Studies Documenting the Impact of the 40% Tax on American Workers, Businesses, and Health Benefits

Impact on American Workers

- A study by the Economic Policy Institute found that because the tax is focused on high premiums, not high levels of coverage, companies that tend to pay higher premiums – such as small businesses and employers with a high proportion of sick workers – could wind up paying the tax even though their benefits are not particularly generous. Also, if employers try to avoid the tax by shifting to less generous plans, workers will likely suffer when it comes to their overall compensation, even if they get a boost in wages to make up for the lost health benefits.

- The tax will disproportionately affect women, older employees and certain geographic areas. A 2014 report by actuarial and benefits consulting firm Milliman identified that geography could potentially account for a 69.3% variation in premium. For example, a plan that would cost $9,189 in one area would cost $15,556 elsewhere. The report also demonstrates that the 40% tax's age and gender adjustment fails to compensate for the impact those factors have on premiums when combined with a high-cost geographic area and/or lower provider discounts.

- According to a 2014 study by Truven Health Analytics, the 40% tax will result in a cost increase of up to $480 per employee per year for plans that are expected to incur the tax. Early retirees are projected to incur the tax at a much higher rate than active employees, with 81% of such plans likely to trigger the tax.

- A study by the American Health Policy Institute estimated the 40% tax "could cost 12.1 million employees an average of $1,050 in higher payroll and income taxes per year, *if* employers increase their taxable wages as they reduce the cost of health care benefits. Alternatively, these employees could see up to a $6,150 reduction in their health care benefits and little or no increase in their pay."

Impact on Employers

- 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 in 2018, and this percentage grows significantly over time unless employers are able to keep heath plan cost increases at low levels. In fact, 19 percent of employers already in 2015 have a plan that would exceed the threshold when flexible spending accounts are included in the calculation. These firms would need to reduce their current plan costs over the next several years to avoid the tax. By 2028, 42% of employers would have plans where costs would exceed the threshold for some or all employees. And if health plan premiums continue to grow faster than inflation, as expected, *all* employers will eventually be affected by the tax.

- According to a survey by the actuarial and benefits consulting firm Towers Watson, 48% of employers believe the plans they provide will be affected the first year the law is implemented. And that rises to 82% of employers by 2023, just five years later.

- The Lockton Companies wrote in a 2015 benefits guidance document, "When we project five and ten years into the future, based on current guidance, the majority of our clients will eventually trigger the tax."

- Eventually, the 40% tax will apply to modest plans, not just high-cost coverage as intended. A recent study by actuarial and benefits consulting firm Mercer found that the Federal Employees Health Benefits Program's (FEHBP) Blue Cross Blue Shield standard option plan was projected to hit the 40% tax in 2019 for employee-only coverage, and in 2025 for family coverage.

- A study by the American Bankers Association's HSA Council found that "If your current HSA-qualified family health plan costs more than $17,000, including wellness programs, your firm is likely to incur excise tax liability in 2018 if anyone makes a maximum contribution."

Impact on Health Benefits

- The actuarial and benefits consulting firm Aon Hewitt reported that 33% of employers surveyed are increasing deductibles and other cost-sharing right now, in 2015, to avoid being on a trajectory to trigger the tax when it goes into effect in 2018. But fully 40% of employers expect at least one plan to unavoidably hit the tax threshold that year regardless.

- A survey conducted by the National Business Group on Health found that 42% of employers said they will increase employee cost-sharing, and 37% said they will reduce spousal subsidies or implement a surcharge for covering them to minimize the impact of the excise tax.

- A survey of 700 employers by Mercer in 2015 found that anticipation of the 40% tax is already leading many employers to consider excluding employees' spouses from their health policies or imposing a surcharge for including them. The survey found that the tax has consistently been the primary concern of employers since passage of the Affordable Care Act.

- The 40% tax is triggered when the value of an individual's health plan exceeds the $10,200 threshold – a supposedly high-end number for "Cadillac" plans. But a 2013 Mercer survey found that the average price of all employer-provided health plans in the state of Florida, for example, was already $10,067— a full 5 years before the tax goes in to effect.

- Because its thresholds are indexed to general inflation instead of faster-growing medical inflation, more plans will be hit by the tax every year. The tax thresholds ($10,200 for self-only coverage, $27,500 for family coverage in 2018) are indexed to the Consumer

Price Index, which the Congressional Budget Office (CBO) estimates will rise annually by 2.4% on average over the next decade. But the Centers for Medicare and Medicaid Services (CMS) projects private health care spending to rise 5.8% on average each year, as health care costs increase significantly faster than general inflation. This insufficient indexing of the thresholds means more and more plans will trigger the tax, and to a greater extent, over time.

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08/20/2015