

Repeal the 40% Excise Tax (aka Cadillac Tax)

► BACKGROUND

The Affordable Care Act includes a 40% excise tax on employer-sponsored health plans with annual premiums exceeding \$10,200 for individuals or \$27,500 for families (the amount exceeding the threshold is taxed at 40%). Most predications indicate that a significant number of group health plans would trigger the 40 percent excise tax if there aren't any adjustments made to the threshold. This has been dubbed the "Cadillac Tax" referring to high-cost health plans.

Implementation was scheduled for 2018, but at the end of 2015, Congress delayed the effective date to 2020. On March 6, 2017, House Republicans proposed ACA "repeal and replace" legislation that would delay the Cadillac Tax from 2020 to 2025.

► THE ISSUE

This "Cadillac Tax" on health plans was intended to serve as an incentive for employers to minimize costly health plans in an effort to curb healthcare spending. Supporters of the tax predicted doing so would decrease costs and increase taxable wages as employers shift funds from health plans to salaries. The Congressional Budget Office (CBO) estimated that the tax would generate \$87 billion in revenue, expecting about \$22 billion to be realized from payment of the tax, and \$65 billion to be realized from new taxable income projected from an employee compensation shift from benefits to salaries.

However, there are several issues coming to fruition. The tax's threshold is tied to the Consumer Price Index (CPI) and does not take into account medical inflation. Plans that were considered high-cost, generous or extravagant are or will be the standard as premiums and healthcare costs continue to rise. This will subject a large percentage of employer-sponsored health plans to the tax. Council member firms estimate the tax could impact nearly 80% of all employer health plans by 2020. Many employers will not be able to bear the extra cost which will force them to drop coverage altogether for employees.

Further, studies show that employers are not shifting funds from health plans to compensation significantly reducing the expected revenue from predicted increases in compensation. Studies also continue to show that healthcare costs are rising faster than wages and this trend shows no signs of reversing. Ultimately the tax is creating a financial burden and strain for employees and their families.

► OUR POSITION

The Council urges Congress to fully repeal the Cadillac Tax.

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