**Cadillac Tax Belongs in the Junkyard**

By Janet Trautwein

Cadillacs have never been less popular.

Several presidential candidates have called for repeal of the Affordable Care Act's "Cadillac" tax, which hits generous employer-sponsored health plans with a new 40 percent levy. They join a bipartisan group of 29 senators and about 275 members of the House in opposition to the tax.

They will need to act quickly to prevent this tax from increasing the health care bills of not just Cadillac-driving executives but the Chevy-driving middle class, too.

The Cadillac tax was intended to discourage companies from offering overly expensive coverage with the idea that rich plans disproportionately benefit higher wage earners and don’t encourage covered individuals to use cost-effective health care services. The Affordable Care Act stipulates that the 40 percent tax will apply to the value of any plan employers offer with premiums higher than $10,200 for individual coverage and any family plan beyond $27,500.[[1]](#footnote-1)

But the tax's poor design makes it a clunker.

First, the tax targets all high cost plans equally and doesn't account for geography or employee demographics. That means expensive health plans with relatively modest benefits could be subject to the tax if a company has an older workforce or is located in a high cost state.[[2]](#footnote-2)

Second, the formula for calculating the tax includes contributions from employers, employees, and even tax-advantaged health savings and flexible spending accounts. So plans could hit the Cadillac tax thresholds quickly.[[3]](#footnote-3)

Further, since the tax is indexed to general inflation -- not healthcare costs -- more and more people will be subject to it as health costs rise. According to the nonpartisan Congressional Budget Office, healthcare spending is increasing at an annual rate of almost 6 percent -- three times the general inflation rate.[[4]](#footnote-4)

By 2018, consulting firm Towers Watson predicts that the Cadillac tax will hit about half of all health plans.[[5]](#footnote-5) That number could almost double by 2023.[[6]](#footnote-6)

The tax will fall on not only bankers and CEOs but teachers, firefighters, and union laborers, too.[[7]](#footnote-7) It will affect not just large corporations but also mom-and-pop businesses, which already pay 18 percent more for employee health insurance.[[8]](#footnote-8)

More than one-quarter of employers expect 2018 -- the year the Cadillac tax goes into effect -- to be the costliest year for compliance with the healthcare law.[[9]](#footnote-9)

On average, the tax will cost large employers about $1 million that year -- increasing to an average of $2.1 million per year from 2018 to 2024.[[10]](#footnote-10)

In response, firms are radically redesigning their health plans to avoid triggering the tax -- in ways workers are sure to dislike.

To start, more workers will find themselves paying for doctors and hospitals long before their policy even kicks in -- thanks to larger deductibles, bigger co-pays, and higher out-of-pocket maximums.

One recent survey of over 3,000 employers found that 42 percent were planning to increase deductibles for workers from their current average of $3,000 for family plans and $1,200 for individuals.[[11]](#footnote-11)

Employers will have to make drastic changes to avoid the tax, meaning that employees will get less for their share of health plan costs -- with narrower provider networks and pared-back benefits. Xerox and UPS have already reduced eligibility for spouses.[[12]](#footnote-12) The University of Virginia has separated dental benefits from its health plans.[[13]](#footnote-13) Still other employers are considering limiting contributions to health savings and flexible spending accounts.[[14]](#footnote-14)

Defenders of the Cadillac tax claim that it will raise $87 billion for the federal government -- and that Congress will have to find that amount elsewhere to pay for its repeal.

But the Congressional Budget Office says that the tax itself will raise just one-fourth of that amount. The other three-quarters is supposed to come from higher income-tax receipts. The CBO assumes that employers will react to the Cadillac tax by cutting benefits and increasing wages. But after all the other compliance costs associated with the Affordable Care Act employers have already absorbed, it's very unlikely that employers will compensate for Cadillac-tax induced cuts in benefits with raises.

The Cadillac tax should not be allowed to cross the start line. If implemented, it will only drive healthcare costs higher and hurt middleclass workers. Republicans and Democrats alike need to take this Caddy to the junkyard.

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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-3)
4. http://www.politico.com/story/2015/04/obamacare-health-care-cadillac-tax-116659 [↑](#footnote-ref-4)
5. <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-5)
6. <http://www.vox.com/2015/8/26/9210443/cadillac-tax-obamacare> [↑](#footnote-ref-6)
7. <http://www.fightthe40.com/resources/Myth_v_Fact.pdf> [↑](#footnote-ref-7)
8. <http://www.benefitspro.com/2015/06/15/the-impact-of-ppacas-tax-policy-on-business> [↑](#footnote-ref-8)
9. <https://www.ifebp.org/aboutus/pressroom/releases/Pages/pr-Employers-Say-2016-Will-Be-Costliest-Year-Yet-for-ACA-Compliance.aspx> [↑](#footnote-ref-9)
10. <http://www.americanhealthpolicy.org/Content/documents/resources/a14-13_PR_Excise_Tax.pdf> [↑](#footnote-ref-10)
11. <https://www.ifebp.org/aboutus/pressroom/releases/Pages/pr-Employers-Say-2016-Will-Be-Costliest-Year-Yet-for-ACA-Compliance.aspx> and <http://www.prnewswire.com/news-releases/nearly-1-out-of-4-companies-seeing-health-insurance-premiums-rise-by-more-than-10-percent-300131056.html> [↑](#footnote-ref-11)
12. <http://www.nbcnews.com/news/other/large-employers-cite-obamacare-cadillac-tax-reducing-benefits-f2D11655467> [↑](#footnote-ref-12)
13. <http://news.virginia.edu/content/university-employees-will-see-significant-changes-health-plan-year> [↑](#footnote-ref-13)
14. <http://www.bna.com/employers-may-cut-b57982058830/> [↑](#footnote-ref-14)