‘CADILLAC’ HEALTH PLAN TAX EXPECTED TO COST STATE $9 MILLION TO START

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The Affordable Care Act’s so-called “Cadillac tax” on high-value health insurance plans will cost Vermont an estimated $9 million when it’s implemented in 2018, according to adraft report released Monday by the Legislative Joint Fiscal Office.

That tax bill is expected to grow to $40 million by 2023.

Revenue from the tax will go toward subsidies under the Affordable Care Act. The tax is also meant to discourage the use of high-value health plans that insulate people from health care costs and lead to the overuse of health services.

The Cadillac tax is a 40 percent excise tax on the value of health benefits that exceed $10,200 for individuals and $27,500 for families. The tax is imposed on the dollar amount that a plan exceeds those thresholds.

Close to half of large employers in the U.S. will be subject to the tax in 2018 and, by 2023, 82 percent of all health plans, public and private, will be hit by the tax, according to a recent analysis by human resources consultant Towers Watson, who is cited in the JFO report.

Most public sector health plans will be subject to the tax unless their value is reduced, and it is likely that private sector health plans will be affected as well — especially those companies that self-insure.

Employers are expecting the tax to upend traditional norms in compensation, and it may take several years to find an equilibrium, says the report’s author, Joyce Manchester, a senior economist for the Joint Fiscal Office.

Many private employers will reduce the cost of their plans, pass the tax on to their employees or give employees a stipend of taxable dollars to purchase coverage through a health insurance exchange, according to the analysis.

Figures in the draft report likely underestimate its total cost because the JFO brief accounts only for premiums and not other benefits, such as health savings accounts, reimbursement accounts or flexible spending accounts, which are also subject to the excise tax.

The state's aggregate liability under the tax will expand each year as its thresholds are indexed to the rate of inflation plus 1 percentage point.

"Historically, the rate of health care inflation has exceeded the rate of general inflation, suggesting more plans will become subject to the tax over time," Manchester writes in the brief.

All individual and family plans offered to state employees in 2015 are expected to be subject to the tax, unless their value is reduced.

The excess benefit for state employees' SelectCare point-of-service family plan is projected to have a tax liability of $1,400, while the Total Choice plan for individuals is projected to have a $1,600 liability.

Using the current distribution of individual and family plans, the state's total liability would be $6.8 million, according to the brief.

Health plans offered to public school employees through the Vermont Education Health Initiative will be affected as well, with JFO projecting that two of the seven individual plans and one of the family plans will go over the threshold in 2018. VEHI's most popular plan would cross the threshold in 2019.

Platinum plans offered through Vermont Health Connect are expected to cross the threshold by 2020 for MVP Health Care and in 2022 for Blue Cross Blue Shield of Vermont. Platinum plans are the most generous on the exchange.

The tax could hurt municipalities as well, as towns increasingly purchase insurance for their employees on the exchange.

Before the ACA passed, the Vermont League of Cities and Towns offered health coverage to municipal employees through a trust that used bulk purchasing to negotiate coverage with a private insurer.

Many municipal employees have opted for platinum plans, as those are the highest value on the exchange and come closest to mirroring their former benefits.

The state exchange law required the participation of employers 50 or fewer workers, and the threshold will increase to 100 employees in 2016. At that time, it's likely only the largest cities in Vermont will keep their self-insured plans, according to the JFO brief.

JFO did not research which private sector health plans in Vermont might be subject to the Cadillac tax, but was able to estimate the total impact on the state using figures from the Congressional Budget Office.

CBO assumes that some employers will reduce the value of their plans to avoid the tax, while others will decide to pay it. It estimates that the feds will collect $5 billion in 2018, and $22 billion by 2023.

Vermont typically accounts for 0.18 percent of the U.S. economy, which would equate to $9 million in 2018. Given that the state would pay $6.8 million, it's possible that the estimate is low, Manchester acknowledged.

The Department of Human Resources and the Vermont State Employees Association will begin bargaining for a new contract in the fall of 2015.

That contract will determine the state employee benefit package for the period of July 2016 through June 2018, and will have to account for the excise tax in the first half of 2018.

VEHI has hired a benefits consultant for guidance on the costs and implications of the Cadillac tax, according to the brief.