

AFFORDABLE CARE ACT
CADILLAC TAX EXEMPTION FOR NONFEDERAL GOVERNMENTAL PLANS

EXECUTIVE SUMMARY

- A. A proposal to amend the Affordable Care Act to exempt all nonfederal governmental plans (i.e. state and local government health benefit plans) from the high-value health plan excise tax, commonly referred to as the “Cadillac” tax.
- B. The Cadillac tax is a 40% excise tax on the “excess benefit” in employer-sponsored health coverage and is paid by the coverage provider. Regardless of whether they are fully insured or self-funded, all employers are ultimately responsible for the payment of the tax.
- C. The Cadillac tax is intended to force employers who ultimately abandon their employee health benefit plans, thereby forcing their employees to purchase their own health plans with their post-tax wages.
- D. The CBO and the JCT estimate that the Cadillac tax will increase federal revenues by \$120 billion during the next ten (10) years, with 75% of those revenues coming from increased income and payroll taxes on employers and employees.
- E. Although the Cadillac tax is not effective until 2018 it is having an immediate impact on the collective bargaining and budget planning of state and local governments, with the greatest impact on municipal union contracts for fire and police personnel.
- F. The vast majority of public sector health plans, including those for fire and police personnel, will be subject to the Cadillac tax, thereby significantly increasing the cost of maintaining health benefits for public employees. The Cadillac tax will increase the per employee cost of health benefits for Pennsylvania municipalities between \$4,000 and \$6,000 per year. A 2014 U.S. Bureau of Labor Statistics study suggests that the Cadillac tax will cost public employers twice as much as private employers.
- G. Imposition of the Cadillac tax will further strain the budgets of state and local governments and will force them to either to reduce health benefits or increase taxes. In many cases they will have to do both.
- H. The best way to relieve local and state governments of the fiscal burden imposed by the Cadillac tax is to exempt “nonfederal governmental plans” from that tax. That can only be accomplished by amending the Cadillac tax provisions in Section 9001 of the Affordable Care Act. The proposed amendment is attached to the accompanying Position Statement as Exhibit “B”.
- I. An exemption for federal employee health benefit plans is not needed nor advisable because the payment of the excise tax is an intra-government transfer and as such is merely a bookkeeping entry. In contrast, the Cadillac tax will have a direct adverse impact on state and local governments.