

ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits

To: Interested Parties
From: The Alliance to Fight the 40
RE: The Cadillac Tax: The Road to Repeal
Date: February 3, 2016

[The Alliance to Fight the 40](#) is a broad-based coalition comprised of public and private sector employer organizations, consumer groups, patient advocates, unions, health care companies, businesses and other stakeholders that support employer-sponsored health coverage. This coverage is the backbone of our health care system and protects over 175 million Americans across the United States. The Alliance seeks to repeal the 40% tax on employee health benefits to ensure that employer-sponsored coverage remains an effective and affordable option for working Americans and their families.

2015 was a benchmark year in the fight to repeal the so-called “Cadillac Tax,” and the Alliance, in just over six months, achieved remarkable progress in its mission to repeal this onerous tax. To date, the Alliance helped garner the support of a majority in Congress to repeal the tax, leading to passage of a two-year delay and a change allowing deductibility of the tax, all before Congress adjourned last year.

However, as long as the “Cadillac Tax” remains public law, employees will still face the damaging impact of the tax and continue to be hit with reduced benefits and increased out-of-pocket expenses. For this reason, the Alliance remains committed to repealing the “Cadillac Tax” to protect the health coverage on which workers, retirees, and their families depend. In addition, the Alliance will continue to oppose proposals that fall short of full repeal.

The Tax’s Continued Impact

While the two-year delay passed by Congress is a helpful and much appreciated first step, it will not prevent looming cost increases for American workers. As long as this tax is on the books, employers are penalized for offering good health coverage to their hardworking employees.

Businesses plan their health benefits over an 18-month to two-year time frame. As long as the Cadillac Tax remains the law, employers will be compelled, reluctantly, to make difficult decisions to avoid it. A survey of 700 employers by Mercer found that anticipation of the 40% tax is already leading many employers to consider excluding employees’ spouses from their health policies or imposing a surcharge for including them. This means employees will be asked to bear higher out of pocket costs for fewer benefits even before the tax is fully in effect.

The idea that the “Cadillac Tax” only applies to a handful of overly luxurious plans is wrong. Because it is indexed to the consumer price index, which is lower than health care inflation, an increasing number of health plans will be subject to the tax every year. According to a [study](#) released by United Benefit Advisors, 50% of employers will still be subject to the tax and by 2022 more than 73% will be subject to it. Within three years of enactment – 2023 – Towers Watson [found that 82%](#) of employers expect their plans will be affected by the tax.

Additionally, the tax unfairly targets employers that have a higher number of workers with chronic or serious diseases, older workers or those with larger families forcing them to pay more taxes sooner. Employers with locations in high-cost areas or in specific industries, such as manufacturing or law enforcement, are also disproportionately affected.

Employers have a vested interest in a healthy workforce, but have well-founded and persistent concerns about how their workers will bear the increasing costs and burdens caused by this tax. For employers, their single recourse to avoid paying this tax is to eliminate or reduce the value of their plans and ask their workers to bear a greater share of the costs of health care. The only way to truly prevent indiscriminate cuts and unnecessary costs shifting to workers is through full repeal of this tax, an action strongly supported by stakeholders across the board:

- “Policymakers shouldn’t be satisfied with a delay. They should nix the tax altogether, as it’s poised to increase the healthcare bills of not just Cadillac-driving executives but the Chevy-driving middle class, too.” – [Janet Trautwein, National Association of Health Underwriters](#) (*Morrow County Sentinel*, 1.21.16)
- “A two-year delay is a good start, and we will work toward a full repeal because the excise tax on employer-sponsored health coverage would have significant impacts on county budgets and taxpayers.” – [Sallie Clark, National Association of Counties](#) (*RevCycle Intelligence*, 12.22.15)
- “[Scott Radcliffe, executive vice president of employee benefits services at EHD](#) in East Lampeter Township, said a client that has about 1,600 employees projected the tax would have cost it \$10.7 million from 2018 to 2022. ‘We are still awaiting potential repeal,’ he said. ‘Employers have been struggling with and trying to rein in health spending ... They don’t need to be taxed to have an incentive to cut those costs.’” (*LNP News*, 1.13.2016)
- “A delay is great, repeal is even better. It’s a pretty onerous tax.” - [Steve Wojcik, National Business Group on Health](#) (*Defiance Crescent-News*, 12.20.15)
- “RILA welcomes the two-year delay of the ACA’s illogical penalty against employers who offer quality health coverage and benefits, but we will continue to press for its full repeal. The 40% excise tax threatens the benefits that retailers provide to millions of retail employees and their families.” - [Christine Pollack, Retail Industry Leaders Association](#) (*Heartland Institute*, 12.29.15)

Although Congress and President Obama did not agree to a full repeal of the tax, they reached an agreement to delay the tax for two years.

Far Reaching Political Support

The level of support for repealing the 40% tax remains unprecedented. In 2015, few other issues united a divided Congress the way repealing the “Cadillac Tax” did. Legislation to repeal the tax has garnered 294 co-sponsors in the House and 38 co-sponsors in the Senate. In December 2015, legislation to fully repeal the tax passed in the Senate with a 90-10 margin.

In the last year, support for repeal did not stop in the halls of Congress. It was also widely discussed on the presidential campaign trail as candidates from both parties expressed support for repeal in some form. A recent [Kaiser Family Foundation poll](#) found that health care and health insurance costs are key concerns for voters. As the 2016 presidential and congressional campaigns heat up, candidates would be wise to voice their support for repeal during their campaigns this year.

Expanding Advocacy Support

The Alliance is continuing to grow its reach in 2016 to provide fresh voices and a broader perspective of the impact this tax will have on millions of Americans.

Our members continue to list repealing the “Cadillac Tax” as a top legislative priority. We will continue our work to highlight how the tax creates age, gender and geographic disparities and how it impacts vulnerable demographics.

To achieve repeal, the Alliance will continue its efforts full force in 2016, leveraging third parties, such as think tanks, activists and community leaders, to engage in the political process and ensure that presidential and congressional candidates understand the devastating impacts of the “Cadillac Tax.” Specifically, our goals in 2016 include:

- Conducting extensive grassroots efforts to persuade Presidential and Congressional candidates to commit to repeal the tax;
- Conducting research that will challenge the assertions made by proponents of the tax;
- Bringing Congress new data and information on the impact on patients and low and middle-income families;
- Engaging in extensive public communications to ensure the negative implications of the tax are understood;
- Explaining how the tax interferes with successful efforts by employers to pursue innovative strategies promoting good health; and
- Continuing to expand the breadth of the diverse coalition working to repeal the tax.

We believe that a properly executed strategy, including activities inside and outside the Beltway, provides us with the best chance of successfully repealing the tax. Full repeal can and should be accomplished at the outset of a new administration. The Alliance to Fight the 40 is expanding its efforts in 2016 to pave the way for full repeal.

About the Alliance to Fight the 40

In July 2015, the Alliance to Fight the 40 was formed as a broad-based coalition comprised of public and private sector employer organizations, consumer groups, patient advocates, unions, health care companies, businesses and other stakeholders. The Alliance seeks to repeal the 40% tax on employee health benefits to ensure that employer-sponsored coverage remains an effective and affordable option for working Americans and their families. Members of the Alliance worked together to demonstrate the negative impacts of the tax on Americans of all stripes and pushed Congress to act.