

CAPPING THE EMPLOYEE TAX EXCLUSION FOR EMPLOYER HEALTH COVERAGE

PROJECTION OF THE LONG-TERM IMPACT

February 23, 2017



TODAY'S DISCUSSION

IMPACT OF CAPPING THE EMPLOYEE TAX EXCLUSION FOR EMPLOYER HEALTH COVERAGE

- Generally, premiums paid for employer-sponsored health coverage and contributions to account-based plans are excluded from employee income and payroll taxes
- We evaluated the potential impact to employer plans and employees/families of three proposals to cap the employee exclusion and compared their effects to the 40% “Cadillac” excise tax. Various scenarios are included in this deck.

PROPOSALS & CURRENT LAW	INDIVIDUAL	FAMILY
THE “EMPOWERING PATIENTS FIRST ACT”	\$8,000	\$20,000
Congressional Budget Office (CBO) – OPTION 1 50 th percentile of premiums paid by or through employers	\$7,700	\$19,080
Congressional Budget Office (CBO) – OPTION 2 75 th percentile of premiums paid by or through employers	\$9,520	\$23,860
40% “CADILLAC” EXCISE TAX ON HIGH COST PLANS Projected assuming CPI of 2.15%	\$10,750	\$28,950

ABOUT OUR DATA



EMPLOYERS

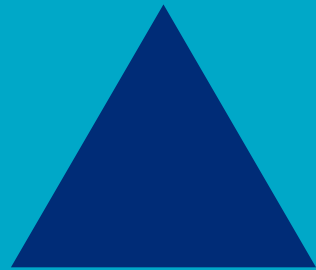
Mercer's National Survey of Employer Sponsored Health Plans is the largest, most comprehensive annual survey in the country. It uses **scientific sampling and weighting methodology** that recreates the actual mix of employers in the US in terms of their size and geographic location, which means that the **results provide an accurate picture of what all US employers are doing** and thinking. Most surveys in our industry use what's called a "convenience" sample – meaning, you survey whoever is convenient to survey.



EMPLOYEES

Mercer's proprietary database of over **600,000 members** enrolled in employer sponsored medical coverage, includes membership from **over 200 employers of all sizes and various industries**. These employers, both local and national in scope, are actively involved in providing efficient coverage for their employees by offering a choice of plans (PPOs, HMO, CDHPs).

IMPACT FROM EMPLOYER PLAN PERSPECTIVE

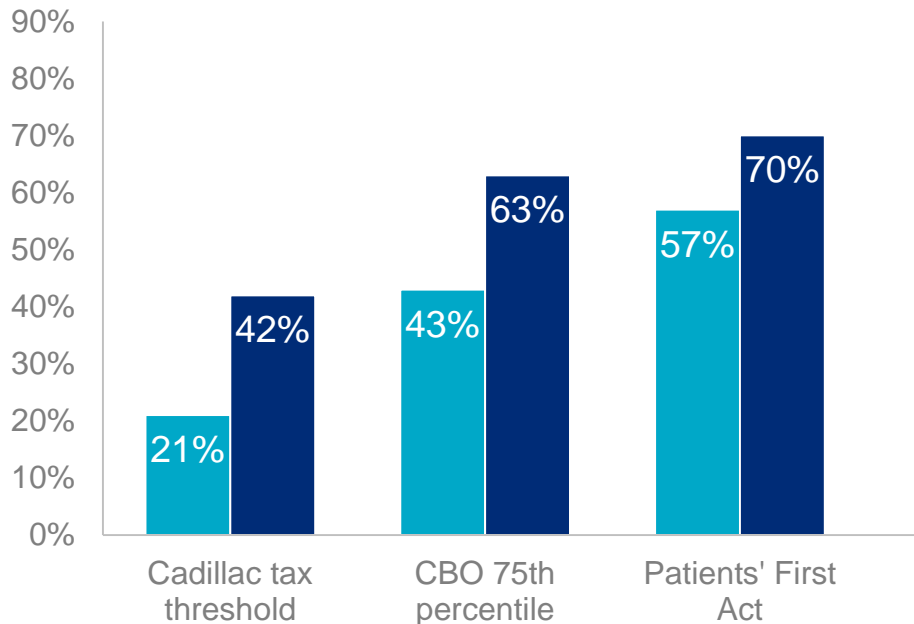


CAPPING THE TAX EXCLUSION WILL AFFECT MORE EMPLOYER PLANS THAN THE CADILLAC TAX

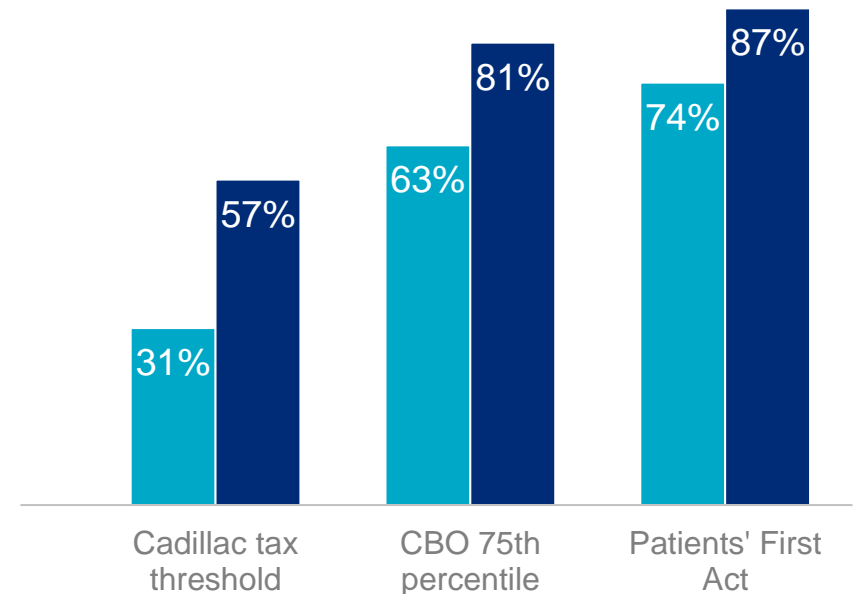
Percentage of employers with plans that will be subject to taxation by the specified year if they make no changes to their current plans.

Will hit threshold in: ■ 2020 ■ 2024

Employers with 50+ employees



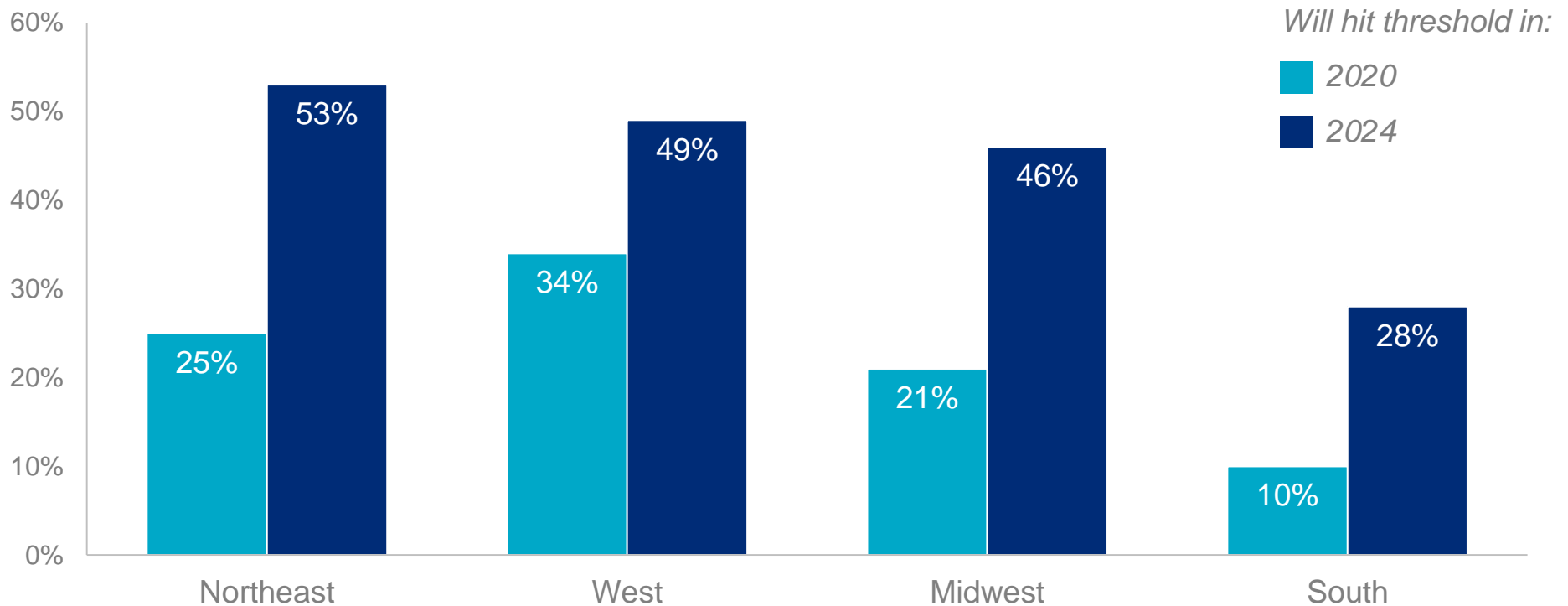
Employers with 500+ employees



Estimates based on data from Mercer National Survey of Employer-Sponsored Health Plans 2016; premium trended at 6%, excise tax threshold trended at 3% in 2021 and 2% in future years. CBO proposal threshold trended at 2% beginning in 2020, and Patients First Act proposal threshold trended at 2% beginning in 2016.

EMPLOYER PLANS IN HIGH-COST REGIONS MUCH MORE LIKELY TO HIT CADILLAC TAX THRESHOLD

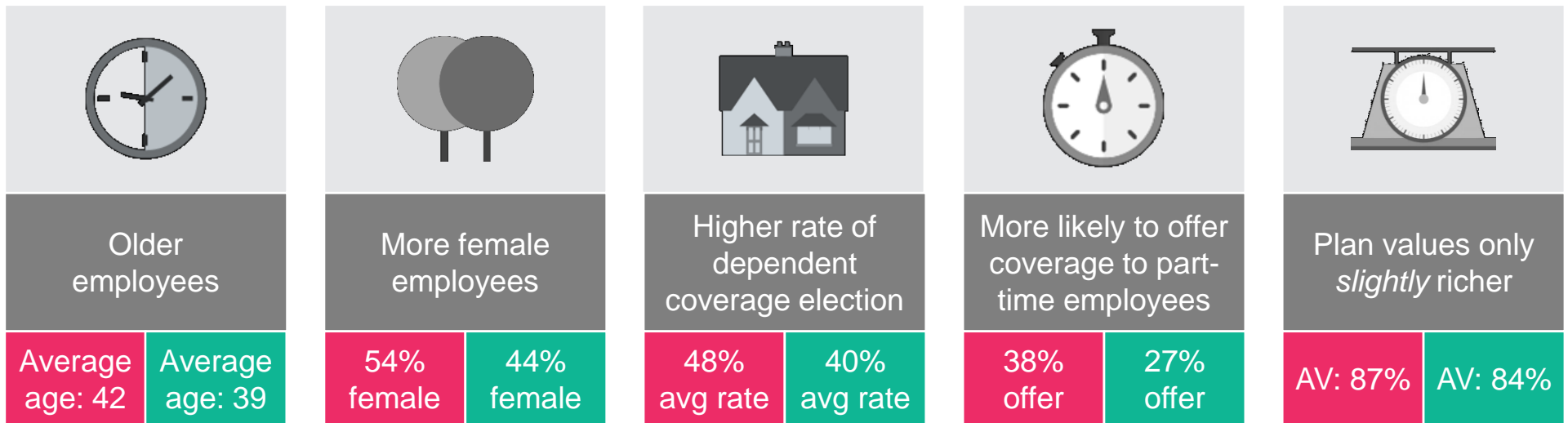
Percentage of employers (50+ employees) with plans that will be subject to excise tax by the specified year if they make no changes to their current plans. Regional cost variation would be a factor in all proposals based on premium.



Estimates based on data from Mercer National Survey of Employer-Sponsored Health Plans 2016; premium trended at 6%, tax threshold trended at 3% in 2021 and 2% in future years

FACTORS THAT AFFECT PLAN COST NOT JUST PLAN DESIGN—DEMOGRAPHICS MATTER

Characteristics of employers with plans that **will reach** versus **won't reach** the Cadillac tax threshold in 2020:

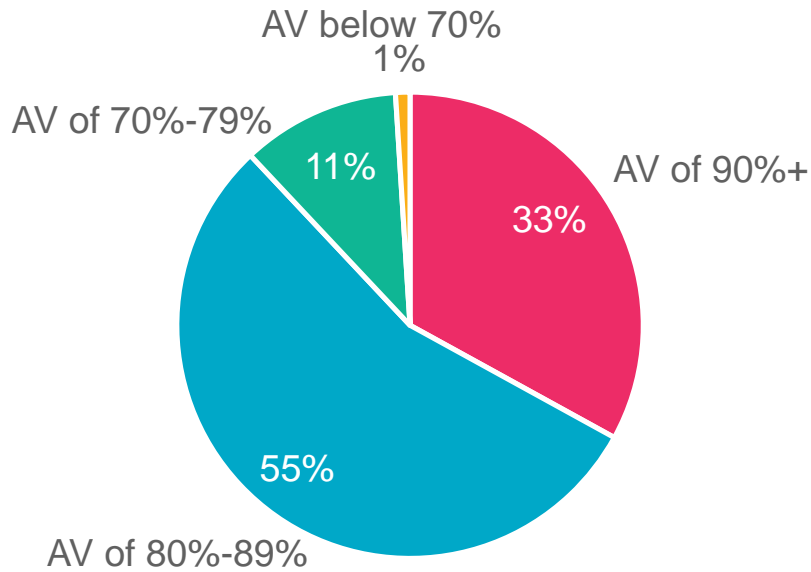


Like the Cadillac tax, capping the exclusion is more likely to penalize older workers, women, people with families, and employers who provide health benefits to part-time employees...
...And there is relatively little difference between the plan designs of those employers that will reach the threshold and those who won't.

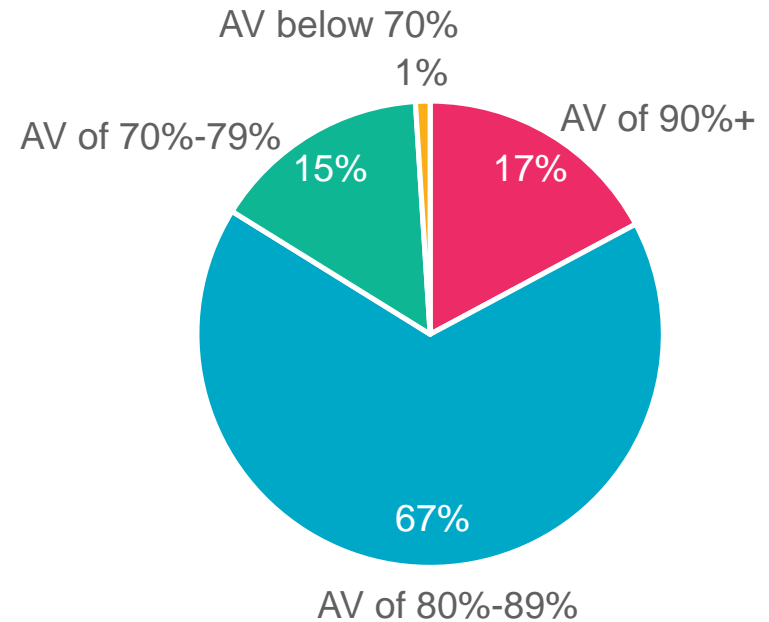
Estimates based on data from Mercer National Survey of Employer-Sponsored Health Plans 2016; premium trended at 6%, tax threshold trended at 3% in 2021 and 2% in future years

DISTRIBUTION OF ACTUARIAL PLAN VALUES AMONG EMPLOYERS AT RISK FOR TRIGGERING CADILLAC TAX BY 2024 (HIGH-COST PLANS) VS THOSE NOT AT RISK (LOW-COST PLANS)

Distribution of actuarial values of plans offered by large employers that will exceed tax threshold by 2024 (“high cost” plans)



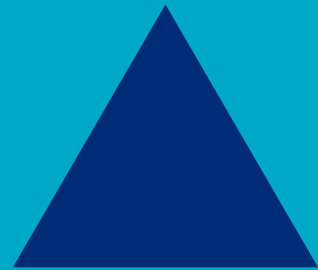
Distribution of actuarial values of plans offered by large employers that will not exceed tax threshold by 2024 (“low-cost” plans)



More than half (57%) of employers with 500+ employees are estimated to have plans that will exceed excise tax threshold by 2024 (based on their 2016 medical plan premiums for their highest-cost or only plan, trended forward at 6%)

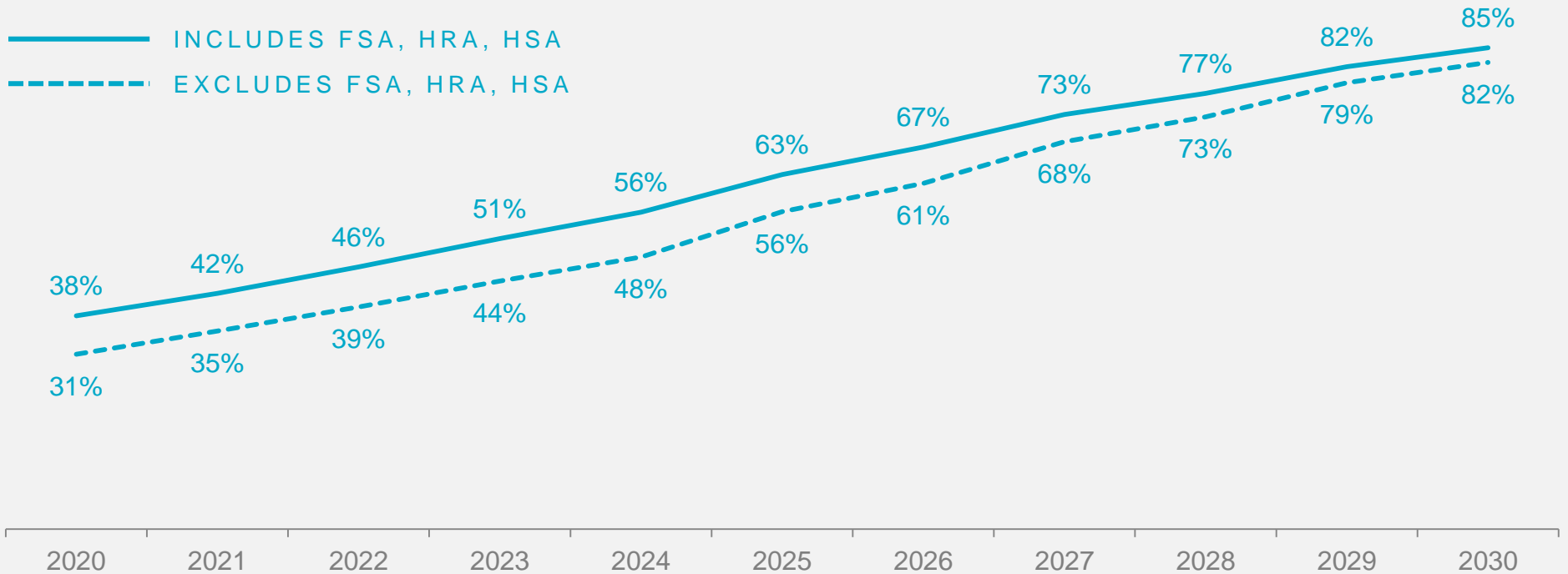
Source: Mercer National Survey of Employer Sponsored Health Plans 2016

IMPACT ON INDIVIDUALS ENROLLED IN EMPLOYER PLANS



EMPOWERING PATIENTS FIRST ACT MAJORITY OF HOUSEHOLDS EXCEED CAP BY 2025

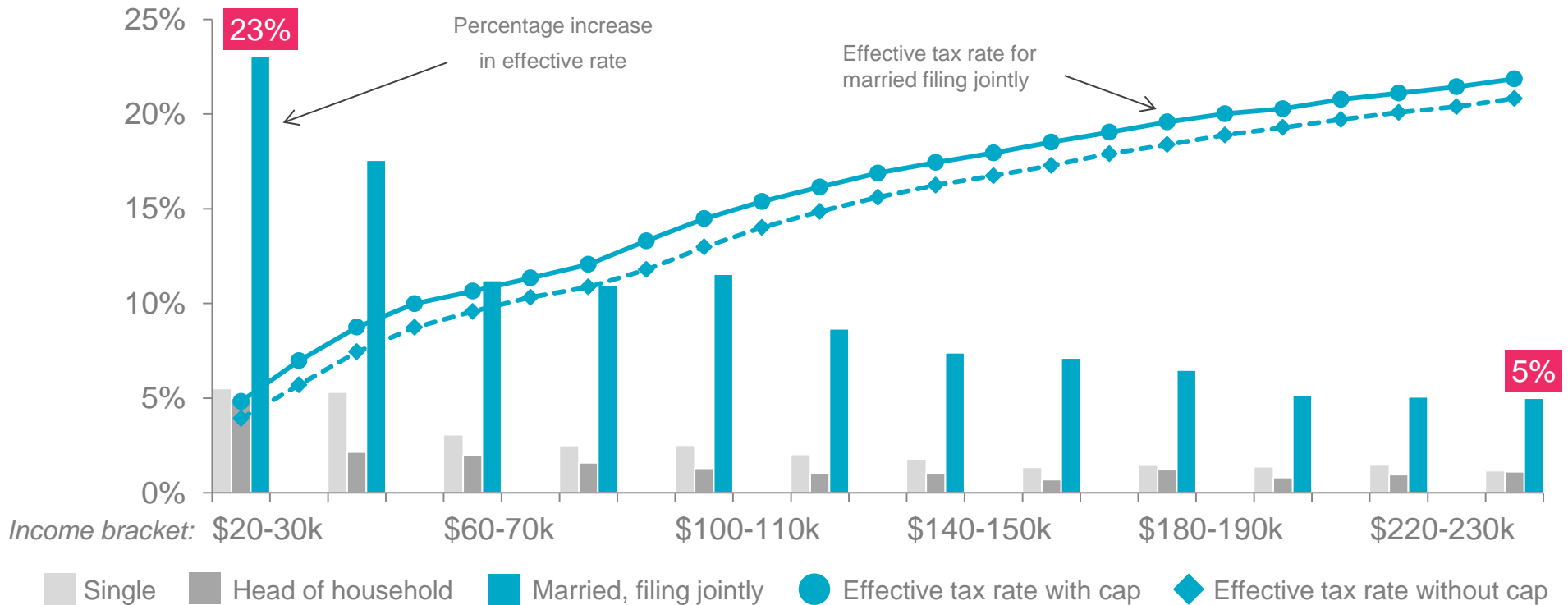
Percent of households exceeding cap is expected to increase significantly over time:



- Proposed caps of \$8,000 individual/\$20,000 family indexed at CPI% (CPI assumed to be 2%)
- Medical plan trend (assumed to be 5.5%) has historically outpaced CPI and is anticipated to continue
- Based on a Mercer proprietary database of 600,000 members' salary and benefits. Salary information used as proxy for household income.

EMPOWERING PATIENTS FIRST ACT LOW INCOME FAMILIES HIT HARDEST

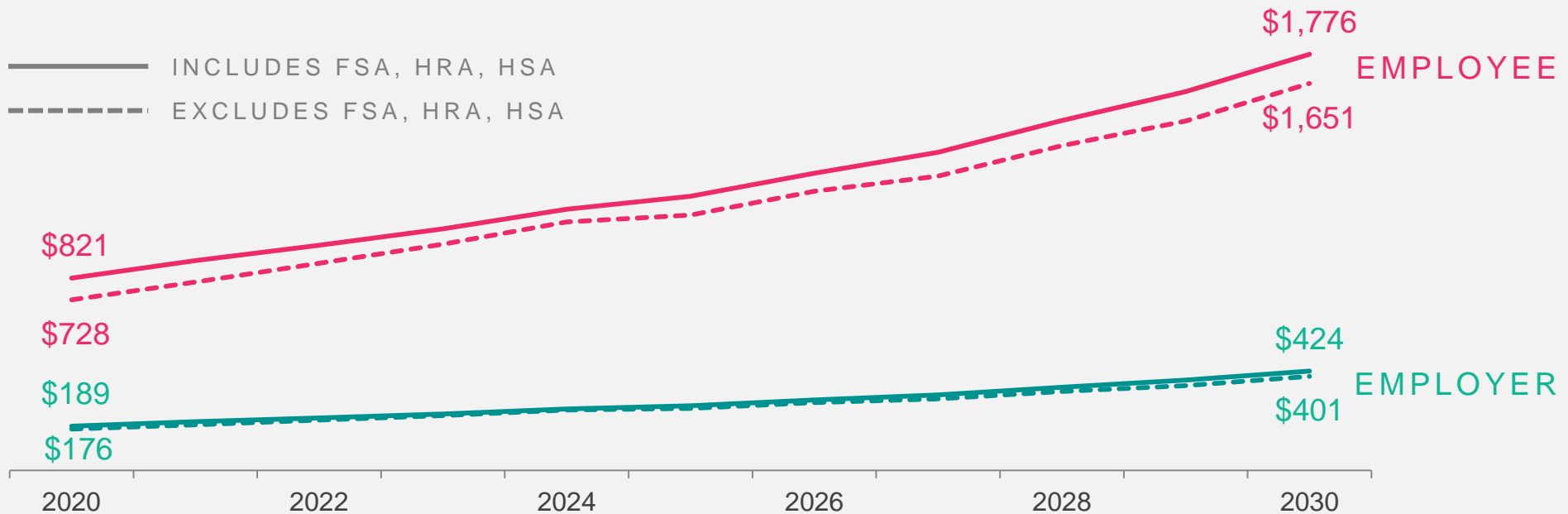
Cap will result in **increased income tax liability** for middle-income Americans



- The bars represent the percentage increase in income tax liability in 2026. Payroll taxes not included
- Proposed caps indexed at CPI% (CPI assumed to be 2%); medical plan trend assumed to be 5.5%
- Projects the impact of including account contributions – FSAs, HRAs and HSAs – in value of coverage
- Based on a Mercer proprietary database of 600,000 members' salary and benefits. Salary information used as proxy for household income.

EMPOWERING PATIENTS FIRST ACT TAX ACCELERATES OVER TIME

Projected average per employee increase in income and payroll tax (for those impacted):



- Proposed caps index at CPI% (CPI assumed to be 2%)
- Medical plan trend (assumed to be 5.5%) has historically outpaced CPI and is anticipated to continue
- For employees, tax increase related to increases in income and payroll taxes. For employers, tax increase is related to increase in payroll taxes.
- These dollar amounts reflect an employed population and have not been normalized to the US population but we expect the trend to be similar
- Based on a Mercer proprietary database of 600,000 members' salary and benefits. Salary information used as proxy for household income

EMPOWERING PATIENTS FIRST ACT RESULTS DIFFER BY PLAN TYPE AND FAMILY STATUS

% Exceeding Cap	2020		2030	
	Includes Accounts	Excludes Accounts	Includes Accounts	Excludes Accounts
PPO	47%	47%	93%	93%
HMO	30%	30%	84%	84%
CDHP	29%	16%	78%	73%
ALL	38%	31%	85%	82%

% Exceeding Cap	2020		2030	
	Includes Accounts	Excludes Accounts	Includes Accounts	Excludes Accounts
Single (no dependents)	33%	26%	89%	87%
Head of Household (children – no spouse)	9%	7%	51%	47%
Married Filing Jointly (spouse with or without children)	51%	43%	89%	86%
ALL	38%	31%	85%	82%

Based on a Mercer proprietary database of 600,000 members' salary and benefits. Salary information used as proxy for household income.

*Accounts = FSAs, HRAs, HSAs

DATA, ASSUMPTIONS AND METHODOLOGY

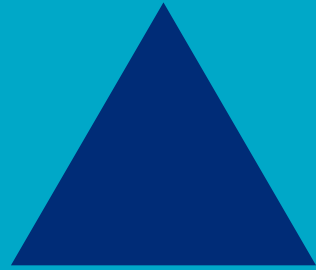
ASSUMPTIONS

- These simulated results are based on a Mercer proprietary database of over 600,000 members enrolled in employer sponsored medical coverage. The database includes membership from over 200 employers of all sizes and various industries. These employers, both local and national in scope, are actively involved in providing efficient coverage for their employees by offering a choice of plans (PPOs, HMO, CDHPs). Taxable income developed assuming:
 - Base salary of the employee assumed to be the only source of income for their household
 - Only employees' pre-tax contributions associated with medical plan enrollment were assumed to reduce their gross income to taxable income. Other potential adjustments to taxable income, such as 401(k) contributions, were ignored for purposes of this analysis
 - 2016 standard Federal Income Tax Brackets and standard deductions assumed
- Tax filing status is assumed to align with their dependents covered under the medical plan:

Dependents	Tax Filing Status
No Dependents	Single
Children Only	Head of Household
Spouse with or without Children	Married Filing Jointly

- Medical plan trend: 5.5%
- Consumer price index (CPI) trend: 2.0%
- Salary increase: 2.0%
- Standard deduction and Federal income tax bracket trend: 1.5%
- Social Security Threshold Trend: 1.5%; Other indexes used to calculate FICA taxes were unchanged
- The proposed caps are assumed to be effective in 2020; see table on slide 1 for cap assumptions
- State and local taxes were excluded from these simulated results

APPENDIX



FACTORS THAT AFFECT PLAN COST

NOT JUST PLAN DESIGN – DEMOGRAPHICS MATTER

Current demographics / plan design	2020		2024	
	Will be subject to tax	Won't be subject to tax	Will be subject to tax	Won't be subject to tax
Average age	42	39	42	38
% female	54%	44%	51%	42%
% electing dependent coverage	48%	40%	45%	39%
% offering coverage to PTEs (among employers that have PTEs)	38%	27%	32%	27%
EE monthly contribution for employee-only coverage in a PPO	\$204	\$133	\$178	\$129
PPO average actuarial value	87%	84%	86%	84%
Average HMO enrollment	27%	21%	33%	15%

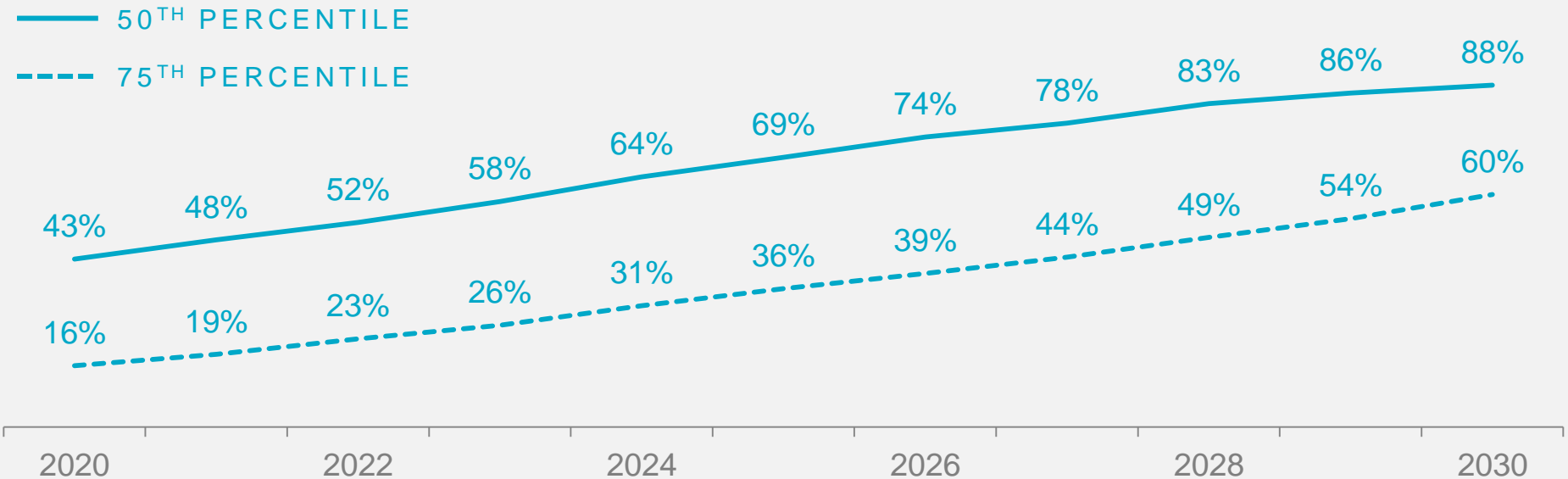
*Average in-network individual deductible

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CAP ON EMPLOYEE TAX EXCLUSION

PROJECTED LONG-TERM IMPACT OF THE CBO OPTIONS

Percent of households exceeding cap is expected to increase significantly over time:

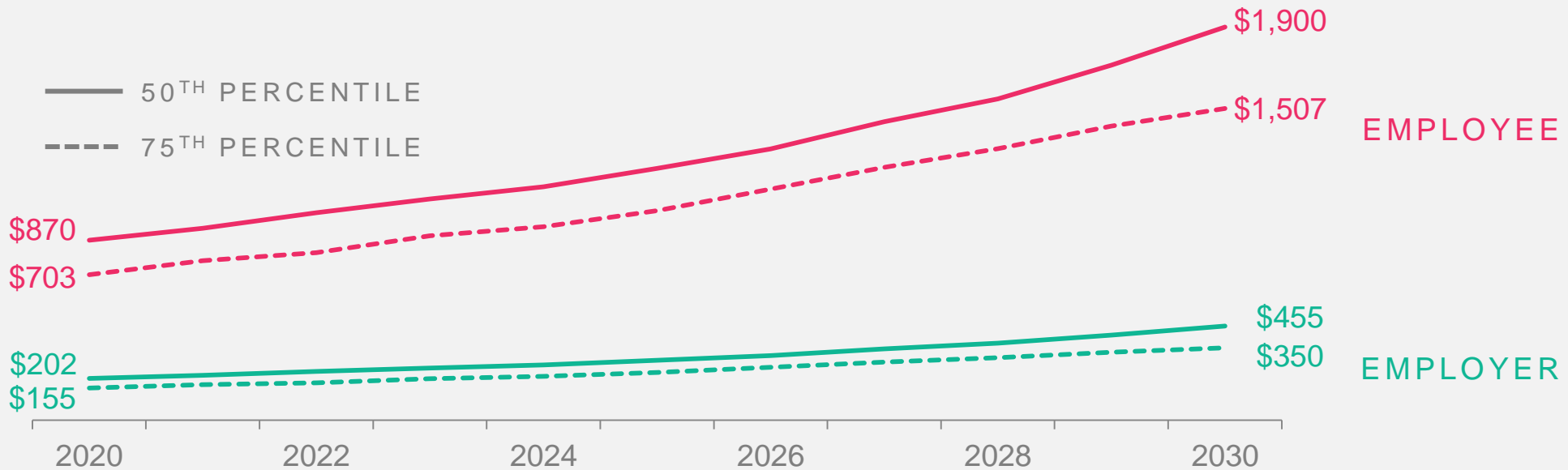


- Proposed caps indexed at CPI% (CPI assumed to be 2%)
 - 50th Percentile: \$7,700 individual / \$19,080 family
 - 75th Percentile: \$9,520 individual / \$23,860 family
- Medical plan trend (assumed to be 5.5%) has historically outpaced CPI and is anticipated to continue
- Projections include account contributions – FSAs, HRAs and HSAs
- Based on a Mercer proprietary database of 600,000 members’ salary and benefits. Salary information used as proxy for household income.

CAP ON EMPLOYEE TAX EXCLUSION

PROJECTED LONG-TERM IMPACT OF THE CBO OPTIONS

Projected average per employee increase in tax (for those impacted):



- Proposed caps indexed at CPI% (CPI assumed to be 2%)
 - 50th Percentile: \$7,700 individual / \$19,080 family; 75th Percentile: \$9,520 individual / \$23,860 family
- But medical plan trend (assumed to be 5.5%) has historically outpaced CPI and is anticipated to continue
- Projections include account contributions – FSAs, HRAs and HSAs
- For employees, tax increase related to increases in income and payroll taxes. For employers, tax increase is related to increase in payroll taxes.
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