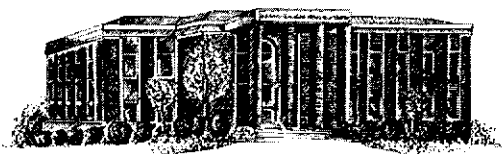


**TEACHERS' RETIREMENT SYSTEM  
OF KENTUCKY**

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SERVING KENTUCKY TEACHERS SINCE 1940

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May 15, 2015

CC:PA:LPD:PR (Notice 2015-16)  
Room 5203  
Internal Revenue Service  
P. O. Box 7604  
Ben Franklin Station  
Washington, DC 20044

Sent Via Electronic Mail to [Notice.comments@irs.counsel.treas.gov](mailto:Notice.comments@irs.counsel.treas.gov)

**RE: NOTICE 2015-16 Section 49801—Excise Tax on High Cost Employer-Sponsored Health Coverage**

The Kentucky Teachers' Retirement System (KTRS) is thankful for the opportunity to comment on the potential federal excise tax regulations provided in Notice 2015-16 as part of the Patient Protection and Affordable Care Act (PPACA).

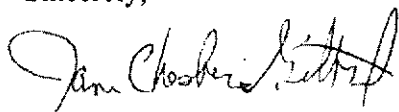
KTRS provides health coverage to 45,000 retired Kentucky educators. The Medicare eligible retirees are covered by a fully-insured Medicare Advantage plan and a self-funded Medicare Part D drug plan (EGWP) combined to create the KTRS Medicare Eligible Health Plan (MEHP) where KTRS functions as the plan sponsor. The pre-Medicare eligible retirees are covered by the Kentucky Employees' Health Plan (KEHP) which covers a total of 260,000 active teachers and state employees, as well. The KEHP is a self-funded commercial plan that has about 40% of its participants in a consumer driven health plan model.

KTRS understands and applauds the health care reform efforts that strive to cover millions of uninsured in an effort to bring down our nation's healthcare costs as a whole. KTRS acknowledges the moral hazard of "Cadillac" health plans causing exorbitant costs in that unmanaged health plans with rich benefits do produce high utilization and healthcare costs. High utilization and healthcare costs can many times be the result of age and geographic location and not be a direct result of any rich benefit plan designs. The KTRS MEHP and KEHP described above have industry best practices in terms of managed care via the Medicare Advantage and consumer driven health plan models including medication therapy management, disease management, case management, and prior authorization to name a few.

Those drafting the federal excise tax regulations assume that employers/plan sponsors will decrease healthcare benefits in an attempt to avoid the 40% excise tax penalty, and that those benefit reductions will be resurrected in the form of increased taxable salaries producing more revenue to help pay for covering the uninsured. This assumption is incorrect for many public sector state government retirement plans like KTRS, however, as the pension annuity calculations and cost of living adjustments are established by state statute. With no corresponding increase in pension annuities available to offset reduced healthcare benefits, a reduction in those benefits would be very harmful to retired Kentucky educators who would have no means of making up for the lost benefits. They would also be harmed with the continuance of the existing benefits. As plan sponsors, in order to maintain costs, they would be required to shift the cost of the federal excise tax back to the retirees in the form of higher premiums. The result is that retired Kentucky educators would be presented with two "no win" options. In addition, valuable healthcare benefits are necessary for retired Kentucky educators and other state educators as they do not have the guaranteed financial safety net of Social Security (or that of a spouse's) to supplement their retirement savings and the average retired Kentucky teacher pension is modest. In short, the proposed federal excise tax would have a very significant and detrimental effect on the standard of living of thousands of retired Kentuckians living on a fixed income.

With the above responses and explanations, KTRS respectfully requests repeal of the federal excise tax by passage of H.R. 879. Thank you for your consideration.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jane Cheshire Gilbert". The signature is fluid and cursive, with the first name "Jane" being the most prominent.

Jane Cheshire Gilbert, CPA  
Director of Retiree Health Care  
Kentucky Teachers' Retirement System