Background on the Middle Class Health Benefits Tax Repeal Act

to be introduced by Rep. Joe Courtney (CT-2)

Beginning in 2018, a 40 percent excise tax on the cost of employer-based health insurance that exceeds certain amounts – generally $10,200 for individual coverage and $27,500 for family coverage – will go into effect. This provision is often referred to as a "Cadillac Tax," implying that the policy would touch only high-end and overly-generous health plans. In reality, however, this tax will have an indiscriminate impact to a broad range of individuals and families who, for reasons they cannot control, have health plans that already or soon will reach the policy's cost thresholds.

Tax Likely to Hit Plans Based on Factors Other Than Generosity of Benefits

An analysis by Milliman, an independent actuarial firm, found that **"although the excise tax is often referred to as a tax on overgenerous health benefits, it is likely to be a tax based on factors other than benefit richness and beyond the control of health plan members."** Instead, factors such as age, gender, geography, occupational industry, and plan size have much greater effects on the cost of a plan than any perceived generosity in the plan's benefit structure. Among the report's findings:

- Benefit levels are the smallest contributor to premiums, accounting for only 6.2 percent of a plan's premium growth. **Geography, however, accounts for 69.3 percent**.
- The tax will hit markets around the country disproportionately, with a plan in San Francisco, CA costing 37 percent more than the same plan would cost in Huntington, WV. While the San Francisco plan would generate a $4,795 tax, the Huntington plan would incur no tax.
- The age and gender adjustment in the law "fails to compensate for the impact on premiums of age and sex in many parts of the country."

Excise Tax Will Lead Employers to Shift Costs to Employees

Although the tax does not go into effect until 2018, employers are already grappling with its consequences today. Uncertainly over how the tax will be implemented, as well as shortcomings in the law with regards to adjustments for inflation, age, gender and other factors, are leading employers to consider a range of options to avoid the tax by **reducing the value of health care coverage, which could include increasing deductibles, copays, coinsurance and out-of-pocket limits**.

- A fall 2014 Aon Hewitt survey indicated that 40 percent of employers expect at least one of their health care plans to be affected by the tax in 2018 and **33 percent are increasing out-of-pocket costs now to avoid the tax**.
- A fall 2014 Towers Watson large employer survey found that 48 percent believed they would trigger the health benefits tax in 2018 and 80 percent by 2023. **62 percent said they are planning substantial changes in their health coverage strategy as a result of the ta**x.
- **Various studies show that the number of plans that are expected to hit the current thresholds will increase over time –** with a vast majority ultimately hitting the threshold.

Most of the Projected Revenue Generated is From Taxable Wages Not Excise Tax

Finally, while the Congressional Budget Office has estimated that this provision will generate $87 billion over ten years, notably it estimates that only one-fourth of this total - $22 billion – comes directly from excise tax receipts. The remaining three-quarters would be generated from the theoretical increase in taxable wages that economists expect would be coupled with reductions in health care benefits.

The Middle Class Health Benefits Tax Repeal Act would:

- Repeal Section 4980I of Chapter 43 of the Internal Revenue Code, the excise tax on high-cost health plans
- Make conforming and clerical changes in tax code to reflect repeal of this section

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