What is the Cadillac Tax & What are Some Strategies to Avoid this Tax?
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**Practice Areas**
Employee Benefits & Exec Comp, ERISA, COBRA, HIPAA, § 125, and §§ 105, 106, 129, 132

**Education**
- Temple University School of Law, LL.M.
- Rutgers University School of Law, J.D.
- Rutgers University School of Business, M.B.A.
- Rutgers University College of Arts & Sciences, B.A.

**Admitted to Practice**
- U.S. Supreme Court
- Federal and State Courts of
- New Jersey
- Pennsylvania
- Connecticut
- District of Columbia
Agenda

1. What is the Cadillac Tax?
2. How is the Cadillac Tax Calculated and Who Pays?
3. Strategies to Avoid the Cadillac Tax
4. Examples
5. Questions?
What is the Cadillac Tax?

• Imposed on higher-cost insurance plans that offer more comprehensive coverage.

• Beginning in 2018, plans valued over $10,200/yr - individual or $27,500/family will be taxed at a 40% rate for the value above these limits
  • Only 2 tiers recognized
  • EE + 1, H&W, EE +2 and family will be judged by the $27,500 standard and
  • For retirees & people in pre-specified “high-risk” fields $11,850 and $27,500

• Medical, prescription drugs, administrative fees
  • EE and ER contributions to Flexible Spending and Health Saving Accounts (HSAs)
  • Health reimbursement accounts (HRAs)

• Stand-alone vision and dental plans are not included in this calculation
  • But bundled plans are included

• Self-Funded ERs owe the tax; For fully insured ER-Plans, the carrier pays the excise tax but will likely charge it back to the Plan. ERs will likely pass these costs back to EEs or they’ll reduce benefits to avoid the tax all together.

• The threshold amounts will be increased for inflation in 2020, and may be adjusted upwards if health care costs rise more than anticipated prior to 2018.
Why was the Cadillac Tax included in the Health Reform Act?

- Due to the rise in health care costs, one thought is that the benefit-rich plans encourage higher use, or overuse of health care services by the plan participants which in turn, is increasing health care costs.

- The second thought is that this tax would generate revenue to help pay for the uninsured. It is believed that the Congressional Budget Office estimates that this tax alone will generate $149B over ten years.
How is the 40% Tax Calculated and Who Pays?

Example: After the Cadillac tax, a $15,000 plan will cost $16,920. At the $15,000, the plan is $4,800 over the $10,200 threshold for the tax. This extra $4,800 will be taxed at the 40% which amounts to $1,920.

$15,000 insurance  
+ 1,920 tax  
$16,920 total tax

Remember, these are total costs (of insurance)/not just an EE’s required contributions.

For example, if an employee only contributes $250 a month ($3,000 a year) toward a plan’s “EE-only” tier, and the company picks up the remainder of $12,000, she still has a Cadillac Plan.
# Reduce Waste – 5 Successful Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Goal</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Activism &amp; Transparency</td>
<td>Encourage patients to be better consumers of healthcare services</td>
<td>• Educate and engage the public on the value and risks of specific treatment options</td>
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<tr>
<td></td>
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<td>• Eliminate disincentives for more conservative treatment options</td>
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<tr>
<td>System Improvements &amp; Care Coordination</td>
<td>Better link providers in actual or virtual teams. Make all relevant information available at point of care</td>
<td>• Reduce fragmentation in the delivery of care</td>
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<td></td>
<td></td>
<td>• Improve care coordination and eliminate redundancy</td>
</tr>
<tr>
<td>Patient Safety &amp; Quality Improvement</td>
<td>Create a “culture of performance improvement” and adoption of best practices</td>
<td>• Set industry goals</td>
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<td></td>
<td></td>
<td>• Encourage and support quality improvement initiatives to reduce healthcare treatment errors</td>
</tr>
<tr>
<td>The “Medical Home” and Creating a Culture of Health</td>
<td>Encourage patients to manage their own health.</td>
<td>• Ensure that patients are actively engaged, along with their clinicians, in managing their own health</td>
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<td>• Promote healthy workplaces and environments that make wellness a priority</td>
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<tr>
<td>Payment Integrity / Fraud and Abuse</td>
<td>Engage the community in programs that simplify the billing process while eliminating opportunities for fraud and abuse</td>
<td>• Educate public and provider community impact of fraud on available resources</td>
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<tr>
<td></td>
<td></td>
<td>• Recognize providers for high levels of payment integrity</td>
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</table>
Strategies to Avoid the Cadillac Tax

- Some Larger Employers may opt to:
  - shift costs by raising the percentage of EE compensation toward premiums
  - boost deductibles for in-network services or
  - trim benefits all together

- Companies need to continue to monitor paid claims. Plan Sponsors cannot do the math if they do not have the numbers.

- Plans should consider auditing claims for fraud, errors and abuse to avoid wasted expenses. This will ultimately allow the plan to focus on health improvement, wellness, chronic condition management and communicating the practical use of health care goods and services to plan members.

- This may accomplish a lower average trend and delay the impact of the Cadillac tax.
Do the Math – It’s Not Too Early To Take Action

<table>
<thead>
<tr>
<th></th>
<th>2012 Cost</th>
<th>2018 Cost (after adjustments)</th>
<th>FSA (elections up to $2,500)</th>
<th>Total</th>
<th>Cad Tax Threshold</th>
<th>Over</th>
<th>Tax</th>
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<tbody>
<tr>
<td>Adam - Single</td>
<td>$ 4,386</td>
<td>$ 9,500</td>
<td>$ 2,500</td>
<td>$ 12,000</td>
<td>$ 10,200</td>
<td>$ 1,800</td>
<td>$ 720</td>
</tr>
<tr>
<td>Bob - Single</td>
<td>$ 4,386</td>
<td>$ 9,500</td>
<td>-</td>
<td>$ 9,500</td>
<td>$ 10,200</td>
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<td>None</td>
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<tr>
<td>Charlie - Single*</td>
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<td>$ 12,200</td>
<td>$ 2,500</td>
<td>$ 14,700</td>
<td>$ 10,200</td>
<td>$ 4,500</td>
<td>$ 1,800</td>
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<tr>
<td>Allie - Family</td>
<td>$ 12,600</td>
<td>$ 26,800</td>
<td>$ 2,500</td>
<td>$ 29,300</td>
<td>$ 27,500</td>
<td>$ 1,800</td>
<td>$ 720</td>
</tr>
<tr>
<td>Barbara - Family</td>
<td>$ 12,600</td>
<td>$ 26,800</td>
<td>-</td>
<td>$ 26,800</td>
<td>$ 27,500</td>
<td>Zero</td>
<td>None</td>
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<tr>
<td>Charlotte - Family*</td>
<td>$ 15,600</td>
<td>$ 29,700</td>
<td>$ 2,500</td>
<td>$ 32,200</td>
<td>$ 27,500</td>
<td>$ 4,700</td>
<td>$ 1,880</td>
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*Charlie’s & Charlotte's ERs' plans have bundled dental & vision too.

- With this example you can see the results of keeping the dental & vision plans “bundled” with the Medical/Rx election.
- Also, you see the results from the EE’s choice to make a maximum HCFSA contribution.
Strategies to Avoid the Cadillac Tax – Continued

• Beyond the numbers - get prepared
  • Develop an action plan
  • Reduce the waste
  • Create a culture of health
  • Engage consumers
  • Monitor progress

• More Employers should consider self-funding. This does have additional risk, but it offers significantly more control. And, the additional risk can be properly managed and prepared for.
  • Doing this will also help the Plan avoid the “health insurance provider’s fees” (that will be assessed upon carriers & then passed along in the form of higher premiums).
Strategies to Avoid the Cadillac Tax – Continued

• An Opportunity?
  • Now may be the time to rethink the plan’s contribution structure to use them as a tool to reward the healthy population and those that aren’t risk-adverse. For those that want to enjoy maximum-worry-free coverage, they can be asked to contribute more. This will alter behavior and drive savings.

• Make sure the dental & vision plans are stand alone. While this may cost you your Grandfathered Plan status (and subject you to more of PPACA’s mandates) those costs can be/must be weighed against the changes that will drive/effect behavior and those that can/will reduce your exposure to the Cadillac Tax.

• Manage retiree plans appropriately. Plan sponsors may want to communicate with retirees to reserve the right to pass along this tax to avoid any direct impact on other postemployment benefits. The Cadillac tax calculations allow a plan to calculate premiums separately for active employees and retirees. This may be beneficial as higher thresholds apply to retirees.
Use of Data Analytics – to develop your action plan
Example: The Cadillac Tax May Not Have to be Paid

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<tbody>
<tr>
<td>EE</td>
<td>$ 451</td>
<td>$ 5,412</td>
<td>$ 5,953</td>
<td>$ 6,549</td>
<td>$ 7,203</td>
<td>$ 7,924</td>
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<td>H+W</td>
<td>$ 948</td>
<td>$ 11,376</td>
<td>$ 12,514</td>
<td>$ 13,765</td>
<td>$ 15,141</td>
<td>$ 16,656</td>
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<td>EE + Child</td>
<td>$ 858</td>
<td>$ 10,296</td>
<td>$ 11,326</td>
<td>$ 12,458</td>
<td>$ 13,704</td>
<td>$ 15,074</td>
<td>$ 16,582</td>
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<td>Family</td>
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<td>$ 16,260</td>
<td>$ 17,886</td>
<td>$ 19,675</td>
<td>$ 21,642</td>
<td>$ 23,806</td>
<td>$ 26,187</td>
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Assumes 10% MIR.

Note: The percentages may vary due to underwriting methodology, group demographics, plan design and location of the population.
Example: Cadillac Tax Will be Owed

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<tbody>
<tr>
<td>EE</td>
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<td>$ 9,905</td>
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<tr>
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<tr>
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<td>$ 29,758</td>
<td>$ 32,734</td>
<td>$ 5,234</td>
<td>$ 2,093.45</td>
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</table>

Assumes 10% MIR

Note: The percentages may vary due to underwriting methodology, group demographics, plan design and location of the population.
Questions

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