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“What Does the ACA’s Excise Tax on High-Cost Plans Actually Tax?” An NEA-Commissioned Report by Milliman

Why Did NEA Commission an Actuarial Firm to Assess the Excise Tax on High-Cost Plans?

Always suspecting the term “Cadillac Tax” to be highly misleading, NEA hired the actuarial firm Milliman to determine whether the excise tax on high-cost plans is really a tax on overly generous health plans. In addition, NEA has a much higher percentage of older and female workers than the national workforce, so we asked Milliman whether the tax corrects for the impact of age and sex on premiums.

What Does the Excise Tax Really Tax?

The actuaries found that “although the excise tax is often referred to as a tax on overgenerous health benefits, it is likely to be a tax based on factors other than benefit richness and beyond the control of health plan members.”

For example, Milliman tested the relative impact on premiums of plan benefits and other factors. The actuaries concluded that, compared to their benchmark, geography had a potential 69.3 percent impact on premiums, meaning that area-specific health care costs alone could boost a \$9,189 premium in 2018 to \$15,556. Among their other findings: Premiums could increase by as much as 15.7 percent for plans with provider networks that have low negotiated discounts for doctors, hospitals, and others. In contrast, plan benefits in the study only increased premiums by as much as 6.2 percent.

The excise tax was designed to push employers to cut employees’ health benefits, but with factors other than health plan generosity driving tax liabilities, the resulting benefit reductions will be arbitrarily damaging to millions of employees and their families.

What Role Does Geography Play in Generating Tax Liabilities?

Milliman concluded that geography-related premium differences will “lead to much higher premiums and substantial taxable costs in many parts of the country.” When the actuaries tested benefits typical of gold-level health insurance exchange plans, they found that plan members’ location alone would trigger the excise tax in many places, even when the same gold-level benefits in other places would not.

They found, for example, that the premium for a gold-level plan in San Francisco, California, would be 37 percent higher than the exact same plan’s premium if it were in Huntington, West Virginia. In fact, they found striking disparities all over the country.

Does the “Age and Gender Adjustment” Correct for the Impact of Age and Sex on Premiums?

Congress knew that the excise tax on high-cost plans could be unfair to women and older workers, but Milliman concluded that the tax’s attempt to fix the problem “fails to compensate for the impact on premiums of age and sex in many parts of the country.” As a result, health plan members’ age and sex could contribute to excise tax liabilities. It also means that women and older workers could be disproportionately hurt by tax-spurred benefit cuts.

To receive a copy of the report, please contact the NEA Collective Bargaining and Member Advocacy Department at collectivebargaining@nea.org.