CADILLAC OR CLUNKER?
Why the Health Benefits Tax Doesn't Belong in the Affordable Care Act

Beginning in 2018, a new tax will hit health care benefits for working families. This 40% tax on high-quality health plans unnecessarily hurts those who need the most care: women, the elderly and people with chronic illnesses. But it also will hurt many people with average plans and those who are managing chronic conditions.

The tax always has been a controversial part of the Affordable Care Act. During the congressional debate on the health reform law, many lawmakers opposed the tax because it was designed to make health care less affordable for people who get coverage through their job. The tax is conceptually flawed and must be repealed.

Opposition to the Tax Is Mounting

Some 75% of those polled oppose the "Cadillac Plan" tax when they understand it "would likely cause employees to pay more out of pocket for health care services due to higher deductibles and co-pays, " according to a 2015 survey by the Kaiser Family Foundation.

More than 160 Democrats and 120 Republicans have signed on to legislation to repeal the tax. They realize the tax already is hurting the people who can least afford to pay more for health care, especially lower-income households and people with chronic conditions. Congress must repeal the tax in 2015 to prevent further harm.

Several repeal bills have been introduced in Congress. Rep. Joe Courtney (D-Conn.) is sponsoring a bipartisan bill (H.R. 2050) to repeal the tax, as are Sens. Dean Heller (R-Nev.) and Martin Heinrich (D-N.M.) via S. 2045. Sen. Sherrod Brown (D-Ohio) has a related bill (S. 2075) with a number of Democratic co-sponsors.

A 2015 Problem: The Tax Already is Driving Out-of-Pocket Costs Higher

- The tax is designed to force employers to choose between paying the tax and increasing out-of-pocket costs for their workers.

- According to the Congressional Budget Office (CBO), the vast majority of employers are expected to shift costs to their workers by increasing deductibles, co-pays, co-insurance and maximum out-of-pocket limits to avoid paying the tax.

- Employers already are hollowing out their coverage in anticipation of the tax. Working families are paying the price through large increases in their out-of-pocket costs.

- Some 34% of plans are taking action to avoid the tax, often by reducing benefits or shifting costs to employees, according to a 2015 International Foundation of Employee Benefit Plans survey.

- A 2014 Aon Hewitt survey found that 40% of employers had a plan that would be hit by the tax in 2018. Of employers that had assessed the impact, 33% said they would increase out-of-pocket costs to reduce premiums and avoid the tax.

- The tax will hit a broad range of workers—unionized and nonunionized alike.

Medical Care is Unaffordable for Millions of *Insured* Americans

- According to the Kaiser Family Foundation, deductibles for employer-based single coverage have increased nearly seven times faster than workers' earnings since 2010. In 2015, 46% of workers with such coverage have a deductible of $1,000 or more.

- A recent Federal Reserve survey shows that 30% of *people who have insurance* did not get needed care in the prior 12 months because they could not afford it. For individuals with incomes of less than $40,000, *45% with insurance* did not get care.

- Some 31 million nonelderly adults who were *insured all year* had such high out-of-pocket costs relative to their income they are considered underinsured, according to a 2015 Commonwealth Fund study.

- Research shows that people forgo essential and nonessential services in equal amounts when cost-sharing requirements are increased. When people forgo needed treatment, their use of emergency department and hospital services increases.

- A 2015 poll of emergency physicians found that seven out of 10 were seeing patients in the emergency department who *have private insurance* but have forgone or delayed medical care because of high out-of-pocket expenses, co-insurance or high deductibles.

- Research also shows that *insured people* with chronic illnesses stop using needed services when they are shifted to health plans with high out-of-pocket costs, even when they are provided Health Savings Accounts or similar arrangements to help cover some of their costs.

How is the health benefits tax imposed?

- The "health benefits tax" is a 40% excise tax on the costs of employer-based health insurance that exceeds certain amounts—generally $10,200 for individual coverage and $27,500 for family coverage. The tax will be applied to health insurance premiums as well as Health Savings Accounts (HSAs), Flexible Savings Accounts (FSAs) and other forms of health coverage.

For more information: Please contact Shaun O'Brien at sobrien@aflcio.org or (202) 637-5160.