

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

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NOTICE TO BENEFITS INELIGIBLE EMPLOYEES ELIGIBLE FOR MASS HEALTH CONNECTOR PLAN

TO: All Non-Benefit Eligible Employees of the National Bureau of Economic Research (NBER)
FROM: Human Resources
RE: Massachusetts Health Insurance Law
DATE: November 1, 2009

The Commonwealth of Massachusetts has enacted a law that requires all residents to have health insurance. Failure to have health insurance will mean an actual tax penalty.

Since you are not eligible for a health insurance plan through the NBER, we want to inform you of the options to help you meet the state requirement.

1. You can have health insurance through a spouse or another employer.
2. You can enroll in one of the health plans offered by the Commonwealth's "Health Connector".
3. You may have health insurance, or qualify for health insurance, under Mass Health.
4. You may qualify for Commonwealth Care, which provides a subsidy to help cover the cost of health insurance. (This option is based on individual financial circumstances.)
5. You could petition the Health Connector for a health insurance waiver because of financial hardship or religious reasons.
6. You could elect not to have any health insurance and incur the financial penalties the state imposes for lack of coverage.

The Health Connector has been set up by the Commonwealth to help people obtain health insurance if they do not currently have it. Many of the health plans in Massachusetts (e.g. Blue Cross Blue Shield, Tufts, Harvard Pilgrim, and Neighborhood) have established options with the Health Connector for you to choose from. There are a variety of options from a basic, less costly plan to a plan with more complete benefits. The actual cost of the coverage is based on the option you select, the type of coverage you need (individual, family), your age, and your income.

The Health Connector will tell you how much you have to pay for the coverage you select. The NBER does not contribute anything to the cost of your coverage. However, the NBER will set up a pre-tax payroll deduction for you. With a pre-tax deduction you actually pay less in taxes (federal, state, and social security) because the health deduction is taken from your gross pay before taxes. In other words, with this method you pay less in taxes because your gross pay is less. The Health Connector will notify the NBER how much you have to pay for the coverage you selected so the NBER can deduct that amount

on a pre-tax basis from your pay. The NBER will then submit the pre-tax deductions to the Health Connector on your behalf.

If you choose to enroll in a health insurance plan through the Health Connector, please review the attached description of the Section 125 Plan carefully. Once you select coverage with the Health Connector, there are IRS restrictions on when you can change the pre-tax deduction amount prior to the end of the year. (You will have the ability to make changes for a new year.) Also, you should be aware that it will take time to start up your account with the Health Connector, have payroll deductions commence and have the Health Connector insurance become effective (up to 2-3 months). Before payroll deductions begin, you will need to pay for your coverage on an after-tax basis directly to the Health Connector.

If you do not enroll with the Health Connector prior to November 15, 2009 (or within 30 days of the date you become eligible at the NBER, if later), you will not be eligible to make your required contributions on a pre-tax basis until the next Plan Year. In addition, if you do not enroll with the Health Connector during your enrollment period, you must return the attached form entitled "Employee Health Insurance Responsibility Disclosure Form" by the end of your enrollment period. Please return the attached form to Diane Birnbaum, 1050 Massachusetts Avenue, Room 411, Cambridge, MA 02138.

With the exception of the payroll deduction, the relationship is between the Health Connector and you. You deal directly with the Health Connector for all issues and concerns regarding your coverage. The NBER does not sponsor, endorse or administer any of the plans offered by the Health Connector, and the Health Connector plans are not part of the NBER's benefits program.

- You can view the health plan options by either checking the Connector's website: (www.MAhealthconnector.org) or by calling its customer service center at 1-877 623-6765.
- To enquire about Commonwealth Care eligibility, use its website: www.MAcommonwealthcare.com or the customer service center at 1-877-623-6765.
- For financial hardship or religious waivers call the Health Connector's customer service center at 1-877-623-6765.

National Bureau of Economic Research, Inc.

PLAN DESCRIPTION

FOR THE

“PREMIUM ONLY”

SECTION 125 CAFETERIA PLAN

**For Massachusetts Residents who are
Benefits Ineligible under the Company’s Group Health Plan**

Effective March 1, 2009

This plan description provides an overview of the requirements for participation in the above-described Plan and is intended to be a brief summary. The Plan is governed by a formal plan document. If there are any differences between this summary and the official plan document, the plan document will govern.

Introduction

We are pleased to announce that we have established our Section 125 Cafeteria Plan (the "Plan") under which you may pay your health insurance premiums on a pre-tax basis. Under the Massachusetts Health Care Reform Law, you are now eligible for favorable tax treatment of your health insurance premiums even though you are not eligible for health insurance coverage through the National Bureau of Economic Research, Inc (NBER). Your participation in this Plan is completely voluntary, but is automatic following your enrollment in health insurance coverage through the Massachusetts Health Connector as described in this Plan Description.

Participation In The Plan

Under the Plan, you may choose to receive your entire compensation in cash or use a portion of it to pay for certain health insurance coverage premiums (See "Health Insurance Coverage" below). When you elect health insurance through the Health Connector, your regular compensation will be reduced on a pre-tax basis by the amount of your premium payment for the coverage you have selected. This means that you will pay less in taxes each year.

No pre-tax deductions will be taken under the Plan until NBER receives notification from the Health Connector of your enrollment (usually 1-2 months following your enrollment with the Health Connector). Before that date, any premium payments must be made by you on an after-tax basis directly to the Health Connector.

Important note: When you pay for health insurance coverage using pre-tax income, the amount withheld from your pay will not be subject to federal income or Social Security ("FICA") taxes. This could result in a reduction in the Social Security benefits you receive at retirement if you earn less than the "taxable wage base." The taxable wage base for 2009 is \$106,800 and is adjusted annually. The tax advantages you gain by paying your health insurance premiums with pre-tax income may, however, offset any possible reduction in Social Security benefits and you should consult a tax advisor to determine whether in your situation the benefits achieved outweigh any potential reduction of Social Security benefits.

Health Insurance Coverage

You can use pre-tax dollars to purchase any health insurance coverage that has been granted the seal of approval by the Commonwealth Health Insurance Connector Authority (the "Connector"). This coverage is not offered through this Plan or through the NBER, is not endorsed or administered by the NBER and is not part of the NBER's benefit program. Your eligibility for the health insurance coverage is determined by the Health Connector and the applicable insurance carrier.

Additionally, although the Health Connector has granted its seal of approval to these health insurance options, coverage is provided by the insurance carrier issuing the applicable health insurance policy. Neither the Health Connector nor the NBER have any liability for any benefits due, or alleged to be due, under any such health insurance policies.

Eligibility

You are eligible to participate in this Plan if (i) you are an employee of the National Bureau of Economic Research, Inc., (the “NBER”); (ii) you are not an “excluded employee;” and (iii) you have completed three months of service.

You are an “excluded employee” if you are:

- (i) eligible for another Section 125 Cafeteria Plan offered by the Company;
- (ii) less than 18 years of age;
- (iii) a temporary employee, as defined by MA Health Connector guidelines;
- (iv) regularly scheduled to perform fewer than 64 hours per month;
- (v) a student employee employed as an intern or a cooperative education student worker;
- (vi) a seasonal employee who is an international worker with either a U.S. J-1 student visa, or a U.S. H2B visa and you have travel health insurance.

Independent contractors and leased employees are not eligible to participate in the Plan.

Participation In The Plan

If you are eligible to participate in the Plan, in order to use pre-tax dollars to pay for health insurance coverage offered through the Health Connector you must enroll with the Health Connector within 30 days following the date you become eligible. As part of your enrollment with the Health Connector you will also need to select a health insurance plan and complete an enrollment form. More than one method of enrollment may be available, such as a written enrollment form, electronic enrollment on an internet web site or via telephone. For more information on health insurance options offered through the Health Connector and/or to enroll in health insurance, please visit the Health Connector’s website at www.MAhealthconnector.org or call its customer service number (1-877-623-6765). Your pre-tax election will be implemented as soon as practicable following the time NBER receives an invoice from the Health Connector.

Your participation in the Plan will remain in effect until you cancel it or you otherwise become ineligible to participate in the Plan.

If you do not enroll in health insurance coverage within 30 days following the date you become eligible, you will be deemed to be a participant in the Plan who has elected the cash option. This means that, absent a change in status event (described in the next section below), you will not be able to use pre-tax dollars to purchase health insurance coverage until the Plan’s next annual enrollment period.

Before the start of each Plan Year which will run January 1-December 31 each year starting January 1, 2010, you will be offered an annual enrollment period to change your existing

health insurance election. If you do not make a new election, your existing election will remain in effect.

Changing Your Election

Generally, you cannot change your health insurance elections during the Plan Year. However, you are permitted to change certain elections if you experience an IRS defined “change in status” and/or other special events as described below.

Examples of status changes include these events:

- marriage;
- divorce, legal separation or annulment;
- death of your spouse or dependent child;
- birth, adoption or placement for adoption of a child;
- termination of the employment of your spouse or dependent child;
- commencement of the employment of your spouse or dependent child;
- your or your spouse’s or dependent child’s commencement or return from an unpaid leave of absence from employment;
- adjustment to your or your spouse’s or dependent child’s work schedule, such as a switch between part-time and full-time work, a strike, a lockout or an increase or reduction in hours of employment, that causes a loss of coverage;
- a change in your or your spouse’s or dependent child’s worksite or residence that causes a loss of current coverage eligibility;
- adjustments in dependent status through satisfying or ceasing to satisfy the age, student status or other requirements to qualify as a dependent under the Plan;
- significant change in your or your spouse’s health insurance coverage attributable to the spouse’s employment; and
- leave of absence under the Family Medical and Leave Act.

Your election may also be changed if one of these special events occurs:

- the issuance of a judgment, decree or order that requires health insurance coverage for your dependent child.
- your or your spouse or dependent child become enrolled in Medicare or Medicaid, you may be eligible to cancel or reduce coverage.
- a “significant” increase in the cost of any benefit under the Plan, you may be eligible to elect to change coverage to another similar but less costly benefit
- elimination or “significant” cutback in coverage provided by an insurance company or other third party. You may be eligible to cancel your election and receive coverage under a similar plan, provided both plans agree to make the change.

Please note that under the IRS rules, changes in status involving a same-sex spouse are not recognized.

If your health insurance premium increases and such increase is not “significant,” a corresponding increase will automatically be made to your pre-tax deductions under the Plan.

If you have a status change and/or other special event and you want to cancel or modify your health insurance election for the remainder of a Plan Year, you must file a request with the NBER within 30 days of the event. Keep in mind that any change to your election must be consistent with your status change. The NBER will consider your application and inform you of the decision; in such a case you will also be required to change your election with the Health Connector.

All change requests received more than 30 days after the date the event occurred will not be processed. To make the change after this 30 day period, you will have to wait until the next annual enrollment period or a subsequent status change event, whichever occurs sooner.

Individuals Not Covered By This Plan

There are certain instances where an individual is a dependent for certain purposes but may not be your dependent for purposes of this Plan. For example, if you cannot claim the individual as a dependent on your federal income tax return, but the individual is eligible for coverage under your health insurance, the value of the coverage for this individual must be paid on an after-tax basis (unless certain special exceptions apply). In addition, domestic partners and same sex spouses are not eligible for the favorable tax treatment unless you can claim them as dependents on your federal income tax return (but coverage for same sex spouses does receive favorable tax treatment for Massachusetts income tax purposes). Contact the individual named below if you have any questions on how these special tax rules apply to you.

Participation While On Leave

If you take a leave of absence for your own serious health condition or to care for family members with a serious health condition or to care for a newborn or adopted child, you may be able to revoke your election. If you revoke your election, you may also reinstate your election when you return to work. Contact the NBER for more information about your rights under the Family Medical Leave Act.

Termination Of Employment

If you stop working for the NBER, you will no longer be eligible to participate in this Plan and your participation will automatically terminate. This means that your health insurance premiums payable after you stop working for the NBER must be paid for by you on an after-tax basis directly to the Connector (until you subsequently become employed and enroll in another employer's cafeteria plan). In the event you become a participant in this Plan again within 30 days of the date you stopped being a participant and before the end of the same Plan Year, the elections you previously had in effect will automatically be reinstated for the balance of the Plan Year.

Keep in mind, your termination of employment does not affect your underlying health insurance coverage. You can keep your health insurance coverage in effect by simply continuing to make the required monthly premium contributions by sending after-tax payment directly to the Health Connector by the applicable due date.

Insufficient Compensation to Pay Cost of Coverage

If your compensation from NBER does not cover the full cost of your premium for Health Connector coverage, you will be responsible for making after-tax payments directly to the Health Connector to keep your insurance current.

Questions

If you have any questions or would like additional information, you can contact Diane Birnbaum at 617-868-3900.