

TIMELINE FOR HEALTH REFORM

Prepared By: York International Agency

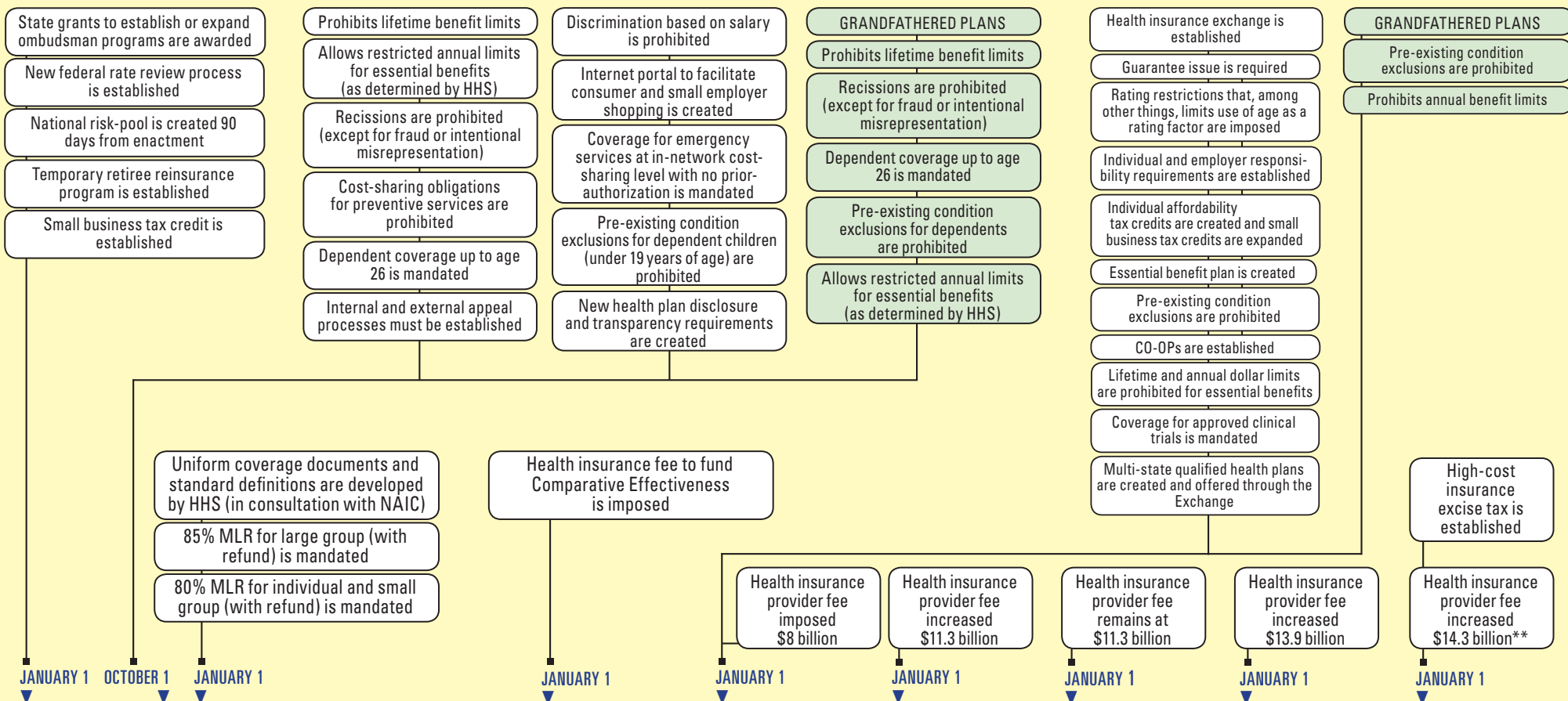
August 10, 2010

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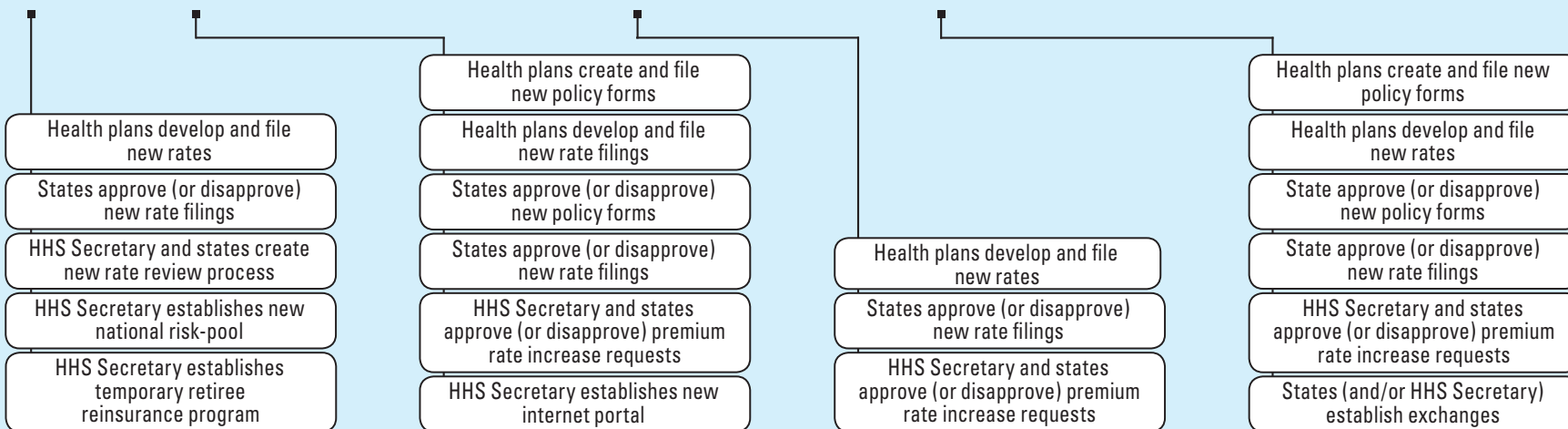
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Health Care Reform Bill Insurance Market Provisions Timeline (as revised by the House Reconciliation Bill)*

SUMMARY OF SELECT REQUIREMENTS



IMPACT



*Assumes April 1, 2010 enactment

**In years following 2018, the tax amount would increase in an amount proportionally equal to overall premium growth.

Effective Dates for Health Reform

Effective Date or Deadline	Provision in Law
<p align="center">2010</p>	<p align="center">Tax Issues</p> <ul style="list-style-type: none"> • <i>Small Business Tax Credit.</i> Applies to employers with 25 or fewer full-time equivalent employees (certain owners and seasonal employees excluded) and average employee wages of \$50,000 or less. <ul style="list-style-type: none"> Phase I (2010-2013): Employers with 10 or fewer full-time equivalent employees, and average annual wages of less than \$25,000, receive maximum tax credit of 35% (25% for tax-exempt employers, who apply the credit against payroll taxes) of premium costs paid by employer, if employer pays at least 50% of premium costs; amount of credit decreases for larger employers and phases out entirely for employers with more than 25 full-time equivalent employees or average employee wages of more than \$50,000 Phase II (2014-2015): Tax credit increases to 50% (35% for tax-exempt employers).
<p align="center">Plan years beginning on or after 3/23/2010</p>	<p align="center">Plan Design and Administration</p> <ul style="list-style-type: none"> • Ensure that plan notifies participants about material plan changes at least 60 days prior to the effective date of the change <p align="center">Other</p> <ul style="list-style-type: none"> • Insurers subject to "minimum loss ratio" rules, requiring carriers to spend 85% of premium revenue (80% in individual and small group markets) on payments for clinical services and to enhance the quality of health care. May put direct cost pressure on premium amounts for insured coverage
<p align="center">Plan years beginning on or after 9/23/2010 (E.g., January 1, 2011 for a calendar year plan)</p>	<p align="center">Plan Design and Administration</p> <ul style="list-style-type: none"> • Amend plan to prohibit preexisting condition exclusion for children under age 19. • Amend plan to provide no lifetime dollar limits for "essential health benefits" (permissible annual limits to be prescribed by HHS); dollar limits on non-essential health benefits unaffected. • Amend plan to permit dependent children to remain on the plan to age 26 regardless of student and marital status; through 2013, grandfathered plans may decline coverage to adult children who have access to other employer coverage; coverage is nontaxable regardless of child's "dependency" status; nontaxability rule is in effect 3/23/2010; no obligation to cover the adult child's spouse or children • Ensure no fully insured plan impermissibly discriminates in eligibility or benefits, in favor of highly compensated individuals (generally, top 25% of employees ranked by pay; <i>group plans existing on 3/23/2010 appear to be exempt</i>). • Amend plan to provide coverage for, and no cost sharing on, preventive services (<i>group plans existing on 3/23/2010 appear to be exempt</i>). <p align="right"><i>(continued on next page)</i></p>

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<p>Plan years beginning on or after 9/23/2010 (continued)</p>	<ul style="list-style-type: none"> • Amend emergency services coverage to reflect that, for treatment of an emergency medical condition in an emergency room, no authorization is required, and out-of-network care is paid at in-network rates (<i>group plans existing on 3/23/2010 appear to be exempt</i>). • Implement new appeals process, to include external review (group plans existing 3/23/2010 appear to be exempt) • Where the plan permits designation of a primary care provider for a child, amend plan as necessary to allow individual to designate an in-network allopathic or osteopathic physician as the child's primary care physician (<i>group plans existing on 3/23/2010 appear to be exempt</i>). • Where the plan provides obstetrical and gynecological coverage, and requires designation of a primary care physician, amend plan as necessary to allow covered females to obtain obstetrical or gynecological care from an in-network provider without authorization or referral from the primary care physician (<i>group plans existing on 3/23/2010 appear to be exempt.</i>) • Automatic enrollment rule may be in effect for employers with more than 200 full-time employees; appears the intent is for the effective date to be in 2014, but it might take effect earlier. <p style="text-align: center;">Financial (Other than Tax Issues)</p> <ul style="list-style-type: none"> • Employer reinsurance program for early retirees (through 2014 or until asset pool exhausted).
<p>2011</p>	<p style="text-align: center;">Tax Issues</p> <ul style="list-style-type: none"> • Amend health FSA or HRA documents to permit FSA or HRA reimbursement of drugs only if prescribed or insulin (statute applies 1/1/2011). • Tax for H.S.A disbursements that are not for medical care increased to 20%; includes reimbursements for non-prescribed drugs; reimbursement of insulin remains non-taxable. • Modify payroll system or work with payroll vendor to show value of health coverages on employee's 2011 W-2 (i.e., applies to 2011 W-2s issued in 2012). • Employers with an average of 100 or fewer employees over the prior two years may install a "SIMPLE Cafeteria Plan" under Tax Code section 125; employer dodges nondiscrimination testing if it satisfies certain eligibility requirements and contributes toward qualified benefits under the plan at least 2% of participating employee's pay, or lesser of 6% of pay and 2 x employee's required contribution <p style="text-align: center;">Market Reforms that May Impact Employer Costs</p> <ul style="list-style-type: none"> • Insurers that spend less than 85% of revenue on clinical services or quality improvement must provide rebates to enrollees (plan years beginning on or after • Rx industry sector taxes commence. Taxes will be passed through in cost increases on products. <p style="text-align: center;">Other</p> <ul style="list-style-type: none"> • CLASS Act (federal long-term care insurance program) becomes effective; employees purchase coverage through payroll deduction, but employers without payroll deduction systems are not required to establish system to effect payroll deductions. Unclear whether employers with such systems must payroll deduct premium.

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2012	<p style="text-align: center;">Plan Design and Administration</p> <ul style="list-style-type: none"> Commence distribution of 4-page, "linguistically appropriate" plan summaries at enrollment and re-enrollment; government to supply a template (deadline is March 22, 2012).
2013	<p style="text-align: center;">Plan Design and Administration</p> <ul style="list-style-type: none"> Commence distribution of notice to employees, regarding existence of insurance exchanges (by March 1, 2013) Amend cafeteria plan to limit health FSA benefits to \$2,500 (deadline will likely be first day of 2013 plan year) <p style="text-align: center;">Tax Issues</p> <ul style="list-style-type: none"> Retiree drug subsidy becomes taxable. .9% Medicare tax and 3.8% passive income tax applies to high-income individuals (earning \$200,000+ as individual, or \$250,000 as family). The 3.8% tax does not apply to qualified retirement plan distributions. Medical expense deduction increased to 10% of AGI (delayed for seniors through 2016). <p style="text-align: center;">Market Reforms That May Impact Employer Costs</p> <ul style="list-style-type: none"> Medical device industry sector taxes commence. Taxes will be passed through in cost increases on products. Covered life assessment applies; \$1 per enrollee for 2013, \$2 in 2014 and indexed thereafter.
2014	<p style="text-align: center;">Plan Design and Administration</p> <ul style="list-style-type: none"> Amend plan to eliminate annual dollar limits on essential health benefits (first day of Plan Year beginning in 2014) Amend plan to eliminate waiting periods greater than 90 days (first day of Plan Year beginning in 2014). Amend plan to eliminate any condition of eligibility that adult children (to age 26) not have offer of other employer-based coverage (first day of Plan Year beginning in 2014) Amend plan to eliminate pre-existing condition exclusion for all participants (first day of Plan Year beginning in 2014). Amend plan to limit out-of-pocket maximum to H.S.A.-compatible limits (first day of Plan Year beginning in 2014; <i>group plans existing on 3/23/2010 appear to be exempt</i>). Maximum reward for wellness programs increased to 30% of total cost of coverage (from 20% under current law). Amend plan to provide coverage for certain clinical trials (first day of Plan Year beginning in 2014; <i>group plans existing on 3/23/2010 appear to be exempt</i>). Commence automatic enrollment and disenrollment of eligible employees (employers with more than 200 full-time employees). This provision might be effective earlier, upon issuance of regulations. Prepare to report minimum essential coverage (1099-HC) and qualifying affordable coverage (for free rider surcharge) to government and enrollees (information statement will be due in 2015 for the 2014 year). <p style="text-align: center;">Financial (Other than Tax Issues)</p> <ul style="list-style-type: none"> Employer "Free Rider" Surcharge: Applies to employers with 50+ full time/full-time equivalent employees who do not offer "qualifying" and "affordable" coverage to full-time employees with household incomes of 100-400% Federal Poverty Level; "qualifying" means at least 60% actuarial value; "affordable" means employee not required to pay more than 9.5% of household income for coverage. <p style="text-align: right;"><i>(continued on next page)</i></p>

Effective Date or Deadline	Provision In Law
<p align="center">2014 (continued)</p>	<ul style="list-style-type: none"> -Penalty where employer offers no coverage: \$2,000 per full-time employee (disregarding first 30 full-time employees) if a single full-time employee obtains subsidies in an insurance Exchange. -Penalty where employer offers some coverage: \$3,000 per full-time employee with household income of 100-400% of the Federal Poverty Level who is not offered qualifying and affordable coverage, and obtains subsidies in an insurance Exchange (up to maximum penalty employer would pay if it offered no coverage). • <i>Voucher requirement:</i> Applies to employers with 50+ full time/full-time equivalent employees who offer "qualifying" and "affordable" coverage to employees but require employees with household incomes < = 400% of Federal Poverty Level to pay more than 8%, but not more than 9.5% of household income; employer must offer the employee a voucher equal to the largest employer contribution for group coverage for any employee, which the employee may use in the Exchange to purchase coverage and pocket any difference ax taxable income. Unclear whether rule is limited to full-time employees. <p align="center">Individual Requirements</p> <ul style="list-style-type: none"> • Individual mandate applies. • Insurance Exchanges available with tax subsidies for lower-income individuals. <p align="center">Market Reforms That May Impact Employer Costs</p> <ul style="list-style-type: none"> • Insurance Industry sector taxes commence (\$60 billion over 10 years). Taxes will be passed through in cost increases on products.
<p align="center">2018</p>	<p align="center">Tax Issues</p> <ul style="list-style-type: none"> • Excise tax applies to high value coverage. If the total value of employee- and employer- paid health coverage exceeds \$10,200 for single coverage/ \$27,500 for family coverage, the excess value is taxed at 40%. The threshold for single coverage under a multiemployer plan is \$27,500. Employers with higher-risk demographics may take that into account when determining the value of coverage. <ul style="list-style-type: none"> -Thresholds are indexed for inflation. -Value is generally determined on basis of gross cost, that is, premium value (COBRA rate minus 2%). Calculation includes value of medical, HRA, H.S.A., and FSA benefits (whether provided by employer or employee), on-site clinics, etc. The value of dental and vision coverage, and indemnity and dread disease policies, is excluded. -Thresholds are increased \$1,650 single/ \$3,450 family for retirees <65 and for "high risk professions."