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## IN BRIEF: THE ACA'S EXCISE TAX ON HIGH-COST HEALTH PLANS

The Affordable Care Act moves this country's health care system forward in many significant ways. Unfortunately, one key provision—the excise tax on high-cost health plans—will never work as intended and will certainly hurt working families.

The excise tax was supposed to be a silver bullet aimed at the heart of health care cost increases. It was included in the ACA to encourage employers to cut health benefits, increase employees' cost-sharing, and ensure that plan members have “skin in the game.” Tax proponents said that these changes would put the brakes on health care cost increases by reining in consumers' overconsumption of health benefits.

Unfortunately, the excise tax wrongly equates high premiums with overly generous health benefits. In fact, it will often kick in based on factors that have nothing to do with the plan's level of “luxury”—factors such as where plan members live, their age, and their sex. The tax is so flawed that many health plans that offer moderate benefits will face a steep tax while many plans with better benefits will face no tax liability at all.

**The Wrong Tax.** The excise tax comes as millions of Americans struggle to get back on their feet. With this sea change on the horizon, some employers are already planning to shift costs by cutting benefits or passing the tax liability to employees.

The tax will result in a double or triple financial hit to many working families. First, many workers have sacrificed salary increases to maintain decent benefits, but employers will now want to cut benefits without making up for those past sacrifices. Second, many workers already pay a large portion of their premiums. And third, increased cost-sharing will put hardworking Americans at greater financial risk if they actually need to use their health benefits.

**A Look at the Numbers.** When this provision goes into effect in 2018, the cost of coverage over the taxable thresholds will be taxed at 40 percent. The threshold for self-only coverage will be \$10,200, and the threshold for family coverage (or any level of coverage that isn't for just one person) will be

\$27,500. To put that into perspective, a schoolteacher's plan that costs \$11,000 in 2018 would be taxed at 40 percent of everything over the threshold—\$800 in this case, for a tax liability of \$320.

**The Growing Liability.** The tax will inevitably grow over time. The way the excise tax is set up, the higher the taxable limits, the lower the tax. The law increases the limits by the rate of inflation annually, with an extra 1-percentage-point bump in 2019. Given that health care costs generally increase much faster than inflation, the limits will shrink over time relative to health care costs, so more and more plans will face an increasingly burdensome tax.

**Negative Impact on Women and Older Employees.** Although Congress tried to correct for the impact of age and sex on premiums, the excise tax's formula for doing so—called the “age and gender adjustment”—won't work as planned. As a result, health plan members' age and sex could be the reason for excise tax liabilities. That means women and older workers could be disproportionately hurt by tax-spurred benefit cuts.

**The Upshot: The Excise Tax Is Bad Health Policy.** There is still much we don't know about how the excise tax will be implemented. But we do know this much: At its foundation, the tax is built on the premise that this country's real health care problem is the overuse of health benefits. However, the excise tax won't target plans based on benefit level, although it will punish people who have high-cost plans because of who they are and where they live.