



# The Cadillac Tax

## Frequently asked questions and answers about the Affordable Care Act's excise tax

Named after America's luxury automobile, a 40 percent "Cadillac Tax" coverage. After several delays, it is currently scheduled to take effect on Jan. 1, 2022. Although the tax is still several years away and regulations may evolve before it is implemented, employers can begin to determine how their plans may be affected if the tax goes into effect. Below are common questions and answers about the tax and its potential effect on businesses.



### Q: How will the tax be calculated?

**A:** The tax will be calculated based on premiums spent on "applicable employer-sponsored coverage." The dollar thresholds in 2018 would have been \$10,200 for individual coverage and \$27,500 for family coverage. These dollar amounts are indexed so that if the tax does go into effect in 2022, and is not repealed or further delayed, the dollar thresholds will be higher as adjusted for inflation. The amount of the tax will be 40 percent of the excess of the value of coverage over the dollar thresholds.

### Q: What products will be included in the calculation?

**A:** The tax will apply to pretax group employer-sponsored coverage, including employer- and employee-paid portions. This includes:

- » Health coverage, including medical, behavioral and prescription drug.
- » Health flexible spending accounts (FSAs).
- » Health savings accounts (HSAs).
- » Archer Medical Savings Accounts (MSAs).
- » Governmental plans, with the exception of military coverage.
- » On-site medical clinics, with exception of clinics that provide minimal medical care.
- » Retiree coverage.
- » Multi-employer plans.
- » Specified disease or illness and hospital indemnity or other fixed indemnity insurance only when any portion of the premium is paid pretax or by the employer.

## Q: What products will be excluded from the tax calculation?

**A:** The following insurance products will not be factored into the tax:

- » Accident insurance
- » Disability insurance
- » Life insurance
- » Supplemental liability insurance
- » Liability insurance, including general and automobile liability insurance
- » Workers' compensation or similar insurance
- » Automobile medical payment insurance
- » Credit-only insurance
- » Stand-alone Vision
- » Stand-alone Dental
- » Specified Disease and Hospital Fixed Indemnity are excluded if not sponsored by the employer and paid for on an after-tax basis.

## Q: Are there any Aflac policies that could be included in the calculation?

A: Aflac's supplemental insurance policies are defined as **excepted benefits**, which are excluded from most of the Affordable Care Act (ACA)'s market reforms. In the case of the Cadillac Tax, most of Aflac policies would be entirely excluded from the tax. Two types of coverage (specified disease, such as cancer coverage, and hospital indemnity) would be **excluded only if the policies are paid for with after-tax dollars**. These two policies would be, however, included in the tax if paid for by the employer or with pre-tax dollars, such as through a cafeteria plan or with excludable employer contributions.

## Q: Who will be responsible for paying the tax?

A: The tax would technically be paid by the insurance provider or carrier. If there is more than one carrier, each carrier would pay the percentage of the excise tax commensurate with their percentage of the total premiums. And if a group is self-insured, then they would be responsible for their portion of the tax based on the self-insured premiums.

The details surrounding how the tax would be reported and paid are awaiting clarification and final regulations, but since the tax would be based on their employees' total benefits packages, employers are currently responsible for calculating the tax and reporting each benefits administrator's portion of the tax to the IRS. Employers, not benefits providers, may be penalized for incorrectly calculating the tax.

## Q: Will my plan be affected?

**A:** Since the tax is still several years away, there's a real possibility that the scope, application and timeframe may change. For now, it's estimated that approximately 16 percent of all plans could be affected by the excise tax if it takes effect. The tax thresholds are linked to inflation, and medical spending and premiums historically grow faster than inflation, so eventually more plans will likely be affected. As the law stands, 75 percent of plans could be influenced by the tax within a decade.<sup>1</sup>

## Q: What can my company do now?

**A:** Employers **do not need to make changes to their policies in anticipation of the tax just yet.** Employers can begin to assess their current health plans and talk to their benefits providers or brokers about solutions to manage health plan costs.

## Example Cadillac Tax calculation

**Employee A** has the following benefits package that is individual coverage, paid for on a pretax basis. In this example, the accident insurance policy would be excluded from the applicable premiums, and the cancer/specified-disease insurance policy is excluded because it is being paid for on an after-tax basis.

Coverage	Carrier	Annual Premiums	Cadillac Tax Applicable Premiums
Major medical	Carrier X	\$10,500	\$10,500
Supplemental accident policy	Aflac	\$500	\$0
Supplemental cancer policy paid for after tax	Aflac	\$700	\$0
<b>Total</b>		<b>\$11,700</b>	<b>\$10,500</b>



The excise tax will be 40 percent of \$300, or \$120. Each carrier's responsibility for the tax is as follows:

Carrier	Percent of applicable premiums	Calculation	Excise tax due
Carrier X	$\$10,500/\$10,500 = 100$ percent	$\$120 \times 100$ percent	\$120
Aflac	$\$0/\$10,500 = 0$ percent	$\$120 \times 0$ percent	\$0
<b>Total</b>			<b>\$120</b>

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Aflac coverage is underwritten by American Family Life Assurance Company of Columbus. In New York, Aflac coverage is underwritten by American Family Life Assurance Company of New York.

## Source

<sup>1</sup> "About That Cadillac Tax," Health Affairs Blog, April 25, 2016. <https://www.healthaffairs.org/doi/10.1377/hblog20160425.054627/full/>.

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