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Subject: Grandfathered Status and Cost Shifting
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To whom this may concern:

We are self insured grandfathered plan, where so far, we are having a very good year in terms of claims experience.

Next year, we would like to reduce our premium equivalence by 8% - which would, in effect, reduce BOTH the employer contribution and employee contribution by 8%.

Our consultants have advised that we should not do this, since this may jeopardize our grandfathered status, as the regulation states that employers from reducing it's share of contribution by more than 5% will result in loss of our grandfathered status. In fact, they are suggesting that we increase the employer's contribution rate so that the dollar-wise it will remain the same amount as plan year 2010.

However, I believe this means if we had cost shifted by more than 5%, (Employer share reduced by 5% or more, Employee share goes UP by 5% or more) would result in loss of grandfathered status.

Since in our case, both employer AND employee's share is going down by 8%, we are not cost shifting, but rather, making the plan more affordable for everyone.

IE:

2010 Total Monthly Premium Equivalence for Single Employee: \$637.03
Employee's share: \$71.00 (11% of Premium Equivalence)
Employer's share: \$566.03 (88% of Premium Equivalence)

WHAT WE WOULD LIKE TO DO:

2011 Total Monthly Premium Equivalence for Single Employee: \$586.20 (a decrease of 8% from Plan Year 2011)
Employee's share: \$65.00 (SAME 11% of Premium Equivalence, but down 8% overall)
Employer's share: \$521.20 (SAME 88% of Premium Equivalence, but down 8% overall)

WHAT CONSULTANTS ARE SAYING WE SHOULD DO:

2011 Total Monthly Premium Equivalence for Single Employee: \$586.20 (a decrease of 8% from Plan Year 2011)
Employee's share: \$71.00 (Increase of 2% or so, or 13% of Premium Equivalence, \$0 increase overall)
Employer's share: \$495.03 (Decrease of 2%, or now about 87% of Premium Equivalence)

While the consultant's recommendation still is within the "5% cost shifting rule", I am reluctant to announce to the personnel that we would be INCREASING their contribution rate, even though the actual dollar amount being deducted from their pay for coverage will remain the same.

Your guidance is much appreciated.

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