

# The Tax Man is Coming...

## Preparing for the Cadillac Tax

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# Anticipating the “Cadillac” Excise Tax Strategies

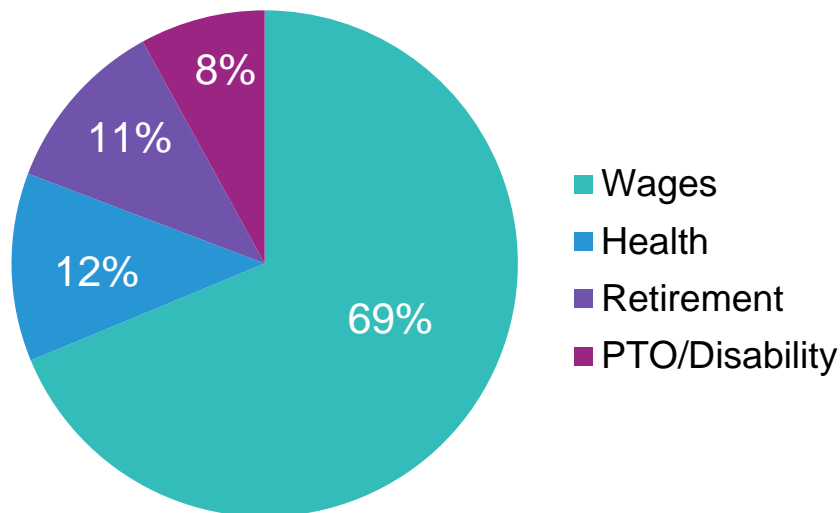
- Absorb the cost
- Improve plan efficiency
- Shift cost
- Eliminate ancillary health care benefits
- End health plan sponsorship

# Absorb the Cost

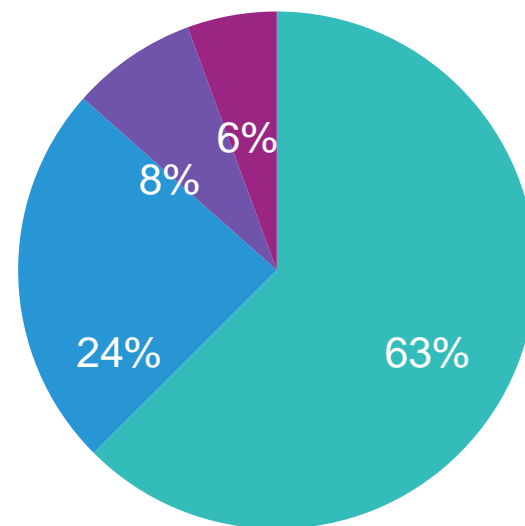
- **Absorb the cost**
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- Not a long-term viable strategy unless combined with other strategies to mitigate magnitude of annual excise tax increase
- Significant cost impact unless other total rewards components and/or wages reduced

Current: health approximately 1/3 of fringe<sup>1</sup>



Future: other total rewards and/or wage reductions to offset higher health cost



<sup>1</sup>U.S. Bureau of Labor Statistics, Employer Costs for Employee Compensation – December 2014

# Manage Cost – Three Ways

- Absorb the cost
- **Improve plan efficiency**
- Shift cost
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- Medical tourism
- Patient-centered medical home/ACO
- Onsite clinics and other services
- High performance networks
- Tele-health
- Transparency tools
- Plan design – enhanced precertification; value based design
- Program engagement

## Manage utilization

## Manage unit costs

- Medical and Rx discounts
- Audits
- Contract review
- Performance guarantees
- Direct contracting
- ACOs
- Collectives and coalitions
- Program and service review

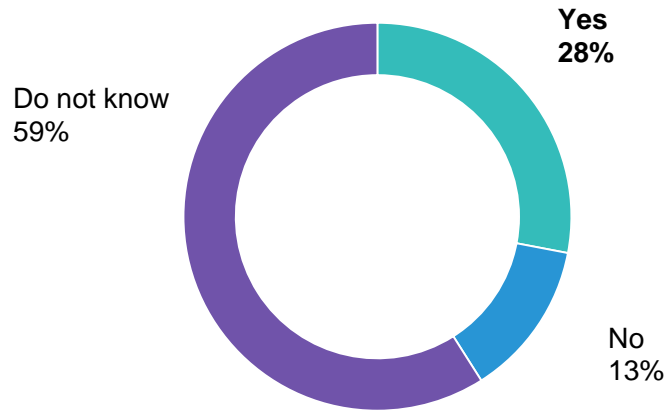
## Promote health

- Health promotion
- Biometric screening
- Incentives
- Accountability strategies
- Disease management
- Behavioral economics

# Trend Reduction from Wellness?

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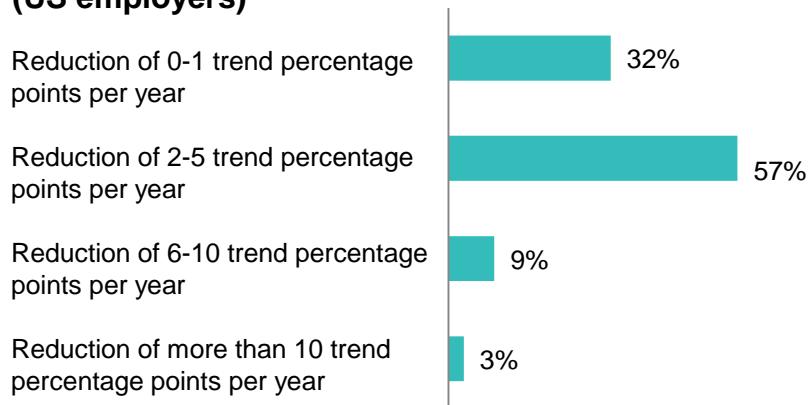
## Reduction in health care trend rate (US employers)



**69%**

of U.S. employers who indicated their wellness program had an impact on trend, reported reductions of 2% or more.

## Average annual reduction in health care trend rate (US employers)

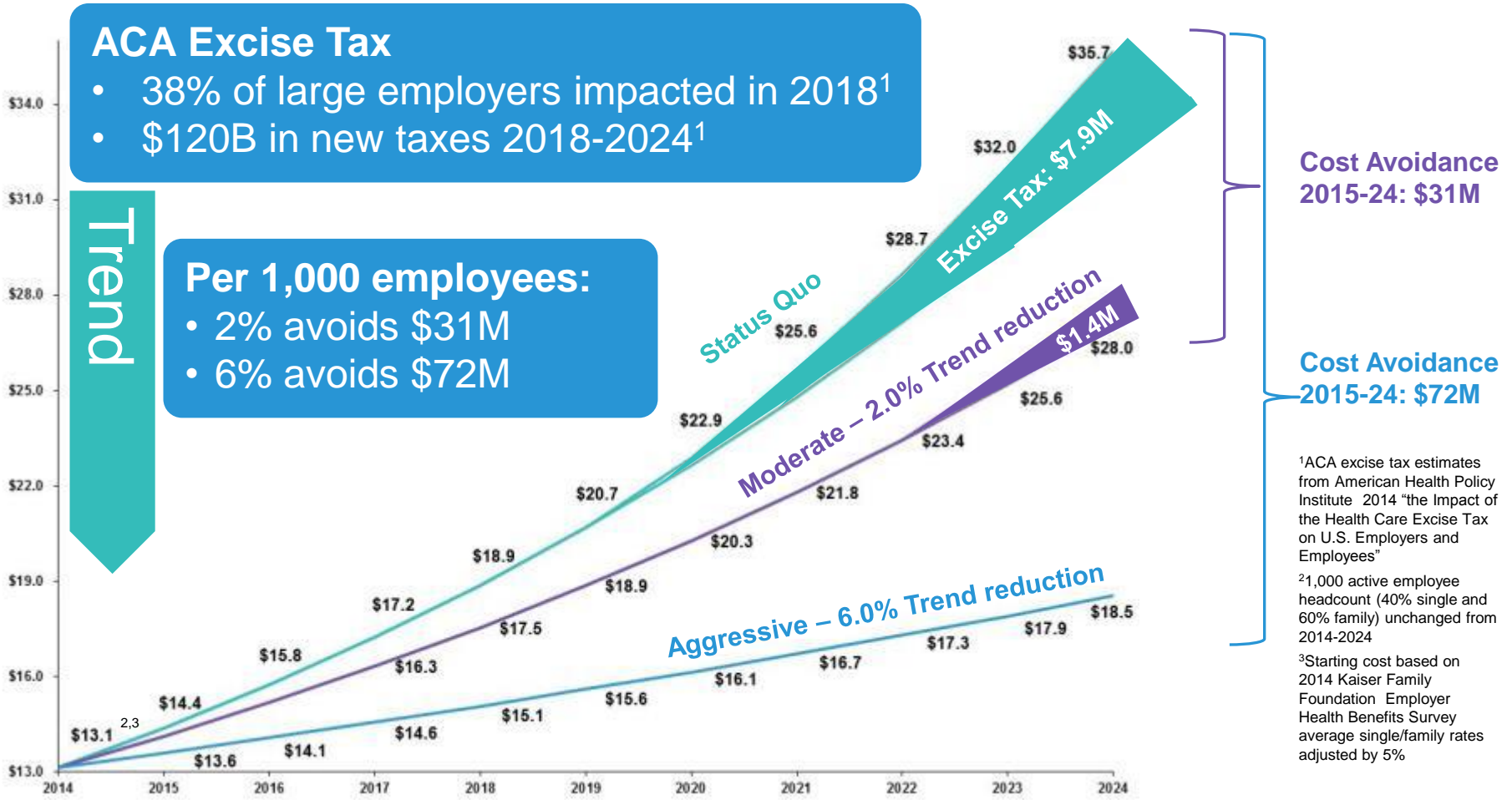


**12%**

of U.S. employers who indicated their wellness program had an impact on trend, reported reductions of 6% or more.

# Improving Plan Efficiency – Lever to Avoid Cost & Defer Excise Tax

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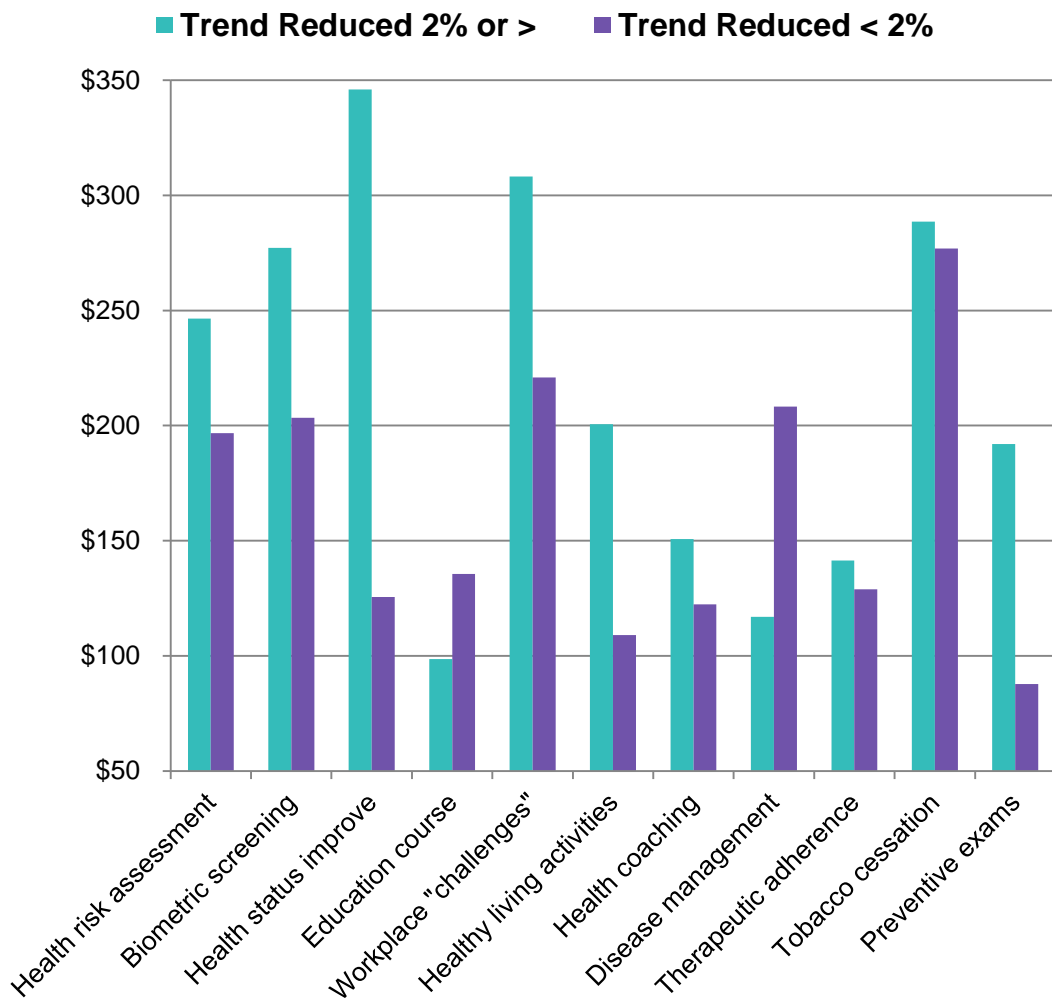
<sup>1</sup>ACA excise tax estimates from American Health Policy Institute 2014 "the Impact of the Health Care Excise Tax on U.S. Employers and Employees"

<sup>2</sup>1,000 active employee headcount (40% single and 60% family) unchanged from 2014-2024

<sup>3</sup>Starting cost based on 2014 Kaiser Family Foundation Employer Health Benefits Survey average single/family rates adjusted by 5%

# Incentives and Trend Reduction

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## 2% or > trend reduction

- Average incentive 30% higher
- Higher incentives in 9 of 11 categories

## Premium differential is the most prevalent way to pay incentives

- 52% use reduction
- 33% use surcharge

# Shift Cost to Employees

- Absorb the cost
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Market-  
Based and  
Excise Tax  
Avoidance  
Cost  
Shifting

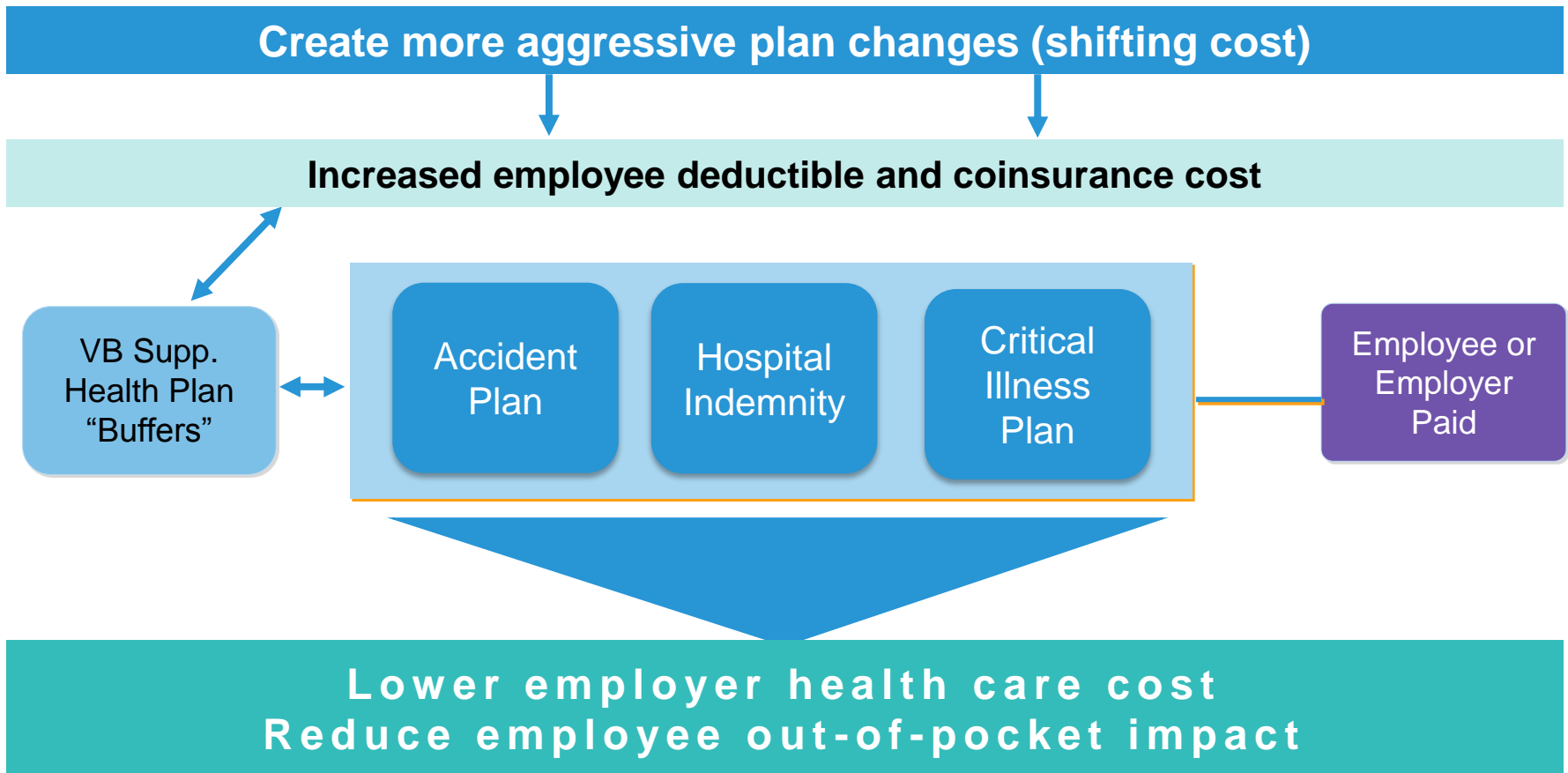
- Reduce medical benefits
- Migrate to lower plan values
- Implement HDHP/HSA plan
  - Eliminate employer HSA contributions; eliminate or cap pre-tax employee contributions if subject to the tax
- Voluntary Benefits
  - Integrate with core
  - Employer subsidy

Max.  
Cost  
Shift =  
Bronze  
Plan  
(60%)



# Remodel Medical Plan Using Voluntary Benefits as Buffer

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# Eliminate Ancillary Benefits

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- Employee and employer health FSA contributions will have significant impact

	2018 Projected Per Capita Cost	2018 Blended Per Capita Cost	FSA	Total Projected Per Capita Cost	2018 Limits	Excess Benefit	Per Employee Excise Tax
Employee	\$9,663	\$9,663	<b>\$0</b>	\$9,663	\$10,200	\$0	<b>\$0</b>
Employee	\$9,663	\$9,663	<b>\$2,500</b>	\$12,163	\$10,200	\$1,963	<b>\$785</b>

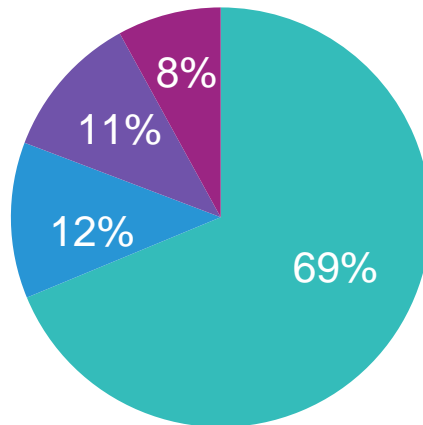
- Employers will reduce/eliminate employer HSA contribution
- Employers will limit/eliminate employee pre-tax HSA contributions
  - Employees can make after-tax contributions
    - Loss of employee and employer FICA savings
    - Lower employee participation and savings rates
- Significant impact on effectiveness of HDHP/HSA programs

# End health plan sponsorship

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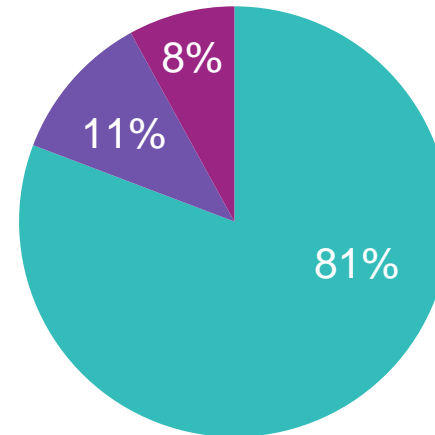
- Exposed to ACA \$2,000/employer shared responsibility assessment
  - Nondeductible, indexed, assessed on all full-time employees
- Attraction and retention problem unless employer provides additional wages to purchase coverage on public exchange and/or significantly increases other components of fringe

Current split<sup>1</sup>



Split after ending health plan sponsorship

- Wages
- Health
- Retirement
- PTO/Disability



<sup>1</sup>U.S. Bureau of Labor Statistics, Employer Costs for Employee Compensation – December 2014

