

INDIANA MUNICIPALITIES AND COMPARATIVE EFFECTIVENESS RESEARCH FEES

The Patient Protection and Affordable Care Act (“PPACA”) established the Patient-Centered Outcomes Research Institute (“PCORI”) in order to assist patients, clinicians and purchasers in making informed health decisions. The PPACA also established a funding mechanism for PCORI. In December, the Internal Revenue Service issued final regulations implementing these PCORI fees. These fees apply with respect to plan years ending after October 1, 2012 and before October 1, 2019. The fee is \$1.00 times the average number of covered lives under the plan during the first year. For subsequent years, the rate is increased to \$2.00, subject to adjustment.

If your municipality maintains a fully insured health plan, the insurance company will pay the fee with respect to any insurance policies that it provides to your municipality. Similarly, if your municipality participates in the IACT Medical Trust, the IACT Medical Trust will remit the PCORI fees with respect to any health plans offered through the Trust.

However, if your municipality maintains a self-funded medical plan, your municipality will be responsible to pay the PCORI fees with respect to those plans. In addition, if your municipality maintains any other self-funded accident or health plan, PCORI fees may also be imposed. For example, if your municipality maintains a health reimbursement arrangement (HRA), your municipality will be responsible for paying the fees with respect to the HRA. Special counting rules apply with respect to HRAs which may reduce the PCORI liability in some instances.

A health flexible spending account (FSA) will be subject to the PCORI fees unless the health FSA satisfies two conditions:

1. The maximum benefit payable under the health FSA to any participant in the class for a year cannot exceed two times the employee’s salary reduction election under the health FSA for the year (or, if greater, the amount of the employee’s salary reduction election for the health FSA for the year, plus \$500).
2. Some other non-excepted group health plan coverage (*e.g.*, major medical coverage such as PPO, HDHP or HMO) must be made available for the year to the class of participants by reason of their employment.

Limited-scope dental and vision plans, employee assistance programs, disease management programs and wellness benefits that do not provide significant benefits in the nature of medical care are not subject to the PCORI fees.

To pay the PCORI fees, it is necessary to file a Form 720 “Quarterly Federal Excise Tax Return”. The fees are payable by July 31 of the calendar year immediately following the last day of the plan year.

In compliance with U.S. Treasury Regulations, we inform you that, unless otherwise expressly stated, any federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and it cannot be used, by anyone for the purpose of (i) avoiding federal tax penalties that may be imposed by the Internal Revenue Service or (ii) promoting, marketing or recommending to another party any transaction or tax-related matter addressed herein.

Dated: March 9, 2013

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