



Cadillac Tax Update for Chamber Members July 2016



Who Will Be Most Affected By The Cadillac Tax?

The so-called Cadillac Tax is one of the few aspects of the Affordable Care Act that has united Democrats and Republicans. Both parties disliked it so much they passed a bill that delays the tax until 2020. Now a new analysis from The Commonwealth Fund has found the tax will likely be more progressive than initially thought.

The Cadillac Tax is a 40% excise tax on employer plan exceeding \$10,200 in premiums per year for individuals and \$27,500 for families. The tax's feature is supposed to maximize revenue and minimize coverage disruptions. The Commonwealth Fund has determined that the tax will only have a modest impact on total health spending.

It's important to note that premium contributions by employers and employees count against the threshold to health savings accounts (HSAs), flexible spending accounts (FSAs), Archer medical savings accounts, and health reimbursement accounts (HRAs).

According to the report, when employers offered these accounts, employees were encouraged to buy more generous plans than they normally would, which lead to higher spending through greater demand for medical care.

Ownership and funding of HSAs and FSAs are skewed more toward high-income workers, and they'll be most affected, initially, by the tax. Furthermore, account balances are highest among these earners, according to the research brief. *"High-income workers benefit the most because they have the highest tax rates, have access to, and take up generous benefits, and contribute to savings accounts,"* the authors wrote.

The result of the Cadillac Tax will likely be that employers will limit contributions to FSAs and HSAs, and offer plans with more restrictive networks. *"By taxing only the portion of the plan costs that exceeds a threshold, the HCPT ensures that most employer-sponsored benefits will remain in appeal of high-deductible plans,"* the authors concluded.

Workers' Access to Flexible Spending Accounts and Health Savings Accounts, by Wage Percentile, 2015

Account	Low wage		Middle wage		High wage	
	<10th percentile	10th–24.99th percentile	25th–49.99th percentile	50th–74.99th percentile	75th–89.99th percentile	≥90th percentile
FSA	10%	19%	42%	51%	66%	70%
HSA	5%	11%	25%	28%	35%	39%

Note: FSA = flexible spending account; HSA = health savings account.
Source: Bureau of Labor Statistics, National Compensation Survey, 2015.

Ownership and Average Balances of Tax-Favored Savings Accounts, 2007–2013

Income percentile	Households (%)	Weighted average balance (\$)	
		All accounts combined	Smallest account
<60th	0.56	11,275	11,021
60th–79th	2.21	22,376	13,851
80th–89th	4.36	78,946	67,225
≥90th	5.70	91,845	62,051
All	1.57	51,446	38,512

Note: Data are for households with at least 1 savings acct, no children at home, and a head of household under age of 65. All dollar amounts are in 2013 dollars. Responses used to calculate these figures may include balances in Coverdell or 529 (state-sponsored) education savings accts, health savings accts, and/or medical savings accts.

Source: Federal Reserve Board, Survey of Consumer Finances, 2007, 2010, and 2013

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