

December 21, 2015

Cadillac Tax Implementation Delayed Two Years

On Friday, December 18, the Protecting Americans From Tax Hikes Act of 2015, which delays for two years the Affordable Care Act's (ACA) excise tax on high cost employer-sponsored health coverage (the "Cadillac tax"), passed both houses of Congress and was signed into law by the President. The bill also places a two-year moratorium on the ACA's medical device tax and a one-year moratorium on the ACA's annual fee on health insurers.

Cadillac Tax

The Cadillac tax imposes a 40% excise tax on the aggregate cost of applicable employer-sponsored coverage in excess of certain statutory limits. The 2018 limits were to be \$10,200 per year for self-only coverage and \$27,500 per year for coverage other than self-only, with adjustments allowed for pre-65 retirees, high-risk professions, and significant age and gender factors.

Although the Obama administration seemingly opposed a delay of the Cadillac tax, the tax bill includes a two-year delay of its originally-scheduled 2018 effective date. The bill also makes payment of the tax a deductible expense for businesses and calls for the U.S. comptroller general and the National Association of Insurance Commissioners to study whether the law's designated benchmark for determining age and gender factor adjustments is a suitable representation of the national workforce.

Many hope the two-year delay is an indication that a full repeal may follow. Opponents of the tax fear it will lead to shifting of health care costs to employees through increased deductibles, coinsurance, and copayments in an effort by employers to keep plan costs down and avoid the tax. Opponents also argue that, because future adjustments to the thresholds are tied to general inflation rather than annual change in health care costs, a significant number of employer plans could be affected by the tax within just a few years of its implementation.

While there is wide-spread support for repeal of the Cadillac tax among bipartisan lawmakers, employers, and other stakeholders, those not in favor of repeal argue the tax is critical for funding the health reform law and for driving health care cost control. Although the figure is a topic of debate, the Congressional Budget Office projects the tax would generate \$87 billion in revenue between 2018 and 2025. Disruption of that revenue stream could bring renewed attention in future budget deficit deliberations to the favorable tax treatment of employer-provided health care and retirement benefits, which is the largest source of forgone federal tax revenue and has been a target of previous tax reform discussions.

At the very least, the delay provides some breathing room for the many employers that have been evaluating strategies to curb the impact of the Cadillac tax. The additional time may allow employers to identify effective cost-management strategies that would enable them to avoid aggressive plan design modifications if and when the tax becomes a reality. Despite significant chatter regarding the possibility of a full repeal of the Cadillac tax, until any new developments occur, employers should continue to plan for its implementation in 2020.

Medical Device Tax and Health Insurance Providers Fee

Effective in 2013, the Medical Device Tax is a 2.3% excise tax imposed on the sale of certain medical devices by the manufacturer or importer of the device. The tax bill places a two-year moratorium on the tax for device sales occurring in 2016 and 2017.

Effective in 2014, the Health Insurance Providers Fee is an excise tax imposed on issuers of insured health insurance coverage, which insurers then pass on to purchasers as additional premium cost. The tax is a fixed dollar amount that is determined based on an insurer's industry market share, so resulting premium increase percentages vary. The tax bill places a one-year moratorium on the fee in 2017, which should result in less of an increase to group health insurance premiums for 2017.

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Your Trion Strategic Account Managers are here to answer any questions you might have as you prepare to comply with upcoming ACA requirements. If you are not currently a Trion client and would like assistance navigating the changes required by health care reform, please contact us today by emailing trionsales@trion-mma.com.

ACA Regulations & Guidance Issued In the Last Two Months

Dec. 2015: IRS Issues [Notice 2015-87 Market Reforms, Affordability Safe Harbors & Other Misc.](#)

Nov. 2015: HHS Issues Notice of [Benefit and Payment Parameters for 2017 Proposed Rule](#) and [Fact Sheet](#)

Nov. 2015: Agencies Issue [Final Rules for Grandfathered Plans, Preexisting Condition Exclusions, Lifetime and Annual Limits, Rescissions, Dependent Coverage, Appeals, and Patient Protections](#)

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