The ACA’s Excise Tax: Are You Prepared for the 2018 Deadline?

Leaders must always look ahead and take action today against what seems like an uncertain tomorrow.

By Julio Portalatin

But one thing that is currently planned and was enacted as part of “Obamacare” is that 2018 will mark the imposition of a 40% excise tax on employer-sponsored health plans that exceed a certain cost. This provision of the Patient Protection and Affordable Care Act (PPACA or ACA) was expected to be one of Obamacare’s largest funding mechanisms.

Its nickname, the “Cadillac Tax,” implies that it would only come into play for privileged employees who carry health plans costing above $10,200 for individual coverage and $27,500 for family coverage. Yet the tax could ultimately affect the majority of employers who offer health benefits.

Right now, our data shows that fully one-third of companies offer a health plan that is on track to hit the excise tax cost threshold in 2018 unless they make changes to it before then—and more than half of them will hit it by 2022 due to impact derived from current indexing formulas. Organizations with older workforces and those in high-cost-of-living areas such as the Northeast are especially likely to feel the impact.

Anticipation of the tax has spurred employers and the market to think differently. Employers who are trying to get it right are enacting strong new communication strategies that make their employees aware of the advantages of CDHPs, or consumer-directed health plans. These plans combine low-premium, high-deductible coverage with health savings accounts that ease the burden of saving and paying for healthcare.

In 2014, employee enrollment in CDHPs jumped by 28% to 23% of all covered employees, according to Mercer’s 2014 National Survey of Employer-Sponsored Health Plans. That’s the biggest annual increase in enrollment yet. To help employees manage the higher deductible, employers are offering resources like telemedicine service—a low-cost way to access low-acuity care—and voluntary benefits to fill any gaps in coverage.

More companies are also considering the private-exchange solution, which offers a greater range of health-plan choices, with online enrollment and education platforms that include helpful decision-support tools and cost estimators.

Such transparency can help employees “buy down” and avoid expensive coverage they may not need. Through exchanges, employers can also take advantage of group purchasing power and marketplace competition—while retaining the flexibility to offer a benefit package tailored to the needs of the organization and the workforce.

Other innovations are aimed at making healthcare delivery more efficient. Perhaps the most promising route to changing the underlying growth in the cost of healthcare lies in “pay-for-performance” strategies that reward healthcare providers for being effective and cost-efficient.

For example, among the largest employers—those with 20,000 or more employees—we’re seeing significant growth in the use of accountable care organizations. These are affiliations of providers that work together to treat an individual across care settings, with payment tied to achieving healthcare quality goals and outcomes that result in cost savings.

Final regulations for the excise tax have yet to be released, and many interested parties have pointed out the need for provisions that make it easier to administer, offer employers more flexibility, and provide for safe harbors.

Do you know when your plans will hit the “Cadillac Tax” threshold? Companies should address this looming liability now, as the excise tax will potentially affect corporate balance sheets for many years to come.

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