Impact of So-Called ‘Cadillac’ Tax

The tax on high-cost health plans, which are often referred to as Cadillac plans, is expected to impact a considerable share of the plans provided by healthcare organizations for their own employees, as much as 39% by 2020. The implications are significant because the excess-benefits tax requires the employer to pay 40% on the value of the portion of the plan that exceeds thresholds set by the Patient Protection and Affordable Care Act. Employers also need to consider that the tax is measured as a direct function of plan cost, and not actuarial plan value, and that a number of factors can drive excise-tax exposure.

COST OF TAX PER MEMBER

For plans projected to incur the tax, Truven Health Analytics estimates the tax to average $452 per employee per year in 2018, rising to $660 PEPY by 2020, for active plans.

TAX AS PERCENTAGE OF EMPLOYEE COST

For plans projected to pay the tax, average tax amounts range from 4.9% to 5.2% of projected plan costs from 2018 to 2020. Overall, when factoring in plans not expected to incur the tax, we project the PEPY tax cost across all health system plans will be 1.6%-2.0% of plan costs from 2018 to 2020.

Background on the Tax

Beginning in 2018, the Patient Protection and Affordable Care Act requires employers to pay a 40% excise tax on a portion of the value of high-cost health plans. This tax on so-called Cadillac plans is calculated as 40% of the excess of total per employee per year (PEPY) healthcare costs above statutory threshold limits of $10,200 for individual coverage and $27,500 for family coverage. The limits apply to the sum of employer and employee portions of premiums (for insured plans) or premium equivalents (for self-funded equivalents). Taxes will be assessed each month.

Because the excise tax is assessed for specific plans with distinct COBRA rates, and not at an aggregate employer level, employers need to have a solid understanding of which plans are likely to be hit with the tax and when each plan’s costs may be likely to cross the excise thresholds.

Because the tax is measured as a direct function of plan cost, and not actuarial plan value, it is possible that a plan with relatively modest actuarial benefit value may have high net claims costs and therefore incur the tax. In this case, factors like the presence of high-cost claimants, high use of care driven by the plan’s demographic profile, or high underlying unit pricing for healthcare due to the plan’s peculiar geography or provider network arrangements may also drive excise tax exposure.

Employers still have time to plan and position their programs to mitigate the impact of the Cadillac tax in 2018 and thereafter. Plan sponsors have several alternatives to defray or otherwise preemptively reduce these costs.


ABOUT THE DATA: Truven Health Analytics projected excess-benefits tax liabilities for a group of health system employers (including university and university health system employer groups) in self-funded, fee-for-service benefit plans, many of which are considered high-cost health plans, also known as Cadillac plans. Truven prepared the analysis using 2011 MarketScan data for active employee plans. Truven used net medical and pharmacy payments for each plan to develop per employee per year (PEPY) claims cost rates for employee and employee plus family coverage tiers. Truven adjusted the rates to include administrative services only (ASO) fees and trended forward to 2018 (and beyond) to test against projected Cadillac tax thresholds.

Data Source: The MarketScan database from Truven Health contains 115 million unique patients and more than 36 million inpatient hospital discharges. MarketScan provides a sophisticated dataset with robust, high-quality data that is strong longitudinally, detailed at the patient level, and reflects the true continuum of care. For full details on the study’s methodology and findings, download the research brief www.truveninfo/Ox73p. For more information, contact Truven Health Analytics at healthplan@truvenhealth.com or 800-366-7526.

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RESULTS VARY GREATLY BY PLAN

The spread of plan-level results is quite wide. For the lowest quarter of plans (25th percentile), the projected 2018 tax is 1.2% of plan costs ($200 PEPY). For plans at the top 10 percent (90th percentile), that jumps to 12.3% ($3,556 PEPY). Health system plans at this level of taxation will be hard-pressed to adjust benefit design to avoid such a tax hit.

PROJECTED PLAN COSTS FOR TWO COVERAGE TIERs

At the plan level, of those expected to incur the tax, 95% expect it for the employee-only coverage tier, while just 11% expect tax incident to the employee + family tier. This chart illustrates the range of projected plan costs (including administrative services only fees) for the two coverage tiers.

HEALTHCARE INFLATION TREND NEEDED TO AVOID TAX

This chart summarizes the distribution of annual healthcare inflation rates (trend rates) required to avoid the tax for health system employer plans through 2018 and through 2020. We found that 10% of plans (those in the 90th cost percentile) will have to maintain an annual healthcare trend rate of less than 1.3% to avoid the tax through 2020, which may be problematic because these are precisely the plans that currently enjoy the highest level of costs. Conversely, plans in the 25th percentile of cost could sustain double-digit trend rates and still avoid the tax.

HEALTH RISK A MAJOR FACTOR DRIVING PLAN COST

Health risk is a dominant factor for health system employers in driving plan cost relative to the underlying richness of benefits as measured by the actuarial plan value. We found that so-called Cadillac plans had 10% greater actuarial value and 56% greater differential in population health risk than other plans. The combined actuarial value and health risk factor was 73% higher in the high-cost plans than in plans not projected to incur the tax. Population health risk, using this approach, has a higher impact on total cost than the underlying actuarial value.