The "Cadillac Tax:" Reducing Benefits for Working Families

Today, 175 million working Americans rely on health insurance from their employer.[i] Numerous studies and data analyses reveal that families may experience increases in cost and significant reductions in benefits because of a new 40% tax, which is misleadingly labeled the "Cadillac Tax."

What is the "Cadillac Tax?"

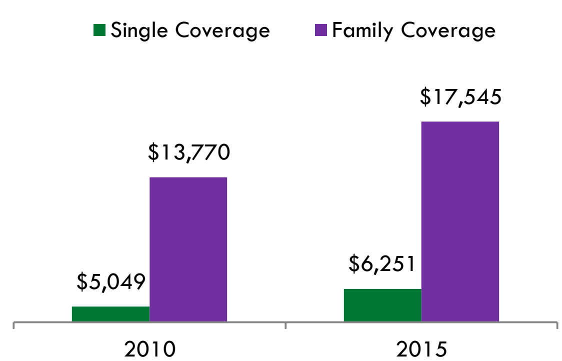
The so-called "Cadillac Tax" is a deductible excise tax of 40% on employer-sponsored health coverage that exceeds certain benefit thresholds – projected to be $10,800 for self-only coverage and $29,100 for family coverage in 2020. Congress' original intent was to target only a small number of "overly generous" plans. However, nonpartisan analyses reveal that it will also hit some modest health plans 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, pre-Medicare retirees, individuals experiencing catastrophic health events and, in particular, families.

The Cadillac Tax May Impact Families First

According to the Kaiser Family Foundation / Health Research & Educational Trust (HRET) 2015 Employer Health Benefits Survey, annual premiums for family coverage are increasing at a faster rate than annual premiums for single coverage.[ii]

When looking at premium increases from 2010 to 2015, premiums for single coverage increased 24% ($5,049 to $6,251), while premiums for family coverage increased over 27% ($13,770 to $17,545).[iii] Even worse, these cost increases far outpace the general inflation increases that apply to the "Cadillac Tax" indexation so that ultimately many/most plans will unavoidably trigger the tax even though they are not "rich" plans.

Premium Increases from 2010 to 2015*



***Does not include all benefits subject to the 40% tax.**

Unfortunately, the scope of the tax extends beyond health plan premiums and includes the cost of coverage for other benefits such as onsite medical clinics, wellness plans, employer and employee contributions to health savings accounts, flexible spending accounts, and health reimbursement arrangements as well as other benefits intended to protect working Americans against catastrophic health care expenses. When these benefits are taken into account, the Kaiser Family Foundation projected (prior to delay) that one in four employers (26%) offering health benefits could be subject to the 40% tax in the first year and nearly half of employers (42%) could be subject to the tax in 2028 unless they make changes to their plans[iv].

Data indicates that working families' health plans may be hit by the 40% tax sooner than single coverage health plans, because the rate of premium growth for family plans is increasing at a higher rate.

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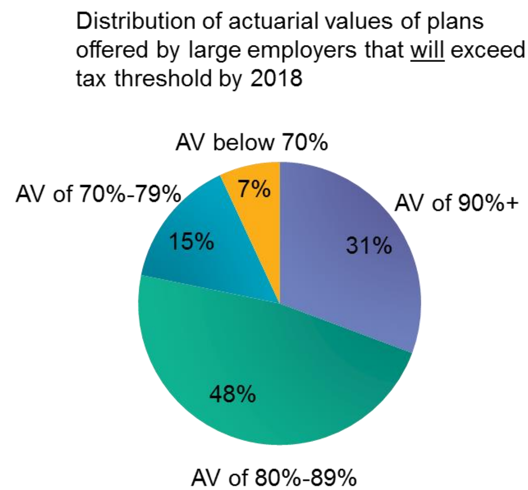
Alliance to Fight the 40: Stop the 40% Tax on Health Benefits

Families with Modest Plans Also Impacted by the 40% Tax

According to Mercer's 2014 National Survey of Employer-Sponsored Health Plans, the tax is not just on luxurious Cadillacs, it will also affect less generous plans.[v] These plans have lower actuarial values, which mean that the employee has to pay more of the cost for coverage (e.g., higher copays, higher deductibles).



Data based on Mercer's 2014 National Survey of Employer-Sponsored Health Plans (Conducted prior to delay of the tax until 2020)

At the time it was estimated, 22% of large employer plans subjected to the tax in the first year would have had actuarial values below 80%. Plans with actuarial values below 80% are equivalent to Silver (70%) and Bronze (60%) plans sold through HealthCare.gov and require families to pay a significant portion of their own health expenses in addition to premiums.

Mercer's data reveals the generosity of plans is not the sole or even driving factor behind whether a plan will be subject to the Cadillac tax in its first year of implementation. Factors that increase premiums such as age, geography, utilization, and family size can cause health plans to trigger the tax.

Although the tax was delayed 2 years, which results in higher thresholds in 2020, and given the higher growth rates in health care costs, the findings of this study are still relevant.

Because of the 40% tax's flawed methodology, working families with modest health coverage may be impacted by the tax in the first year of implementation.

Families Also Targeted by Cadillac Tax Calculations

The "Cadillac Tax" is measured using rules that disproportionately target working families. The statute requires employers to determine how much tax must be paid using rules that take into account a plan's utilization. When a plan covers a greater number of families (instead of single individuals) or families with more children, the expected utilization of the plan increases. This increase causes plans that cover family health needs to hit the tax thresholds sooner.

The 40% tax needs to be repealed now as many employers are already cutting benefits and changing plans to avoid the tax. The benefits planning process occurs years in advance and the burden of the cost-sharing adjustments that employers are making this year and next will fall hardest on those least able to afford them–including working families that need a break, not a benefits cut.

If we wait until 2020, it will be too late.

Repeal the 40% tax on health benefits.

The Alliance to Fight the 40 *is a broad-based coalition comprised of public and private sector employer organizations, consumer groups, patient advocates, unions, health care companies, businesses and other stakeholders that support employer-sponsored health coverage. This coverage is the backbone of our health care system and protects over 175 million Americans across the United States. The Alliance seeks to repeal the 40% tax on employee health benefits to ensure that employer-sponsored coverage remains an effective and affordable option for working Americans and their families.*

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[i] Smith, J. and Medalia, C. (September 2015). Current Population Reports: Health Insurance Coverage in the United States 2014.
[ii] Kaiser Family Foundation and Health Research & Education Trust. (September 22, 2015). 2015 Employer Health Benefits Survey.
[iii] Ibid.
[iv] Kaiser Family Foundation (August 25, 2015) Analysis Estimates 1 in 4 Employers offering Health Benefits Could be Affected by the 'Cadillac Tax' in 2018 if Current Trends Continue
[v] Mercer. (November 19, 2014). Modest Health Benefit Cost Growth Continues as Consumerism Kicks into High Gear.