

# The Excise-Tax on High Cost Health Plans

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# Excise Tax on High Cost Health Plans: “Cadillac Tax”

- Beginning in 2018, nondeductible 40% excise tax on the total cost (employer & employee shares) of coverage exceeding \$10,200 (employee-only coverage) or \$27,500 (family)
- Higher thresholds of \$1,650/\$3,450 for early retirees & high risk professions
- Adjustments for age & gender of workers
- Aggregate value includes employer and worker contributions to FSAs, HRAs, and HSAs
- Cost of pre- and post-65 retirees may be combined
- IRS released previews (Notices 2015-16 & 2015-52) of possible regulations, but regs not yet released, so questions remain on how adjustments will be determined

## Goal of the Tax

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- To generate tax revenue to pay for other provisions in the ACA

# Goal of the Tax

- To mitigate against the rising cost of health care
  - Employers are expected to reduce comprehensiveness of health benefit
  - Should lead to a reduction in use of health care services and health insurance premiums
- To generate tax revenue to pay for other provisions in the ACA
  - JCT estimates \$91 billion in tax revenue between 2016 and 2025
  - 25% of revenue from excise tax receipts
  - 75% of revenue from higher worker (taxable) wages

## What Did We Learn from IRS Notices?

- Cost of coverage calculated separately for employee-only coverage and other-than-self-only coverage
  - Implication: Employers have incentive to drop spousal coverage
- Coverage for on-site medical clinics must be included (unless providing only de minimis care)
  - Implication: Less incentive to provide such a benefit.
- Employee contributions to HSAs made through pre-tax payroll deduction included. Employee contributions to HSAs made outside of payroll are not counted.
  - Implication: Employers have less incentive to allow pre-tax employee contributions to HSAs through payroll. Employers may allow post-tax employee contributions through payroll.

## Why Use a Cadillac Tax?

- Assumption that workers over-insure because they prefer non-taxable health coverage to taxable wages
- Workers over-insure because premiums are not included in taxable income, whereas out-of-pocket spending on health care services is not 100% tax deductible
- Over-insurance leads to higher use of health care services, which drives up premiums and makes coverage less affordable
- Cadillac tax expected to:
  - Reduce comprehensiveness of health benefits
  - Reduce use of health care services
  - Reduce health care costs and premiums
  - Increase worker wages
  - Overall decline in demand for health care services reduces price of health care outside group market

# Implications of Higher Cost Sharing

## RAND Health Insurance Experiment

- Cost sharing is a blunt instrument
- Both inappropriate/ineffective and appropriate/effective use of health care services were affected.
- Inconsistent findings related to health status, but few adverse health effects

## CDHP research

- Reduced use of certain health care services...
  - outpatient visits and prescription drug fills
  - recommended cancer screenings
  - medication adherence among people with hypertension, high cholesterol, and diabetes
- Increase in emergency department visits

## Issues Related to the Wage-Benefit Trade-Off

- There is evidence for and against the trade-off
- Research focuses on impact of rising health costs on worker wages
- One study on impact of decreasing health costs on worker wages
- Economic environment matters when it comes to enabling or precluding trade-off
- Strength of economy and unemployment rates matter
- Even if worker wages do not increase, tax revenue will likely materialize to pay for other parts of ACA
  - For example, corporate profits are taxable



## Prospects for Repeal

- Rep. Guinta (R-NH) introduced legislation in Feb. 2015 with 28 Republican co-sponsors. Currently has 110 co-sponsors.
- Rep. Joe Courtney (D-CT) introduced similar legislation in May, with 71 co-sponsors, inc. 3 Republicans.
- Sen. Heller (D-NV) has introduced legislation with 17 co-sponsors.
- Presidential candidate Hillary Clinton has voiced support for repeal.
- Speaker of the House Ryan (R-WI) introduced legislation for repeal, which passed on Oct. 23.
- Sen. Reid (D-NV) & Rep. Pelosi (D-CA) working since spring 2015 to repeal the tax

# Repeal Hurdles

- \$91 billion in tax revenue
- Congress might pay for repeal with some other form of limitation on the tax preference
- Repeal legislation could be loaded up with other provisions, which might not enjoy bi-partisan support
- President Obama may veto any repeal legislation
- “Doc-fix” could have been a vehicle, but there was no agreement on what appeared to be low hanging fruit (ie full-time worker definition & tax on medical devices)
- Repeal in 2019??

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