The “Cadillac Tax:” A New Threat to Retiree Health Insurance

Today, over 2 million retirees under age 65 rely on health insurance from their former employers. Employers and retirees have struggled for years to find affordable options for pre-Medicare retirees. A new 40% tax, misleadingly labeled the “Cadillac Tax,” is about to make it even more challenging.

What is the “Cadillac Tax?”
The so-called “Cadillac Tax” is a 40% tax 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 rich” 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, families experiencing catastrophic health events and, in particular, pre-Medicare retirees.

Why the tax will hit 81% of early retiree plans in the first year
The 40% tax is based largely on premiums. Because premiums increase based on the age and health status of enrollees, retiree health care is among the most expensive health care in the market. This is not because the plans are “overly rich,” but because the average enrollee’s age and health care needs are expected to be greater than the general population. According to recent studies, 81% of early retiree health plans are projected to incur the 40% tax on health benefits in the first year the tax is implemented.

The Cadillac Tax is expected to reduce and eliminate coverage options for pre-Medicare retirees
As a consequence, this 40% tax threatens early retirees’ ability to maintain their current coverage, and many employers state they expect to move retirees into plans with thinner benefits and narrower networks in order to avoid the 40% tax. The unsustainable additional expense of the tax is forcing employers to consider seeking ways to transfer their retirees into other coverage options.

• A study by Truven Health Analytics estimated the tax will likely result in a cost increase of $480 per employee per year for plans that trigger the tax.

• In planning for the added cost of the 40% tax, employers are analyzing their potential liability now. A recent study by the American Health Policy Institute highlighted a company that estimated the 40% tax on their retiree health plans alone will cost them almost $69 million over 10 years.

• As employers seek to minimize the effect of the tax, retirees should expect aggressive cost cutting in the form of narrower networks, higher deductibles and out-of-pocket cost and other limits.

• A recent study on Medicare costs found that the Cadillac tax could drive up Medicare costs for new Medicare enrollees by limiting retirees’ access to medication for those with employer-sponsored insurance. “Retirees entering Medicare who are healthier due to prior medication use are less costly.”

• Because the tax also applies to pre-tax employee and employer health savings account (HSA) contributions, employees may see new limits on the amount employees may contribute pre-tax to an HSA. Capping pre-tax HSA contributions could limit retirees’ ability to build the long-term savings needed for retirement health care expenses.
- States, counties and cities with large numbers of retired public employees are expected to be hit hard by the 40% tax. Benefits consultant Aon Hewitt estimated that, in New Jersey, for example, the average value of family health and prescription drug coverage for retirees younger than 65 will exceed $30,000 in 2015 and 2016—over the tax’s projected 2020 threshold of $29,100 for families.\textsuperscript{viii} Because the 40% tax is not indexed to health care inflation, the amount of tax owed for pre-Medicare retired teachers in 2022 will rise to $129 million. (Note, estimate completed prior to delay)

- Economists acknowledge that the tax will cause people to lose benefits, but hope those people will eventually see wage increases to offset increased health care expenses. These economic theories won’t help retirees who will be subject to benefit cuts, but are not eligible for wage increases should they ever materialize.

Forty-five percent of all retirees ages 55 to 64 have retiree health coverage, 2012

- Because of the 40% tax, employer-sponsored health and drug coverage that many pre-Medicare retirees depend on may soon become a relic of the past.

- 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 pre-Medicare retirees.

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, businesses, unions 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.

Website: www.fightthe40.com Twitter: @FightThe40

\textsuperscript{2} Monk, C. and Munnell, A. The Implications of Declining Retiree Health Insurance. Center for Retirement Research at Boston College.
\textsuperscript{3} Truven Health Analytics (2014) One in Five Benefit Plans will Trigger ACA’s “Cadillac” Tax by 2020 Truven Health Analytics Study Finds (Note, study completed prior to delay)
\textsuperscript{4} Miller, Mark. (March 11, 2014). Why employers are shifting retiree health into insurance exchanges. Reuters.; Avalere Health. (July, 15, 2015).
\textsuperscript{5} Exchange Plans Include 34 Percent Fewer Providers than the Average for Commercial Plans.; Avalere Health. (October 1, 2013). Despite Lower than Expected Premiums, Exchange Consumers will Have Higher Cost-Sharing Before the Out-of-Pocket Cap.
\textsuperscript{6} Ibid.
\textsuperscript{9} Roebuck, M. Christopher (RxEconomics LLC). (May 2016) DOWNSTREAM MEDICAL COST OFFSETS IN MEDICARE FROM PRESCRIPTION DRUG USE IN EMPLOYER-SPONSORED INSURANCE.