**There's No Hope of Repairing the Cadillac Tax**

By Janet Trautwein

One of the Affordable Care Act's chief vehicles for controlling healthcare spending is on a collision course with millions of middle-class Americans.

Recent research warns that the "Cadillac" tax on high-cost health plans will saddle working Americans with thousands of dollars in benefits cuts.

Congress recently postponed the implementation of the tax. But no amount of repair or polish can change the fact that this Cadillac is a clunker. To avoid harming working families, lawmakers must scrap the tax altogether.

The Cadillac tax was supposed to discourage employers from offering expensive health plans that cover every procedure under the sun -- and drive up overall health spending in the process. The 40 percent tax would apply to the amount in excess of $10,800 for an individual policy and $29,100 for a family plan.

Companies exposed to the tax will likely cut their premiums and pass the additional costs onto workers in the form of higher co-pays and deductibles. A survey of large companies conducted by the National Business Group on Health shows that 42 percent of employers plan to increase employee cost sharing -- likely via higher co-pays and deductibles -- to minimize their tax exposure.[[1]](#footnote-2) Thirty-seven percent plan to reduce health benefits available to employees' spouses.[[2]](#footnote-3)

These drastic benefit cuts will ultimately not work because the tax will hit just about every health plan out there.

That's because the Cadillac tax's thresholds are indexed to the overall inflation rate. But healthcare costs, and thus health insurance premiums, have climbed much faster than that for decades. As insurance costs rise in the coming years, more and more plans will cross the thresholds. By 2023, 82 percent of employers will have to pay the tax.[[3]](#footnote-4)

This flaw isn't the result of a faulty manufacturing process -- it was deliberately built in from the beginning. One of the Affordable Care Act's chief architects, Jonathan Gruber, boasted that the Cadillac tax will essentially get "rid of the [tax] exclusion for employer-sponsored plans."[[4]](#footnote-5)

The tax will also discourage employers from offering tax-advantaged Health Savings Accounts and Flexible Spending Accounts -- even though these consumer-controlled accounts are extremely popular with employees and have proven effective at reining in health costs.

Employers and employees alike can make pre-tax deposits into FSAs that consumers can use within a given year for routine healthcare expenses. HSAs work similarly -- but consumers can roll over the money in their accounts from year to year.

Since they are spending their own money, they're more likely to shop around for lower priced medical care. Such consumer discipline has been proven to rein in overall health spending.

But the Cadillac tax counts employer contributions to these accounts toward the high-cost thresholds. So an employer that offers an individual worker a $10,000 health insurance plan and contributes $2,000 to his or her FSA will face a 40 percent excise tax on the $1,200 beyond the $10,800 Cadillac tax threshold. As a result, employers may stop offering HSAs and FSAs altogether.

Lawmakers have delayed the start date of the tax from 2018 to 2020. President Obama has suggested that premium limits be indexed so that they reflect regional differences in insurance costs. House Ways and Means Committee chairman Kevin Brady (R-TX) has slammed the tax as "punitive," and others in Congress have proposed excluding HSA contributions when calculating whether a health plan is subject to the tax.[[5]](#footnote-6)

But legislative tune-ups like these won't stop the Cadillac tax from harming millions of middle-class families. It's time to dump this "Cadillac" in the junkyard.

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1. <http://www.fightthe40.com/AlliancetoFightThe40/assets/File/Studies/2015_NBGH_health_plan_design_survey.pdf> [↑](#footnote-ref-2)
2. <http://www.fightthe40.com/AlliancetoFightThe40/assets/File/Studies/2015_NBGH_health_plan_design_survey.pdf> [↑](#footnote-ref-3)
3. <https://www.towerswatson.com/en-US/Press/2014/09/nearly-half-us-employers-to-hit-health-care-cadillac-tax-in-2018-with-82-percent-by-2023> [↑](#footnote-ref-4)
4. <http://www.cnn.com/2014/11/18/politics/gruber-obamacare-promises/> [↑](#footnote-ref-5)
5. <http://thehill.com/blogs/congress-blog/healthcare/271529-the-coming-battle-over-cadillac-tax-reform> [↑](#footnote-ref-6)