

ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits

October 15, 2015

To: Members of the United States Senate

The Alliance to Fight the 40 is a broad-based coalition of employee and employer organizations representing, or providing health coverage to Americans in every state. The Alliance is committed to protecting employer-sponsored health coverage that safeguards over 175 million Americans. Currently, 30 Members of the Senate are supporting bills to repeal the “Cadillac Tax” - S. 2045 and S. 2075.

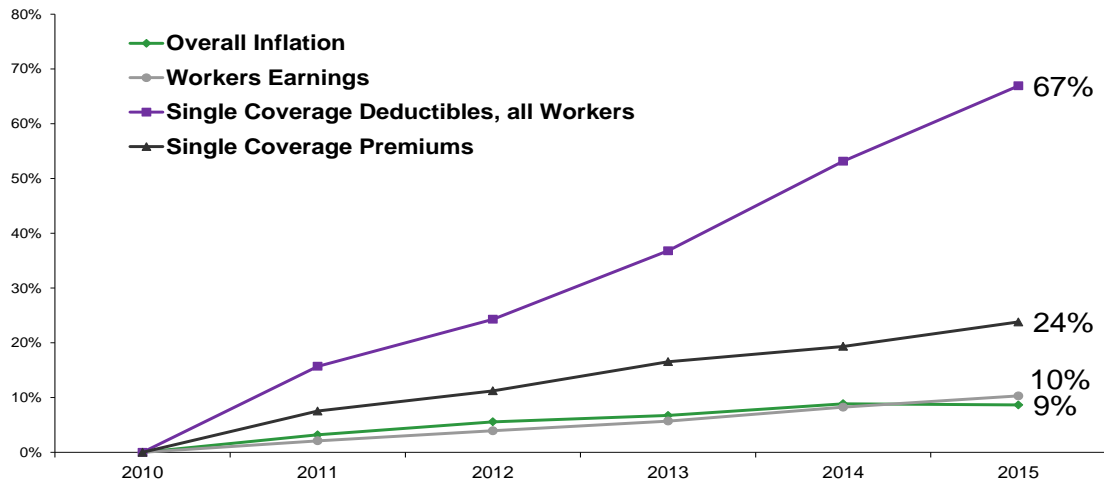
We urge all Senators who have not yet co-sponsored one or both of these measures to do so.

The Affordable Care Act (ACA) imposes a 40 % non-deductible tax (the so-called “Cadillac tax”) on the cost of employer-sponsored health coverage that exceeds certain thresholds. This includes plans covering retirees, small businesses and even self-employed individuals. Because it is an excise tax, it also will be imposed on health plans covering federal, state and local government workers, as well as plans sponsored by charitable and other non-profit organizations. Congress’ original intent was to target only a small number of “overly rich” plans. However, nonpartisan analyses reveal that it will hit modest health plans that are expensive simply because they are offered in high-cost areas; or because they cover large numbers of people whose health costs are typically higher than average—women, older and disabled workers, and families experiencing catastrophic health events.

Although the tax does not officially take effect until 2018, this is not a matter on which Congress can wait to act. Benefits firm Aon Hewitt reports that one third of employers who have determined the impact of the tax are increasing out-of-pocket costs this year – 2015 – to avoid hitting the tax in 2018. Illogically, the cost of benefit plan features designed to promote better health and reduce costs—such as on-site clinics, wellness programs, employee assistance plans, flexible spending accounts, health reimbursement arrangements, and both employer and employee pre-tax contributions to health savings accounts—are included when determining if the tax thresholds are crossed. Even the cost of preventive benefits such as cancer screenings and immunizations is included, despite the fact that the ACA requires such benefits to be provided with no employee cost-sharing.

Numerous surveys indicate that the 40% tax is forcing employers to increase their workers’ out-of-pocket costs through higher deductibles, higher premiums and other methods - during a period when costs have already been trending upwards. As you can see in the chart below, adding to the employee out-of-pocket cost burden is the fact that deductibles have been increasing dramatically in recent years and—despite claims to the contrary—wages are not rising as fast as health care costs. A 2015 analysis by the Kaiser Family Foundation found that since 2010, both the number of workers with deductibles, and the size of those deductibles, have risen 67%—nearly seven times faster than the 10% increase in workers’ wages.

Cumulative Increases in Health Insurance Premiums, General Annual Deductibles, Inflation, and Workers' Earnings, 2010-2015



NOTE: Average general annual deductible is among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.
 SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010-2015. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2010-2015; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2010-2015 (April to April).

A survey conducted earlier this year by the International Foundation of Employee Benefit Plans found more than a third of employers have increased out-of-pocket limits, in-network deductibles or employees' share of premium costs in response to the ACA. More than one in five employers have found it necessary to increase co-pays or coinsurance, increase workers' share of prescription drug costs or raise the share of dependent-coverage costs.

This trend illustrates that the 40% tax is a blunt tool that merely shifts cost to workers to try to achieve a downward trend on health care costs. The tax is not designed to decrease the actual price of health care nor improve the value.

Meanwhile, pre-tax savings vehicles such as flexible spending arrangements and health savings accounts, designed to help people afford higher deductibles may disappear completely because the cost of those valuable plan features are included when determining if a health plan's cost triggers the 40% tax.

The 40% tax needs to be repealed now as many employers are reluctantly compelled to shift costs to workers to avoid the tax. The burden often falls the hardest on those least able to afford it—lower-income, sicker and older workers. If we wait until 2018, it will be too late. Repeal the 40% tax now.

Sincerely,

[The Alliance to Fight the 40](http://www.Fightthe40.com)