Excise Tax on High Value Plans

UPDATE: *On December 18, 2015, President Obama signed the 2016 Consolidated Appropriations Act into law. This included a two year delay for the Excise Tax on High Value Plans. This change is reflected below.*

Overview

Beginning January 1, 2020, job-based health care plans that are valued above threshold amounts defined in the law will be charged a tax of 40% of the value that exceeds the thresholds.

The law defines these thresholds for 2018 at $10,200 for single coverage and $27,500 for family coverage. Threshold amounts increase by the Consumer Price Index for All Urban Consumers (CPI-U) + 1% in 2019 and by CPI-U only every year after that.

When the tax goes into effect in 2020, these thresholds are likely to be close to $10,700 and $29,000, but the final amounts will not be determined until 2019.

	Example #1	**Example #2**
Coverage Type	Single	Family
2020 Plan Value	$9,000	$30,000
Excise Tax Threshold	$10,700	$29,000
Amount Plan Value Exceeds Threshold	$0	$1,000
Tax Owed for 2020	$0 x 40% = $0	$1,000 x 40% = $400

Determining Plan Value

For the purposes of the tax, “plan value” means the price paid for coverage. For fully-insured plans, this is the total premium paid by employees and the employer. For self-insured plans, this will be calculated similarly to the COBRA rate paid for unsubsidized coverage. Out-of-pocket payments under the plan are not included.

Plan value also includes pre-tax contributions to health accounts (FSA, HRA, and HSA) made by either an employer or employee. Stand-alone vision and dental plans are excluded.

Thresholds Adjustments

For those in dangerous professions

Active workers will qualify for thresholds increased by $1,650 for single and $3,450 for family coverage if they are employed by a company where a majority of the workforce is engaged in repairing or installing electrical or telecommunications lines, or is employed in a designated “high risk professions,”: law enforcement; fire protection; out-ofhospital emergency medical care; longshore work; construction; mining; agriculture (excluding food processing); forestry; and fishing.

For retirees

Pre-Medicare retirees over the age of 55 and any retirees that were employed for 20 or more years in any of the above professions will qualify for the same higher thresholds applied to high risk professions.

Other adjustments

The tax includes an adjustment for employers with an older or more female workforce than average. There is also a provision to adjust the threshold if health care costs grow more quickly than expected.

Avoiding the Tax

The excise tax was passed with the goals of raising revenue for the federal government and slowing the growth in health care costs. Some economists believe that stingier plans give employees "skin in the game" and encourage reduced utilization.

There are many factors that can increase the cost of your health plan, such as:

- Health of the workforce
- Age and gender makeup of the workforce
- Location of the employer
- Size of the employer
- Type of work performed

Employers have options to consider that will help them avoid the tax:

- **Promoting Health** – Plans that cover healthier workers will cost less. Wellness and disease management programs can improve employee welfare and reduce absenteeism, in addition to lowering plan costs.

- **Plan and Network Management** – Ensure that your plan is getting the best network discounts and is providing access to high quality and cost efficient hospitals and doctors. Insurance companies should also be structuring payments to providers to encourage efficient use of health care services.

- **Plan Design –** Plans with higher deductibles, coinsurance, copays, and out-of-pocket maximums provide less benefit and have a lower plan value. It's important to note that increasing employee contributions for coverage will not affect the value of the plan. Only increases to out-of-pocket costs will lower plan value. Employees can be made whole for plan cuts by using health plan savings to improve other benefits such as wages, retirement, stand-alone dental and vision coverage, or paid time off.