PPACA imposes a nondeductible 40 percent tax on so-called “high-cost” employer-sponsored health coverage, starting in 2018.
As established under the Patient Protection and Affordable Care Act (PPACA), the 40 percent tax applies to “applicable employer-sponsored coverage” in excess of statutory thresholds (in 2018, $10,200 for self-only, $27,500 for family and indexed to consumer inflation thereafter). Effective in 2018, the tax is equal to 40 percent of the aggregate value in excess of the annual threshold.

Despite the intentions of lawmakers, the tax will ultimately hurt a great many health care plans – not just so-called “high-cost” plans.
The tax was included as a way to “bend the cost curve” by restraining health care spending – reflecting a belief of economists that health plans providing very high levels of coverage (e.g., low or no deductibles, copayments or other cost-sharing) promote over-consumption of health care. However, consultants and analysts who have evaluated the 40 percent tax indicate that, in fact, it is very likely to impact a broad range of employer-sponsored plans – not only the most generous plans. (American Health Policy Institute, The Impact of the Health Care Excise Tax on U.S. Employees and Employers, 2014)

Eventually, the 40 percent tax will apply to modest plans, not just high-cost coverage as intended.
In a recent study, the Federal Employees Health Benefits Program (FEHBP) Blue Cross Blue Shield standard option plan was projected to hit the 40 percent tax in 2019 for employee-only coverage and in 2025 for family coverage. (Mercer, 2014 National Survey of Employer-Sponsored Health Plans, 2015)

The majority of employers are likely to hit the 40 percent tax by 2022.
Absent changes to their current plan, 33 percent of large employers would hit the 40 percent tax by 2018 and 58 percent would hit the tax by 2022. (Mercer, 2014 National Survey of Employer-Sponsored Health Plans, 2015)
The 40 percent tax is an imminent threat for many employer-sponsored health plans. Fully 73 percent of employers are concerned that they will trigger the 40 percent tax if they do not change their current benefit plan offerings. Nearly two-thirds of companies (62 percent) reported that the tax will moderately or strongly influence their health care strategies over the next two years. (Towers Watson, *2014 Health Care Changes Ahead Survey Report*, 2014)

Because the thresholds are indexed to general inflation instead of faster-growing medical inflation, more plans will be hit by the tax every year.

The tax thresholds ($10,200 for self-only coverage, $27,500 for family coverage in 2018) are indexed to the Consumer Price Index, which the Congressional Budget Office (CBO) estimates will rise annually by 2.4 percent on average over the next decade. But the Centers for Medicare and Medicaid Services (CMS) projects private health care spending to rise 5.7 percent on average each year, as health care costs increase significantly faster than general inflation. This insufficient indexing of the thresholds means more and more plans will trigger the tax over time. (CBO, *The Budget and Economic Outlook: 2015 to 2025*, 2015; CMS, *National Health Expenditure Projections 2013-2023*, 2013)

The tax will disproportionately affect women, older employees and geographic areas.

A recent report identified that geography could potentially increase premiums by 69.3 percent. For example, area-specific health care costs alone could boost a $9,189 premium to $15,556 in 2018. The report also demonstrates that the 40 percent tax’s age and gender adjustment fails to compensate for the impact those factors have on premiums when combined with a high-cost geographic area and/or lower provider discounts. (Milliman, *What does the ACA excise tax on high-cost plans actually tax?*, 2014)

Employers are acting now to avoid hitting the tax, including plan changes like increased cost-sharing and narrow networks.

The vast majority of U.S. employers (84 percent) are expecting to make changes to their full-time employee health benefit programs over the next three years. Many of the actions being taken by employers include using spousal surcharges (expected to double from 32 percent to 61 percent in three years), significantly reducing spouse and dependent subsidies by 2018 and offering full-replacement high-deductible health plans tied to tax-advantaged health savings accounts, as the only plan option. Seventeen percent of employers currently offer these full-replacement plans but the percentage could increase to almost 50 percent by 2018. (Towers Watson, *2015 Emerging Trends in Health Care Survey*, 2015)

The federal revenue earned from the tax depends in large part on reductions in health coverage.

CBO and the Joint Committee on Taxation project the tax will raise $87 billion in revenue over ten years. CBO estimates that about 71 percent of the revenue raised will come from a combination of increased income and payroll tax revenue from employers increasing taxable wages to offset the reduction of employee health care benefits as a result of the tax. (CBO, *Insurance Coverage Provisions of the Affordable Care Act – CBO’s March 2015 Baseline*, 2015 and *Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act*, 2014)

The 40 percent tax will ultimately hurt employees.

Assuming employers do increase taxable wages, the tax could cost 12.1 million employees an average of $1,050 in higher payroll and income taxes per year from 2018 to 2024. If employers do not increase wages, employees could see up to a $6,150 reduction in their health care benefits with little or no increase in their pay. (American Health Policy Institute, *The Impact of the Health Care Excise Tax on U.S. Employees and Employers*, 2014)