Overview of the "Cadillac" Health Insurance Tax

What is it?

The **"Cadillac Tax"** is an annual tax on high-cost employer sponsored health insurance, which will come into effect in **2020.** The tax was originally scheduled to come into effect in 2018, but in December 2015 Congress passed legislation delaying the tax for two years.

What is its purpose?

- **Reduce health care spending** overall by discouraging expensive employer-sponsored plans
- Help **pay for other provisions** of the Affordable Care Act, e.g. the Medicaid expansion and insurance subsidies for low-income individuals
- Reduce the **preferential tax treatment** of employer-provided healthcare

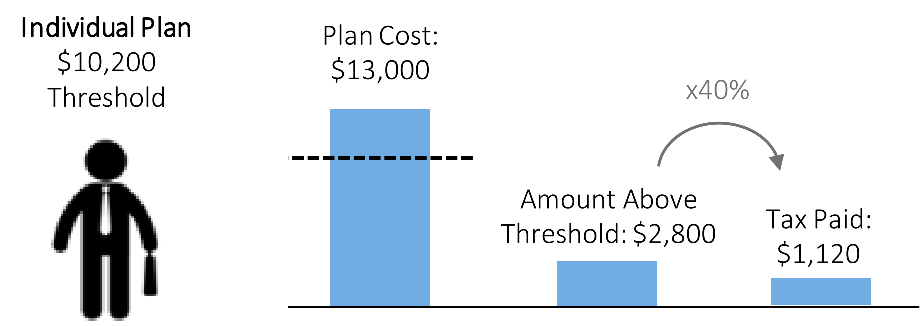
Who pays the tax?

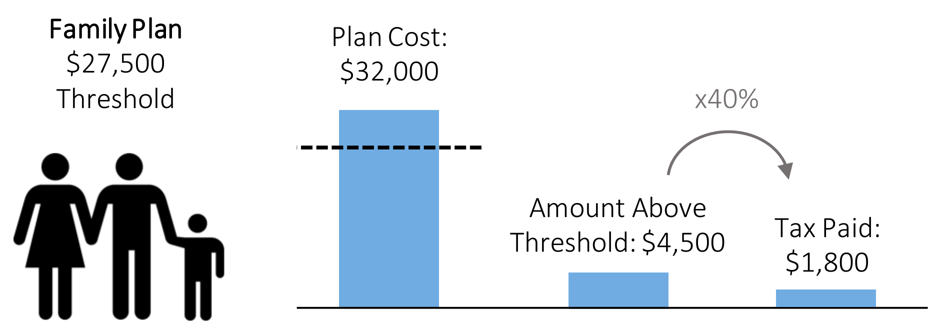
Employers calculate the taxes owed, and then the tax itself is paid by the "coverage provider" or "person who administers the plan benefits"

- For a **typical health insurance plan**, the insurer pays the tax
- For **self-funded health care**, whoever implements the plan's benefits pays the tax
- For **HSAs** and **Archer MSAs**, the employers pay the tax

Examples: How to Calculate the Tax

The tax is equivalent to **40%** of the cost of health coverage beyond a certain threshold, depending on the type of plan. The threshold also adjusts to account for age, gender, retirement status, and high-risk professions.





Sources: National Journal Research, 2016; Cigna, "Affordable Care Act Cadillac Tax".

What Does the “Cadillac” Tax Apply to?

Applies to:

- ✓ Insured and self-insured group health plans (including behavioral, and prescription drug coverage)
- ✓ Wellness programs that are group health plans (most wellness programs)
- ✓ Health Flexible Spending Accounts (FSAs)
- ✓ Health Savings Accounts (HSAs), employer and employee pre-tax contributions
- ✓ Health Reimbursement Accounts (HRAs)
- ✓ Archer Medical Savings Accounts (MSAs), all pre-tax contributions
- ✓ On-site medical clinics providing more than de minimis care
- ✓ Pre-tax coverage for a specified disease or illness
- ✓ Pre-tax Hospital indemnity or other fixed indemnity insurance
- ✓ Executive Physical Programs
- ✓ Federal/State/Local government-sponsored plans for its employees
- ✓ Retiree coverage
- ✓ Multi-employer (Taft-Hartley) plans

Does Not Apply To:

- X U.S.-issued expatriate plans for most categories
- X Coverage for accident only, or disability income insurance, or any combination thereof
- X Supplemental liability insurance
- X Liability insurance, including general liability insurance and automobile liability insurance
- X Worker's compensation or similar insurance
- X Automobile medical payment insurance
- X Credit-only insurance
- X Other insurance coverage as specified in regulations under which benefits for medical care are secondary or incidental to other insurance benefits
- X Post-tax coverage for a specified disease or illness
- X Post-tax Hospital indemnity or other fixed indemnity insurance
- X Long Term Care
- X Standalone dental and vision
- X Coverage for the military sponsored by federal, state or local governments
- X Employee Assistance Programs
- X Employee After-Tax Contributions to HSAs and MSAs

Sources: National Journal Research, 2016; Cigna, “Affordable Care Act Cadillac Tax”; Internal Revenue Service.