U.S. NEWS

‘Cadillac’ Health Tax Fight Heats Up

Levy of 40% could prompt employers to eliminate flexible spending accounts

By Stephanie Armour

A looming tax on generous employer health plans could imperil flexible spending accounts, a popular benefit that lets employees set aside tax-free money for certain medical expenses.

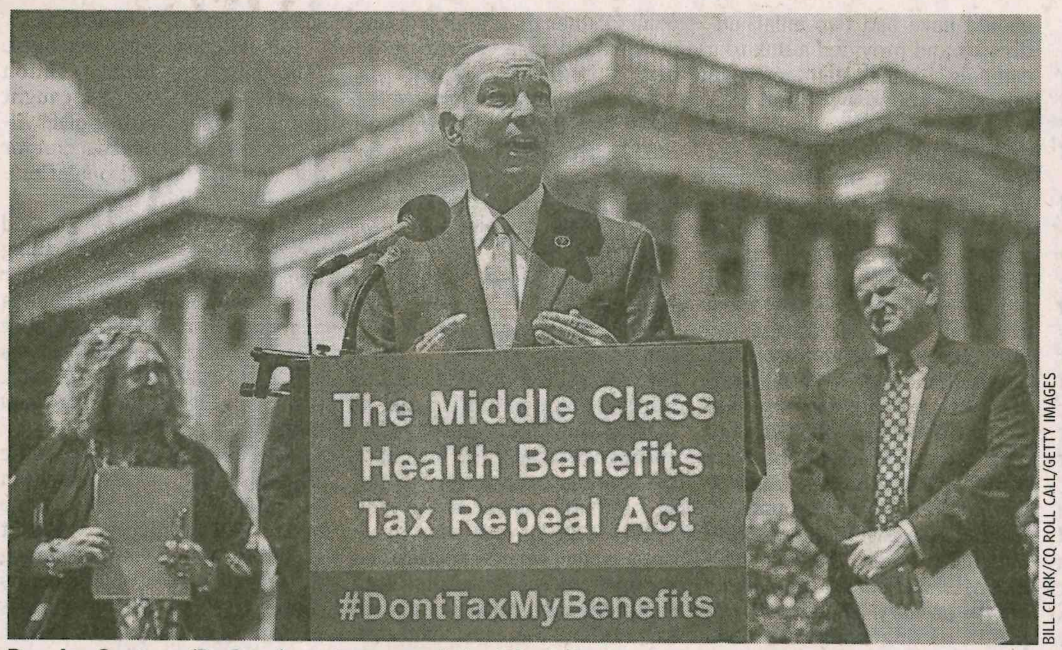
The Affordable Care Act’s tax on high-cost employer health insurance is scheduled to start in 2018, when it will impose a 40% levy on benefits that exceed a government-set threshold. Employers already are reviewing or trimming health plans to minimize the effect of this “Cadillac tax,” benefit experts say.

The tax threshold takes into account not just the value of premiums, but also other benefits offered by employers—including money put in flexible spending accounts.

Benefits consultants say that will prompt many employers to limit the amount workers can put in the accounts, commonly called FSAs—or do away with the accounts altogether. Few employers contribute to the accounts, but those that do could stop.

The threat to flexible spending accounts has further stoked efforts by some in Congress to try to repeal the tax. The issue is expected to be taken up this fall.

“As employers seek to avoid the tax—as a significant number plan to do—[they] will first look to trim benefits including FSAs that are counted toward the tax calculation,” Rep. Joe Courtney (D., Conn.) said in a statement. “The clear result will be a reduction in the quality of insurance plans offered to employees, and increased out-of-pocket costs for their families.”



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Rep. Joe Courtney (D., Conn.) wants to repeal the Affordable Care Act’s tax on high-cost health plans.

Mr. Courtney’s bill to repeal the tax has 132 co-sponsors, including 14 Republicans. It also would change some parts of the tax code. A bill introduced by Rep. Frank Guinta (R., N.H.) has about 80 GOP co-sponsors.

Some lawmakers and benefits managers are concerned the tax will hurt middle-class earners by taking away a benefit. Most large companies offer FSAs. Earnings that employees put into the accounts can be used for certain out-of-pocket medical expenses, as well as insurance copayments and deductibles.

Workers and employers who contribute the maximum allowed by law to an FSA—a combined $2,550 a year—could push many company plans over the tax threshold. The threshold is $10,200 in health benefits for individual coverage and $27,500 for a family in 2018.

“The Cadillac tax was created to discourage overly generous plans, but instead it’s kind of targeting the Corollas,” said Jody Dietel, chief compliance officer at WageWorks Inc., a provider of flexible spending accounts and other benefit plans. “It’s an unintended consequence.”

Efforts to repeal the tax face an uphill battle. Lawmakers, who expect a budget battle this fall, would have to come up with ways to offset the more than $80 billion the levy is projected to raise for government coffers over 10 years. In addition, President Barack Obama has indicated he would veto legislation that would weaken the health law.

A White House spokeswoman called the tax “a key part of how the Affordable Care Act improves the affordability, accessibility and quality of health care while reducing the deficit.” She said the administration is willing to work with lawmakers to improve the law but would oppose repealing the tax.

Supporters of the tax say it will curb health-care spending by putting a brake on high-cost insurance plans. They say the levy will prompt employers to scale back such plans, which in turn will allow them to boost wages by using the resulting savings.

“I’d expect FSAs to vanish,” said Larry Levitt, a senior vice president at the Kaiser Family Foundation, a health-policy research group. “I was surprised by how big an effect FSAs have on reaching the [tax] threshold. Most people have been focused on premiums.”

If the legislation fails and employers maintain FSAs, 26% of them would have at least one health plan that surpasses the individual threshold in 2018, according to a Kaiser analysis, with the number jumping to 42% in 2028. But just 16% would exceed the threshold if flexible spending accounts weren’t in place in 2018, based on the analysis that anticipates yearly premium increases of 5%. The Kaiser study didn’t tally the number of employees affected.

—Louise Radnofsky contributed to this article.

Paid Insurance Enrollees Decline

WASHINGTON—Almost 9.9 million customers selected and paid for health coverage on state and federal marketplaces under the Affordable Care Act as of the end of June, reflecting a drop in overall paid sign-ups.

The number released Tuesday by the Centers for Medicare and Medicaid Services shows the Obama administration is still on track to meet its goal of 9.1 million to 9.9 million people who have paid for coverage through the insurance exchanges by the end of 2015.

Robust sign-ups and premium payments are critical for the Obama administration because Republicans pressing to repeal the health law likely would seize on lackluster enrollment as a sign the ACA was faltering.

“Consumers from coast-to-coast are continuing to show how important health coverage is to their families,” said Health and Human Services Secretary Sylvia Mathews Burwell in a statement.

About 84% of enrollees, or more than 8.3 million consumers, were receiving a subsidy to offset premium costs, with an average tax credit of $270 a month, according to the agency’s report.

The Obama administration said earlier that 10.2 million people had coverage and had paid premiums through March 31. Final numbers had been expected to change because it is common in the insurance industry for some customers who sign up for a policy to end up not paying for it.

Data-matching issues caused some of the decline. Overall, as of June 30, the exchange ended coverage for about 423,000 people with plans in 2015 who failed to produce sufficient documentation on their citizenship or immigration status.

—Stephanie Armour