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# ACA “Cadillac Tax”

## Fact Sheet

As part of the Affordable Care Act (ACA), high-cost health plans are subject to an excise tax on benefits that exceed the predetermined cost threshold. This excise tax is often called the “Cadillac Tax.”

This tax is scheduled to take effect starting in 2020. The amount of the tax is **40%** of the amount considered in excess of the cost threshold.

This fact sheet is based on Health Net of California, Inc., Health Net Health Plan of Oregon, Inc., and Health Net Life Insurance Company (Health Net’s) current understanding of the Cadillac Tax. Final regulations have not been issued, and we expect further IRS guidance before the tax is assessed.

	<i>Cadillac Tax</i>
<b>Description</b>	The ACA imposes a permanent annual tax beginning in 2020 on all employers who provide high-cost benefits through a group-sponsored group health plan.
<b>Purpose</b>	To slow the growth of health care costs and to help finance the expansion of health coverage. The IRS expects the tax to generate \$80 billion over the next 10 years.
<b>Amount</b>	<ul style="list-style-type: none"> <li>• The tax on employers is 40% of the cost of plans that exceed predetermined threshold amounts.</li> <li>• The plan costs include the total premiums paid by both employers and employees, but not cost-sharing amounts such as deductibles and copayments when care is received.</li> <li>• For planning purposes, the thresholds for high-cost plans are \$10,200 per year for individual coverage and \$27,500 per year for family coverage.</li> <li>• These thresholds will be updated for 2020 when final regulations are issued and indexed for inflation in future years.</li> <li>• The thresholds will also be adjusted for:               <ul style="list-style-type: none"> <li>– High-risk professions such as law enforcement and construction.</li> <li>– Group demographics, including age and gender.</li> </ul> </li> <li>• For pre-65 retirees and individuals in high-risk professions, the threshold amounts are \$11,850 per year for individual coverage and \$30,950 per year for family coverage.</li> </ul>
<b>Who calculates and pays</b>	<p><b>Insured:</b> Employers calculate the tax due on a per-subscriber basis, and insurers submit the tax to the IRS on behalf of their customers.</p> <p><b>Self-funded:</b> Employers calculate and pay.</p>

(continued)

<i>Cadillac Tax</i>	
<b>How a plan's cost is determined</b>	The tax is based on <b>the total cost of each subscriber's coverage above the threshold amount</b> . The cost includes premiums paid by employers and employees plus: <ul style="list-style-type: none"> <li>• Group and subscriber pre-tax contributions to Health Care Flexible Spending Accounts, Health Reimbursement Accounts and Health Savings Accounts.</li> <li>• The cost of onsite medical clinics and wellness programs.</li> </ul>
<b>How the tax will be paid</b>	Forms and instructions for paying the tax are not yet available.
<b>Tax implications</b>	The excise (Cadillac) tax is not tax deductible.
<b>Who's impacted</b>	All employers providing fully-insured and self-insured coverage.
<b>Coverage not subject to the excise tax</b>	<ul style="list-style-type: none"> <li>• U.S.-issued expatriate plans for most categories of expatriates.</li> <li>• Standalone dental plans.</li> <li>• Standalone vision plans.</li> <li>• Accident coverage.</li> <li>• Disability benefits.</li> <li>• Long-term care insurance.</li> </ul>
<b>Next steps</b>	Health Net is preparing for implementation and is closely watching for additional IRS guidance. Health Net will provide additional information as updates occur.

### *How it works: Examples based on current threshold amounts*



#### **Self-only coverage**

Self-only coverage that costs \$12,000 per year would pay an annual excise tax of \$720 per subscriber:

$$\mathbf{\$12,000 - \$10,200 = \$1,800 \text{ above the } \$10,200 \text{ threshold}}$$

$$\$1,800 \times 40\% = \$720$$



#### **Family coverage**

Family coverage that costs \$32,000 each year would pay an annual excise tax of \$1,800 per subscriber:

$$\mathbf{\$32,000 - \$27,500 = \$4,500 \text{ above the } \$27,500 \text{ threshold}}$$

$$\$4,500 \times 40\% = \$1,800$$

**These charts show how the excise tax increases as the plan's cost increases.**

<i>Self-only coverage</i>					
<b>Plan cost</b>	\$11,000	\$12,000	\$13,000	\$14,000	\$15,000
<b>Tax</b>	\$320	\$720	\$1,120	\$1,520	\$1,920
<i>Family coverage</i>					
<b>Plan cost</b>	\$28,000	\$30,000	\$32,000	\$34,000	\$36,000
<b>Tax</b>	\$200	\$1,000	\$1,800	\$2,600	\$3,400