ACS CAN Supports Repeal of the "Cadillac Tax"

ACS CAN has long advocated for access to affordable health insurance. Most Americans – including many individuals in active cancer treatment and survivors – still get their health insurance through employers. The high-cost plan tax – commonly referred to as the "Cadillac tax" – included in the Affordable Care Act (ACA) could have a direct impact on the affordability of employer health insurance for millions of Americans. Employers seeking to avoid the tax could reduce the level of benefits offered, provide only a narrow network of providers or pass off costs to employees through higher copays and deductibles. ACS CAN supports repeal of the Cadillac tax to prevent further erosion of affordable employer-provided coverage.

Background

The ACA includes a high-cost plan tax (HCPT) commonly called the Cadillac tax. The intent of the tax is twofold: (1) to help finance the ACA; and (2) to discourage more generous employer-provided health insurance plans which some analysts argue drive up utilization and health care costs.

Beginning in 2018, employer-sponsored health insurance plans with premiums that exceed $10,200 for individual coverage and $27,500 for family coverage will be assessed a tax rate of 40 percent over the threshold amount. For example, if the premium for an individual policy was $15,000 the tax would be $1,920 ($15,000 - $10,200 = $4800 x 40 percent). The tax is actually levied on the entity providing the health insurance benefit – insurers, employers, or third party administrators – although the expectation is that the costs will be passed on to the employee in the form of higher deductibles and copays or lower wages. The tax is indexed to the Consumer Price Index (CPI) rather than health care inflation. Because health care costs generally grow faster than inflation, the amount of the premium subject to the tax will also continue to grow over time resulting in more employer-sponsored health plans being subject to the tax.

Because the Cadillac tax generates revenue – the Congressional Budget Office (CBO) estimates it will generate $87 billion over the ten year period 2016-2025 – repealing the tax could require offsets.

Arguments for Eliminating the Cadillac Tax

Because of the potential impact on employer-provided insurance there are strong public policy reasons for repealing the tax:

- **Most employers will be hit by the tax and will likely change coverage and/or pass off costs to employees:** A new Kaiser Family Foundation paper on the Cadillac tax estimates that in 2018, 26 percent of employers offering health benefits would exceed the threshold and be liable for the tax. By 2028 the number is estimated to grow to 42 percent.

To avoid the threshold employers could cut back on health benefits, raise deductibles or copays, limit contributions to flexible savings accounts (FSAs) or health savings accounts (HSAs), use narrow networks of providers, or eliminate a particular health plan offering.

- **Potentially higher costs for workers who need insurance the most**: Employers could levy a surcharge on the more expensive plan offerings to offset the tax. Since employees who face serious or chronic illnesses – like cancer – tend to choose more comprehensive coverage, they would likely be the ones who would have to pay the higher surcharge.

- **The tax creates geographic inequities**: Employers in high-cost areas of the country may find they face the tax not because they necessarily offer more generous coverage but simply because the cost of providing care in their geographic area is more expensive.

- **Because the Cadillac tax is not deductible from insurers' gross income costs will likely be passed on to employees**: The Cadillac tax is nondeductible. As a result, insurers could pass these costs on to employers who choose to retain the higher-cost health plans. In return, employers could pass costs along to employees in the form of higher cost-sharing or lower wages.

- **A Cadillac plan may no longer be a Cadillac**: Some argue that a Cadillac tax hits only the most generous employer-provided plans. In reality health insurance premiums for average employer sponsored plans are sizable. According to the Kaiser Family Foundation's survey of employers in 2014 the average annual premiums for employer-sponsored health insurance were $6,025 for single coverage and $16,834 for family coverage. Over the last ten years, the average premium for family coverage actually increased 69 percent. Thus, in future years, plans that are not generous by today's standards may be hit by the Cadillac tax.

- **The tax is complicated to administer**: The Cadillac tax is calculated on each individual worker's health insurance benefit. That means that workers who chose a more generous package would trigger the tax while workers who chose more basic coverage would not.

ACS CAN Position

ACS CAN is committed to ensuring that persons with cancer and cancer survivors have access to affordable health insurance. We believe the Cadillac tax could have a direct impact on the continued affordability of employer-sponsored health insurance. Repeal of the tax could prevent potential erosion of employer-provided health insurance without jeopardizing the structural integrity of the Affordable Care Act.

10/2/15