The Tax Man is Coming…
Preparing for the Cadillac Tax

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Anticipating the “Cadillac” Excise Tax
Strategies

- Absorb the cost
- Improve plan efficiency
- Shift cost
- Eliminate ancillary health care benefits
- End health plan sponsorship
Absorb the Cost

- Not a long-term viable strategy unless combined with other strategies to mitigate magnitude of annual excise tax increase
- Significant cost impact unless other total rewards components and/or wages reduced

Current: health approximately 1/3 of fringe\(^1\)

Future: other total rewards and/or wage reductions to offset higher health cost

Manage Cost – Three Ways

- Medical tourism
- Patient-centered medical home/ACO
- Onsite clinics and other services
- High performance networks
- Tele-health
- Transparency tools
- Plan design – enhanced precertification; value based design
- Program engagement

Manage utilization

- Medical and Rx discounts
- Audits
- Contract review
- Performance guarantees
- Direct contracting
- ACOs
- Collectives and coalitions
- Program and service review

Manage unit costs

Promote health

- Absorb the cost
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- Health promotion
- Biometric screening
- Incentives
- Accountability strategies
- Disease management
- Behavioral economics
Trend Reduction from Wellness?

Reduction in health care trend rate (US employers)

- Yes: 28%
- No: 13%
- Do not know: 59%

Average annual reduction in health care trend rate (US employers)

- Reduction of 0-1 trend percentage points per year: 32%
- Reduction of 2-5 trend percentage points per year: 57%
- Reduction of 6-10 trend percentage points per year: 9%
- Reduction of more than 10 trend percentage points per year: 3%

69% of U.S. employers who indicated their wellness program had an impact on trend, reported reductions of 2% or more.

12% of U.S. employers who indicated their wellness program had an impact on trend, reported reductions of 6% or more.

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Improving Plan Efficiency – Lever to Avoid Cost & Defer Excise Tax

ACA Excise Tax
- 38% of large employers impacted in 2018\(^1\)
- $120B in new taxes 2018-2024\(^1\)

Per 1,000 employees:
- 2% avoids $31M
- 6% avoids $72M

1ACA excise tax estimates from American Health Policy Institute 2014 “the Impact of the Health Care Excise Tax on U.S. Employers and Employees”
21,000 active employee headcount (40% single and 60% family) unchanged from 2014-2024
3Starting cost based on 2014 Kaiser Family Foundation Employer Health Benefits Survey average single/family rates adjusted by 5%
Incentives and Trend Reduction

- 2% or > trend reduction
  - Average incentive 30% higher
  - Higher incentives in 9 of 11 categories

- Premium differential is the most prevalent way to pay incentives
  - 52% use reduction
  - 33% use surcharge

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Shift Cost to Employees

- Reduce medical benefits
- Migrate to lower plan values
- Implement HDHP/HSA plan
  - Eliminate employer HSA contributions; eliminate or cap pre-tax employee contributions if subject to the tax
- Voluntary Benefits
  - Integrate with core
  - Employer subsidy

Max. Cost Shift = Bronze Plan (60%)

Market-Based and Excise Tax Avoidance Cost Shifting

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Remodel Medical Plan Using Voluntary Benefits as Buffer

Create more aggressive plan changes (shifting cost)

Increased employee deductible and coinsurance cost

VB Supp. Health Plan “Buffers”

Accident Plan  Hospital Indemnity  Critical Illness Plan

Employee or Employer Paid

Lower employer health care cost
Reduce employee out-of-pocket impact

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## Eliminate Ancillary Benefits

- **Employee and employer health FSA contributions will have significant impact**

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<tr>
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<th>2018 Projected Per Capita Cost</th>
<th>2018 Blended Per Capita Cost</th>
<th>FSA</th>
<th>Total Projected Per Capita Cost</th>
<th>2018 Limits</th>
<th>Excess Benefit</th>
<th>Per Employee Excise Tax</th>
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- **Employers will reduce/eliminate employer HSA contribution**
- **Employers will limit/eliminate employee pre-tax HSA contributions**
  - Employees can make after-tax contributions
    - Loss of employee and employer FICA savings
    - Lower employee participation and savings rates
- **Significant impact on effectiveness of HDHP/HSA programs**
End health plan sponsorship

- Exposed to ACA $2,000/employer shared responsibility assessment
  - Nondeductible, indexed, assessed on all full-time employees
- Attraction and retention problem unless employer provides additional wages to purchase coverage on public exchange and/or significantly increases other components of fringe

<table>
<thead>
<tr>
<th>Current split&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Split after ending health plan sponsorship</th>
</tr>
</thead>
<tbody>
<tr>
<td>69%</td>
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<td>11%</td>
<td>11%</td>
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<tr>
<td>12%</td>
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