Avoiding ACA's Cadillac Tax: Five Most Costly Benefit Plan Misconceptions

Misconception #3: Wellness Doesn't Produce an ROI

June 3, 2014

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Avoiding ACA’s Cadillac Tax: Five Most Costly Benefit Plan Misconceptions

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What is the Cadillac Tax

- High-cost group plans will be subject to a 40% excise tax beginning in 2018.
  - Not just rich benefit plans
  - High risk groups will be affected
- The tax applies to annual premiums in excess of $10,200 for individual coverage and $27,500 for family coverage.
- Paid by the insurer if FI and by the Employer if Self-Funded
- These amounts will be indexed for inflation.
- Employer HSA contributions will likely be included.
- Jury still out on HRA
# The Problem

## Cadillac Tax

### Know your Numbers

Projected 8% Trend

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<th></th>
<th>2013</th>
<th>PPO Plan</th>
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**Avoiding ACA's Cadillac Tax: Five Most Costly Benefit Plan Misconceptions**
## Cadillac Tax

**Know your Numbers**

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<tr>
<td>Employee + Spouse</td>
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<tr>
<td>Employee + Child(ren)</td>
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**40% Excise Tax Per Employee Plan Participant**

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<td>Employee + Spouse</td>
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<td>0</td>
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<tr>
<td>Employee + Child(ren)</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Family Coverage</td>
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**Current Enrollment in Each Category**

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<tr>
<td>Employee + Spouse</td>
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<td>Employee + Child(ren)</td>
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<td>Family Coverage</td>
<td>304</td>
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**Projected Cadillac Tax Based on Current Enrollment**

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<td>Employee + Child(ren)</td>
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<td>0</td>
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<tr>
<td>Family Coverage</td>
<td>$952,170</td>
<td>$0</td>
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**Total Projected Excise Tax in 2018:**  
$1,304,276
Misconceptions

Misconception #1: Plan Design is the Only Way I Can Reduce Plan Expenses
4/1/2014 10:00-11:00

Misconception #2: My PBM Doesn't Matter
4/24/2014 10:00-11:00

Misconception #3: Wellness Doesn't Produce an ROI
6/3/2014 10:00-11:00

Misconception #4: All Care Management/Utilization Review Firms Are the Same
7/15/2014 10:00-11:00

Misconception #5: My Employees Will Never Understand Their Benefits and Engage
8/5/2014 10:00-11:00
How much of our benefit planning....

- Is data driven?
- Identifies, removes, or eliminates plan and vendor inefficiencies?
- Is integrated with all aspects of employer cost and employee wellness?
- Is held accountable by measuring and managing each financial and wellness metric?
- Benchmarks plan performance, member health and utilization?
- Improves member health and well-being?
- Supports corporate culture?
- Achieves sustainable long-term financial objectives?

*Asks the summary question: Have we deployed every possible tactic to affect healthcare spend within the current plan infrastructure?*
Business Case For Qualitative Employer Benefits Planning

There is a pattern in how companies successfully manage their healthcare costs.

Best Performers
- Quantitative analysis of healthcare data
- Integrated health benefits approach
- Pre-set targets and regular assessment
- Employee education

Poor Performers
- 15% over two-year overall cost trend

Moderate Performers
- 10% average two-year overall cost trend

Avoiding ACA's Cadillac Tax: Five Most Costly Benefit Plan Misconceptions

Identify Inefficiencies
- Identify areas of unnecessary spending and increased cost within the framework of your health plan.

Identify Cost Drivers
- Review plan performance history and identify areas of excess spending. Is it price, utilization, both?

Benchmark Your Data
- Review plan performance history against industry benchmarks.

Engage Your Members
- Create a clear, concise, and ongoing message to create a partnership mentality...

Supercharge Your Wellness Program
- Leverage health promotion and worksite wellness to generate significant healthcare cost savings...

Measure and Manage Your Results
- Continually measure to manage claims data for possible intervention...

ACA Compliance and Guidance
- Though out the year, we will continue to strategize and keep you informed of the issues that affect you and your employees as it relates to ACA.
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

- What we **will** cover:
  - Reasons your risk pool still matters.
  - What the numbers tell us.
  - Why the new ACA wellness regs may be have a silver lining.
  - Strategies to reduce costs.
  - Inherent complications.
  - What plan sponsors should do now.
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

- Your health plan risk still matters:
  - Under a fully insured non exchange plan
  - Under a self insured non exchange plan
  - Under a fully insured SHOP public exchange plan (groups of 50+ employees)?
  - Under a fully insured Private exchange plan
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

- So when does my health plan risk not matter?

- When your company decides to terminate its group health plan and send every employee to the individual health insurance markets or exchange
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

What do the numbers tell us?

- Higher risk = higher costs
- There is a significant cost difference between the healthiest risks and the most unhealthy risks
- A one point improvement in aggregate wellness score will reduce claims by 1.8%

Dee W. Edington, Ph.D., Director
Health Management Research Center
University of Michigan
Excess Medical Costs due to Excess Risks

- Low Risk (0-2 Risks): $2,199
- HRA Non-Participant: $3,039
- Medium Risk (3-4 Risks): $3,460
- High Risk (5+ Risks): $5,520

Wellness Score and Cost over 3 Years

N=27,799
Wellness Score 81.1
Mean Cost $5,150

1996
9,452 (34%)
71.8
$7,728

18,347 (66%)
85.9
$3,822

1997
6,285
71.4
$8.801

3,167
82.8
$5,675

2,810
75.6
$7,051

15,537
87.0
$3,691

1998
4,819
70.9
$6,564

1,466
82.6
$6,812

1,131
74.8
$4,899

2,036
83.9
$9,078

1,306
74.3
$6,728

1,504
84.1
$6,893

1,742
76.0
$3,704

Wellness Score and Cost over 3 Years

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71.8
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70.9
$6,564

1,466
82.6
$6,812

1,131
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$4,899

2,036
83.9
$9,078

1,306
74.3
$6,728

1,504
84.1
$6,893

1,742
76.0
$3,704

Wellness Score and Cost over 3 Years
Life-Style Scale: The Natural Flow

- People want to be aimed towards wellness
- The natural flow is backwards
- Our system is set up to treat only arrows pointed backwards
- How do we change the system?

Premature Sickness, Death & Disability
Chronic Signs & Symptoms
Feeling OK
High-Level Wellness, Energy and Vitality
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

What does this have to do with ACA?

- Business case illustrates wellness improves cost
- ACA permits significant wellness incentives.
- Strategically combined ACA and wellness should reduce costs
### Cost Differential for Adverse Risk Migration off Plan 100 Employees

<table>
<thead>
<tr>
<th>Adverse Risk Cost Variance</th>
<th>Better Risk Cost PEPY</th>
<th>Adverse Risk Cost PEPY</th>
<th>No Change</th>
<th>Lose 20%</th>
<th>Adverse Risk</th>
<th>Lose 20%</th>
<th>Annual Savings per 100 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Cost</td>
<td>Avg Cost PEPY</td>
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<td>Total Cost</td>
<td>Net Total Cost</td>
<td>Avg Cost PEPY</td>
<td>Net Avg Cost PEPY</td>
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<tr>
<td>55%</td>
<td>20%</td>
<td>$7,500</td>
<td>$9,000</td>
<td>$832,500</td>
<td>$8,325</td>
<td>$733,500</td>
<td>$99,000</td>
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<tr>
<td></td>
<td>30%</td>
<td>$7,500</td>
<td>$9,750</td>
<td>$873,750</td>
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<td>40%</td>
<td>$7,500</td>
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## Cost Differential for Adverse Risk Migration off Plan 100 Employees

<table>
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<tr>
<th>Adverse Risk Cost Variance</th>
<th>Better Risk Cost PEPY</th>
<th>Adverse Risk Cost PEPY</th>
<th>No Change</th>
<th>Lose</th>
<th>40%</th>
<th>Adverse Risk Cost PEPY</th>
<th>Lose 40%</th>
<th>Annual Savings per 100 employees</th>
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<td>55% Adverse Risk</td>
<td>20%</td>
<td>$7,500</td>
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<td>$634,500</td>
<td>$198,000</td>
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<td>30%</td>
<td>$7,500</td>
<td>$9,750</td>
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## Cost Differential for Adverse Risk Migration off Plan 100 Employees

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<td>Summary for 100 Employees with 55% Adverse Risk</td>
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<td>Lose 20%</td>
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What is the Potential ROI?

- $8,000 PEPY cost
- For every 100 employees
- 80/20 risk mix
- 40% cost difference between risk groups
- Lose 50% of higher risk
- Reduces PEPY cost by $267 or 3.3%
- Reduces total costs by $105,000
Avoiding ACA's Cadillac Tax: Five Most Costly Benefit Plan Misconceptions

What is the Potential ROI?

- $9,000 PEPY cost
- 400 employees
- 60/40 risk mix
- 50% cost difference between risk groups
- Lose 75% of higher risk
- Reduces PEPY cost by $1,387 or 15.4%
- Reduces total costs by $1,728,000
What is my plan’s response?

Examine risk pool preservation, enhancement and wellness strategies.

- Expansion of Wellness Incentives:
  - ACA codifies 30% differential based on outcomes.
  - Differential is total cost not premium cost.
  - Tobacco surcharge increases differential to 50%.
What Does ACA Permit?

- 100% variance on participation (always there).
- 30% surcharge based on outcomes.
- 20% additional surcharge based on tobacco use.

- NOT 30% or 50% difference in premium cost!!
What Does ACA Permit? Examples:

- Cobra rates: $300 single $1,200 family
- 25% EE contribution
- Permitted variance based on participation:
  - $300 single $1,200 family
- Permitted variance based on outcomes:
  - $300 x 30% or $90; $1,200 x 30% or $400

So What?
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

**ACA 30% Wellness Surcharge**

<table>
<thead>
<tr>
<th>COBRA Rates</th>
<th>25% Contribution</th>
<th>30% Surcharge</th>
<th>Total Premium Achiever</th>
<th>Total Premium Non-Achiever</th>
<th>Annual Difference</th>
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## Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

### ACA 50% Wellness Surcharge

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<td>$7,200</td>
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</table>
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

Wellness Strategies

1) No Penalties & Keep the Plan Affordable
2) Combination of Plan Offering & Penalties
No Penalties & Keep the Plan Affordable

**Concept:** Immunize the plan from penalties but still offer a robust wellness program.

- Keep the current plan designs and apply traditional wellness incentives.
  - 30% or less for outcome based wellness
  - 50% or less for tobacco usage
  - 100% or less for participation
  - Will need to determine affordability and adjust
No Penalties & Keep the Plan Affordable

Concept: Immunize the plan from penalties but still offer a robust wellness program.

- Impact on employees
  - Employer controls penalty exposure
  - Employees not eligible for subsidies
  - Employees who either do not
    - Participate or achieve are likely the highest risk or lowest engaged employees. They will either:
      - Pay a higher premium
      - Consider other coverage options
No Penalties & Keep the Plan Affordable

**Concept:** Immunize the plan from penalties but still offer a robust wellness program.

- **Impact on employees**
  - Consider other coverage options
    - Exchange and non-exchange plans will likely be more costly for most employees even considering significant wellness surcharges
      - Not likely subsidy eligible
      - Post tax contributions
      - Higher deductibles and out of pockets
No Penalties & Keep the Plan Affordable

**Concept:** Immunize the plan from penalties but still offer a robust wellness program.

- **Advantage to the employer**
  - Employer will remain immunized from penalties
  - Employer can deploy a robust wellness strategy
  - Higher risk or non-participant employees subsidize their cost through plan design.
No Penalties & Keep the Plan Affordable

**Concept:** Immunize the plan from penalties but still offer a robust wellness program.

- **Potential Employer Disadvantages**
  - High risk employees will remain on the plan.
  - High risk employees will remain dis-engaged in wellness.
Combination of Plan Offering & Penalties

**Concept:** Strategically create lack of affordability and offer a robust wellness program

- Keep the current plan designs and apply traditional wellness incentives.
  - 30% or less for outcome based wellness
  - 50% or less for tobacco usage
  - 100% or less for participation
  - Will need to calculate affordability for all
Combination of Plan Offering & Penalties

Concept: Strategically create lack of affordability and offer a robust wellness program

- **Impact on employees**
  - Employer controls penalty exposure
  - Certain employees will be eligible for subsidies
  - Employees who either do not participate or achieve are likely:
    - Highest risk or lowest engaged employees. They will either:
      - Pay a higher premium
      - Consider other coverage options
Combination of Plan Offering & Penalties

**Concept:** Strategically create lack of affordability and offer a robust wellness program

- **Impact on employees**
  - Consider other coverage options
    - Exchange and non-exchange plans will likely be LESS costly for highest risk employees considering significant wellness surcharges
      - Likely subsidy eligible
      - Subsidy “sweet spot” up to 300% of FPL
      - Employees select less expensive coverage
Combination of Plan Offering & Penalties

**Concept:** Strategically create lack of affordability and offer a robust wellness program

- **Advantage to the employer**
  - Employer will remain immunized from penalties in most cases.
  - Employer can deploy a robust wellness strategy
  - Higher risk or non-participant employees will likely migrate out of plan
  - Employer loses high risk individuals
  - Win/Win so long as employer costs are not less than $5000 PEPY
Combination of Plan Offering & Penalties

**Concept:** Strategically create lack of affordability and offer a robust wellness program

- **Potential Disadvantages**
  - Employer will likely pay penalties on those migrating.
  - Significant analysis must be done prior to implementation
  - Safe harbor complications (stay tuned)
  - Will not work for younger, lower paid groups
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

Challenges to Wellness Program implementation:

- Culture
- Complications around ACA affordability
  - Selection of calculation safe harbor
  - Inclusion of some and exclusion of other wellness incentives
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

- Complications around ACA affordability
  - Selection of calculation safe harbor
    - W-2
    - Rate of pay
    - FPL
Strategies to Leverage ACA to Improve Your Risk and Lower Your Health Plan Spend

- Challenges to implementation:
  - Complications around ACA affordability
    - Inclusion of some and exclusion of other wellness incentives
      - Regs assume all will pass tobacco surcharge
      - Regs assume all will pass other wellness surcharge
What Does ACA Permit?

  - Different from previous guidance
  - ACA “affordability test” based on lowest cost plan single earnings to single contribution calculation.
  - Tobacco use wellness penalties are NOT a part of the calculation.
  - Other wellness penalties ARE a part of the calculation.
Examples on how this works

Employer A

- Outcome based wellness program.
  - Members who score 70+ points or improve by 5 points are considered “Achievers”. All others are considered “Non-Achievers”
  - Achievers pay $100 per month, non-achievers pay $300 per month.
- For affordability the plan must assume all members are “Non-Achievers” even if they are achievers.
- Affordability calculation for all employees would be based upon a $300 per month premium.
Examples on how this works

- Employer A
- Same except:
  - Achievers pay $100 per month
  - non-achievers pay $300 per month and
  - tobacco users pay $500 per month.
- The law assumes all employees are not subject to tobacco surcharge for purposes of affordability calculation
- Affordability calculation for all employees would still be based upon a $300 per month premium.
What do I do now?

- If you haven't started ... get going.
- Check these thoughts against company philosophy and culture.
- Understand your risk pool and profile.
- Calculate and define penalty exposure
- Share the rationale with employees.
- Implement objective measure for outcomes.
- Developing a 2-5 year strategy.
- Cast long term vision to your employees.
- Communicate with employees well and often.
WHAT IS MY PLAN’S RESPONSE?

Strategy thoughts to consider

- Assuming aggressive outcome based wellness differentials, what's my cost per employee now vs. the tax adjusted penalty?
- Should allow un-affordability on all plans based on wellness incentives construct
- Does the new guidance kill my wellness plan?
- What's the possibility of removing any wellness plan connection to the health plan?
- What's are the new alternative reasonable standards and how will my plan be forced to comply?
- If I think this is all too complicated, and we dump our wellness plan what will my risk look like?
Relationship Between Annual Medical and Pharmacy Costs and Wellness Score
The “Do Nothing” Strategy: The Natural Flow

- **The Strategy:**
  - Wait for individuals to get sick
  - Pay only for sickness

- **Primary Features:**
  - Benefit design focused on reducing costs
  - Prevailing philosophy is that “health is not our business”

- **The Cost of doing nothing:**
  - The flow of risk is to high risk
  - The flow of costs is to high cost
  - Costs follow risks and age
Create “Winners “ Health strategy

The first step is “Don’t get worse”...for six months

<table>
<thead>
<tr>
<th>Health Status</th>
<th>The Winner’s Strategy</th>
<th>The Failed Strategy</th>
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<tbody>
<tr>
<td>Body weight</td>
<td>Don’t gain weight</td>
<td>Reduce weight to 25 BMI</td>
</tr>
<tr>
<td>Physical Activity</td>
<td>Walk 500 steps/day</td>
<td>Walk 10,000 steps/day</td>
</tr>
<tr>
<td>Blood Pressure</td>
<td>Know your numbers</td>
<td>Control your numbers</td>
</tr>
<tr>
<td>Cholesterol</td>
<td>Know your numbers</td>
<td>Control your numbers</td>
</tr>
</tbody>
</table>

The second step is to “raise the bar in small intervals”
Avoiding ACA’s Cadillac Tax: Five Most Costly Benefit Plan Misconceptions

What is the Potential ROI?

- $8,000 PEPY cost
- For every 100 employees
- 80/20 risk mix
- 40% cost difference between risk groups
- Lose 50% of higher risk
- Reduces PEPY cost by $267 or 3.3%
- Reduces total costs by $105,000
  (net $65,000 after non deductible penalties)
What is the Potential ROI?

- $9,000 PEPY cost
- 400 employees
- 60/40 risk mix
- 50% cost difference between risk groups
- Lose 75% of higher risk
- Reduces PEPY cost by $1,387 or 15.4%
- Reduces total costs by $1,728,000 (net $1,128,000 after non deductible penalties)
Avoiding the Potential Adverse outcome

Play AND Pay *win*

- Better risk pool
- Better outcomes
- Healthier, more productive employees
- Regardless of headcount change lower $PEPY costs
What, Me Worry?
### ACA Learning Series:

<table>
<thead>
<tr>
<th>Top 5 Most Inaccurate Assumptions about the ACA and How to Avoid Them</th>
<th>Course Level</th>
<th>Date</th>
<th>Time</th>
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<td>301</td>
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| How to Prepare for and Survive a DOL Audit (Rebroadcast)             | 201          | 5/29/2014  | 10:30-11:30|

| How to Prepare for and Survive a DOL Audit (Rebroadcast)             | 201          | 6/18/2014  | 10:30-11:30|

To Register:
http://www.benefitsinc.com/beneco_webinars.html
### Avoiding ACA's Cadillac Tax: Five Most Costly Benefit Plan Misconceptions that Employers Have:

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<td>Misconception #5: My Employees Will Never Understand Their Benefits and Engage</td>
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<td>Misconception #5: My Employees Will Never Understand Their Benefits and Engage</td>
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<td>8/5/2014</td>
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</tr>
</tbody>
</table>

### To Register:
http://www.benefitsinc.com/beneco_webinars.html
We are grateful AM 620 WTMJ has asked BeneCo to host a radio series to educate listeners on how best to tackle the ins and outs of the Affordable Care Act (ACA).

Focused primarily on educating: Business Owners, CEO's, CFO's and HR professionals; we will help them determine if ACA is a "Top 3" or "Top 30" business priority.

If you would like the podcast from the February 16th, March 16th, or April 27th show, please drop us a line.
You asked for it...

**ACA Impact Study**
- How will ACA impact my organization?
- What do I need to plan for?
- Free initial consultation
- Fee for service basis based on plan complexity

**ACA Sustainability Analysis**
- How do I create a long term sustainable ACA cost strategy and still comply?
- Fee for service basis based on plan complexity
Ask us about Haiti...

- The work: Orphan care and sponsorship, tent city refugee relocation and community development, microenterprise other ministry opportunities
- To get more info or engaged in some way drop us a email, or for a glimpse of the work go to www.newlife4kids.org or www.missiondiscovery.org
- 2014 Upcoming trips: June and October
Avoiding ACA's Cadillac Tax: Five Most Costly Benefit Plan Misconceptions
Post-workshop questions or to get the links for upcoming webinars:

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Thank you