BENEFITS INSIGHTS

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Cadillac Tax Update

Beginning in 2020, the Affordable Care Act (ACA) will levy a 40 percent excise tax on health plans that are deemed to be overly generous. This tax, also known as the "Cadillac tax," will affect health plans that cost more than $10,200 for an individual or $27,500 for a family. The Cadillac tax is designed to encourage companies to choose lower-cost employee health plans and to raise revenue to fund other ACA provisions.

The Cadillac tax is controversial because many believe the tax will force employers to shift more health care costs onto employees, many of whom are already struggling to pay their out-of-pocket expenses. It has also been criticized by labor unions and by those who believe it unfairly discriminates against employers in more expensive areas of the country.

Why should I care about the Cadillac tax now?

According to the Kaiser Family Foundation, 40 percent of employers could be subject to the Cadillac tax by 2028. Furthermore, if health insurance premiums continue to rise faster than the rate of inflation, more plans could potentially be subject to the Cadillac tax over time.

The tax was originally intended to take effect in 2013, but was immediately delayed until 2018 following the ACA's enactment. A 2016 federal budget bill then further delayed the implementation of the Cadillac tax until 2020.

Even though the potential implementation of the tax is years away, it is important to start thinking about how your company plans to navigate the Cadillac tax. Depending on your plan, significant changes may be needed to avoid the tax. Since cutting benefits can cause employee dissatisfaction, you may choose to gradually phase out generous health benefits—allowing employees more time to adjust to new plan offerings.

How are other employers preparing?

Many employers expect their plan costs to exceed the 40 percent threshold. According to Employee Benefits News, 69 percent of employers say the Cadillac tax is a factor in employee benefits planning for 2017—an 11 percent increase from 2016. The following is a list of changes employers are considering making in response to the tax, according to a study from Wells Fargo:

Considering the potentially huge financial impact of the Cadillac tax, employers should start planning now. Failing to be proactive could leave your company unequipped for the challenges associated with this new ACA provision.

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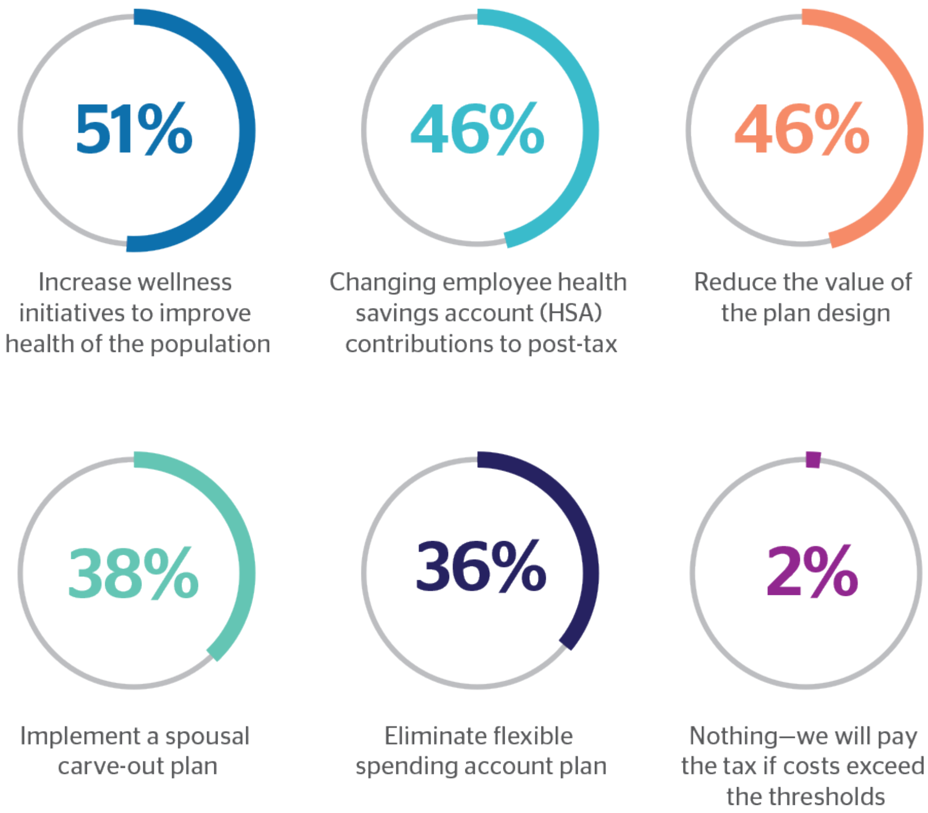

Future of the Tax

Given the controversial nature of this tax and the upcoming presidential election, there is a chance for appeal or amendment down the road. When and in what shape such a change could come in, though, remains unknown.

Considering the potentially huge financial impact of the Cadillac tax, it is important to start planning now. Even if the tax is ultimately repealed, taking time to strategically analyze your health plan and identify areas for cost savings can benefit your company's bottom line in the long run.

To find out how your company stacks up or for more information on the tax, contact eESI today.