

April 2010

Sun Life Financial has been actively involved in the health care reform legislation debate through our trade associations—America's Health Insurance Plans (AHIP), Self Insurance Institute of America (SIIA), and the National Association of Dental Plans (NADP). We've devoted significant resources to identify the key issues raised by the new legislation—particularly those that directly or indirectly impact our products, customers, and business partners.

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#### Self-funding vs. fully insured

When the new legislation takes effect, we believe that companies will continue to rely on self-funding as a cost-effective and valuable alternative to fully insured medical plans. Self-funding gives employers the flexibility and control to maximize their health insurance dollars and will continue to be an excellent option—particularly for larger employers.

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## Health Care Reform— what it means to our industry and your business

*This news update is part of a comprehensive, ongoing communication program developed to provide complete, accurate, and timely information on the new legislation and how it will impact your business.*

### Overview

Historic health reform legislation became law with President Obama's signing of the Patient Protection and Affordable Care Act (PPACA) on March 23, and the Health Care and Education Reconciliation Act of 2010 (HCERA) on March 30.

Requiring most Americans to have health insurance, the legislation will expand coverage to 32 million Americans who are currently uninsured. Private coverage for low- and middle-income Americans would be subsidized, and many employers will be required to provide health insurance or else be fined. Employers that provide coverage will be offered tax credits.

The new legislation will, among other things, raise revenues to pay for expanded health insurance coverage by imposing excise taxes and fees on industries in the health care sector, limiting tax-advantaged health accounts, and increasing the Medicare payroll tax on upper income households.

### Impact on our industry

Beginning in 2014, an annual fee will be imposed on health insurance providers, which include carriers that underwrite stop-loss and dental insurance. The 2014 amount is \$8 billion and will be divided among the providers based on premium of their in-scope products. The fee will increase over the period of 2014–2018 to \$14.3 billion and will be increased thereafter based on medical cost growth.

### Stop-Loss

Various reforms in the insurance market will be mandated, such as prohibiting providers from denying coverage due to pre-existing conditions and prohibiting limits on coverage. The self-funded medical plans that are the basis of stop-loss business will be subject to this reform.

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**Mandates for 2010 include:**

Prohibition of lifetime and annual limits; prohibition of rescissions; coverage of preventive health services; extension of dependent coverage; standardized explanation of coverage documents; prohibition of discrimination based on salary; minimum loss ratio requirements; and establishing an internal and external appeals process.

**Mandates for 2014 include:**

Prohibition of pre-existing-condition exclusions; rating restrictions for insured plans; guaranteed availability and renewability of coverage; prohibitions of discrimination based on health status; coverage of an essential benefits package; prohibition on excessive waiting periods; and prohibition against dropping people participating in approved clinical trials.

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As a leader in stop-loss insurance, our stop-loss value proposition at Sun Life remains the same for the future. We are assessing how the new mandates to self-funded plans for the years 2010 and 2014 will affect our customers from a pricing perspective—for both new and existing (grandfathered) self-funded plans. We are prepared to adjust our stop-loss products to provide additional protection to customers because of this increased level of benefits.

### Dental

It is unclear at this time how the dental business will be impacted by the new legislation. Currently, there are inconsistencies regarding the sale of stand-alone dental products and dental dependent coverage up to age 26. There are some indications that later this month the Department of Health and Human Services will issue guidance on the portions of the PPACA that are to go into effect this year.

The new law requires that an essential medical benefits package include pediatric dental coverage. Stand-alone dental plans may provide the pediatric dental coverage inside of a medical exchange. The medical exchanges are to be initially developed for small groups and individuals without insurance. It is not clear, at this time, if stand-alone pediatric dental coverage can be offered outside of the exchange for small groups. Initially, in the large group market, stand-alone dental plans may be offered as they are today. If regulations do not clarify and/or modify provisions prior to the full implementation of health care reform, we may need to fundamentally change the way we deliver dental plans.

### Impact on you

For our customers and our brokers, the full impact of PPACA has yet to be determined. We continue to see a growing need for employer-sponsored benefit plans. Sun Life is initiating outreach efforts to gather information from a variety of sources to understand how best to respond to the many issues presented by this new legislation, and we will keep you informed as we assess new developments. As a preferred provider of a wide range of group products, including Life Insurance, Long Term Disability, Short Term Disability, and Voluntary products, as well as Stop-Loss and Dental, Sun Life is committed to keeping you informed and educated regarding this new legislation and providing you with product solutions.

*See the next page for important milestones.*

# Important milestones

## For Fall 2010

- Provide dependent coverage for adult children up to age 26 for all individual and group policies.
- Insurers cannot exclude coverage to dependent children with pre-existing conditions.
- Seniors will get a rebate to help fill Medicare prescription drug coverage gaps.
- Insurers will not be able to rescind a policy when an individual becomes ill.
- Lifetime limits on benefits and restrictive annual limits will be prohibited.
- Medical plans must provide coverage for preventative care for children, and recommended screenings for women.
- A temporary reinsurance program will offset coverage costs for early retiree health benefits.
- New plans will need an appeals process for coverage determinations and claims.
- Businesses with fewer than 50 employees, and the employees have annual wages under \$50,000, will get tax credit for offering medical insurance.
- A new temporary program will provide coverage for those without insurance who have pre-existing conditions.  
*Please note: We are assessing implementation dates for existing (grandfathered) self-funded plans.*

## 2011

- Employers will be required to disclose the value of health insurance coverage on employees' W-2 forms.
- Depending on employer size, insurers are required to spend 80–85% of their premium dollars on health care.
- The additional tax for health and medical savings account withdrawals will increase from 10% to 20%.
- A plan to provide a vehicle for small businesses to offer tax-free benefits will be created.

## 2013

- Uniform standards for electronic exchange of information under HIPAA must be adopted by health plans, and need to include data for eligibility and claims.
- Flexible savings account contributions will be limited to \$2,500 per year, subsequently indexed to the Consumer Price Index.
- The Employer Medicare Part D subsidy deduction will be eliminated. Employers will lose the tax deduction for subsidizing prescription drug plans for Medicare Part D-eligible retirees.
- There will be increases to the income threshold for medical tax deductions; it will go from 7.5% to 10%—exception is for elderly people, who can claim the 7.5% deduction through 2016.

## 2014

- Requires U.S. citizens and legal residents to have quality health insurance coverage or pay a penalty.
- An annual, nondeductible fee on health insurance providers (net premiums over \$25 million) will be applied.
- Insurers cannot exclude anyone from coverage because of pre-existing conditions.
- Credits are available to people with incomes above Medicaid eligibility and below 400% of the Federal Poverty Level.
- Employers with 50+ employees who do not offer coverage to their employees will be required to pay \$2,000 annually for each full-time employee (above the first 30).

## 2015–2018

There will be penalties for no coverage; and an excise tax on high-cost, employer-provided health plans.

**We will continue to keep you informed about health care reform legislation and its implications.**

**For more information about our products, please contact your Sun Life Financial group representative.**

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Information sources include: NADP General Overview Health Reform and Dental Plans, April 1, 2010; Focus on Health Reform, Kaiser Family Foundation, <http://www.kff.org/healthreform/8060.cfm>, 3/31/2010; <http://dpc.senate.gov/healthreformbill>; <http://dpc.senate.gov/healthreformbill/healthbill65.pdf>; and AHIP.

This communication is intended to provide general information only. Specific compliance questions should be referred to your firm's legal advisor.

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