

Q and A on the Cadillac Tax

1. What is the Cadillac tax?
 - The Cadillac tax is a federal excise tax on high-value health insurance plans beginning in January 2018. The 40-percent excise tax applies to the value of health benefits over a certain threshold, equal to \$10,200 for individual plans and \$27,500 for family plans in 2018. Some analysts expect the U.S. Congress could repeal or relax the current-law provisions of the Cadillac tax before it takes effect.
2. How will the tax work?
 - The 40-percent excise tax will be imposed on the “excess benefit,” or the cost of coverage for employer-sponsored health benefits that exceeds the annual threshold. For two years after 2018, the threshold will increase by the rate of inflation plus 1 percentage point, rounded to the nearest \$50.
3. Who pays the Cadillac tax?
 - The excise tax will be assessed on health insurance issuers and sponsors of self-funded group health plans. It likely will be passed on to employees unless the state or employers pay the tax directly.
4. What exactly will be taxed?
 - The cost of coverage subject to the tax equals the total premium plus any pre-tax contributions toward health expenditures such as HRAs, FSAs, or HSAs.¹ JFO examined only premium amounts for its estimates of the tax below.
5. Will the thresholds vary with characteristics of the insured, and over time?
 - The annual threshold will be adjusted for individuals in high-risk professions, such as law enforcement, and may also be adjusted by age and gender. For example, the limits may be higher (\$11,850 single, \$30,950 self and spouse or family) for employers with a disproportionately older population. The IRS will likely issue more specific regulations.
6. How much might Vermont pay in 2018?
 - Based on Vermont’s share of a nationwide estimate from the Congressional Budget Office, insurance companies and self-insured employers in Vermont would pay about \$9 million in 2018. An administration economist estimated that Vermonters would pay \$24 million in Cadillac tax payments in 2018 under current law. That estimate assumed no change in behavior among employees or employers.
7. What public employee groups are affected by the tax?
 - State employees will soon negotiate plans in effect July 2016 to June 2018.
 - School employees have grandfathered plans that will be difficult to change.
 - Many municipal government employees will use plans on the exchange.

THE BOTTOM LINE: In 2018, the burden of the Cadillac tax on Vermonters probably lies between \$9 million and \$24 million. The excise tax bill in 2023 could be more than \$40 million. See the full Issue Brief at

http://www.leg.state.vt.us/jfo/healthcare/Cadillac_Tax_Issue_Brief.pdf

¹ HRAs are health reimbursement accounts funded by employers, FSAs are health flexible spending accounts funded by employers and employees, and HSAs are health savings accounts funded by contributions from employers and employees.