

Cadillac Tax: Delayed, But Now What?

At the end of 2015, Congress passed a bipartisan spending bill entitled the “Consolidated Appropriations Act, 2016”, which the President signed into law. Funding the government is very important, but also affecting you is that the bill delays the implementation of the Cadillac Tax until 2020.

Many districts have concerns about the Cadillac Tax and despite this delay, many district leaders still have plenty of questions about this issue. You want to offer high quality benefits to help you attract talent, but you also want to avoid this potential excise tax.

The Environment

The excise tax was a big concern to many districts in Wisconsin, as districts are already working with tough budgets. In the past few years, school districts have faced a changing environment when it comes to legislation and regulation. Regardless of the changes districts face, expectations have stayed consistently high when it comes to student achievement.

Districts throughout the state are looking for ways to attract and retain the best educators to serve their student population. As they try to position themselves as “destination employers”, they also pay attention to the factors they control: the work environment, the working conditions and overall compensation. In this environment, designing and negotiating a quality benefits package is important. Districts need to design a comprehensive package which positions them to attract and retain talented educators, yet do so in a financially sustainable fashion. Districts want to offer high quality benefits to help you attract talent, but you also want to avoid this potential excise tax.

So let’s talk about the Cadillac Tax. What is it? Will it be implemented? What should I do?

What Is The Cadillac Tax?

With the recent delay, the federal government is now scheduled to enforce the Cadillac Tax in 2020. The tax is part of the Affordable Care Act (ACA) and is an excise tax on “high cost” employer-sponsored health coverage. Known as the “Cadillac Tax”, benefits deemed as “excess” would be subject to the tax.

Tax itself would apply to amounts greater than the scheduled limits and would be applied to 40% of the excess benefit amount. The scheduled amounts are currently set at:

- Individual Coverage: \$10,200
- All Other Coverage: \$27,500

In application, this would mean that an individual plan costing more than the scheduled amounts would be taxed at 40% of the amount above the tax. If an individual plan costs \$10,300 that would mean it was \$100 over the limit; at a 40% rate, the tax charged would be \$40. This would be applied to all individuals on a plan. It’s important to also note that there will be exceptions for retirees under the legislation.



Will The Cadillac Tax Happen?

Since the passage of the ACA in 2010, the one thing employers have consistently encountered is change. The regulations for employers regarding health plans have caused change, but the regulations themselves have been adjusted multiple times. It would be surprising if the Cadillac Tax doesn't experience some form of change beyond the delay as well.

The current atmosphere in Washington D.C. is indicating strong bi-partisan support to change the Cadillac Tax as it currently exists. While elected officials have differing ideas on why or how to change the Cadillac Tax, the overall sentiment for change is strong. Changes and/or the elimination of the tax entirely are all possibilities at this point.

It's important to keep in mind that this tax is scheduled for implementation in the 2020 fiscal tax year. Since the final regulations for the tax haven't been put into effect yet, there is a lot of uncertainty about the tax. Any source that claims certainty on how the tax will be implemented, whether it will be implemented, or at what levels the tax would be implemented at are not credible.

What Should My District Be Doing?

The idea of an excise tax is naturally worrisome for many in the public sector. Traditionally, health plans from the public sector in Wisconsin have been richer than those in the private sector. The 2015 M3 Trend Report shows that to be true, but it also shows that the trend has been slowing greatly. 2015 was the fourth successive year the average public sector costs per employee grew slower than a private sector plan. Public sector plans grew at 2.8 percent versus private sector plans at 7.9 percent.

One thing the ACA has taught us is that preparation leads to success. While we don't know how, if, or when the Cadillac Tax will actually be implemented, districts would be well served to be mindful of the current limits. A practical approach would be to monitor your health insurance costs and any regulatory developments in regards to the implementation of the tax.

- Continue to work with your insurance experts to identify ways to combat the costs of health care. Wellness programs, educating your employees about preventive care, and setting the right plan design are all things that can have a great effect on your overall costs.
- Stay up-to-date with the latest news regarding the Cadillac Tax. With the current atmosphere for change, there are constant articles and reports about the tax. If you don't have time to monitor the latest news, your school associations and insurance experts will likely be monitoring this for you and will provide updates when changes are near.

On its face, the Cadillac Tax is a scary proposition. However the reality is that like many components of the Affordable Care Act, it's likely to see further changes prior to its implementation in 2020. It would be wise of all of us to understand what the Cadillac Tax is, stay mindful of your health insurance costs and be aware of federal guidance/legislation that may alter the tax.

At M3 Insurance, we are continuing to monitor the Cadillac Tax and will communicate updates to our clients if and when changes are implemented.

About M3

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