Affordable Care Act implementation
The looming threat of the Cadillac tax

Under the Affordable Care Act (ACA), certain employer-sponsored coverage will incur a non-deductible, 40% excise tax on the cost of employer-sponsored coverage over a threshold amount. This so-called “Cadillac tax” is set to take effect in 2018. Organizations with historically generous health benefits packages, less healthy or older populations, unionized workforces or operations in geographic areas with high health care costs will be among those first to incur the Cadillac tax when it takes effect. However, more employers’ health benefits packages will trigger the tax over time as health care costs continue to exceed by greater percentages each year the measure of inflation used to index the Cadillac tax thresholds ($10,200 for single coverage and $27,500 for family coverage for 2018).

It is critically important for organizations to begin now to fully understand the Cadillac tax and evaluate potential options to mitigate the impact of the tax, including through regulatory and legislative channels.

Top five things stakeholders need to know about the Cadillac tax

1. Organizations operating in areas with high health care costs, such as the Northeast, will incur the Cadillac tax sooner than employers offering comparable plans in lower cost regions.
2. The Cadillac tax is assessed on the overall value of health benefits offered, including both employer and employee contributions. As a result, shifting costs to employees will not be an effective strategy for companies working to avoid the tax.
3. The Cadillac tax thresholds are indexed based on general inflation. Because health care costs tend to increase by a greater percentage than inflation overall, the Cadillac tax will apply to more plans each year.
4. Cadillac tax payments are non-deductible, exacerbating the tax’s financial impact on organizations.
5. Employers are responsible for calculating the total amount of the excise tax and must notify each benefit provider (e.g., third-party administrator for self-insured plans, sponsoring employer for HSAs) of its share of the tax. The statute states that the excise tax is calculated on a monthly basis for each employee.
Many organizations are redesigning their benefits packages to delay incurring the tax, but provisions of the ACA that dictate benefit design and cost-sharing requirements will make it increasingly more difficult for employers to offer plans that comply with the ACA while also avoiding the Cadillac tax.

Because the tax will apply to private, nonprofit and governmental employers - whether insured or self-funded - addressing the Cadillac tax through regulatory and legislative channels will be critically important for any entity in the US that offers health benefits to employees. Stakeholders in the health care sector who would be affected by a reduction of employee health benefits also will have a major interest in regulatory and legislative efforts related to the Cadillac tax.

It is important for organizations to engage early in order to help inform the development of policy related to the Cadillac tax, whether in the context of the regulatory process or legislation. Please contact your Washington Council Ernst & Young professional for more information about a new coalition that will span industry and stakeholder groups to help employers and stakeholders develop informed policy to mitigate the challenges raised by the Cadillac tax.

More information
For legislative and regulatory advisory services related to the Cadillac tax and other health care and tax policy issues, please contact:

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