

What Employers Need to Know About the Cadillac Tax

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The Cadillac Tax is an annual tax on high-cost employer-sponsored health plans and is scheduled to take effect in 2018.

The Cost:

The tax is equal to 40% of the cost of the plan that exceeds a predetermined “threshold amount.” Currently, the threshold amounts are set at \$10,200 for single coverage and \$27,500 for family coverage.

The cost includes premiums paid by the employer and employee. Employer and employee contributions to health care flex spending accounts, health reimbursement accounts, and health savings accounts will also count towards the threshold amount.

The cost does not include stand-alone vision, stand-alone dental, and other types of coverage such as disability and long-term care insurance.

The thresholds will be indexed for inflation in the future. These thresholds will also be adjusted for those working in high-risk professions or employed to repair or install electrical or telecommunication lines and for employers whose costs are higher due to their age and gender demographics. For example, for pre-65 retirees and workers in high-risk professions, the threshold amounts are \$11,850 for single coverage and \$30,950 for family coverage.

High-risk professions include law enforcement, fire protection, out-of-hospital emergency care, longshore work, construction, mining, agriculture, forestry, and fishing. This definition will likely be further clarified once final regulations are released.

Who Pays:

For fully-insured plans, the employer calculates the tax and the insurer is responsible for remitting the payment. For self-funded plans, the employer calculates the tax and is responsible for paying it.

Example:

The employer and employee together pay \$11,000 for a single plan, \$800 above the \$10,200 threshold for a single plan. A \$320 (800 x 40%) Cadillac Tax would apply to this plan.

What Should Employers Do?

Employers should keep the Cadillac Tax in mind as they select plans between now and 2018. While an employer’s current plan may not exceed the threshold amount, as the cost of that plan or similar plans increase, it could exceed the threshold by 2018. Additionally, employers should keep the Cadillac Tax in mind during union and contract negotiations. Your BRSI Advisor will be happy to assist you with any concerns you may have regarding the Cadillac Tax.

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