

# What Co-ops Need to Know

## Affordable Care Act: “Cadillac” Tax

**T**he so-called Cadillac Tax is an annual deductible 40% excise tax on health coverage determined to be “high cost” because its value exceeds the thresholds set by the Affordable Care Act (ACA). The tax is scheduled to take effect in 2020 (extended from 2018). The portion of the plan cost that exceeds the threshold will be subject to the tax, not the entire cost of the coverage (see the examples on the back of this sheet).

NRECA is assisting cooperatives legislatively by working to influence how the tax will affect co-ops participating in NRECA plans specifically and all member co-ops generally. We’re also helping co-ops understand and prepare for the tax. Whether it’s modified, delayed or repealed, we expect that legislative or regulatory changes may affect the Cadillac Tax before 2020. This fact sheet is our current understanding of the provision.



<b>Description</b>	An annual non-deductible 40% excise tax on “high cost” health coverage provided through an employer-sponsored group health plan
<b>Purpose</b> <sup>1</sup>	<ul style="list-style-type: none"> <li>■ Indirectly reduce the federal tax-preferred treatment of employer-provided health care benefits;</li> <li>■ Reduce excess insurance and health care spending by employees and employers, hopefully lowering the general cost of health care;</li> <li>■ Encourage employers to shift expenditures on health benefits to other forms of employee compensation (e.g., wages and salaries); and</li> <li>■ Help finance the expansion of health care coverage under the ACA</li> </ul>
<b>Threshold</b>	<ul style="list-style-type: none"> <li>■ The standard thresholds are \$10,200 (self-only) and \$27,500 (self-plus). Thresholds pertain to all covered individuals, including retirees</li> <li>■ Under the statute, the thresholds increase to \$11,850 (self-only) and \$30,950 (self-plus) for groups whose majority of employees are engaged in a high-risk profession or employed to repair or install electrical or telecommunications lines</li> <li>■ The thresholds listed are for the implementation previously slated for 2018. They will be adjusted by certain factors over time and will be different in 2020. They also will increase for plans that disproportionately cover females and/or older individuals</li> </ul>

<sup>1</sup> “The Impact of the Health Care Excise Tax on U.S. Employees and Employers,” Tevi D. Troy and D. Mark Wilson. American Health Policy Institute. 2014.

*continued*



<b>Included Costs</b>	<ul style="list-style-type: none"> <li>■ Total premium paid by employer and employee (but not deductibles, coinsurance or copays if paid for with after-tax dollars) for medical and prescription drug coverage</li> <li>■ Dental and vision coverage, if not stand-alone plans</li> <li>■ Wellness program, onsite medical clinic that provides more than <i>de minimis</i> benefits and an employee assistance program (EAP)—though an exception for EAPs may apply in certain cases</li> <li>■ Employer and employee contributions to health flexible spending account (health FSA), health reimbursement arrangement (HRA) and health savings account (HSA), except for after-tax employee HSA contributions</li> </ul>
<b>Notable Excluded Costs</b>	<ul style="list-style-type: none"> <li>■ Stand-alone dental plans</li> <li>■ Stand-alone vision plans</li> <li>■ After-tax employee HSA contributions</li> <li>■ Accident and Disability plans</li> </ul>
<b>Annual Adjustment</b>	<ul style="list-style-type: none"> <li>■ Currently increased by the Consumer Price Index (CPI) plus one percent in 2019; indexed by the CPI only thereafter</li> </ul>
<b>Calculated by/Paid by</b> <small>(additional clarification from Treasury and IRS expected later this year)</small>	<ul style="list-style-type: none"> <li>■ <b>For NRECA health plans:</b> Co-op (as employer) calculates; NRECA (as plan administrator) pays on behalf of co-op</li> <li>■ <b>For health FSAs, HRAs and HSAs:</b> Co-op (as employer) calculates; Co-op (as plan administrator) pays</li> </ul>
<b>Reporting/Paying</b>	<ul style="list-style-type: none"> <li>■ Forms and instructions for reporting and paying the tax aren't available yet</li> </ul>
<b>Assistance/Impact</b>	<ul style="list-style-type: none"> <li>■ NRECA is working to determine the support it can provide co-ops with tax compliance, potential plan design options within the threshold, and potential impact to premiums and/or administrative fees based on continuing guidance and the outcome of the final regulations</li> </ul>

## Examples of Excise Tax calculations (based on 2018 thresholds)



On a **self-only coverage** that costs \$13,000:

\$1,150 is above the hypothetical \$11,850 threshold (\$13,000 - \$11,850)

**Cadillac Tax = \$460 per covered employee** (\$1,150 x 40%)



On a **self-plus coverage (e.g., family)** that costs \$34,000:

\$3,050 is above the hypothetical \$30,950 threshold (\$34,000 - \$30,950)

**Cadillac Tax = \$1,220 per covered employee** (\$3,050 x 40%)

*This is NRECA's interpretation of the provision so far and is made available for illustrative purposes only. It's very likely that the information provided in this summary will change based on future IRS and Treasury guidance. NRECA isn't authorized to provide tax or legal advice to co-ops. Co-ops should seek confirmation of the information in this document from their tax or legal advisors.*