

# ACA Health Insurance Providers Fee

## DPW Healthy PA Overview

This document is provided by the Pennsylvania Department of Public Welfare (Department) as explanation of the Department's plan for paying for the Medical Assistance impact of the ACA Section 9010 Health Insurance Providers Fee (HIPF).

For those Private Coverage Organizations (PCOs) with a liability for payment of this fee, the Department's actuary intends to recognize the costs associated with this fee as "reasonable, appropriate and attainable costs" to be considered in actuarially sound payments to the plans. The HIPF due each year (the "fee year") is calculated by the IRS from information on net premiums written for the prior calendar year (the "data year") filed by the insurers on Form 8963.

### ACA Health Insurance Providers Fee Capitation Rate Withhold

The Department seeks to make payments to each PCO that are appropriate for the specific level of this tax expense. The amount of HIPF incurred by PCOs will vary as a percentage of their data year premium revenue because HIPF rates are not identical and corporate income tax impact may vary by plan. To accommodate both situations, for the appropriate data year the Department's actuary will provide two sets of actuarially sound capitation rate ranges, one set applicable to PCOs not subject to the HIPF and one set applicable to PCOs that are subject to the HIPF. The only difference between the two sets of capitation rate ranges will be an allowance for the HIPF, which will be withheld by the Department until payment is due by the PCOs in the fee year. The allowance for the HIPF incorporated in the rate range will be the maximum anticipated such allowance needed for any of the PCOs. Because the HIPF percentage tax rate varies by PCO and effective corporate income tax rates vary by PCO, the entire withhold amount will not be paid to every PCO that is subject to the HIPF.

A summary of the Department's plan is as follows:

- The Department will negotiate rates with the participating PCOs net of the HIPF withhold amounts. The final agreement with each PCO will include the withhold amounts equal to the HIPF portion of the rates (this may not be applicable to those PCOs not subject to the HIPF, but will still be included in the agreements). The Department will initially pay rates net of the HIPF withhold amounts.
- Each PCO will provide the Department with a copy of Form 8963, along with HPA-specific amounts included on that form and necessary income tax information. PCOs will also be required to provide the preliminary fee calculation notice from the IRS.
- By September 15 of the fee year the Department will pay (preliminary payment) the portion of the data year withhold amounts that covers the HPA portion, as

determined by the Department, of each PCO's obligation per the preliminary fee notice.

- The PCOs will provide the final IRS bill, and the Department will calculate its final obligation to each PCO, reconciling any differences against the preliminary payment through a settlement.

This plan:

- Accomplishes the revenue objective of providing additional funds to the PCOs affected by the HIPF.
- Uses the premiums from the same data year that the IRS uses to calculate the HIPF due in the fee year, thereby readily providing the means to make payments to any PCO that ceases to have an HPA agreement during the data year.
- Minimizes the budget burden on the Commonwealth and CMS by paying only what is needed and no more.
- Makes payments for the HIPF via actuarially sound capitation rates.

To ensure PCOs receive appropriate revenue to cover their HIPF obligation, including necessary tax-related gross-ups, and to ensure the Department recognizes its fair share of the related IRS deductions, the accompanying draft agreement language includes detailed steps and calculations to determine the Department's obligation to each PCO.

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