Bolton Alert

DECEMBER 2019

Excise Tax (aka, Cadillac Tax) Repealed

As part of the omnibus spending bill signed into law December 20, 2019, “Further Consolidated Appropriations Act 2020”, several ACA-related taxes were repealed. One of the most prominent ones, projected to impact almost all health plans eventually, was the high-value plan excise tax (aka, Cadillac Tax). The most immediate impact will be on the accounting and balance sheet figures for organizations that sponsor retiree health plans (OPEB plans). This change should reduce retiree health care OPEB accounting liabilities by 3 to 5 percent depending on the Plan. The tax had been deferred twice and was not scheduled to be effective until 2022, so few if any plan sponsors had this tax on the horizon for the employee health insurance plans.

The Excise Tax

The excise tax was part of the Affordable Care Act (ACA) which was passed into law in 2010. This feature of ACA imposed a 40 percent excise tax on Medical plan spending in excess of $10,200 for individuals and $27,500 for families starting in 2018. These amounts were indexed by CPI starting in 2020. The rationale for the excise tax was to help control medical costs by imposing taxes on “overly generous” medical benefits, hence the tax was called the Cadillac Tax. In addition, the tax helped offset some of the Federal cost increases that came with the ACA, making the Federal budgeting of the ACA more palatable.

While a $10,200 health care premium may have been for a “Cadillac” plan in 2010 it became clear that this tax would eventually impact many if not all plans. A health plan with a $6,575 premium in 2010 that has experienced 5 percent annual increases since 2010 would have been impacted by the tax in 2019. Congress deferred the tax twice, once from 2018 to 2020 and again from 2020 to 2022. While the idea of the tax was not popular, the projected revenue, which was substantial, offset spending from other aspects of the ACA and most of the tax far in the future.

Does this Change Impact Current Financial Reporting?

Financial reporting for OPEB plans (under ASC 715-60 and GASB 74/75) which are based on premiums and claims projected far into the future have been impacted by the Cadillac tax provisions. Some plan sponsors have made plan design decisions around avoiding this tax as well. Actuaries are required by actuarial standards of practice to consider the long-term impact of the Excise Tax for accounting purposes.

What Should Healthcare Sponsors Do?

Based on the timing of the law, employers with a December 31 fiscal year may have the opportunity to reduce their OPEB reporting liabilities and income statement charges. Depending on the plan, this could be a minor change or a material adjustment. We advise all plan sponsors discuss the change and its likely impact with their advisors and their auditors to determine how to proceed.

If you have any questions on the repeal of the Cadillac Tax, please contact Kevin Binder at 443-573-3906 or Tom Vicente at 443-573-3918.