American Fidelity Administrative Services, LLC

Mt. San Antonio College President's Cabinet Meeting

Overview: Planning for the High Cost Plan Excise Tax

This is only a brief summary that reflects our current understanding of select provisions of the law, often in the absence of regulations. All of the interpretations contained herein are subject to change as the appropriate agencies publish additional guidance.

ESB-1157-0116

Excise Tax on High Cost Plans

- Sometimes called the "Cadillac Tax"
- Now Effective 2020: 40% excise tax
- Imposed on aggregate value of health coverage that exceeds threshold amounts
- Important caveat – still waiting on IRS regulations

PATH Act Creates Delay

- Excise Tax on High Cost Plans delayed until 2020
- Tax becomes deductible for employers
- Threshold amounts will continue to be indexed as before the delay and therefore the 2020 threshold amounts not yet known
- Thresholds for certain plans may be increased due to age and gender adjustments

Who Does What?

- Following entities pay the tax:
  - Insured plans – insurance company
    - Expected to pass expense to the employer
  - Self-funded plans – plan administrator
    - Unclear who this is
  - HSA - employer
- Employers must:
  - Calculate value of coverage on a per employee/ per month basis
  - Notify entity required to pay and IRS

Included in Applicable Coverage

- Major medical and prescription drug coverage
- Health FSAs
- HSAs - employer and employee pre-tax contributions
- HRAs
- Pre-tax specified disease and hospital indemnity insurance
- Gap insurance
- On-site medical clinics (unless provide only de minimis care)
- Retiree coverage

Excluded from Applicable Coverage

- Stand alone dental and vision insurance
- Accident insurance
- Disability insurance
- After-tax specified disease and hospital indemnity insurance
- Long-term care insurance
- EAPs qualifying as an excepted benefit

Excise Tax on High Cost Plans

- General thresholds applicable in 2018 (will be indexed for 2020):
  - Individual coverage: $10,200
  - Family coverage: $27,500
  - High Risk Professionals or retired individuals age 55 and older and not eligible for Medicare
    - Individual Coverage: $11,850
    - Family Coverage: $30,950

Excise Tax on High Cost Plans

- Family limit applies to everyone in a multiemployer plan (e.g., Taft-Hartley plan)
  - Distinction from multiple employer plan
  - Important for the employer to confirm whether the plan qualifies

How is Excise Tax Calculated?

- 40% of the "excess benefit" of applicable employer sponsored coverage in excess of the "annual limitation"
- Cost of individual (self-only) coverage = $15,000
- Self-only limit = $10,200
- Difference = $15,000 - $10,200 = $4,800
- Tax = 40% of $4,800 = $1,920

Planning Ahead - Impact of Delay

- Delay provides some time for preparation
- Analyze current employer-sponsored coverage that is offered and number of enrollees in each plan
- Actuaries estimate that 50% of medical plans will exceed the 2018 threshold amounts
- Explore strategies

When to Start?

- For non-calendar year plans, adjustments will likely need to be in place for the plan year beginning in 2019
  - Tax is calculated each month beginning Jan. 2020
- Allow time for collective bargaining discussions
- Allow for time to adjust offerings and educate employees

Strategies to Consider

- HSA Contributions – Pre Tax vs Post Tax
  - Employers may still make contributions and direct deposit employee contributions
  - Employee after-tax contributions to HSAs and MSAs are exempt
    - Employees deduct income taxes on Form 1040
    - Only lose FICA tax savings
  - Potential for additional funds for health benefits without triggering the tax
    - Must use with qualified high deductible health plan

Strategies to Consider

- Manage impact through post-tax enrollment strategies
  - May be able to vary eligibility or tax status based on whether employee has reached the threshold with other elections
  - Example –
    - If enroll in a high cost medical, may only be eligible for after-tax critical illness
    - If covered on spouse's medical, could purchase critical illness on a pre-tax basis
  - Regulations will hopefully confirm the extent to which this is possible

Strategies to Consider

- Supplemental insurance – Pre Tax vs Post Tax
  - Gap insurance is always subject to the tax
  - Accident and disability are always exempt
  - Specified disease (e.g., cancer and critical illness insurance) and hospital indemnity can be excluded if after-tax
    - Applies to employer and employee contributions
- Dental and vision – standalone plans are exempt
  - Ensure plans are not integrated with medical

Strategies to Consider

- Flexible Spending Accounts
  - Employer can determine the limit for employees each year (not more than the allowable Federal limit - in 2016, $2,550)
  - Allows employees to keep the benefit and employers to reduce risk

Strategies to Consider

- Providing incentives to enroll in lower cost plans
  - The more employees elect lower cost plans, the less tax is triggered
  - Employer could:
    - Offer a reduced premium for lower cost plans
    - Add HSA contribution for lower cost plans (has to be a cash contribution, unlike FSA/HRA)
    - HRA or Health FSA contributions are also an option, but create other challenges
  - This should also be considered as part of an overall strategy along with "Affordability" testing.

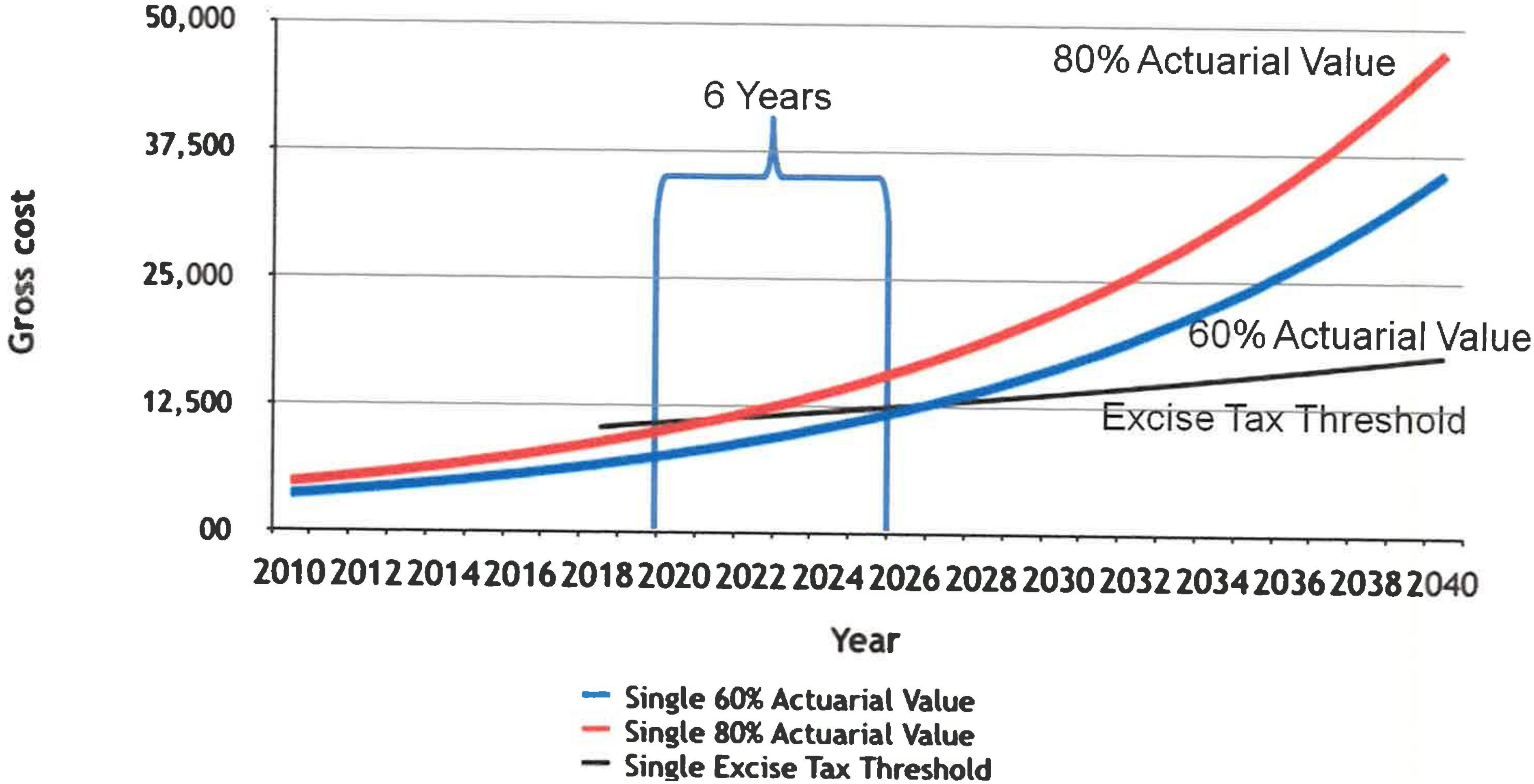
Strategies to Consider

- Move away from composite rates
  - Composite rates = everyone pays the same amount regardless of whether the employee is covering family members
  - Composite rates are higher for individuals than a true individual rate, so may trigger more tax
    - Converse is also true – should perform analysis
  - May want to split into two or more tiers if that would lessen the impact of the tax
    - May be a bargaining issue

Strategies to Consider

- Reducing medical plan costs
  - Unlike employer mandate, can't avoid tax just by offering lower cost plan
    - Tax is calculated based the coverage in which the individual actually enrolls
  - Can delay the impact of the tax by reducing plan costs and eliminating high cost options
    - May be a bargaining issue
  - May want to consider wellness programs, on-site clinics, or self-funded medical

Impact Over Time

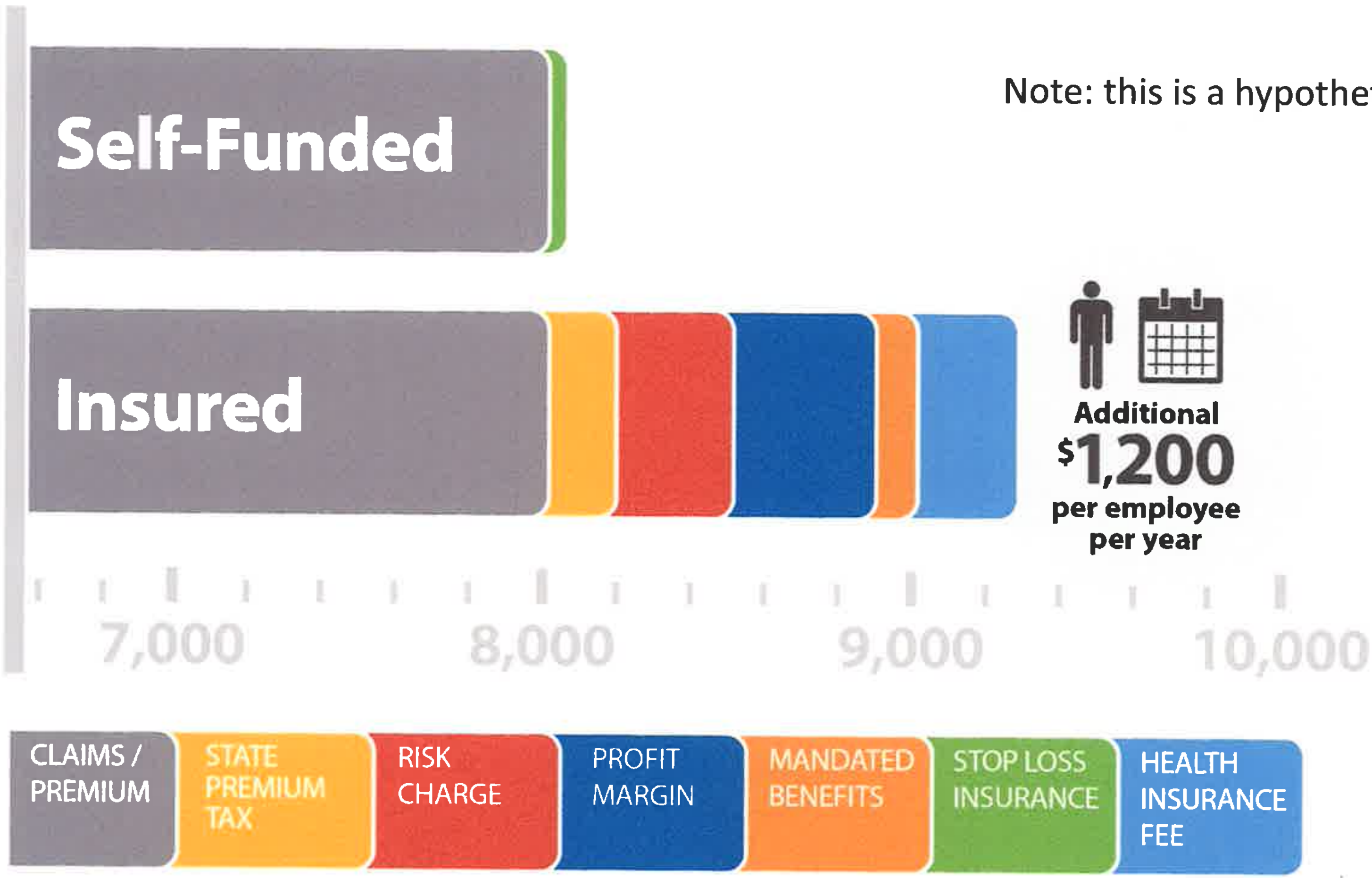


Self-Funding

- In self-funding, the employer accepts the risk of higher than expected claims
  - An actuary helps estimate the employer's expected claim costs for the year
  - The employer pays the claims up to the attachment point for any stop loss
  - The employer expense includes:

Potential Savings with Self-Funding

Note: this is a hypothetical example.



Questions?

Or need more information?

Contact:

Raelene Walker, American Fidelity Administrative Services, LLC

raelene.walker@americanfidelity.com

760-917-1158

Thank you!