ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits

THE 'CADILLAC TAX': BASED ON MYTHS AND BAD FOR HEALTH CARE

MYTH #1

THE 40% TAX ONLY APPLIES TO 'CADILLAC' HEALTH PLANS

TRUTH:

- The so-called "Cadillac Tax" applies to employer-sponsored health plans above a certain threshold, which means the 40% tax applies a penalty to ALL employees and ALL employers whose plans exceed these levels
- A Willis Towers Watson survey found that 82% of employers expect their plans will be affected by the tax by 2023
- The tax unfairly targets employers whose plans are expensive not because they are "too generous" but because they cover large numbers of women, older or disabled workers, or families with chronic health conditions
- The "Cadillac Tax" disproportionately affects employers with locations in high-cost areas or in specific industries, such as manufacturing or law enforcement
- Because the "Cadillac Tax" is indexed to the consumer price index, which is lower than health care inflation, an increasing number of health plans will be subject to the tax every year

BOTTOM LINE:

The threat of this tax is forcing employers to change the health care benefits that their employees like and want to keep.

MYTH #2

THE 40% TAX ONLY IMPACTS HIGH-WAGE WORKERS AND GENEROUS UNION PLANS

TRUTH:

- 175 million Americans rely on employer-sponsored health coverage. The 40% tax on health benefits affects families across all walks of life and in many professions, including:
  - Low wage and part-time workers
  - Workers in the public, private and non-profit world
  - Workers in diverse professions and economic sectors, including retail, education, health care, hospitality, the clergy, and the self-employed
  - Public servants protecting our safety, like firefighters and police officers

- Employees and beneficiaries at every stage of their careers, including retirees
- Workers in every state and locality

BOTTOM LINE:

175 million Americans receive health coverage through their jobs and employers should not be penalized for offering the health benefits their employees want and have earned.

MYTH #3

THE 40% TAX WON'TAFFECT ME BECAUSE MY PREMIUMS ARE BELOW THE THRESHOLD

TRUTH:

- An issue brief by the Kaiser Family Foundation found that "a meaningful percentage of employers would need to make changes in their health benefits" to avoid the 40% tax, and if health plan premiums continue to grow faster than inflation, as expected, all employers will eventually be affected by the tax.
- To stay below the cost threshold that triggers the tax, employers will need to increase employee cost sharing, such as higher deductibles and co-pays
- The tax is calculated by adding **all** of an employer's health care spending including on-site medical clinics, employee wellness plans, Health Savings Account contributions, flexible spending arrangements, health reimbursement arrangements and certain employee assistance plans
- A nationwide threshold imposes unfair burdens on high-cost areas

BOTTOM LINE:

The "Cadillac Tax" is a blunt instrument designed to discourage what is considered to be overly generous health coverage. But it also inadvertently discourages employer innovations and efforts to keep workers healthy. Implementing the "Cadillac Tax" will destabilize employer-offered health benefits and cause many of the 175 million people with this type of coverage to lose valuable benefits.

MYTH #4

THE 40% TAX WON'T AFFECT AN EMPLOYEE'S OUT-OF-POCKET COSTS OR BENEFITS

TRUTH:

- Recent studies by the American Health Policy Institute and Aon Hewitt indicate that significant numbers of employers are modifying their plan designs to avoid paying the 40% tax
- Employee deductibles, cost-sharing and co-pays are increasing as employers modify their health plans to avoid triggering the 40% tax
- Increased cost-sharing will force workers to pay more for their health care, leaving them with less income for their families

BOTTOM LINE:

The "Cadillac Tax" will force businesses to provide plans with fewer benefits and higher deductibles, meaning workers will pay even more out-of-pocket for health services.

MYTH #5

THE 40% TAX WILL CONTROL HEALTH CARE SPENDING

TRUTH:

- The 40% tax forces employers to shift the burden of health care costs onto employees and has no impact on the actual cost of health care
- Employers already use numerous innovative and cost saving tools to control health care costs, including:
    - Wellness plans
    - Accountable care arrangements
    - Network and care management
- Increased out-of-pocket costs often compel individuals to avoid or defer care and treatment, which may lead to more costly medical interventions later on

BOTTOM LINE:

The "Cadillac Tax" doesn't reduce the cost of health care, it simply shifts the burden to employees.

MYTH #6

EMPLOYERS WILL INCREASE WAGES TO OFFSET BENEFIT REDUCTIONS

TRUTH:

- The American Health Policy Institute indicate that most employers will not increase wages, even as they are forced to reduce health care benefits to avoid the 40% tax penalty
- According to the Kaiser Family Foundation/Health Research and Educational Trust study, since 2010, employees' share of health care deductibles increased by 67% while wages only rose by 10%
- In 2014, the American Health Policy Institute estimated that employees would see a reduction of over $6,000 in health benefits due to the Cadillac tax with little or no increase in pay

BOTTOM LINE:

The "Cadillac Tax" reduces the value of employer-sponsored health benefits, which will not be offset with increased wages for employees.

MYTH #7

THE IMPACT OF THE TAX WILL BE FELT EVENLY ACROSS THE 50 STATES.

TRUTH:

- Health care costs vary across the country, but the Cadillac tax thresholds do not. This means individuals living in higher cost areas would pay more Cadillac tax for the same level of health coverage as individuals living in lower cost areas.
- President Obama's 2017 budget proposal identifies the unfair geographic disparity caused by the tax and suggests a modest geographic adjustment. Unfortunately, the proposal does not address the real concern of geographic impact and adds enormously to the complexity of calculating the tax.

- While high-value gold and platinum plans that are sold in the Affordable Care Act Marketplaces would continue to avoid the "Cadillac Tax," the proposal would still tax plans of lesser value that are offered by employers

BOTTOM LINE:

The "Cadillac Tax" is fundamentally flawed and should be repealed. Small tweaks won't solve this problem.

MYTH #8

EMPLOYERS CAN SIMPLY ESCAPE THE TAX BY PUTTING PRESSURE ON PLANS AND PROVIDERS TO BE MORE EFFICIENT.

TRUTH:

- Employers already have every incentive to mitigate health costs. In fact, employers have led the way to make health care more efficient and effective and business imperatives will continue to drive cost containment – with or without the tax
- The California Public Employees' Retirement System (CalPERS) is often cited as a model to be emulated for its innovative cost-saving programs. Yet even CalPERS has health plans that are projected to trigger the tax.
- The ACA was designed to expand employer-sponsored coverage. But because the tax could ultimately discourage many employers from offering coverage, it undermines a key goal of the ACA

BOTTOM LINE:

A 40% tax on health care benefits is not in keeping with a promise of health care reform – to protect the health care coverage people like and want to keep.

MYTH #9

WE CAN DELAY OR WAIT UNTIL 2020 TO ADDRESS THE 40% TAX ON BENEFITS.

TRUTH:

- Delaying the effective date may blunt the impact of the tax for some, but it is not a long-term solution
- Benefit plan changes are made years in advance and will affect employees long before the tax is implemented; In fact, it is already happening.
- Health care costs continue to outpace inflation and additional requirements – of the ACA and at the state level – add to the growing cost of health plans
- The longer Congress waits to repeal the tax, American workers and their families can expect to see deeper cuts and higher out-of-pocket costs

BOTTOM LINE:

The "Cadillac Tax" must be repealed now.