‘Cadillac Tax’ Delay Gives Employers Relief

Employers and their staff will get some relief for another few years from the impending “Cadillac” health insurance tax after Congress approved a delay as part of the budget deal it approved.

President Obama has said he will not veto the new budget, which means that the excise tax will not take effect until 2020, instead of 2018. While some analysts predict that the delay is a precursor to an outright repeal of the tax, benefits experts say it is unlikely to dampen ongoing efforts by employers to rein in their health insurance costs.

Under the Affordable Care Act, the Cadillac tax will be applied at a rate of 40% on any premium in excess of certain thresholds, currently set at $10,200 for an individual policy and $27,500 for family policies. Those thresholds will change annually based on the rate of inflation.

Under the law, health insurers are required to pay the tax, but they are expected to pass on the tax to group health plans, which will result in both employers and employees paying it in the end.

Employer groups lauded the delay. The Washington-based American Benefits Council, which counts mostly large employers as its members, said it considers the delay a “down payment on a full repeal.”

Other employer groups said they would use the extra time to further explore ways to keep their policies under the Cadillac threshold.

The tax is designed to dissuade the use of more expensive and generous plans, which many health care pundits blame for over-utilization of health services. The tax is also expected to help pay for subsidizing health insurance costs for low-income individuals purchasing plans through public exchanges.

Despite the delay, employers are likely continue to seek out ways to reduce their overall health insurance spend, which continues to increase every year, albeit at lower rates than we saw in the decade prior to the ACA.

Group health plan costs rose 3.8% in 2015 from the year prior to an average $11,635 per employee, according to Mercer Benefits.

Cadillac tax is serious business

According to an August 2015 survey by the National Business Group on Health, 72% of employers expected at least one of their benefit plans to hit the excise tax in 2020 if they didn’t control costs.

According to the bipartisan nonprofit Committee for a Responsible Federal Budget, delaying the Cadillac tax until 2020 would cost the government $16 billion. Repealing it would cost $91.1 billion over the next 10 years, the committee said recently.

There was another caveat in the budget bill. It requires the U.S. comptroller general and the National Association of Insurance Commissioners to conduct a study of whether the ACA uses “suitable” benchmarks to determine if the tax should be adjusted to reflect age and gender factors in setting the thresholds for levy.

What you can do

According to the International Foundation of Employee Benefit Plans’ “2015 Employer-Sponsored Health Care: ACA’s Impact Survey,” 34% of employers had started taking action to avoid triggering the 2018 Cadillac tax.

Actions include moving to a consumer-directed health plan (53%), reducing benefits (37%) and adopting wellness and preventive initiatives (28%).

You should run a financial projection to determine if your organization is expected to be affected by the Cadillac tax. If you expect to be impacted, talk to us about cost mitigation strategies and keep an eye out for upcoming proposed regulations.

As long as the tax hasn’t been repealed, the smart money is to stay on top of it.