

## Top 5 Questions About The “Cadillac” Tax

The excise tax on high cost plans (also referred to as the Cadillac tax and the 4980I tax) is scheduled to take effect in 2018. To date, regulations have not been issued, so many of the details about how the tax will operate are unclear. (The regulatory agencies are responsible for interpreting the law, adding needed details, and reconciling any parts of the law that may be inconsistent.) Based upon how the law itself is written, this is what is known and expected.



### 1. How much is the tax?

The tax is 40% of the cost of health coverage that exceeds a threshold.

## **2. What is the threshold?**

For 2018 the base threshold is \$10,200 per year (\$850 per month) for self-only coverage and \$27,500 per year (\$2,291.67 per month) for all other levels of coverage. Plans that cover “qualified retirees” or which primarily cover those in a “high-risk profession” are allowed an additional \$1,650 per year for single coverage in 2018 and \$3,450 per year for all other levels of coverage.

“High-risk profession” means law enforcement officers, firefighters, emergency medical technicians, paramedics, first-responders, longshoremen; individuals in the construction, mining, agriculture (but not food-processing), forestry, and fishing industries; those who install or repair electrical or telecommunications lines, and employees who retired from a high-risk profession if the employee was in a high-risk profession for at least 20 years.

It appears that the additional allowance will apply to each qualified retiree (but not to any active employees) in the plan. The additional allowance for high-risk professions will be available only if the plan primarily covers those in a high-risk profession; in that case, the additional allowance will be available to all plan participants.

## **3. Are there cost of living increases in the thresholds?**

A3: Yes. Starting in 2019, the base thresholds and the adjustments for qualified retirees and those in high-risk professions will be increased by the Consumer Price Index for all Urban Consumers (CPI-U) – not medical inflation. In addition, if health inflation is higher than expected between now and 2018 (based on the cost of standard BlueCross/Blue Shield coverage under the federal employees’ health plan), the 2018 base amounts will be increased.

## **4. Are there adjustments for high cost areas of the country or for employers with a higher risk workforce?**

There are no adjustments based on the part of the country in which the employer or employees are located.

There will be an adjustment allowed for age and gender for plans that are higher than the national average. Details on how that will work are not yet available.

Multiemployer plans may use the family threshold with all employees, even if the employee actually has single coverage.

## **5. What types of plans are subject to the tax?**

The tax applies to “applicable employer-sponsored coverage,” which includes both insured and self-funded plans. The tax applies to grandfathered plans. It applies to all types of employers – private, government, church, and not-for profit. Retiree plans – even retiree-only plans – are subject to the tax. Multiemployer plans are subject to the tax. The tax applies to coverage provided to active employees, self-employed individuals covered by the group health plan, former employees (presumably including COBRA participants) and surviving spouses.

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