ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits

# The “Cadillac” Tax: Bad for workers and based on myths.

REFUTING THE TOP TEN MYTHS ABOUT THE 40% TAX ON HEALTH BENEFITS.

**IN 2018, THE AFFORDABLE CARE ACT WILL IMPOSE A NEW 40% PUNITIVE EXCISE TAX ON HEALTH BENEFITS. THIS SO-CALLED “*CADILLAC TAX*” WILL AFFECT MILLIONS OF AMERICANS.**

The Affordable Care Act (ACA) includes a 40% excise tax on employer-sponsored health coverage above certain thresholds and is set to take effect in 2018. Policymakers included this so-called “Cadillac Tax” in the ACA to raise revenue and in hopes of reducing the cost of health care. During the debate, the tax was described as something that would only affect a small minority of “overly generous” plans, the measure has turned out to be significantly more far-reaching than originally thought.

**If left unchanged, the 40% tax will impose a costly burden, putting at risk the health coverage of more than 150 million hardworking Americans and their families.**

# MYTH #1

**“THE 40% TAX ONLY HITS OVERLY GENEROUS, ‘CADILLAC’ HEALTH PLANS.”**

The 40% tax does not hit only “overly generous Cadillac plans”—it also penalizes employers and employees for health costs they cannot control. Because the tax is based on premium costs, the tax will hit organizations that employ a higher number of disabled workers, employees and family members who experience high-cost cancer treatments, or give birth to premature babies. Workers with larger families may have higher costs that could also trigger the tax. Similarly, employers’ size, their geographic location in high-cost areas, and employee characteristics all affect the premium price and disproportionately increase the risk of tax liability. These plans may be modest, but because of unavoidable health problems or demographics they will be captured by this tax.

Exacerbating the problem is the fact that the tax is not indexed to keep pace with long-term trends in health care inflation. This means that every year, a growing number of average health plans will fall prey to the tax until almost all plans are swallowed by it. A recent Towers Watson analysis revealed that within 5 years of the tax’s taking effect, “82% [of employer plans] could cross the threshold.”

# MYTH #2

### “THE 40% TAX ONLY HITS A FEW SELECT EMPLOYERS AND WORKERS IN HIGHLY-COMPENSATED INDUSTRIES, LIKE STOCKBROKERS AND LAWYERS.”

The 40% tax on health benefits will affect middle-class families – it is not limited to certain employers or industries. It will expose all workers and even retirees with employer-sponsored health benefits as potential targets. Firefighters, retail workers, teachers, health care providers, nonprofits, hotel staff, clergy, state and local employees, and the self-employed will all be affected by the 40% tax.

# MYTH #3

### “MY PREMIUMS ARE BELOW THE THRESHOLD SO MY PLAN WON’T HIT THE 40% TAX.”

The 40% tax is based on employer *and* employee premium contributions, *and* it is added on top of the cost of additional benefits such as employee wellness plans, on-site medical clinics, employer and employee health savings account (HSA) contributions, flexible spending arrangements, health reimbursement arrangements, and certain employee assistance plans and other benefits. This means that even if it appears that a plan could be below the threshold- when the “applicable cost of coverage” (as defined by the statute) is added, even a high deductible health plan in higher-cost areas could trigger the tax in 2018.

A 2015 study issued by the HSA Council of the American Bankers Association stressed that average high deductible health plans may hit the 40% tax in 2018 in high cost states like Connecticut, Alaska and New Jersey.

# MYTH #4

### “THE 40% TAX WON’T AFFECT EMPLOYEES’ COSTS AND BENEFITS.”

**Employees are already losing benefits.**

Employers are already being compelled to curtail vital benefits to avoid triggering the tax. This forces employees to pay more out of their own pockets for health care. Because the tax includes both the employer and employee premium contributions, employees are now bearing a larger portion of non-premium costs, such as co-pays and deductibles, in order to keep premium costs below the threshold that would trigger the tax.

Organizations are redesigning their benefit packages to delay incurring the tax. Despite these efforts, ACA provisions prescribing certain benefits and cost-sharing requirements will eventually make it impossible for employers to offer plans that fully comply with the ACA’s employer mandate requirements without triggering the 40% tax, as health care inflation continues to outpace the consumer price index.

According to a 2014 American Health Policy Institute survey of more than 350 large companies, “over 38 percent said they would be impacted by the tax in 2018 unless they made changes to their plan designs before then,” and an October 2014 Aon Hewitt study of 317 U.S. employers found that “one-third (33 percent) were already reducing the richness of their plan designs through higher out-of-pocket costs.”

# MYTH #5

### "THE 40% TAX IS ESSENTIAL TO CONTROL HEALTH CARE SPENDING."

While an original goal of the 40% tax may have been to reduce "overconsumption" of health care services, and therefore put downward pressure on costs, the reality is that the tax is forcing employers to require employees to share a larger burden of their health costs to avoid the tax. Employers are already doing what they can to decrease health care costs, using numerous cost-saving tools such as wellness plans, reference pricing, network and care management, and others. Adding taxes and administrative expenses to health plans will not address the true drivers behind health care cost growth. Tens of millions of hard-working Americans will see reduced health care coverage and increased out-of-pocket expenses, without any guarantee that the cost of health care will be reduced.

# MYTH #6

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

Employers have been leading the way in making health care more efficient and effective for years and they will continue to drive cost containment. But these measures cannot be expected to offset the compounding impact of actual health care inflation over time. The California Public Employees' Retirement System (CalPERS) is often cited as the model to be emulated for its innovative cost-saving programs. Yet even CalPERS has health plans that are projected to trigger the tax in 2018. (See http://calpensions.com/2015/03/30/calpers-urged-to-avoid-obamacare-cadillac-tax)

Additionally, more employers' health benefits will trigger the tax as health costs continue to increase at a faster rate than the measure of inflation used to index the 40% tax thresholds. If offering health benefits becomes too costly for employers, the health care system could lose a powerful market force in the fight for greater quality and cost containment.

The ACA was designed to expand this important form of health insurance coverage, but because the tax could ultimately discourage employers from offering coverage, it undermines a key premise of the ACA.

# MYTH #7

### "EMPLOYERS WILL INCREASE WAGES TO OFFSET BENEFIT REDUCTIONS."

According to the official scorekeepers in Washington, 75% of the revenue expected to be raised by this tax is estimated to come from an increase in taxable wages, as employers are expected to significantly decrease their health benefits and (on a dollar-for-dollar basis) increase an employee's wages to ensure compensation remains constant. This economic theory is based on dated academic papers and does not represent the actual behavior of employers.

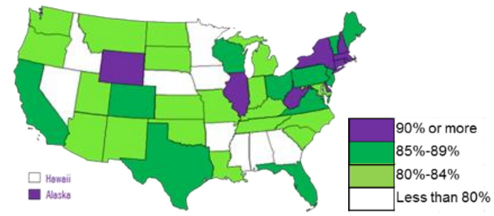
The American Health Policy Institute estimated in a November 2014 study that "employees could see up to a $6,150 reduction in their health care benefits and little or no increase in their pay and that even if employers increase the taxable wages of employees, something that is not clear in the current business cycle, a significant portion of the increase in take-home pay may be spent on higher out-of-pocket health care expenses as deductibles and out-of-pocket limits increase."

# MYTH #8

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

Health care costs vary dramatically across different regions and states due to factors completely unrelated to health care consumption. This includes different levels of competition among providers or even higher real estate costs for medical facilities.

The 40% tax is not adjusted for geography, and the effect of this tax will be felt sooner and hit harder in higher-cost areas of the country. Employees and employers in high-cost regions will bear a disproportionate burden.



Projected average total base medical premium in 2025 as a percent of projected excise tax threshold

# MYTH #9

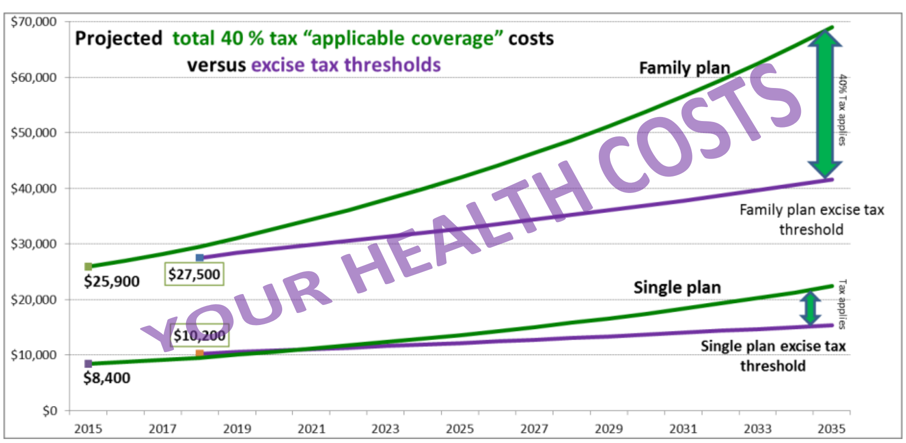
### "THE TAX ONLY AFFECTS UNIONS."

The 40% tax applies to ***all*** employers. It applies equally to self-employed individuals, non-profit charitable organizations, state and local governments, churches and companies of **all** sizes.

# MYTH #10

### "WE CAN DELAY OR WAIT UNTIL 2018 TO ADDRESS THE 40% TAX ON BENEFITS."

The cost of health care continues to increase faster than overall inflation and the additional requirements of the ACA and state benefit requirements add to the growing cost of health plans. While delaying the effective date or increasing the thresholds may blunt the impact of the tax for some, they are not long-term solutions. Employers and employees face continued uncertainty as the tax looms over them. Also, benefit plan changes must be made years in advance. If Congress waits until 2017 to address this problem, it will not help employers avoid this nondeductible tax, nor will it help workers and their families avoid higher costs and reduced benefits.



Source: Health cost growth based on CMS Office of Actuary National Health Expenditure projection; general price inflation based on Congressional Budget Office forecast.

# Repeal the 40% tax now

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