



MEMO

To: Allegiance Companies' Clients

Date: June 30, 2010

Considerations About Whether to Attempt to Retain Grandfathered Status Under PPACA

On June 25th, Allegiance issued a memo regarding the new regulations about PPACA grandfathered status. Since the regulations were issued, there has been significant discussion in the industry regarding whether it is possible or even worthwhile to attempt to retain grandfathered status.

Final Interim Rules re: “grandfathered” status – what plans need to consider now

Allegiance issued a June 25, 2010 memo to our clients regarding the newly issued regulations about grandfathered status. That memo defined the terms and listed the types of changes and actions a plan sponsor may make that would and would not cause loss of grandfathered status. For details, please refer to the prior memo. If you did not receive or cannot find this prior memo, please contact your Allegiance Account representative for a copy.

The lack of grandfathered status causes plans to be subject to a number of mandates. The only current mandate, prior to 2014, that may have significant impact on Allegiance plan designs is the requirement that plans provide preventive care coverage with no deductible, at 100%. Many of Allegiance’s customers already provide a preventive care benefit at 100%. *The difference is that no annual limit will be allowed upon that benefit.*

However, plans will be able to limit this benefit by capping the amount the plan will pay for each preventive service.

The preventive care benefit is yet to be defined by the U.S. Department of Health & Human Services. Based on other mandated preventive care benefit definitions currently in existence (the list below is based upon a combination of current Medicare, Medicaid and state insurance mandates), this benefit will probably cover the following:

- standard set of blood panels
- an annual screening mammogram
- an annual gynecological exam and pap smear
- an annual physical
- an annual PSA
- a standard set of immunizations
- well child care, including 10-12 visits during the first 2 years
- childhood immunizations
- a screening colonoscopy based upon a schedule for individuals over 50 once every ten (10) years.

Most plans already cover these types of preventive care benefits. The question is what the total cost of this package will be without annual limits. *While this amount will vary by region and by provider, there will be a cost increase but the amount of that increase is negligible compared to the necessity for plan design changes to discharge the plan's fiduciary duty to safeguard plan assets for all participants while maintaining a benefit level that is affordable to all participants.*

Based on the new regulations, many analysts have determined that it will be extremely difficult to retain grandfathered status and continue to operate a fiduciarilly and financially sound plan.

Current industry estimates indicate that somewhere between 39% and 80% of all grandfathered plans will lose grandfather status by 2013. The U.S. Department of Health & Human Services estimates approximately 51% of all grandfathered plans will lose that status by 2014.

As a result of all of these issues, and the information above, plan sponsors should consider whether it actually makes sense to try to maintain grandfathered status, or whether to make necessary plan and operational changes regardless of the effect on grandfathered status.

Should you have other additional questions regarding this matter, please call your Allegiance account representative and we will be happy to discuss this further.

We hope you find this information helpful in guiding your compliance with health care reform.

Thank you!