



AMERICAN BENEFITS COUNCIL

THE 40 PERCENT “CADILLAC TAX” ON HEALTH BENEFITS: A TAX ON CHEVYS, NOT CADILLACS

During debate of the Affordable Care Act (ACA), the 40 Percent Tax on health benefits was advertised as a tax on “high-cost Cadillac plans” enjoyed by executives. The reality is quite different. The data analysis below refutes notion that the 40 Percent Tax only impacts high-cost, Cadillac plans. Many employers are concerned that at least one of their health plans will trigger the 40 Percent Tax in as soon as it becomes effective or shortly thereafter, even after making changes to their benefit plans.

The ACA provides different indications of what is considered a minimum level of acceptable health care coverage – not high-cost coverage, just a minimum level of coverage. For individuals purchasing coverage on the Health Insurance Marketplace (Marketplace), the ACA uses the second-lowest cost silver plan available as the index on which to base the amount of the premium tax credit¹ – and for certain low-income individuals, the ACA couples the premium tax credit with additional cost-sharing subsidies to help offset out of pocket costs and enhance the value of the plans for these individuals. Additionally, health insurance issuers that are certified to issue qualified health plans (QHPs) on the individual Marketplace, generally must offer silver and gold level coverage on the Small Business Health Options Program (SHOP) Marketplace.² Finally, large employers are required to offer their full-time employees coverage that meets a “minimum value” standard, which is approximately a 60 percent actuarial value, or potentially face a 40 Percent Tax liability.³

It seems implausible that a silver level plan that sets the premium tax credit subsidy index, or the silver and gold level plans that insurers are required to offer on the SHOP Marketplace, or the minimum value plans that employers must offer to employees to avoid the employer shared responsibility tax, are the types of “high-cost” plans that may become subject to the 40 Percent Tax.

¹ Section 36B of the Internal Revenue Code.

² 45 CFR Section 156.200(g).

³ Section 4980H of the Internal Revenue Code.

If left unchecked, there is a strong chance that, in some locations, plans at these levels of benefits will trigger the 40 Percent Tax. Starting in 2020, the 40 Percent Tax will apply to the aggregate cost of applicable employer-sponsored coverage in excess of certain dollar thresholds. Over time, as per-capita health care costs are projected to rise more quickly than the 40 Percent Tax thresholds, the gap between these plans and the “high-cost” threshold narrows and in some cases ultimately disappears.

These types of plans are not “high-cost” plans. For example, silver plans in the individual and SHOP Marketplaces are objectively below-average in benefit generosity among health plans nationally. They typically have at least \$2,000/\$4,000 (single/family) deductibles, which is well above U.S. average employer-provided deductibles of \$1,213/\$2,357 in 2013.⁴ Coinsurance, copayments and out-of-pocket maximums for these plans are also typically above national averages for employer-based coverage. The Federal Marketplace’s own website (Healthcare.gov) describes silver plans as recommended for people that don’t expect to use regular medical services and don’t take regular prescriptions.⁵

But in certain high-cost local areas, the second-lowest cost silver plans can be expensive relative to average premiums nationally. The chart below shows the annual premium in 2015 for the second-lowest cost silver plan in the SHOP Marketplace for eight relatively high-cost local areas.⁶ The premiums shown are for single coverage for a 50-year old individual, which was chosen to approximate the average cost of insured workers in employer-provided coverage in the U.S.⁷ The chart also shows a projection of such silver plan premiums over time compared to the projected 40 Percent Tax threshold. Silver plan premiums in the projection are grown according to the Marketplace premium growth assumptions of the Congressional Budget Office (CBO).⁸ The 40 Percent Tax thresholds are grown according to CBO’s economic forecast for Consumer Price Index-Urban (CPI-U) inflation.⁹ [NOTE: The following charts are based on the effective date and statutory thresholds as originally enacted in the ACA and do not take into consideration the two-year delay enacted in late 2015.]

⁴ Source: Medical Expenditures Panel Survey, Insurance Component (MEPS-IC), AHRQ.

⁵ Source: <https://www.healthcare.gov/choose-a-plan/plans-categories/>

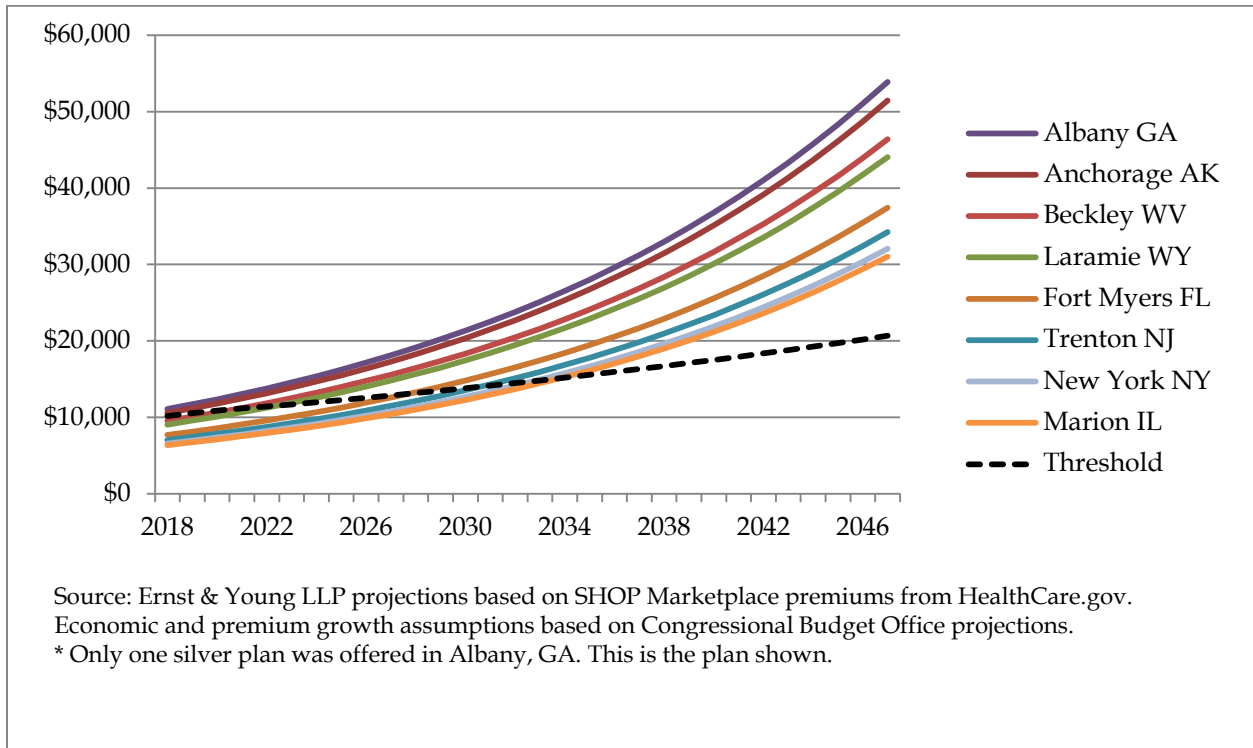
⁶ Source: Healthcare.gov

⁷ This approximation was based on Current Population Survey data on workers covered by their own employment-based insurance and Society of Actuaries/Health Care Cost Institute age-cost curves.

⁸ 8.5% annual growth in premiums 2016-2018, 5.6% annual growth in subsequent years. Note that premiums in the table are grown through 2040 at the same rate of growth (5.6%), while CBO only projects through 2025. Source: Congressional Budget Office, [Updated Budget Projections: 2015 to 2025](#), March 2015,

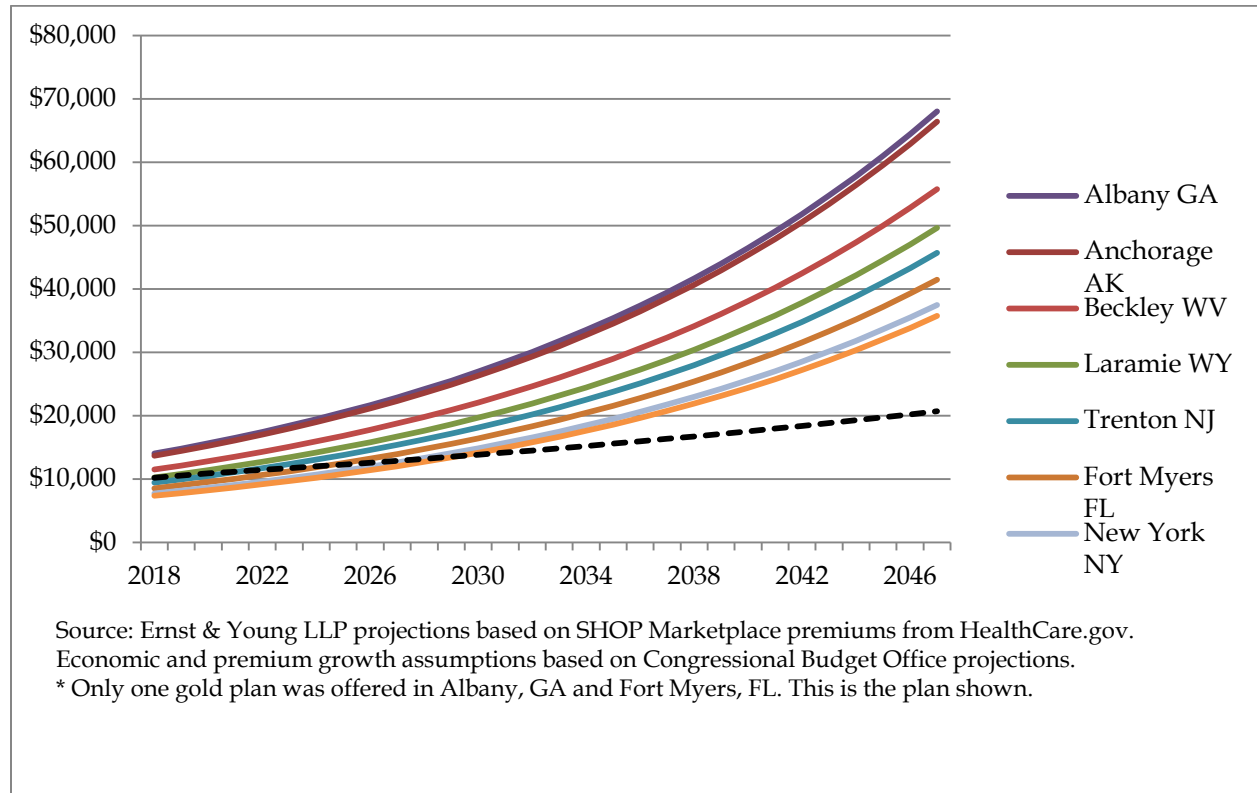
⁹ CBO, *The Budget and Economic Outlook: 2015 to 2025*, January 2015.

Table 1. Second-lowest cost silver plans in the SHOP Marketplace



For the two highest-cost areas shown, the silver plan premium is projected to be above the threshold from the start, in 2018. By 2025, half of the eight local areas shown are also above threshold. By 2035, all of the silver premiums projected are higher than the 40 Percent Tax threshold. Premiums for gold plans, which generally must be offered by a health insurance issuer on the SHOP Marketplace, exceed the threshold earlier in more local areas. Using the same methods described for the silver plans, gold plan premiums were projected as shown in the chart below.

Table 2. Second-lowest cost gold plans in the SHOP Marketplace



Gold plans offered on the SHOP in half of the areas shown will be subject to the 40 Percent Tax immediately when it goes into effect in 2018. By 2025, six out of eight areas are above the threshold and by 2030 all areas are above the threshold.

As group plans that are offered to employers, the SHOP plan premiums might provide a reasonable approximation of premiums for similar plans offered by other employers. However, unlike the individual Marketplace, which has a larger risk pool of enrollees and a larger number of health plan options, the SHOP Marketplace have smaller pools of enrollees and fewer insurance options. In light of the SHOP Marketplaces' more limited success, a similar analysis was performed comparing the projected 40 Percent Tax threshold to the projected individual Marketplace premiums at the silver and gold levels in 14 high-cost areas. Overall, the application of the individual Marketplace premium projections compared to the excise tax threshold produced results that are qualitatively similar to those shown here for the SHOP Marketplace premiums.