Collective Bargaining 2016-2018 and the "Cadillac Tax."

Vermont State Employees' Association

What is the "Cadillac Tax?"

- Excise Tax taking on employer-sponsored health plans that are deemed "too rich," being implemented in 2018.
- Excise tax is equal to 40% of the excess benefit per covered employee - Excess benefit is the aggregate cost of the benefit in excess of:
- $10,200 for Individual coverage
- $27,500 for more than individual coverage

Self-Insured Employers may increase these thresholds according to age and gender demographics of their workforce, relative to the national average.

What is the "Cadillac Tax?" Cont.

- For self insured employers, tax is assessed on the plan.
- Excise tax thresholds will be adjusted for CPI+1% from 2018-2020 and CPI after 2020. CPI averaged 2.3% for past decade.
- Medical Inflation has averaged 6.4% for past decade- tax liability will increase over time.

- **The Cadillac tax is a misnomer- it could impact nearly 60% of Vermonters with private insurance greater than 90% AV.**

How is the tax Calculated?

Subject to Tax:
Included In Aggregate Benefit Cost

- Gross cost of employee and employer premiums.
- Pre-Tax Contributions to HSAs or HRAs (Employer and Employee.
- Employee or Employer Contributions to FSAs.
- Wellness Programs or EAP, if included in Health Plan.

Exempt From Tax:

- Stand-alone Dental Insurance.
- Stand-alone Vision Insurance.
- Employee post-tax contributions to HSAs.
- Long-Term Care.
- Disability Insurance.
- Liability and Credit Insurance.

What is the purpose of the tax?

- Reduce health care spending by increasing out-of-pocket costs. Supply-side economics applied to health care- belief that low out-of-pocket costs encourage overutilization and waste.
- Reduce the Federal tax expenditure on employer-provided insurance.
- Raise revenue to finance the ACA, both by health care excise tax and incentivizing employers to shift compensation into wages.

How will our health plans be affected?

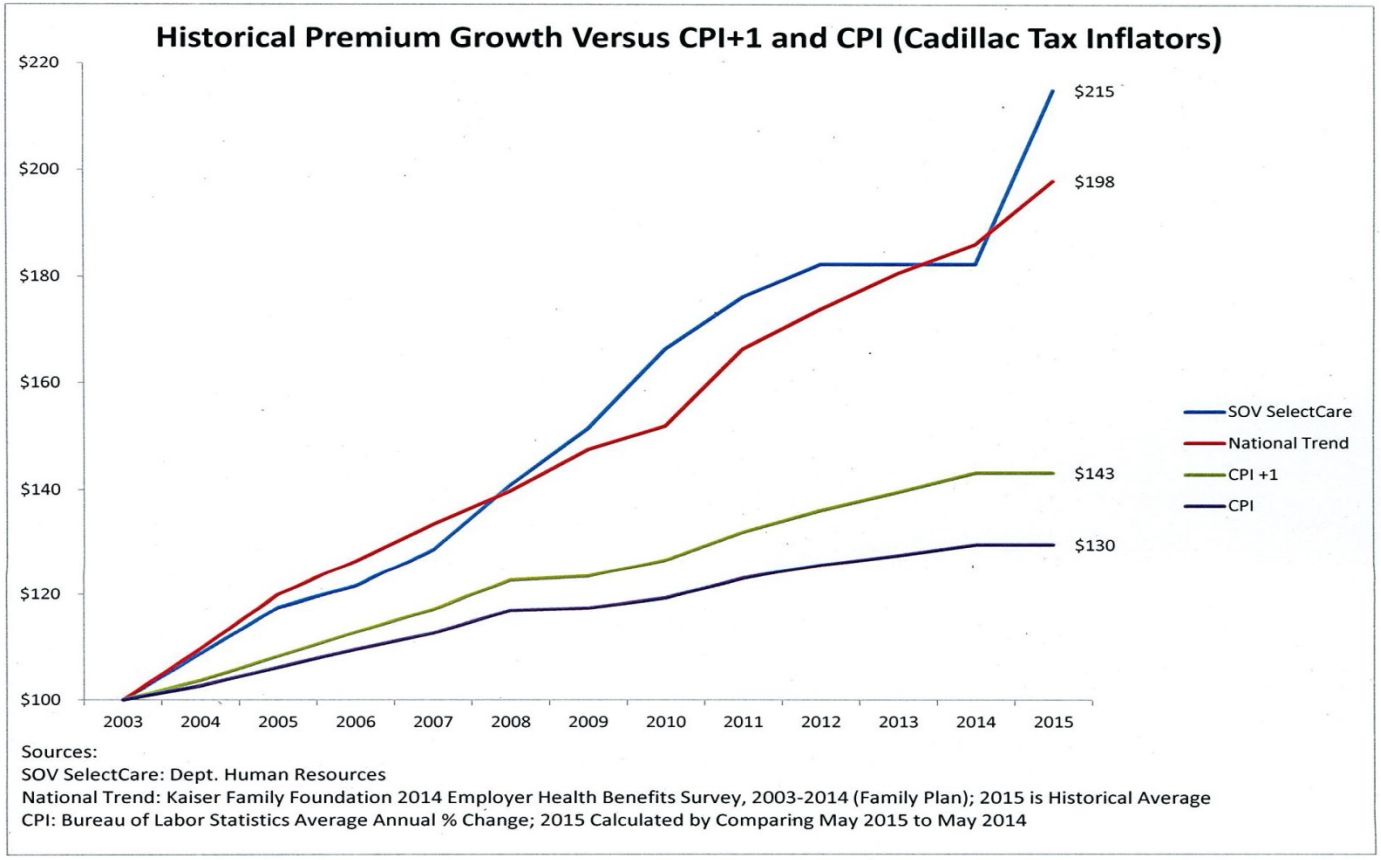
Table 1.

Premiums for VT State Employees

	Annual Total Premium in 2015	Annual Total Premium in 2018	Annual Limit in 2018	Excess Benefit in 2018	Excise Tax Liability in 2018
Total Choice Plan					
One Person	$11,257	$13,661	$10,200	$3,461	$1,384
Two Person	$22,513	$27,321	$27,500	N.A.	N.A.
Family	$30,956	$37,566	$27,500	$10,066	$4,026
SelectCare POS Plan					
One Person	$9,421	$11,433	$10,200	$1,233	$493
Two Person	$18,842	$22,865	$27,500	N.A.	N.A.
Family	$25,907	$31,440	$27,500	$3,940	$1,576

Notes: Total premiums are assumed to grow with the preliminary consensus trends.

Gray = estimated to be subject to excise tax



The cost of the tax will increase over time as medical costs outpace inflation. Selectcare could be adjusted to dodge the tax in the short-term, TotalChoice poses an immediate problem.

How are municipal governments preparing for the tax?

Figure 5. *Strategies for Containing Health Care Costs*

	Current employees	Pre-65 retirees	65+ retirees
Increased co-payments	49%	35%	16%
Increased employees/retirees share of premiums	57%	35%	18%
Increased deductibles	53%	35%	14%
Increased cap on out of pocket expenses	27%	19%	6%
Changed the number of available plans	29%	19%	10%
Required more pre-certification (for hospital and/or outpatient)	7%	5%	3%
Changed how prescription drugs are administered (requiring prior authorization; clinical intervention; etc.)	15%	11%	4%
Established wellness program	53%	20%	10%
Implemented smoking cessation program with non-smoker premium discount	17%	5%	2%
Conducted Health Care Audits:	11%	5%	4%
claims payer	11%	7%	3%
hospital bill	8%	5%	1%
vendor	7%	5%	1%
dependent eligibility	28%	18%	8%
employee	10%	7%	2%

How are private sector employers preparing for the tax?

- Reduce plan design richness through higher out-of-pocket member share (79 percent).
- Adopt cost control strategies, such as reference-based pricing and a narrow provider network (40 percent).
- Restructure coverage tiers to align with tax threshold ratios (37 percent)
- Limit FSA, HSA, and/or HRA contributions counted against the thresholds (31 percent)
- Limit buy-up options for employees (26 percent)
- Move to a private health exchange (16 percent)

How do our plans compare to other state employees?

Health Plan Comparison	VSC POS	SoV SelectCare	UVM POS	BCBS Platinum
Plan Specifics:	(In Network)	(In Network)	(In Network)	(In Network)
Medical Deductible Individual/Family	None	None	None	$150/$300
Medical MOOP Individual/Family	$1500/$3000	Unlimited	$6350/$12700	$1250/$2500
Office Visit	$15 Copay	$20 Copay	$10 Copay	$10 Copay
Emergency Room	$25 Copay	$50 Copay	$50 Copay	$100 Copay
Hospital Inpatient	$25 Copay	$250 Copay	$250 Copay	10% Coinsurance
Drug Deductible Individual/Family	$0	$25/$75	$100/$300	$0
Generic Drug Copay	$10	10%	$5	$5
Preferred Drug Copay	$20	20%	$20	$40
Non-Preferred Drug Copay	30%	40%	$40	50%
Rx MOOP Individual	$500	$750	$1,250	$1,250

What options do we have?

1. Maintain the status quo: The State Employee Health Plan will maintain current benefits and absorb the excise tax cost, which will result in higher premiums for employees and the state.

2. Shift compensation to avoid tax: Reduce the value of health plans to sufficiently avoid excise tax. Bargain higher wages to compensate employees for increased out-of-pocket costs.

Option #1 Maintain the Status Quo

Advantages:

- Active Employees and Retirees continue to enjoy the health plans we have today.
- Protects current employee total compensation achieved through previous collective bargaining agreements.

Risks:

- Legislative intervention into collective bargaining/ SELRA
- Double digit premium increases will be a regular occurrence.
- Will impede employers ability to pay COLAs.
- Unsustainable in medium/ long-term, Medical inflation is 2-3 times CPI.

Option #2 Shift Compensation

Advantages

- Proactive approach preempts potential for legislative intervention.
- Control health care costs, while retaining high value plan under tax threshold.
- Shifting compensation will benefit employees with low utilization.

Risks

- May not be able to recapture the entire value of health plan savings.
- Protecting retirees against increased out-of-pocket costs.
- Employees and retirees with high utilization and low incomes will be hardest hit by increased out-of-pocket expenses.

Considerations for 2016-2018 CBA Negotiations

- Insurance plans should be identical among bargaining units with mutual employer.
- Modifications to insurance plans must occur on the calendar year, not fiscal or contract year.
- Carrot is preferable to the stick: Targeted wellness incentives should be adopted/ expanded- can slow medical cost growth.
- Let's get creative: Cut administrative waste, explore state employee health clinics, increase use of capitated payments to providers, etc.

Considerations for 2016-2018 CBA Negotiations Cont.

- Ideally, increases in out-of-pocket costs would be phased in to mitigate potential for underutilization in response to increased out-of-pocket costs.
- Detailed actuarial data is necessary for negotiating excise tax avoidance and ensuring members are adequately compensated.
- Reopener could be considered if data and time are insufficient.
- One year contract is another option, though riskier than a reopener.