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Contact: Amanda Beck
(202) 789-8604
abeck@americanhealthpolicy.org

New Study Finds Excise Tax Will Dramatically Impact Employees

Tax Will Cost Employers Over \$2,700 Per Employee in 2018

Over 12 Million Employees Could Pay \$1,050 in Higher Annual Taxes

Washington, D.C. – Under the Affordable Care Act (ACA), in 2018, an excise tax on high-cost health plans, the so-called “Cadillac tax,” takes effect. Today, the American Health Policy Institute (AHPI) releases, “The Impact of the Health Care Excise Tax on U.S. Employees and Employers,” which takes a deeper look at the broad-reaching effect the excise tax will have on all employers, employees and average family plans across the U.S.

Authored by Tevi D. Troy and Mark D. Wilson, the study demonstrates how the potential impact of this tax is driving employers to fundamentally reassess their health care plans and reconsider what their role and approach to providing health care benefits should be in the future.

Tevi D. Troy, President of the American Health Policy Institute and co-author of the paper, said “Employers subject to the excise tax are going to be seeking to reduce their exposure to the tax by increasing cost-sharing with employees. As the excise tax hits more and more plans in the years ahead, the dynamic will be similar to the Alternative Minimum Tax: a tax designed to hit the most well off will increasingly fall upon a significant number of American employees and their families.”

The study's key findings about the excise tax on employers and employees are as follows:

- From 2018 to 2024, the excise tax could cost 12.1 million employees an average \$1,050 in higher payroll and income taxes per year, *if* employers increase their taxable wages as they reduce the cost of health care benefits. Alternatively, these employees could see up to a \$6,150 reduction in their health care benefits and little or no increase in their pay.
- Should employers increase the taxable wages of employees, something that is not clear in the current business cycle, a significant portion of the increase in take-home pay may be spent on higher out-of-pocket health care expenses as deductibles and out-of-pocket limits increase.
- Large employers subject to the excise tax in 2018 will pay an average of \$1.0 million that year, and an average of \$2.1 million per year from 2018 to 2024, *or over \$2,700 per employee.*
- In 2018, the excise tax is anticipated to hit 17 percent of all American businesses, and 38 percent of large employers.

- By 2031, the cost of the average family health care plan is expected to hit the excise tax threshold. Within twenty years, the impact of the excise tax will not be limited to just high value plans.

In January and February 2014, the American Health Policy Institute confidentially surveyed over 350 large companies that are members of the HR Policy Association to identify and quantify the direct costs of the Affordable Care Act for large employers. Over 38 percent said they would be impacted by the excise tax in 2018 unless they made changes to their plan designs before then.

"As employers reduce the cost of their health care plans to avoid or minimize their exposure to the excise tax, employees are likely to have to pick up more of their health care costs out of their own pockets and find ways to reduce their own health care expenses. Congress clearly intended the excise tax to reduce the value of employer provided health care benefits, and the provision is having the expected impact. Unfortunately, cost sharing, benefit reduction, and other employer strategies to reduce their excise tax exposure threaten to make employer health plans unaffordable for many moderate to low wage employees and their families," said Troy.

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To View *The Impact of the Health Care Excise Tax on U.S. Employees and Employers*, visit http://www.americanhealthpolicy.org/Content/documents/resources/Excise_Tax_11102014.pdf

American Health Policy Institute (AHPI) is a non-partisan 501(c)(3) think tank, established to examine the impact of health policy on large employers, and to explore and propose policies that will help bolster the ability of large employers to provide quality, affordable health care to employees and their dependents. The Affordable Care Act has catalyzed a national debate about the future of health care in the United States, and AHPI serves to provide thought leadership grounded in the practical experience of America's largest employers. To learn more, visit americanhealthpolicy.org.