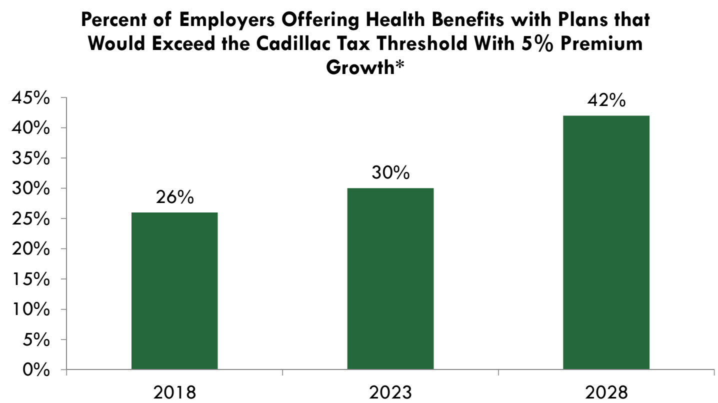
ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits

Kaiser Family Foundation Study Finds 1 in 4 Employers Offering Health Benefits Will Be Hit by the Cadillac Tax— the 40% Tax on "High Cost Plans" in 2018

A study released at the end of August by the Kaiser Family Foundation (KFF) analyzed the percentage of employer plans that could be affected by the Affordable Care Act's 40% tax on health benefits when it takes effect in 2018.[1] The KFF study projects one in four employers (26%) offering health benefits could be subject to the 40% tax in 2018 unless they make changes to their plans.



*Includes Health Plan Premiums, Employer Contributions to HSA, HRA and FSA Contribution.
Source: Kaiser Family Foundation, "How Many Employers Could Be Affected by the Cadillac Plan Tax?" Issue Brief, August 2015.

The 40% tax is a non-deductible excise tax of 40% of the value by which employer-sponsored health coverage exceeds certain benefit thresholds – initially, $10,200 for self-only coverage and $27,500 for family coverage in 2018.

The study, which is based on the distribution of employer-sponsored plans in the 2015 Kaiser/HRET Employer Health Benefits Survey, focused on plans for individuals, not families. The study makes two sets of projections; the first based on premiums for health care coverage plus employer contributions for Health Savings Accounts (HSAs) and Health Reimbursement Accounts (HRAs), while the second set includes the effects of Flexible Spending Accounts (FSAs). The analysis provided projections for 2018, 2023 and 2028, using different scenarios, including with and without FSAs; small vs. large employers; and with various growth rates in premiums.

Large employers particularly vulnerable

The study found that because large employers (those with 200 or more workers) are much more likely than smaller firms to offer an FSA, large employers are much more likely to have plans that exceed the 2018 tax threshold when FSA contributions are considered. KFF found that 46% of all large employer plans will be hit by the 40% tax in 2018 if no changes are made to their current plans – rising to 56% by 2023 and 68% by 2028. The study also noted that "[t]o the extent that health plan premiums continue to grow faster than inflation – a likely scenario – the share of employers affected by the [40% tax] will grow and eventually reach 100 percent."

[1] Kaiser Family Foundation, "How Many Employers Could Be Affected by the Cadillac Plan Tax?" Issue Brief, August 2015. The study refers to the 40% tax as the "high-cost plan tax" or "HCPT".

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Employees paying greater share of costs

However, the KFF study also found that many employers began making changes to their health plans in 2014 in anticipation of the 40% tax and more are likely to do so as the implementation date draws nearer. According to KFF, some of the things that employers can and are doing to reduce costs under the tax include:

- **Increasing deductibles and other cost sharing;**
- **Eliminating covered services;**
- **Capping or eliminating tax-preferred savings accounts like Flexible Spending Accounts (FSAs), Health Savings Accounts (HSAs), or Health Reimbursement Arrangements (HRAs);**
- **Eliminating higher-cost health insurance options;**
- **Using less expensive (often narrower) provider networks; or**
- **Offering benefits through a private exchange (which can use all of these tools to cap the value of plan choices to stay under the thresholds).**

"*For the most part, these changes will result in employees paying for a greater share of their health care out-of-pocket," the study's authors concluded.*"

Employees may see fewer options

Other key highlights of the study include:

- **The potential complexity of the tax may cause employers to reduce the number of health benefit offerings.** "The potential complications associated with allocating the tax burden and managing reimbursements to insurers (and potentially other services providers) may encourage employers to simplify their benefit arrangements and reduce the number of options that employees have and the number of coverage providers involved."

- **Flexible spending accounts are particularly at risk as a result of the 40% tax.** Since the tax is calculated with respect to each employee based on the combination of health benefits received by that employee, the tax threshold may be exceeded by some employees of an employer but not for others. This may make employers reluctant to give employees the ability to select benefit options that have the potential to trigger the tax, such as FSAs, which help employees pay for out of pocket expenses on a pre-tax basis.

The Alliance to Fight the 40: Stop the 40% Tax on Health Benefits is a broad based alliance comprised of public and private sector employer organizations, unions, consumer groups, health care companies, businesses and other entities that support employer-sponsored health coverage. This coverage is the backbone of our health care system and protects over 150 million Americans across all 50 states. The Alliance seeks to alleviate the harm caused by the 40 percent tax on employee health benefits to ensure that employer-sponsored coverage remains an effective and affordable option for working Americans and their families.