ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits

The "Cadillac" Tax: Bad for Families and Backed by Myths.

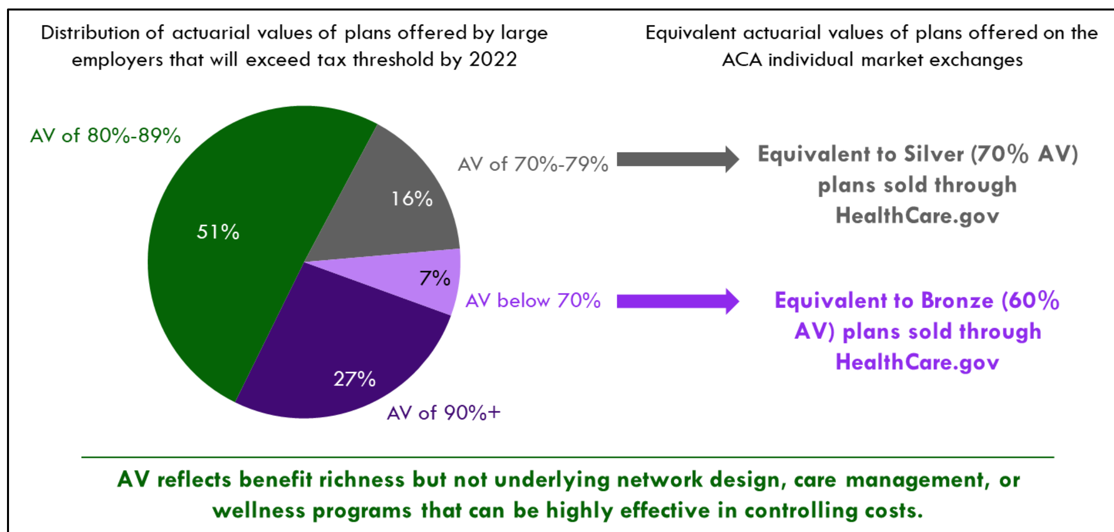
The "Cadillac Tax" is a 40% tax on the cost of employer-provided health coverage that exceeds certain premium benefit thresholds – initially, projected to be $11,100 for self-only coverage and $29,750 for family coverage in 2022. More than just health plan premiums are counted when determining the "cost" of the plan. The cost of wellness programs, on-site clinics and other plan features designed to keep the workforce healthy and help reduce plan expenses are also included. The tax is designed to hit more plans over time so that virtually everyone in an employer-provided plan, including low income workers and families with chronic or catastrophic health conditions, will ultimately be affected. **If left unchanged, the 40% tax will impose a costly burden, putting at risk the health coverage of more than 181 million hardworking Americans, retirees, and their families.**

THE TOP 10 MYTHS ABOUT THE 40% TAX ON HEALTH BENEFITS:

MYTH #1

"THE 40% TAX ONLY AFFECTS PEOPLE WITH OVERLY GENEROUS, 'CADILLAC' HEALTH PLANS."

The 40% tax does not apply to health plans based on how generous they are, it penalizes employers and employees for health costs they cannot control. Because the tax is based on premium costs, the tax will hit organizations that employ a higher number of disabled workers, employees and family members who experience high-cost cancer treatments, or give birth to premature babies. Workers with larger families may have higher costs that could also trigger the tax. Similarly, employers' size, their geographic location in high-cost areas, and employee characteristics all affect the premium price and disproportionately increase the risk of tax liability.



These plans may be modest, but because of unavoidable health problems or demographics they will be captured by this tax. In fact, 73% of employer plans estimated to hit the "Cadillac Tax" by 2022 have actuarial values less than 90%, lower than the "platinum plans" offered on the Affordable Care Act (ACA) exchanges.

MYTH #2

"THE 40% TAX ONLY HITS A FEW SELECT EMPLOYERS AND WORKERS IN HIGHLY-COMPENSATED INDUSTRIES, LIKE THOSE ON WALL STREET, BUT AVOIDS TAXING PEOPLE ON MAIN STREET."

The 40% tax on health benefits will affect lower income and middle-class families – it is not limited to certain employers or industries. It will expose all workers and even retirees with employer-provided health benefits as potential targets. Firefighters, retail workers, teachers, health care providers, nonprofits, hotel staff, clergy, state and local employees, and the self-employed will all be affected by the 40% tax. According to census data, over half (54%) of those with private coverage – most of which is employer-provided coverage – have household incomes of less than $100,000 and are poised to be impacted by the tax.

MYTH #3

"MY PREMIUMS ARE BELOW THE THRESHOLD SO MY PLAN WON'T HIT THE 40% TAX."

The 40% tax is based on <u>employer *and* employee</u> premium contributions, <u>*and*</u> it is added on top of the cost of additional benefits such as employee wellness plans, on-site medical clinics, employer and most employee health savings account (HSA) contributions, flexible spending arrangements, health reimbursement arrangements, and certain employee assistance plans and other benefits. This means that even if it appears that a plan could be below the threshold, when the "applicable cost of coverage" (as defined by the statute) is added, even a high-deductible health plan in higher-cost areas could trigger the tax. A study issued by the HSA Council of the American Bankers Association found that average high deductible health plans may hit the 40% tax in the first year in high-cost states like Connecticut, Alaska and New Jersey.

The tax is also not indexed to keep pace with long-term trends in health care inflation. This means that every year, a growing number of average health plans will fall prey to the tax until almost all plans are swallowed by it. A Towers Watson analysis revealed that within 5 years of the tax's taking effect, "82% [of employer plans] could cross the threshold."

MYTH #4

"THE 40% TAX WON'T AFFECT EMPLOYEES' COSTS AND BENEFITS."

Employers are already being compelled to cut vital benefits to avoid triggering the tax. This forces employees to pay more out of their own pockets for health care. Because the tax includes both the employer and employee premium contributions, employees are now bearing a larger portion of non-premium costs, such as co-pays and deductibles, in order to keep premium costs below the threshold that would trigger the tax.

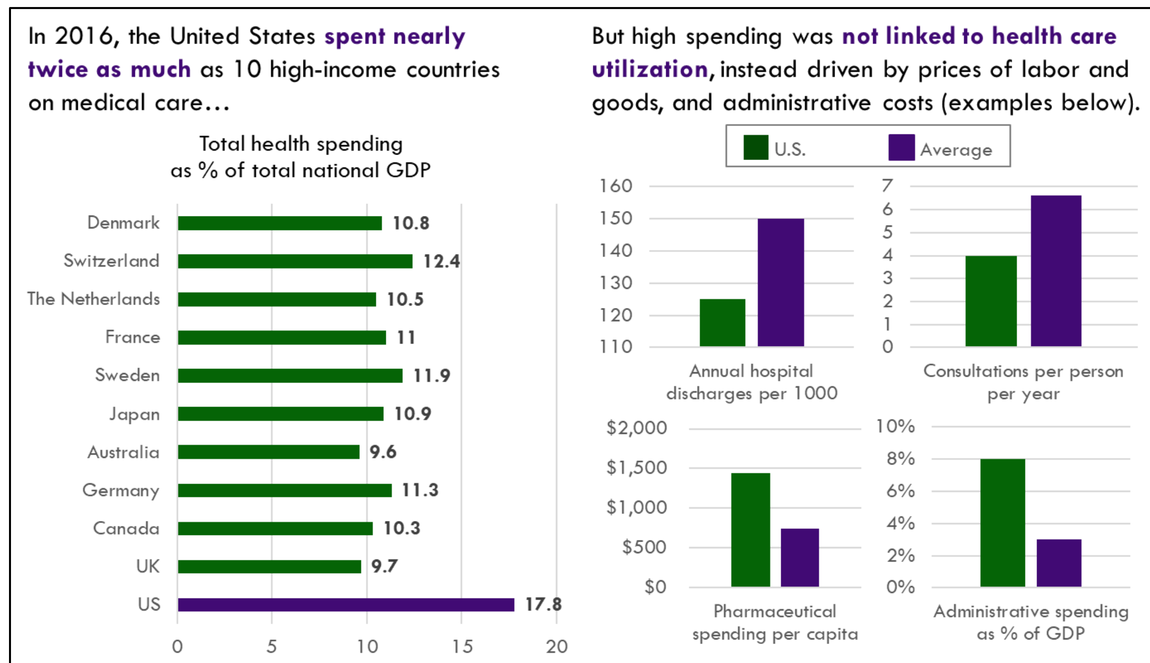
Organizations are already redesigning their benefit packages to delay incurring the tax. Despite these efforts, ACA provisions prescribing certain benefits and cost-sharing requirements will eventually make it impossible for employers to offer plans that fully comply with employer mandate requirements without triggering the 40% tax, as health care inflation continues to outpace the consumer price index.

A 2019 Kaiser Family Foundation analysis estimates that the "Cadillac Tax" would "affect one in five (21%) employers offering health benefits when it takes effect in 2022 unless employers change their health plans. An even larger share (31%) could be affected when workers' voluntary contributions to Flexible Spending Accounts are taken into account." An Aon Hewitt study of 317 U.S. employers found that "one-third (3%) were already reducing the richness of their plan designs through higher out-of-pocket cost" in anticipation of the tax. These percentages are expected to increase by the time the tax goes into effect.

MYTH #5

"THE 40% TAX IS ESSENTIAL TO CONTROL HEALTH CARE SPENDING."

While an original goal of the 40% tax may have been to reduce "overconsumption" of health care services by putting downward pressure on costs, the reality is that the tax is forcing employers to require employees to share a larger burden of their health costs to avoid the tax. Employers are already doing what they can to decrease health care costs, using numerous cost-saving tools such as wellness plans, reference pricing, network and care management, and others. Adding taxes and administrative expenses to health plans will not address the true drivers behind health care cost growth. Tens of millions of hard-working Americans will see reduced health care coverage and increased out-of-pocket expenses, without any guarantee that the cost of health care will be reduced.



Recent Health Care Cost Institute data found that price increases – not utilization – drove per-person spending growth among the employer-provided population. While average prices for services increased 17.1% between 2013-2017, average utilization actually declined. It is price – not utilization – that separates the U.S. from its peer countries.

MYTH #6

"EMPLOYERS CAN SIMPLY ESCAPE THE TAX BY PUTTING PRESSURE ON PLANS AND PROVIDERS TO BE MORE EFFICIENT."

Employers have been leading the way in making health care more efficient and effective for years and they will continue to drive cost containment. But these measures cannot be expected to offset the

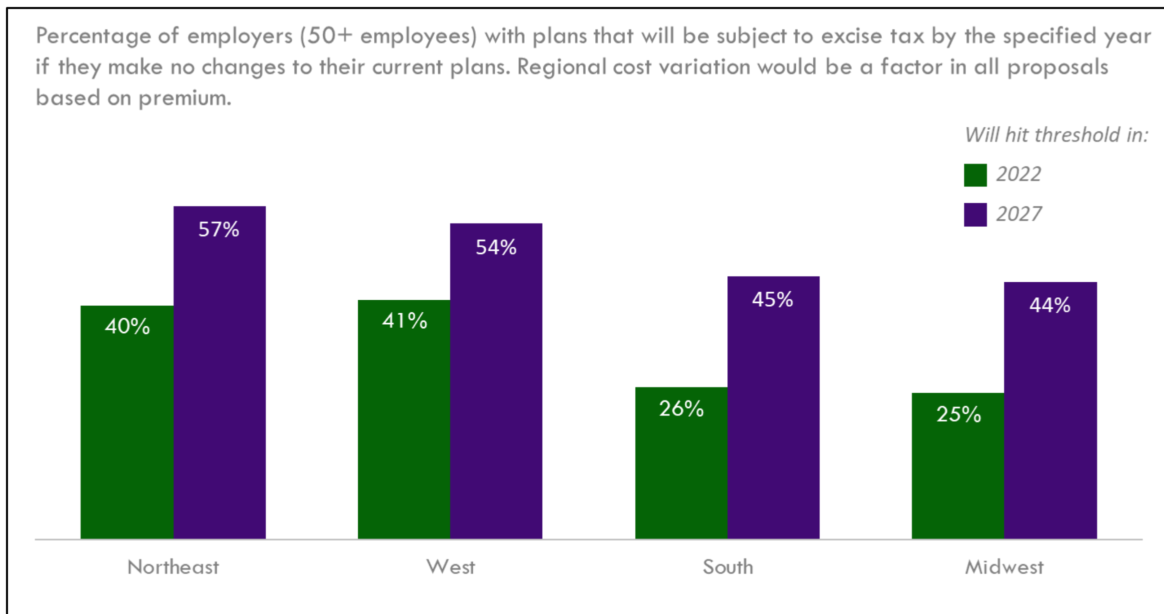
compounding impact of actual health care inflation over time. The California Public Employees' Retirement System (CalPERS) is often cited as the model to be emulated for its innovative cost-saving programs. Yet even CalPERS has health plans that are projected to trigger the tax. (See report here)

Additionally, more employers' health benefits will trigger the tax as health costs continue to increase at a faster rate than the measure of inflation used to index the 40% tax thresholds. If offering health benefits becomes too costly for employers, the health care system could lose a powerful market force in the fight for greater quality and cost containment. The ACA intentionally protected this important form of health insurance coverage, but because the tax could ultimately discourage employers from offering coverage, it undermines this key premise.

MYTH #7

"THE IMPACT OF THE TAX WILL BE FELT EVENLY ACROSS THE 50 STATES."

Health care costs vary dramatically across different regions and states due to factors completely unrelated to health care consumption. This includes different levels of competition among providers or even higher real estate costs for medical facilities.



The 40% tax is not adjusted for geography, and the effect of this tax will be felt sooner and hit harder in higher-cost areas of the country. Employees and employers in high-cost regions will bear a disproportionate burden.

MYTH #8

"EMPLOYERS WILL INCREASE WAGES TO OFFSET BENEFIT REDUCTIONS."

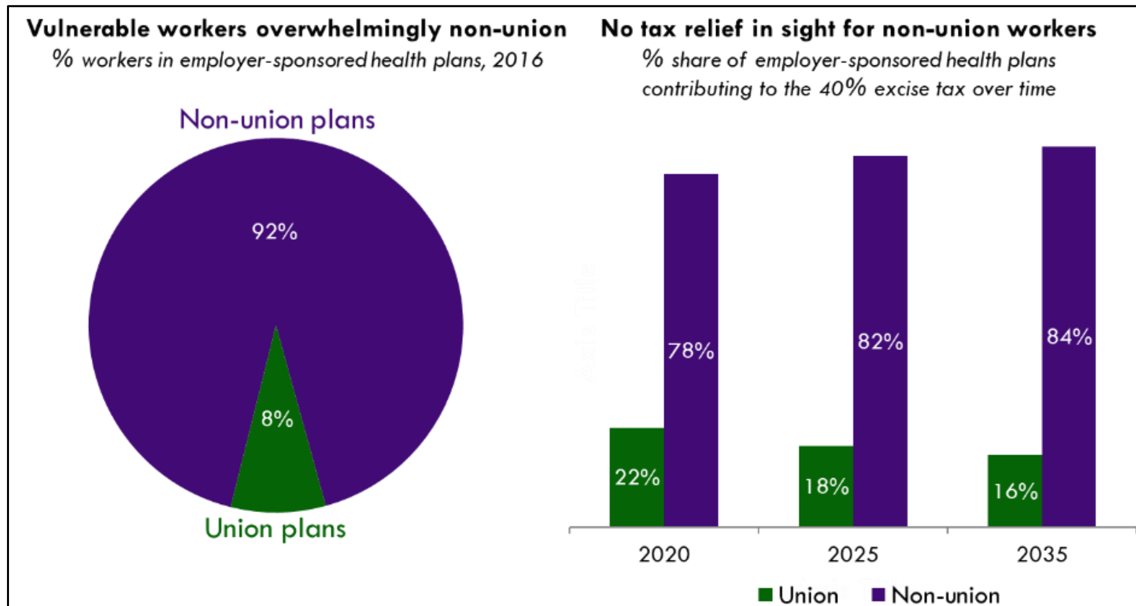
According to the official scorekeepers in Washington, around half of the revenue expected to be raised by this tax is estimated to come from an increase in taxable wages, as employers are expected to significantly decrease their health benefits and (on a dollar-for-dollar basis) increase an employee's wages to ensure compensation remains constant. This economic theory is based on dated academic papers and does not represent the actual behavior of employers.

The American Health Policy Institute estimated that "employees could see up to a $6,150 reduction in their health care benefits and little or no increase in their pay and even if employers increase the taxable wages of employees, something that is not clear in the current business cycle, a significant portion of the increase in taxable take-home pay may be spent on higher out-of-pocket health care expenses as deductibles and out-of-pocket limits increase."

MYTH #9

"THE TAX ONLY AFFECTS UNIONS."

The 40% tax applies to ***all*** employers. It applies equally to self-employed individuals, non-profit charitable organizations, state and local governments, churches and companies of **all** sizes.



MYTH #10

"WE CAN DELAY OR WAIT UNTIL 2022 TO ADDRESS THE 40% TAX ON BENEFITS."

American workers and their families are already facing higher out-of-pocket costs and reduced benefits due to the tax. The longer Congress waits, the deeper the cuts for American families.
The cost of health care continues to increase faster than overall inflation and the additional ACA and state benefit requirements add to the growing cost of health plans. While delaying the effective date or increasing the thresholds may blunt the impact of the tax for some, they are not long-term solutions. Employers and employees face continued uncertainty as the tax looms over them and benefit plan changes must be made years in advance. Congress cannot afford to wait.

Repeal the "Cadillac Tax" now!