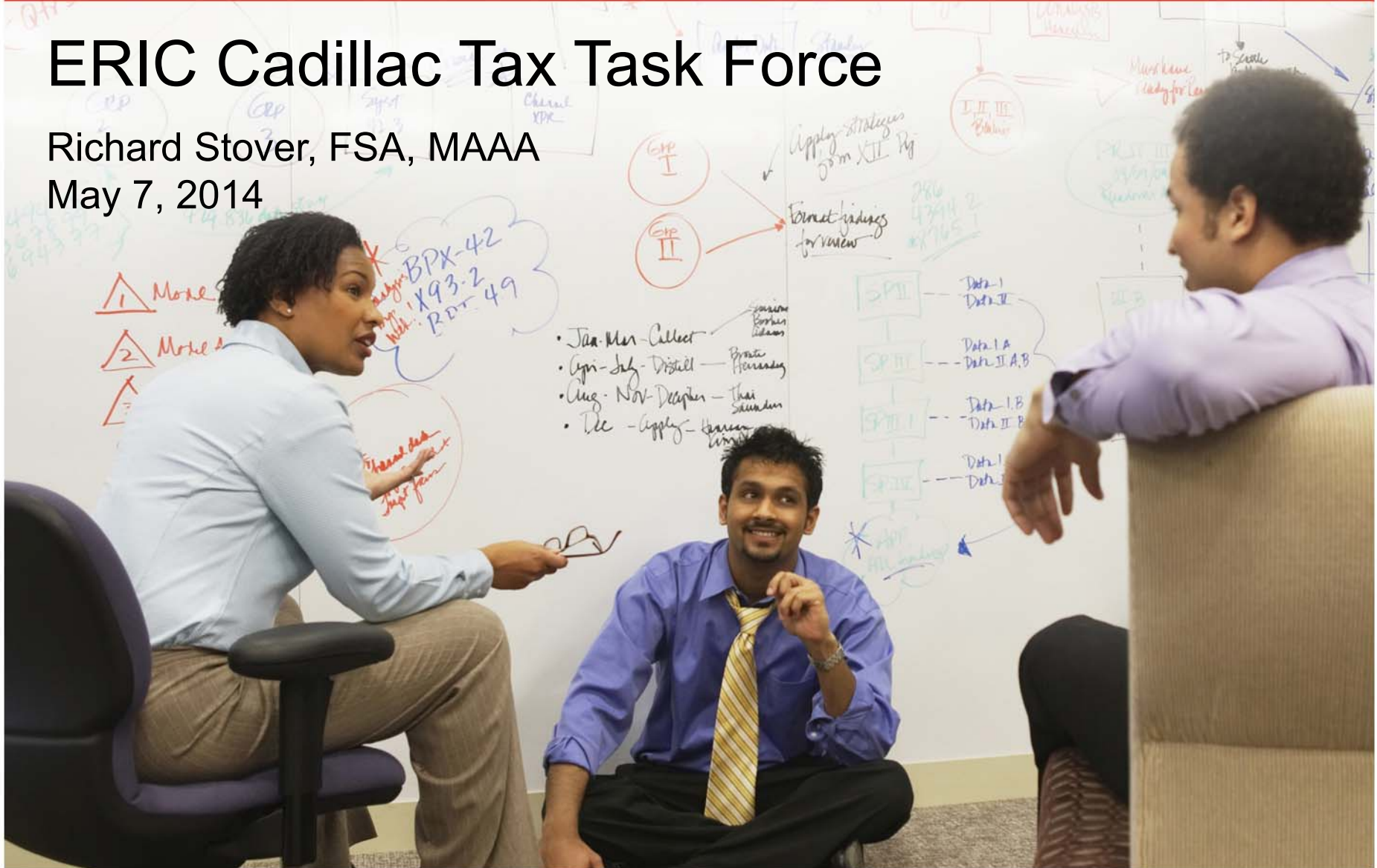


ERIC Cadillac Tax Task Force

Richard Stover, FSA, MAAA

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Agenda

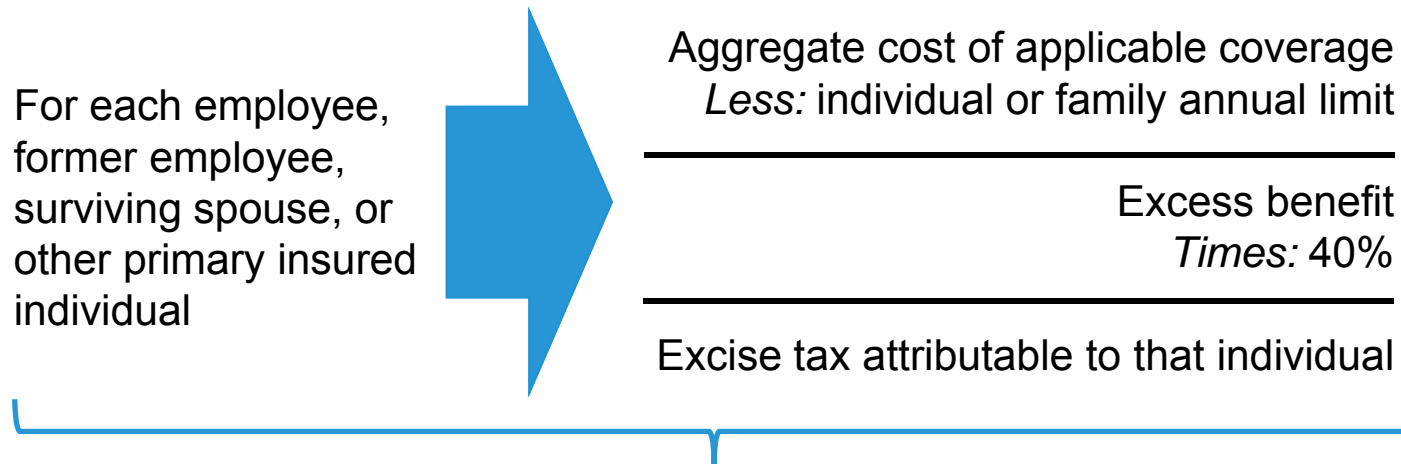
- Overview of tax
- Applicable coverage
- Aggregate cost
- Annual limitations
- Tax mechanics



Note: there are no regulations yet on the excise tax. The description in this report are based on our interpretation of the statute and the Technical Explanation. The rules for the excise tax may change before the effective date. Therefore, we suggest using caution when making strategic decisions in advance of the issuance of clarifying regulations.

Overview of the excise tax

Starting in 2018, a 40% excise tax will apply to each employee's *excess benefit*, which is the *aggregate cost* of *applicable employer-sponsored coverage* that exceeds the *annual limitation*



The sum is allocated by the employer to insurers, administrators, and employers for payment to the IRS

Baseline example

	<i>Enrollment</i>	<i>2018 Projected Per Capita Cost (8% trend)</i>	<i>2018 Threshold</i>	<i>Excess Benefit</i>	<i>Per Employee Excise Tax</i>	<i>Total Tax</i>
Ee	1,390	\$12,663	\$10,200	\$2,463	\$985	\$1,369,496
Ee+1	540	\$28,029	\$27,500	\$529	\$212	\$114,257
Family	<u>1,470</u>	<u>\$40,832</u>	\$27,500	\$13,332	\$5,333	<u>\$7,839,390</u>
	3,400	\$92,760,855				\$9,323,142
<u>Employee only tax allocation:</u>						
Medical	80%	\$788				
Rx	20%	<u>\$197</u>				
		\$985				

Applicable coverage

Generally, “applicable employer-sponsored coverage”...

Includes:

- Health coverage excludable from income, including HRA contributions
- Health FSA employee and employer contributions
- HSA contributions – “employer contributions”
- Onsite clinics if considered a group health plan
- EAP if considered a group health plan
- Wellness programs, if COBRA premium charged
- Executive physical programs and supplemental medical programs if excluded from income

Excludes:

- Stand-alone dental
- Stand-alone vision
- Long-term care
- Accident and disability benefits
- Coverage for a specified disease or illness or fixed indemnity coverage (e.g., critical illness and hospital indemnity plans) if 100% employee paid with after-tax dollars
- Auto insurance
- Liability insurance
- Credit insurance
- Workers compensation

Baseline example – Impact of health FSA

	<i>Enrollment (8% trend)</i>	<i>2018 Projected Per Capita Cost</i>	<i>FSA</i>	<i>Total Projected Per Capita Cost</i>	<i>2018 Threshold</i>	<i>Excess Benefit</i>	<i>Per Employee Excise Tax</i>
Ee	1,390	\$12,663	\$2,500	\$15,163	\$10,200	\$4,963	\$1,985
Ee+1	540	\$28,029	\$2,500	\$30,529	\$27,500	\$3,029	\$1,212
Family	1,470	\$40,832	\$2,500	\$43,332	\$27,500	\$15,832	\$6,333
<u>Employee only tax allocation:</u>							
Medical	67%	\$1,326					
Rx	17%	\$332					
\$2,500 FSA	16%	<u>\$327</u>					
		\$1,985					

Aggregate cost

- For self-insured plans, calculated like COBRA premium
 - Includes employer- and employee-paid portions
 - Separate rates for individual and family coverage
 - For retirees, option to combine pre-65 retirees with post-65 retirees
 - Will future guidance require actuarial certifications and standard assumptions?
 - Claims base, trend, margin, tiering, plan changes, etc.
- For the health FSA
 - Includes employee salary reduction contributions
 - If employer contributions, determined in same manner as COBRA premium
- For HSA, just employer contributions (regulatory guidance needed to confirm if employee contributions are excluded)

Implications for HSAs

- Employers will reduce/eliminate employer contribution
 - Employer can offset with lower employee payroll contributions
 - Lower employee participation rate
- Employers will limit/eliminate employee pre-tax contributions
 - Employees can make after-tax contributions
 - Loss of employee and employer FICA savings
 - Lower employee participation and savings rates
 - HSA comparable contribution requirements would apply if employees cannot make pre-tax contributions
- Significant impact on effectiveness of HDHP/HSA programs

Baseline example – Impact of tiering

	<i>Enrollment</i>	<i>2018 Projected Per Capita Cost (8% trend)</i>	<i>Tiering Ratio</i>	<i>2018 Threshold</i>	<i>Tiering Ratio</i>	<i>Excess Benefit</i>	<i>Per Employee Excise Tax</i>	<i>Total Tax</i>
Ee	1,390	\$12,663	-	\$10,200	-	\$2,463	\$985	\$1,369,496
Ee+1	540	\$28,029	2.21	\$27,500	2.70	\$529	\$212	\$114,257
Family	<u>1,470</u>	<u>\$40,832</u>	3.22	\$27,500	2.70	\$13,332	\$5,333	<u>\$7,839,390</u>
	3,400	\$92,760,855						\$9,323,142
Ee	1,390	\$12,663	-	\$10,200	-	\$2,463	\$985	\$1,369,496
Family	<u>2,010</u>	<u>\$37,393</u>	2.95	\$27,500	2.70	\$9,893	\$3,957	<u>\$7,953,646</u>
	3,400	\$92,760,855						\$9,323,142
Ee	1,390	\$13,623	-	\$10,200	-	\$3,423	\$1,369	\$1,903,208
Family	<u>2,010</u>	<u>\$36,729</u>	2.70	\$27,500	2.70	\$9,229	\$3,692	<u>\$7,419,934</u>
	3,400	\$92,760,855						\$9,323,142

Impact of tiering - 3% future trend

	<i>Enrollment</i>	<i>2018 Projected Per Capita Cost (3% trend)</i>	<i>Tiering Ratio</i>	<i>2018 Threshold</i>	<i>Tiering Ratio</i>	<i>Excess Benefit</i>	<i>Per Employee Excise Tax</i>	<i>Total Tax</i>
Ee	1,390	\$10,553	-	\$10,200	-	\$353	\$141	\$196,046
Ee+1	540	\$23,357	2.21	\$27,500	2.70	\$0	\$0	\$0
Family	<u>1,470</u>	<u>\$34,027</u>	3.22	\$27,500	2.70	\$6,527	\$2,611	<u>\$3,837,825</u>
	3,400	\$77,300,713						\$4,033,871
Ee	1,390	\$10,553	-	\$10,200	-	\$353	\$141	\$196,046
Family	<u>2,010</u>	<u>\$31,160</u>	2.95	\$27,500	2.70	\$3,660	\$1,464	<u>\$2,943,039</u>
	3,400	\$77,300,713						\$3,139,085
Ee	1,390	\$11,353	-	\$10,200	-	\$1,153	\$461	\$640,807
Family	<u>2,010</u>	<u>\$30,607</u>	2.70	\$27,500	2.70	\$3,107	\$1,243	<u>\$2,498,278</u>
	3,400	\$77,300,712						\$3,139,085

Impact of tiering - Flat future trend

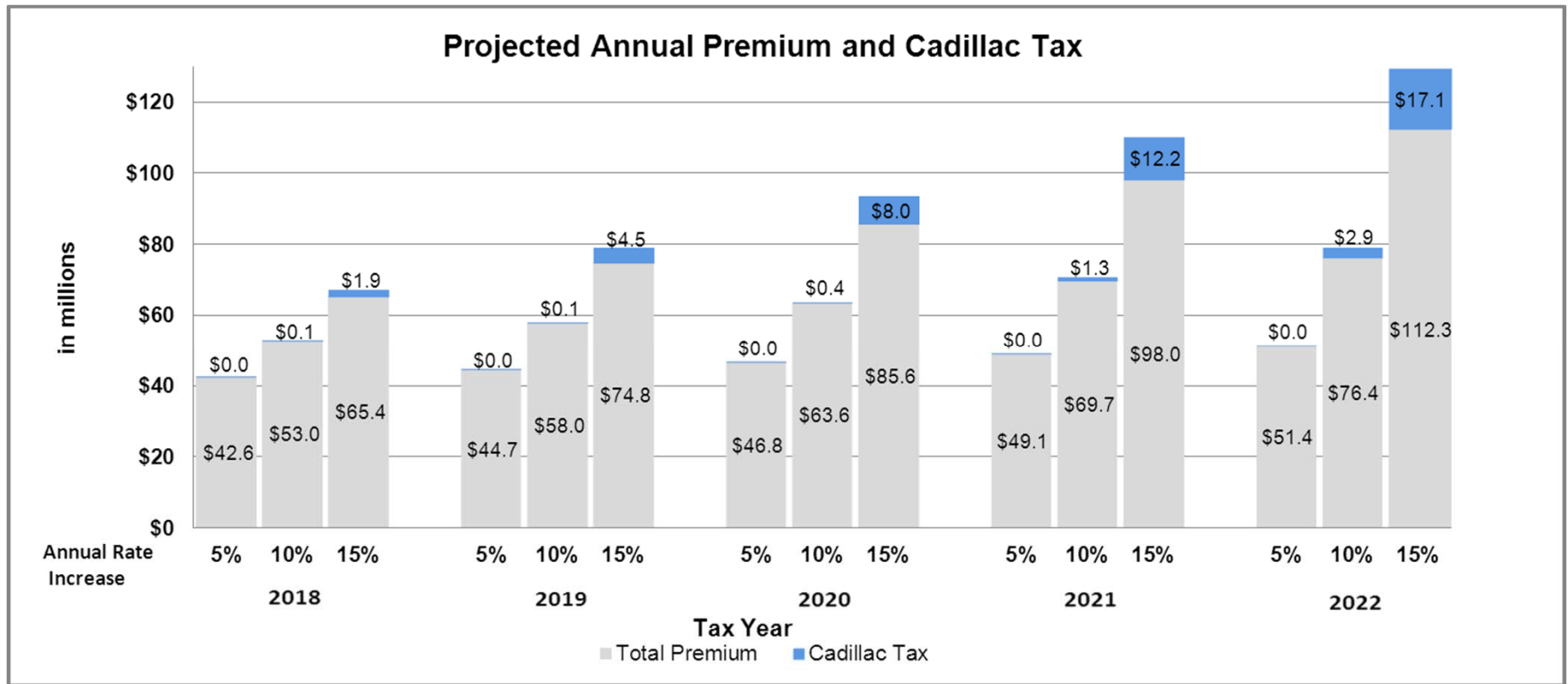
	<i>Enrollment</i>	<i>2018 Projected Per Capita Cost (Flat Trend)</i>	<i>Tiering Ratio</i>	<i>2018 Threshold</i>	<i>Tiering Ratio</i>	<i>Excess Benefit</i>	<i>Per Employee Excise Tax</i>	<i>Total Tax</i>
Ee	1,390	\$9,497	-	\$10,200	-	\$0	\$0	\$0
Ee+1	540	\$21,022	2.21	\$27,500	2.70	\$0	\$0	\$0
Family	<u>1,470</u>	<u>\$30,624</u>	3.22	\$27,500	2.70	\$3,124	\$1,250	<u>\$1,837,042</u>
	3,400	\$69,570,641						\$1,837,042
Ee	1,390	\$9,497	-	\$10,200	-	\$0	\$0	\$0
Family	<u>2,010</u>	<u>\$28,044</u>	2.95	\$27,500	2.70	\$544	\$218	<u>\$437,735</u>
	3,400	\$69,570,641						\$437,735
Ee	1,390	\$10,217	-	\$10,200	-	\$17	\$7	\$9,606
Family	<u>2,010</u>	<u>\$27,547</u>	2.70	\$27,500	2.70	\$47	\$19	<u>\$37,450</u>
	3,400	\$69,570,641						\$47,056

Annual limitations

- Initial limitations: \$10,200 individual / \$27,500 family, adjusted by “health cost adjustment percentage” and indexed to general inflation
 - 2018: health cost adjustment percentage =
 $100\% + (\text{FEHBP BCBS 2018}/\text{FEHCP BCBS 2010} - 55\%)$
 - 2019: 2018 limits indexed to CPI-U + 1%
 - 2020+: indexed to CPI-U
- Higher initial limits—\$11,850 individual / \$30,950 family—for:
 - Individuals age 55+ but not Medicare-eligible receiving employer-sponsored retiree health benefits
 - Employees in high-risk occupations* or who repair/install electrical or telecommunication lines, if the **majority covered** by the plan
- Additional adjustment to limits for plans with age and gender characteristics that vary from a national workforce

* Law enforcement, fire protection, EMTs/paramedics, longshore, construction, mining, agriculture, forestry, and fishing

Projection of tax



Tax mechanics

Will vendors pass along the cost? Since excise tax is not deductible, will they also gross up for taxes to stay whole after taxes?

A Hypothetical Example	2018	2019	2020
Excise tax on employer's plans	\$61,000	\$135,000	\$448,000
Vendor's corporate marginal tax rate	35%	35%	35%
Expected charge-back to employer (income vendors need to stay whole)*	\$93,846	\$207,694	\$689,231

* Excise tax/(1 – marginal tax rate)

Grossing up increases the cost to employer by about 54%

- Penalty for underreporting tax liability equal to amount that would have been paid, plus interest (effectively a 100% penalty)