ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits

Don't Tax My Health Care

Save Employer Sponsored Health Benefits

The "Cadillac Tax" Threatens Retiree Health Insurance

Forty-five percent of 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 making it even more challenging.

What is the "Cadillac Tax?"

The mislabeled "Cadillac Tax" is a 40% tax on employer-sponsored health coverage that exceeds certain benefit thresholds, projected to be $11,100 for self-only coverage and $29,750 for family coverage in 2022. 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 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 an early study, 81% of early retiree health plans were projected to incur the 40% tax on health benefits in the first year the tax is implemented.

Early-retiree plans are projected to incur the tax at a much higher rate than active employees.

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 fewer benefits and narrower networks 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.

- **An early 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.

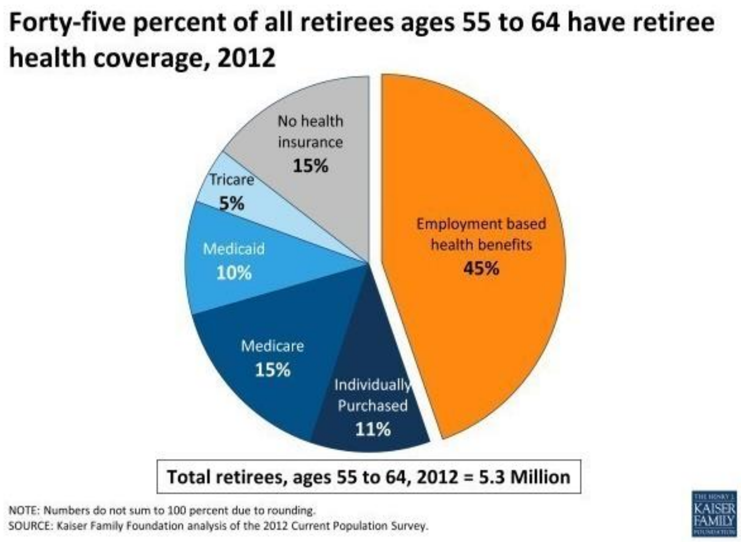
- As employers seek to minimize the effect of the tax, retirees should expect aggressive cost cutting in the form of narrower networks, higher deductibles and out-of-pocket cost and other limits.

- Economists acknowledge that the tax will cause people to lose benefits, but predict 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.

- A study on Medicare costs found that the "Cadillac Tax" could drive up Medicare costs for new Medicare enrollees by limiting access to medication for retirees 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 they may contribute pre-tax to an HSA. Capping pre-tax HSA contributions could limit retirees' ability to build the long-term savings needed for health care expenses in retirement.

- According to [Kaiser Family Foundation](), 25% of large firms that offer health benefits to their workers offered retiree coverage in 2017. And among large firms offering retiree health benefits, most firms offer to early retirees under the age of 65 (95%) while a lower percentage (66%) of large firms offering retiree health benefits do so for Medicare-age retirees. 61% offer health benefits to both early and Medicare-age retirees.



- 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 2022, it will be too late.
Repeal the 40% tax on health benefits.

The Alliance to Fight the 40|Don't Tax My Health Care is a broad-based coalition comprised of businesses, patient advocates, employer organizations, unions, local governments, health care companies, consumer groups and other stakeholders that support employer-provided health coverage. This coverage is the backbone of our health care system and protects more than 181 million Americans. The Alliance seeks to repeal the 40% "Cadillac Tax" on health benefits and work with Congress and the Administration to prevent increased income taxes on workers, families and retirees who rely on employer-provided health coverage. The Alliance is committed to ensuring that employer-provided coverage remains an effective and affordable option for working Americans and their families.