Frequently Asked Questions: Excise Tax on High-Cost Health Plans

The new health care reform law includes an excise tax on high cost health plans that will go into effect in 2018 (sometimes called the "Cadillac tax"). SEIU opposed this tax, and our strong advocacy enabled us to postpone its effective date and include safeguards to reduce its impact on SEIU members and all workers. No worker will pay the tax directly; if owed, the tax will be paid by health insurance companies or health plan sponsors.

In advance of the 2018 effective date of the excise tax, beginning in 2011, employers will be required to give all workers enrolled in the employer's plan a statement, similar to a W-2 tax form, which shows the total premium paid by both the employer and worker in the previous year. For many workers, this will be a big shock; they may be aware of their share of the premium, but few workers are aware of the full cost of the premium.

What is the purpose of an excise tax on high cost health plans? In addition to generating revenue to finance health reform, this tax sets an expectation for health plans to rein in costs. The law ties premium growth expectations to the cost of the standard health insurance option that covers Members of Congress and Federal employees. If, between now and 2018, the cost of that plan rises more than 55%, the threshold for the excise tax will be adjusted as well.

How do I know if my health plan's benefits will be taxed? The tax will be imposed if, in 2018, the total employee and employer shares of the premium—without dental and vision—exceed:

- $10,200 for an individual plan
- $27,500 for a family plan

The tax will be levied at a rate of 40% of the amount of the premium that exceeds these thresholds. For example, if the plan's individual premium is $11,000 in 2018, the plan will owe .4 X ($11,000-$10,200) = $320.

The thresholds increase annually at a very low rate of inflation (CPI) + 1% in 2018 and 2019, and CPI only thereafter. As a result, more and more plans will be subject to the tax if health care inflation is not reduced by the new reforms.

Are there any special adjustments? The threshold may be adjusted based on the age and gender of workers covered by the plan. Plans covering workers in high risk professions and retirees will also have their thresholds increased by:

- $1,650 for single plans
- $3,450 for family plans

Are there changes to Flexible Spending Accounts?
Yes, beginning in 2011, the amount that workers can contribute to FSAs will be capped at $2,500 annually, and this amount will be indexed to inflation (CPI) thereafter.

How can we avoid the tax? Already, as a result of the current fiscal crisis, public employee health plans are under enormous pressure to slow the rate of cost growth. Strategies to lower premiums and avoid the tax include merging smaller plans into larger plans to reduce administrative costs and improve the risk profile of the enrollees covered by the plan, entering longer term contracts with insurers who will guarantee a lower rate of premium growth, or offering HMO options with lower premiums, for example. State governments in particular have the purchasing power to drive better bargains with insurance companies, pharmaceutical benefit managers, and hospitals, but do not always exercise it due

to lack of competition or political will. The union will have to be engaged in details, data, and politics to prevent our plans from hitting the tax threshold.

How will this tax impact public employee plans? Public employee plans tend to have higher costs, due to the higher average age and health status of public workers, and because workers have traded higher wages for comprehensive health coverage. In addition, health care costs vary greatly across states and cities. The following tables estimate how public plans could fare under this tax if health costs continue to grow at the annual health premium inflation rate of 6.5%. We have concentrated on health care plans in the selected states that have the highest number of enrollees to analyze the effect this provision will have on the most people.

The first table below estimates how the individual premiums could be affected by the excise tax. **Those amounts in red are the amount of tax that will be owed in the first year and the cumulative tax owed in the years 2018-2020**, as their premiums rise above the cap of $10,200 for individual health plans. At the current rate of health care cost growth, many single plans would face tax liabilities in and after 2018.

Excise Tax on Large Public Division Locals - Individuals

	Plan Name	Current Annual Single Premium	2018 vs. Threshold	Tax Owed	2018-2020 Tax Owed
			$10,200		
CA	Kaiser Permanente HMO	**$6,100**	$10,752	$221	$1,519
CA	PERS Choice PPO/POE/POS	**$5,736**	$10,110	$0	$734
CT	Anthem State BlueCare	**$6,029**	$10,627	$171	$1,359
IL	The Quality Care Health Plan (QCHP)	**$8,751**	$14,483	$1,713	$6,294
MA	Navigator by Tufts Health Plan	**$5,669**	$9,382	$0	$0
MD	MAMSI/UnitedHealthcare HMO	**$4,224**	$7,445	$0	$0
ME	Anthem POS	**$8,240**	$14,524	$1,730	$6,346
MI	Blue Care Network, Southeast Michigan	**$5,792**	$10,209	$4	$824
NC	PPO Standard	**$4,397**	$7,277	$0	$0
NH	HMO Blue New England	**$7,436**	$13,106	$1,162	$4,532
NY	Empire BCBS HMO	**$15,644**	$27,574	$6,950	$23,046
OR	PEBB Statewide	**$10,706**	$17,718	$3,007	$10,434
PA	PPO Option	**$4,025**	$6,661	$0	$0
WA	Group Health Classic	**$5,379**	$8,902	$0	$0

This second table estimates the same tax owed for the family premiums for public workers. Again, **those amounts in red demonstrate the tax that will be owed in 2018, followed by the three year total**, as the premiums rise above the cap of $27,500 for family health plans.

Excise Tax on Large Public Division Locals - Families					
	Plan Name	Current Annual Family Premium	2018 vs. Threshold	Tax Owed	2018-2020 Tax Owed
			$27,500		
CA	Kaiser Permanente HMO	**$15,859**	$27,953	$181	$1,939
CA	PERS Choice PPO/POE/POS	**$14,904**	$26,269	$0	$0
CT	Anthem State BlueCare	**$16,278**	$28,691	$476	$2,884
IL	The Quality Care Health Plan (QCHP)	**$20,306**	$33,606	$2,442	$9,174
MA	Navigator by Tufts Health Plan	**$13,659**	$22,606	$0	$0
MD	MAMSI/UnitedHealthcare HMO	**$10,474**	$18,461	$0	$0
ME	Anthem POS	**$19,345**	$34,097	$2,639	$9,802
MI	Blue Care Network, Southeast Michigan	**$15,985**	$28,175	$270	$2,223
NC	PPO Standard	**$10,610**	$17,560	$0	$0
NH	HMO Blue New England	**$23,796**	$41,942	$5,777	$19,841
NY	Empire BCBS HMO	**$23,733**	$41,831	$5,732	$19,699
OR	PEBB Statewide	**$14,666**	$24,272	$0	$0
PA	PPO Option	**$10,185**	$16,856	$0	$0
WA	Group Health Classic	**$14,665**	$24,271	$0	$0

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