



## Background

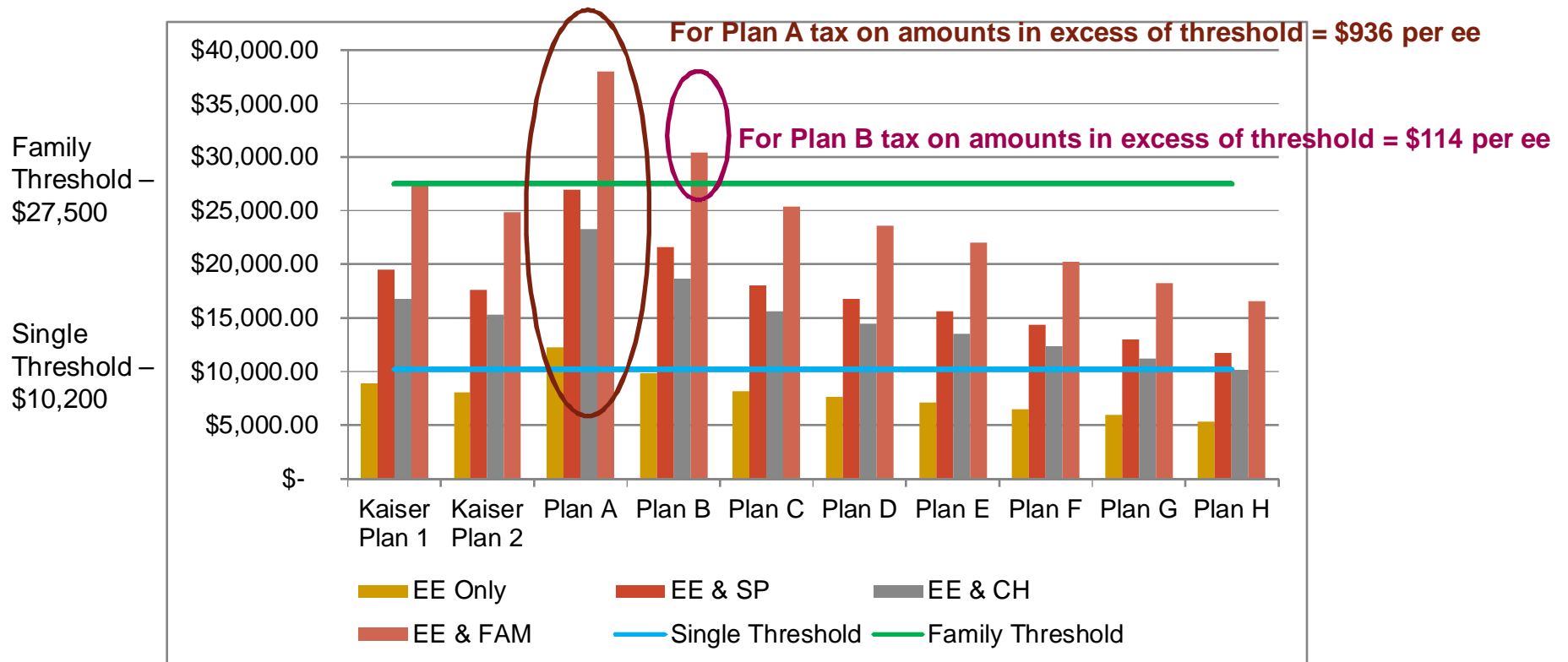
- ACA calls for a 40% nondeductible tax on the value of employer-sponsored health care coverage over an indexed threshold, often referred to as the “Cadillac Tax”
- Purpose of the tax is:
  - Support the costs of health care reform (e.g., expanding coverage to uninsured, expansion of Medicaid)
  - Support the development of more cost-effective health care delivery mechanisms
  - Reduce the current tax subsidization of rich benefit programs
- Tax is on all non-excepted benefits — Medical, self-insured dental and vision plans
- 2018 thresholds for active employees:
  - \$10,200 Employee Only
  - \$27,500 Family
- Indexed by CPI+1% in 2019 — CPI thereafter

## Background *(continued)*

- No regulations have been released so open questions include:
  - How are HSA, HRA and FSA funds treated?
  - Will there be accommodations to the thresholds to address composite premiums?
  - Any leeway provided for bargained benefit programs?
- For these projections for OEGB, we have:
  - Included medical and Rx exclusive of FSA, HSA or HRA funding
  - Dental and vision are not included
  - Treated composite rates as being subject to the single and family thresholds
  - Shown results through 2020 due to the difficulty of accurately projecting beyond 5 years
- The rates used in the modeling are based on the premiums for 2013 – 2014 increased by 8% for cost increases between 2014 and 2020. Unless specifically noted, the analysis assumes no change in plan designs or enrollments

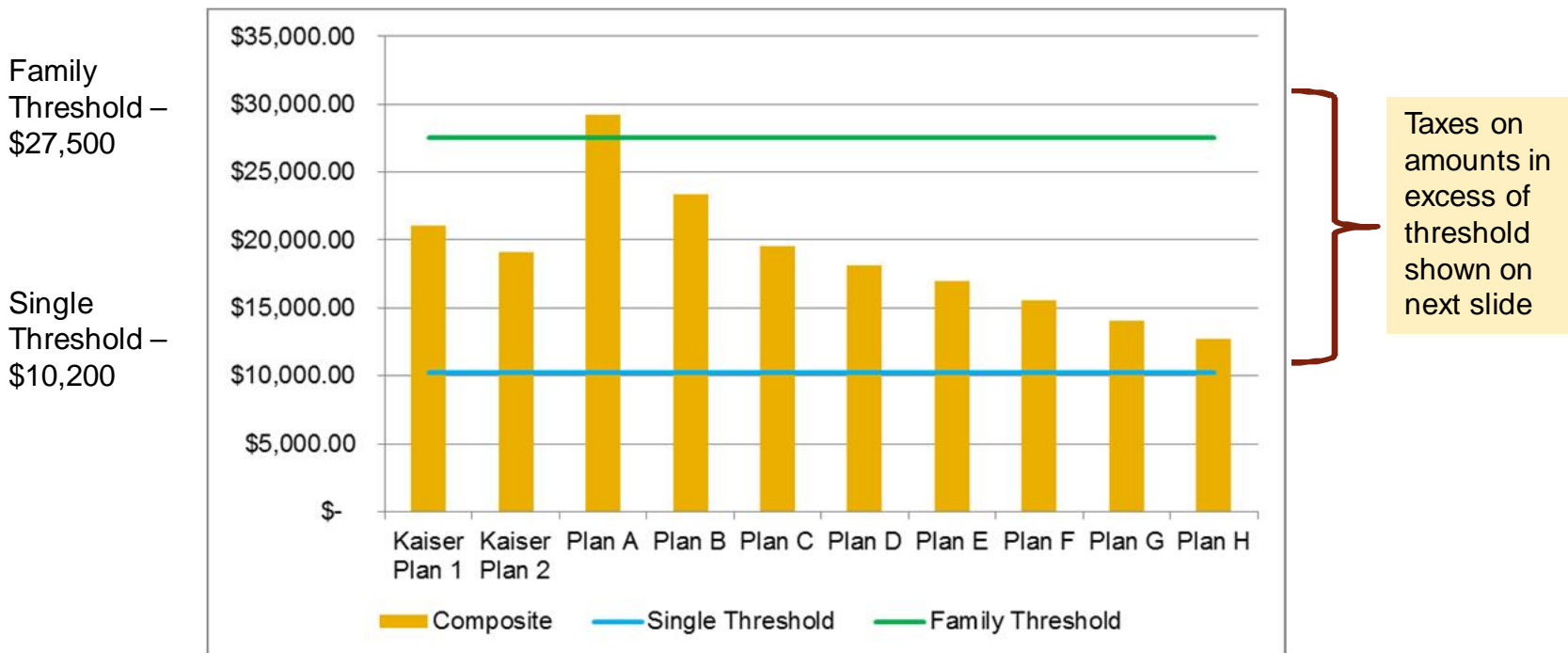
## Plans with costs in excess thresholds for tiered rating

- In 2018 under the tiered rate structure:
  - Plan A annual premium will likely exceed the single excise tax threshold
  - Plan A and B annual premiums will likely exceed the family excise tax threshold



## Plans with costs in excess of thresholds for composite rating

- In 2018 under the composite rate structure:
  - Plan A annual premium rates will likely exceed the family excise tax threshold, AND
  - The premiums for **single coverage for all plans will likely exceed** the excise tax threshold as employees do not benefit from the lower employee only premiums available under the tiered rating method



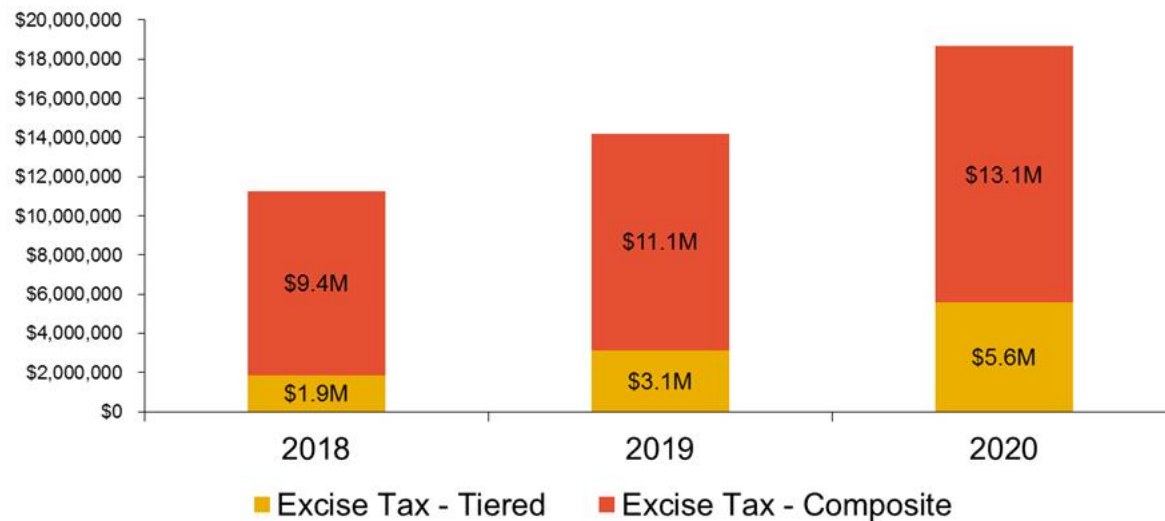
## Annual excise tax liability per employee by plan — 2018

Plan	2018 Excise Tax					
	Tiered Only Liability		Composite Only Liability		Combined Liability	
	Enrollment	Tax/Employee	Enrollment	Tax/Employee	Enrollment	Tax/Employee
Kaiser Plan 1	6,720	\$ -	2,043	\$ 591	8,763	\$ 138
Kaiser Plan 2	775	\$ -	770	\$ 707	1,545	\$ 352
Plan A	1,580	\$ 936	262	\$ 926	1,842	\$ 935
Plan B	3,366	\$ 114	809	\$ 542	4,175	\$ 197
Plan C	6,790	\$ -	5,126	\$ 345	11,916	\$ 148
Plan D	1,325	\$ -	1,978	\$ 457	3,303	\$ 274
Plan E	2,847	\$ -	3,600	\$ 427	6,447	\$ 239
Plan F	896	\$ -	1,832	\$ 429	2,728	\$ 288
Plan G	1,232	\$ -	2,413	\$ 290	3,645	\$ 192
Plan H	2,107	\$ -	5,797	\$ 220	7,904	\$ 162

- It is unknown at this time how the health plans might charge the excise tax back to the group. They might build the tax into the tiered and composite rates separately or include the expense at the plan level regardless of whether the liability is developed from the tiered or composite rating. The chart above estimates the additional annual cost per employee that the excise tax might add to the premiums in either scenario.

## Estimated excise tax 2018 to 2020 — Current plan and rate structure

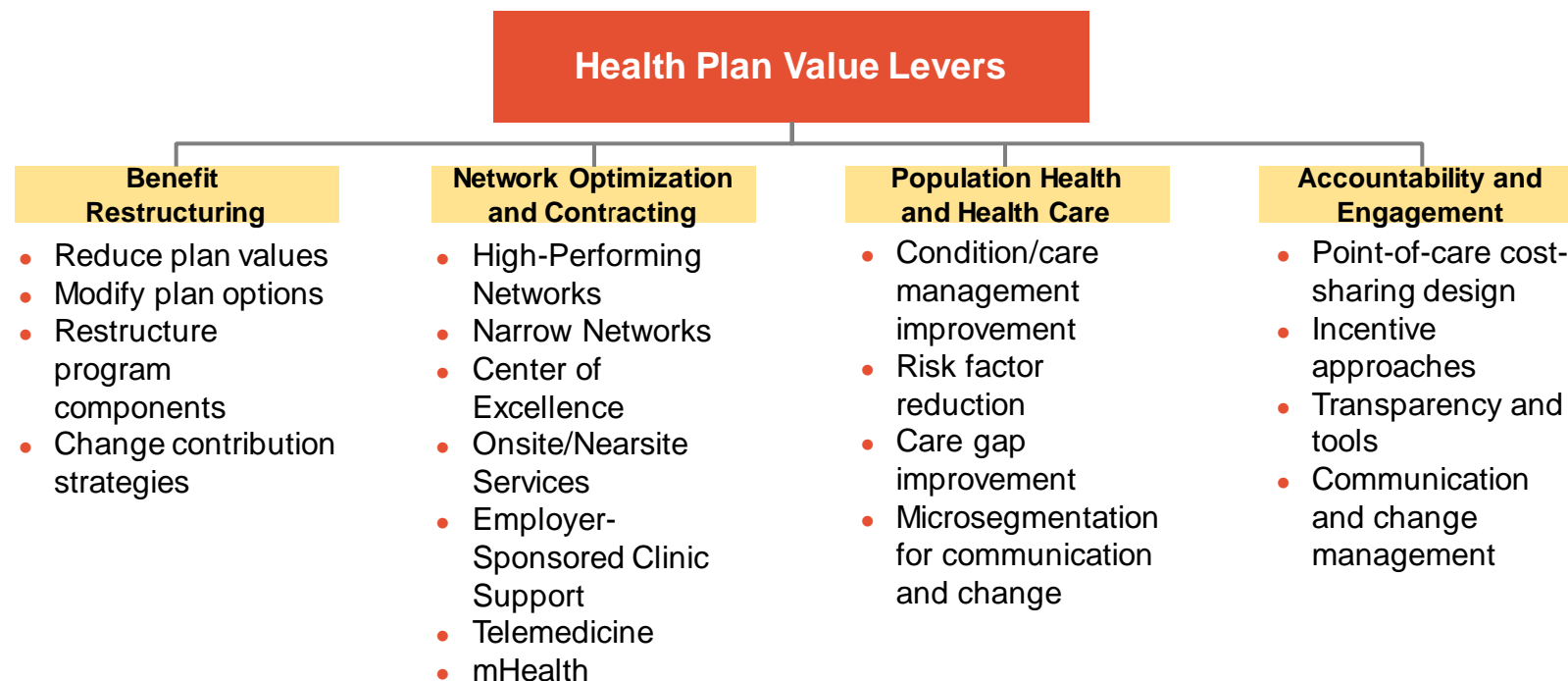
- If OEGB continued to offer the **same tiered and composite structure** that is currently in place **and people did not change their plan enrollments** from today, OEGB health plans could expect to see a total tax liability amount of \$11.3M in 2018, rising each year thereafter



- Although the dollar amounts are high, they are relatively low when looking at them as a % of projected total OEGB premium
  - 2018 – 1.44% of premium
  - 2019 – 1.70% of premium
  - 2020 – 2.09% of premium

## Ways of limiting tax

- Continuing OEGB's work in improving the efficiency of the plans through the modification of plan designs, network strategies, population health and engagement:



- On the current basis upon which plans are offered, every 1% reduction in the actual trend reduces the excise tax expense in 2018 by about \$1M – \$1.5M



## Ways of limiting tax *(continued)*

- One way of limiting the amount of tax incurred would be to get all employees to the tiered premium rate structure by working with entities using composite contribution levels to find ways to work with tiered premium rates
- If all employees used the tiered rate structure, we estimate a reduction in tax of \$7.4M in 2018 alone with an estimated savings of \$21.4M over the 3 years projected in the analysis (through 2020)

Plan	Enrollment	All Employees now on Tiered Structure		
		2018	2019	2020
Kaiser Plan 1	8,763	\$ -	\$ 1,500,000	\$ 3,500,000
Kaiser Plan 2	1,545	\$ -	\$ -	\$ -
Plan A (\$200)	1,842	\$ 2,600,000	\$ 3,200,000	\$ 4,100,000
Plan B (\$350)	4,175	\$ 1,300,000	\$ 2,000,000	\$ 3,300,000
Plan C (\$500)	11,916	\$ -	\$ -	\$ 1,200,000
Plan D (\$750)	3,303	\$ -	\$ -	\$ -
Plan E (\$1,000)	6,447	\$ -	\$ -	\$ -
Plan F (\$1,250)	2,728	\$ -	\$ -	\$ -
Plan G (\$1,500)	3,645	\$ -	\$ -	\$ -
Plan H (\$1,500)	7,904	\$ -	\$ -	\$ -
<b>Total Tax Payable</b>	<b>52,268</b>	<b>\$ 3,900,000</b>	<b>\$ 6,700,000</b>	<b>\$ 12,100,000</b>

## Ways of limiting tax *(continued)*

- Another way to limit the potential amount of tax that may be incurred is to eliminate Plans A and B prior to 2018

		All Employees on Tiered Structure, Eliminate Plans A+B		
Plan	Enrollment	2018	2019	2020
Kaiser Plan 1	8,763	\$ -	\$ 1,500,000	\$ 3,500,000
Kaiser Plan 2	1,545	\$ -	\$ -	\$ -
Plan A (\$200)	—	\$ —	\$ —	\$ —
Plan B (\$350)	—	\$ —	\$ —	\$ —
Plan C (\$500)	17,933	\$ -	\$ -	\$ 1,500,000
Plan D (\$750)	3,303	\$ -	\$ -	\$ -
Plan E (\$1,000)	6,447	\$ -	\$ -	\$ -
Plan F (\$1,250)	2,728	\$ -	\$ -	\$ -
Plan G (\$1,500)	3,645	\$ -	\$ -	\$ -
Plan H (\$1,500)	7,904	\$ -	\$ -	\$ -
<b>Total Tax Payable</b>	<b>52,268</b>	<b>\$ -</b>	<b>\$ 1,500,000</b>	<b>\$ 5,000,000</b>

- By moving to tiered rates, eliminating Plans A and B and assuming those employees were to move to Plan C, we would see no excise tax liability in 2018 (a savings of \$11.3M)
- Over the 3 years projected in this analysis this approach would save an estimated \$37.6M of excise tax liability

## Ways of limiting tax *(continued)*

- If Plans A and B were eliminated but the composite rating remained in place the potential tax incurred would be:

Plan	Enrollment	Both Rate Structures Available, Eliminate Plans A + B		
		2018	2019	2020
Kaiser Plan 1	8,763	\$ 1,200,000	\$ 2,000,000	\$ 3,000,000
Kaiser Plan 2	1,545	\$ 500,000	\$ 600,000	\$ 700,000
Plan A (\$200)	—	\$ —	\$ —	\$ —
Plan B (\$350)	—	\$ —	\$ —	\$ —
Plan C (\$500)	17,933	\$ 2,100,000	\$ 2,400,000	\$ 3,000,000
Plan D (\$750)	3,303	\$ 900,000	\$ 1,000,000	\$ 1,200,000
Plan E (\$1,000)	6,447	\$ 1,500,000	\$ 1,800,000	\$ 2,100,000
Plan F (\$1,250)	2,728	\$ 800,000	\$ 900,000	\$ 1,100,000
Plan G (\$1,500)	3,645	\$ 700,000	\$ 800,000	\$ 1,000,000
Plan H (\$1,500)	7,904	\$ 1,300,000	\$ 1,600,000	\$ 2,100,000
<b>Total Tax Payable</b>	<b>52,268</b>	<b>\$ 9,000,000</b>	<b>\$ 11,100,000</b>	<b>\$ 14,200,000</b>

- By eliminating Plans A and B and assuming those employees were to move to Plan C, we would see an excise tax liability in 2018 of \$9.0M, a savings of \$2.3M
- Over the 3 years projected in this analysis this approach would save an estimated \$9.8M of excise tax liability

# Appendix

## Excise tax as a percentage of premium — 2018

- The following table shows the 2018 excise tax liability as a percentage of premium for each plan rating tier and family status

Plan	Tiered				Composite	
	EE Only	EE & SP	EE & CH	EE & FAM	EE Only	EE & FAM
Kaiser Plan 1	-	-	-	-	21% -	
Kaiser Plan 2	-	-	-	-	19% -	
Plan A	7% -	-		11%	26%	2%
Plan B	-	-	-	4%	23% -	
Plan C	-	-	-	-	19% -	
Plan D	-	-	-	-	18% -	
Plan E	-	-	-	-	16% -	
Plan F	-	-	-	-	14% -	
Plan G	-	-	-	-	11% -	
Plan H	-	-	-	-	8% -	

## Excise tax by year and by plan — Current structure

Plan	Tiered Values			Composite Values			Total Values		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Kaiser Plan 1	\$ -	\$ 600,000	\$ 1,460,000	\$ 1,210,000	\$ 1,360,000	\$ 1,540,000	\$ 1,210,000	\$ 1,960,000	\$ 3,000,000
Kaiser Plan 2	\$ -	\$ -	\$ -	\$ 540,000	\$ 620,000	\$ 710,000	\$ 540,000	\$ 620,000	\$ 710,000
Plan A	\$ 1,480,000	\$ 1,930,000	\$ 2,540,000	\$ 240,000	\$ 390,000	\$ 590,000	\$ 1,720,000	\$ 2,320,000	\$ 3,130,000
Plan B	\$ 380,000	\$ 620,000	\$ 1,370,000	\$ 440,000	\$ 490,000	\$ 550,000	\$ 820,000	\$ 1,110,000	\$ 1,930,000
Plan C	\$ -	\$ -	\$ 200,000	\$ 1,770,000	\$ 2,010,000	\$ 2,290,000	\$ 1,770,000	\$ 2,010,000	\$ 2,490,000
Plan D	\$ -	\$ -	\$ -	\$ 900,000	\$ 1,030,000	\$ 1,190,000	\$ 900,000	\$ 1,030,000	\$ 1,190,000
Plan E	\$ -	\$ -	\$ -	\$ 1,540,000	\$ 1,770,000	\$ 2,060,000	\$ 1,540,000	\$ 1,770,000	\$ 2,060,000
Plan F	\$ -	\$ -	\$ -	\$ 790,000	\$ 920,000	\$ 1,080,000	\$ 790,000	\$ 920,000	\$ 1,080,000
Plan G	\$ -	\$ -	\$ -	\$ 700,000	\$ 840,000	\$ 1,020,000	\$ 700,000	\$ 840,000	\$ 1,020,000
Plan H	\$ -	\$ -	\$ -	\$ 1,280,000	\$ 1,620,000	\$ 2,050,000	\$ 1,280,000	\$ 1,620,000	\$ 2,050,000
<b>Total Tax Payable</b>	<b>\$ 1,860,000</b>	<b>\$ 3,150,000</b>	<b>\$ 5,570,000</b>	<b>\$ 9,410,000</b>	<b>\$ 11,050,000</b>	<b>\$ 13,080,000</b>	<b>\$ 11,270,000</b>	<b>\$ 14,200,000</b>	<b>\$ 18,660,000</b>