

## The Fight to Kill the Cadillac Tax

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There aren't many issues upon which Republicans and Democrats can enthusiastically agree. But many folks on both sides of the aisle are united in their opposition to the so-called Cadillac Tax. The nickname "Cadillac Tax" implies that the tax will apply to only the richest health plans, but this is not the case. Based on employers' current plans, experts predict that about 60% of employers would face the tax by 2022.

Employers are already making preparations for 2018 to avoid or minimize the 40% excise tax on employer-sponsored health plans with value exceeding \$10,200 (for individual coverage) and \$27,500 (for family coverage). Bipartisan legislation that would eliminate the Cadillac Tax has been introduced in the Senate, a move backed by employers, unions, Republicans, and Democrats alike. Unions and unionized employers have already felt the impact of the tax as they negotiate benefits that will be in effect in 2018 and beyond. Unions historically have enjoyed generous health benefits, and employers are coming to the negotiating table asking for significant cuts. After all, it is the employer—not the union—that will be on the hook for paying the Cadillac Tax.

Even employers who successfully reduce their benefits offerings below the tax's threshold in 2018 will likely be hit with the tax at some point. Health care costs rise quickly, while the Cadillac Tax is indexed to general inflation, which rises much more slowly. Also, the Cadillac Tax takes into account the value of not just medical premiums, but other related benefits such as wellness plans, employer contributions to flexible spending accounts, and health savings account contributions. Further, there is no index on the thresholds based on geography, so employers in New York or Los Angeles are going to have a much harder time staying below the limits versus employers in Montana or Tennessee.

Repealing the Cadillac Tax would appear to leave a gaping hole in the budget to the tune of \$87 billion over 10 years. Still, because employers are making Cadillac Tax avoidance a priority, it is likely that the tax never would have produced nearly that much revenue. It seems the real purpose of the Cadillac Tax may be to encourage employers to stop providing health care to employees and "pay" instead of "play," sending employees to the health care exchanges for coverage.

While we gear up for the next phase in the Obamacare showdown, employers need to keep planning their Cadillac Tax avoidance strategies, because it's too soon to tell how this issue will play out. We have assisted a number of

employers with Cadillac Tax avoidance strategies. Please reach out to a member of our team if you would like to discuss your specific situation.

2 Min Read

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