Is There a Cadillac in Your Future?

March 2, 2015

By Gary R. Goodhile, CLU
Principal and Co-Owner
Sullivan Benefits

You may have guessed, I am not referencing an advertising slogan for GM. The name that was once a symbol of status for a generation of Americans, could soon bring a very different connotation to the minds of consumers. What I am referring to is what could be the most financially significant component of the "Affordable Care Act" since its passage; the Cadillac Tax.

Facts about the tax: All regulations published are proposed, final regulations have yet to be issued.

When will it take effect? January 2018

How much is the tax? The tax is a nondeductible 40% excise tax on the total (employee and employer) cost of "health coverage" that exceeds a certain threshold.

What is the threshold? (2018 most plans) $10,200/individual, $27,500/family

What is considered "Health Coverage"?

- Major medical coverage (medical, prescription drugs) / insured or self-funded
- Health savings accounts (HSAs)
- Heath flexible spending accounts (FSAs)
- Health reimbursement arrangements (HRAs, MERPs)
- Onsite health clinics
- Retiree health coverage
- Multi-employer plans
- Executive physical programs
- Hospital indemnity and specific illness coverage

Who pays the tax?

- Insured plans: The insurance company will be responsible for payment of the tax. They will then find ways to pass the cost back to employers.
- Self-funded plans: The plan sponsor.
- Pretax payroll deducted HSA and/or FSA contributions, etc.: The employer.

Who determines and reports the tax to be paid?

- The employer (single employer).
- The association, joint board of trustees, committee or other representatives of a plan established and maintained by two or more organizations.

How is the tax calculated? This is very fluid at this point; the tax will be calculated at 40% of the actual total cost of the plan(s) that is in excess of the threshold described above. Keep in mind that in addition to health plan cost any pretax contributions to an FSA or HSA will be counted toward the total as well. Each employee will be measured independently to determine if they have exceeded the threshold. For example, an employee covering their family in a high deductible health plan with HSA that chooses to maximize their family HSA contribution pre-tax through payroll deduction, would have $6,650 using todays limit added to the total cost of the family health plan cost of the employer. This could easily put a lower cost plan over the threshold for this individual. Sound complicated? It will be.

What does it all mean? It remains to be seen, a lot can happen between now and 2018. In its current form, employers in high cost health care regions of the country, like New England, that have a number of high risk/cost individuals on their plans will likely be impacted. It is hard to envision any employer willingly paying a 40% tax on top of their benefit plan cost, without taking preemptive action. This could mean dramatic change in the level of benefits an employer can afford to provide. Could it signal an end to tax advantaged funds to pay for health benefits like HSAs and FSAs or perhaps employer sponsored health insurance altogether for some?

What can we do now?

We believe it is time to get more serious about employee engagement, wellness programs and initiatives that can help mitigate the increase in health care cost over the long term, hence limiting exposure to the tax.

For information or assistance regarding the Cadillac tax, or any component of the "Affordable Care Act" please feel free to reach out to me or any member of the Sullivan Benefits Team!