Excise Tax
(Cadillac Tax)

January 25th, 2014
What is the Excise Tax?

The **Excise Tax** or **“Cadillac Tax”** will take effect in 2018, and applies to “applicable employer-sponsored coverage,” which generally means coverage under any group health plan made available to the employee by an employer “which is excludable from the employee’s gross income under Code 106.”

The tax applies to both fully-insured and self-insured groups.¹

What is the Excise Tax?

The excise tax does not apply to:

- Long-term care insurance.
- Hospital indemnity, accident, and critical illness paid with after-tax dollars.
- Any coverage under a separate policy, certificate, or contract of insurance that provides benefits substantially all of which are for treatment of the mouth (including any organ or structure within the mouth) or for the treatment of the eye.
How Will the Tax be Levied?

In 2018, a 40% excise tax will be levied on the value of health insurance benefits exceeding:

<table>
<thead>
<tr>
<th>RATING TIER</th>
<th>PREMIUM</th>
<th>HIGH-RISK PROFESSIONS AND RETIREES*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$10,200</td>
<td>$11,850</td>
</tr>
<tr>
<td>Family</td>
<td>$27,500</td>
<td>$30,950</td>
</tr>
</tbody>
</table>

Annual excise tax threshold increase:

2019: CPI-U + 1%       2020 & Beyond: CPI-U

- Excise tax is nondeductible.
- Excise tax penalty is 100% of the missed portion of the excise tax that was underpaid (in addition to paying the correct amount).

* Qualified retirees or participants in a plan engaged in a high-risk profession or employed to repair or install electrical and telecommunications lines. A qualified retiree is any individual who is receiving coverage by reason of being a retiree, has attained age 55, and is not entitled to benefits or eligible for enrollment under Medicare.
Determining Value of Benefits

The value of benefits is determined using rules similar to those that apply for determining value of benefits for COBRA purposes.

Aggregate value of benefits are determined by:

1. Employer and employee paid premiums.
2. All pre-tax contributions to HRA, HSA, and FSA accounts.
3. Cost of EAP, onsite medical clinics, and wellness programs.

• Retirees must be included when determining aggregate value.
• Tax is measured as a function of Plan cost and not actuarial value (creating potential tax exposure due to high-cost claims).
• Applies on a calendar-year basis.
How Will the Tax be Levied?

EXAMPLE:

$12,200  Annual Single Premium
- $10,200  Annual Tax Threshold

$ 2,000

x 40%  Excise Tax Rate

$ 500 Tax per Individual
The Congressional Budget Office (CBO) estimates that the excise tax will generate $120B over 10 years:

- **70% ($84B)** from employers making changes to lower the value of their plans to avoid the tax and, instead, increase taxable wages.

- **30% ($36B)** generated by employers paying the excise tax.
How Are Employers Preparing? ²

- **1 in 5 employers** have projected an increase in future liabilities due to the excise tax.
- **1 in 4 employers** plan to restructure their benefits to deal with the excise tax.
- **1 in 8 employers** are building pre-funding of the excise tax into premiums.

How Are Employers Preparing?

73% Are very or somewhat concerned they will trigger the Excise Tax.

62% Say it will have a moderate or greater impact on their health care strategy in 2015 and 2016.

48% Are likely to trigger the tax in 2018. That number could rise to 82% by 2023.

---

Market Analysis
Market Analysis

Excise Tax Analysis Based on Two Groups from a Northeast Blue Cross Blue Shield Plan

**Group 1:**
- Approximately 5,536 members
- Taft-Hartley
- 2.4 members per contract
- 2013 single premium: $8,427
- 2013 claims spend: $30.4M

**Group 2:**
- Approximately 72,018 members
- Non-profit union
- 2.6 members per contract
- 2013 single premium: $9,020
- 2013 claims spend: $416.3M
Market Analysis

Group 1 & Group 2 Excise Tax Analysis
(Family Policies)
Market Analysis

Excise Tax Liability
(Groups 1 & 2 combined)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Average Tax Liability Per Subscriber</th>
<th>Total Tax Liability as % of Healthcare Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$592</td>
<td>2.3%</td>
</tr>
<tr>
<td>2019</td>
<td>$891</td>
<td>3.1%</td>
</tr>
<tr>
<td>2020</td>
<td>$1,316</td>
<td>4.3%</td>
</tr>
<tr>
<td>2021</td>
<td>$1,771</td>
<td>5.3%</td>
</tr>
<tr>
<td>2022</td>
<td>$2,256</td>
<td>6.3%</td>
</tr>
<tr>
<td>2023</td>
<td>$2,782</td>
<td>7.2%</td>
</tr>
<tr>
<td>2024</td>
<td>$3,345</td>
<td>8.0%</td>
</tr>
<tr>
<td>2025</td>
<td>$3,939</td>
<td>8.8%</td>
</tr>
</tbody>
</table>
Market Analysis

- Average excise tax liability will be nearly $600 per subscriber.

By 2018:
- Excise tax liability will be over 2% of total healthcare costs.
- Total excise tax amount will be $1.3M (Group 1) and $17.9M (Group 2).

By 2023:
- The average tax liability per subscriber will more than quadruple.
Key Takeaways

1. While not completely clear, the exclusion list indicates dental and vision may not be included in the aggregate cost calculation and may be a possible area of leverage for richer benefits.

2. It is unclear whether the excise tax will be based on “enrolled” benefits or “made available” benefits. Employers will benefit by advocating for the calculation to be based on the lowest cost benefits made available to employees.

3. Given many voluntary benefits like critical illness and accident policies are excluded (if provided on an after-tax basis), there is an opportunity to expand those offerings and potentially strengthen the value proposition for the sponsor.
Questions?