

Initial Impact Analysis of the Affordable Care Act's Cadillac Tax on Lake County



Presentation Objectives

- ▶ To outline strategies that may eliminate or reduce the impact of the Excise (Cadillac) Tax for Lake County
- ▶ Provide the projected cost of the Excise (Cadillac) Tax based upon the County's current population and plan design
- ▶ Introduce variables that could significantly affect the tax owed
- ▶ Discuss strategies to communicate the impact of the tax based upon finalized regulations and more mature claims utilization costs

Reminder:

Projections included in this presentation will change after we have had the opportunity to cost out the impact of the 2016 increase in Consumer Driven Health Plan, as well as the release of technical regulations, which have not been issued yet

What is the Cadillac Tax?

- ▶ Part of the Affordable Care Act (ACA) legislation passed in 2010
- ▶ Purpose is to raise revenue for ACA initiatives
- ▶ 40% tax on **gross cost** of employer plans above certain costs thresholds
- ▶ Originally scheduled effective in 2018, but now delayed to 2020
- ▶ Technical name is “Excise Tax on High Cost Plans”

Lake County Benefits included in the Tax Calculation

- ▶ Medical and drugs for PPO, CDHP, HMO, Blue Advantage
- ▶ Includes all covered active employees and retirees
- ▶ Health Flexible Spending Account employee contributions
- ▶ Employer Health Savings Account seed money
- ▶ Employee pre-tax Health Savings Account contributions
- ▶ Certain voluntary benefits that are paid by employees on a pre-tax basis
 - ▶ Hospital Indemnity
 - ▶ Critical Illness
 - ▶ Cancer Care
- ▶ Employee Assistance Program
 - ▶ Likely included
 - ▶ Need more technical guidance to be issued

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Aggregate Estimated Tax Calculation

By Year ^{(1), (2), (3), (4)}

<u>Plan Year</u>	"Very Low Trend" <u>2% Annual</u>	"Low Trend" <u>4% Annual</u>	"Medium Trend" <u>6% Annual</u>	"High Trend" <u>8% Annual</u>	"Very High Trend" <u>10% Annual</u>
2020	\$91,000	\$459,000	\$1,063,000	\$1,792,000	\$2,814,000
2021	575,000	575,000	1,368,000	2,568,000	3,989,000
2022	698,000	698,000	1,754,000	3,423,000	5,571,000
2023	829,000	829,000	2,280,000	4,423,000	7,468,000
2024	968,000	968,000	2,849,000	5,687,000	9,609,000
2025	1,116,000	1,116,000	3,463,000	7,172,000	12,077,000

Plan Design Options that can be Executed by the County

- ▶ Absorb the cost (expensive)
 - ▶ Leave plan unchanged
 - ▶ County pays entire tax, shares costs with employees or pass entire cost to employees
- ▶ Shift cost through plan design (reduce/delay)
 - ▶ Reduce benefit levels, increase OOP and/or increase deductibles to reduce the cost of the plan
- ▶ Eliminate ancillary benefits (reduce/delay)
 - ▶ Eliminate Flexible Savings Account
 - ▶ Eliminate pre-tax contributions for Health Savings Account and replace with post-tax contributions
 - ▶ Eliminate pre-tax premium deductions AFLAC or voluntary benefits
- ▶ End health plan sponsorship
 - ▶ All employees will join the exchange
 - ▶ Pay penalties

State and Federal Options requiring further guidance from authorities

- ▶ Should Single + 1 and Family tiers be blended or treated separately?
 - ▶ Future guidance may require separate, blended, or provide the option
- ▶ What impact will County demographic adjustments vs. national norm be?
 - ▶ Regulations specify that adjustments to the limits for age and gender characteristics that vary from the national workforce will be utilized, but no guidance yet
 - ▶ Lake County's age/gender factor is likely a bit higher than the national workforce, but what limit adjustments will apply?
- ▶ Should plan designs be blended together or treated separately?
 - ▶ Affect gross cost calculation in excess of the annual limits
- ▶ Examples of other outstanding questions
 - ▶ Do Rx rebates subsidies count as a credit to the limits?
 - ▶ Are EAP's considered an excepted benefit?

Potential Scenarios at 6.0% Annual Health Trend Estimated Excise Tax (in \$000s)

	Projected Gross Cost ^{(1),(2)}	6% Trend Baseline	Regulatory Variables			Plan Design Variable
			Blend Tiers ⁽³⁾	Age/Sex Limit Adj of 1.1 ⁽⁴⁾	Blend Tiers & Limit Adj of 1.1 ^{(3),(4)}	Eliminate Pre-Tax Health FSA, VBs EE HSA Cnts ⁽⁵⁾
2020	\$ 50,066,000	\$ 1,063,000	\$ 550,000	\$ 292,000	\$ 93,000	\$ 708,000
2021	52,931,000	1,368,000	794,000	554,000	168,000	1,004,000
2022	55,966,000	1,754,000	1,083,000	863,000	286,000	1,334,000
2023	59,182,000	2,280,000	1,483,000	1,198,000	549,000	1,819,000
2024	62,589,000	2,849,000	2,009,000	1,565,000	841,000	2,376,000
2025	66,200,000	3,463,000	2,580,000	2,044,000	1,188,000	2,978,000

Notes

- (1) Gross cost Includes medical, Rx, employee pre-tax HSA, employer HSA seed , Health FSA, EAP, and pre-tax VBs.
- (2) Gross cost reflects credits for Rx rebates and EGWP Rx subsidies received. More guidance needs to be issued.
- (3) Blends EE + 1 and EE + Family tiers together in gross cost calculation. Guidance is needed to determine if this is allowed.
- (4) Factor of 1.10 based on belief that County population is likely older than national norm, but choice of 1.10 is illustrative only.
Actual factor will not be known, until more guidance is issued.
- (5) Employer HSA seed money is still assumed to be pre-tax.

Current Environment

- ▶ In its current form ALL employers will trigger the tax eventually
 - ▶ Even with a minimum value plan, health care costs increase at a rate greater than the CPI indexed threshold that triggers the tax
- ▶ Uncertainty putting employers in a difficult position
 - ▶ 2020 delay means issuance of regulations less likely to occur anytime soon
 - ▶ Plan changes meant to minimize the tax are often difficult to remove