applies to individual and small group products.

**43. When does this fee become effective?**

This fee becomes effective in 2014.

## High Cost Health Plan Excise Tax

**44. What is the High Cost Health Plan Excise Tax?**

This tax is a 40-percent assessment on the value of employer-sponsored health benefits that exceed certain thresholds.

**45. When does this tax become effective?**

This tax becomes effective in 2018.

**46. Who is affected by this tax?**

This tax will affect both the fully insured and self-funded business. The individual market is not affected by this tax.

**47. Can the Blues give me more information on this tax?**

At this time we cannot provide more information. We'll give additional details on this tax when regulatory guidance is available to us.