



NEWS RELEASE

Immediate Release

Contact: Andrew Simonelli
Phone: 202.785.7872
Email: simonelli@actuary.org

Actuaries Recommend Change to “Cadillac Plan” Tax Structure

New Actuarial Report Uncovers Plan’s Potential Unintended Consequences

WASHINGTON – 14 Jan. 2010 – Drawing attention to one of the most complex health care bills recently passed by the U.S. Senate, the **American Academy of Actuaries** and **Society of Actuaries** today announced the findings from a new technical model and report on the estimated effect of the excise tax on high-cost employer health plans, also known as the “Cadillac Plan” tax. According to the report, while a tax on excess benefits could play a role in offsetting other costs of health reform, specific design elements of the tax may present some issues.

“We developed this model to help policymakers and the general public understand the potential implications of an excise tax,” said **Sara Teppema**, FSA, MAAA, FCA, health staff fellow for the Society of Actuaries. “Based on our analysis, there are features of the proposed legislation that could be modified to avoid unintended consequences.”

These consequences include:

- Premium amounts are expected to rise faster than the general rate of inflation; thus most plans’ premiums will eventually exceed the thresholds
- Allocation of the tax to an employer’s multiple vendors may introduce a significant administrative burden and cost
- Potential incentives for employers to reduce or terminate coverage, or shift costs to various groups of employees in order to minimize their plans’ tax burden

The report also found that the excise tax as currently structured may disproportionately affect plans that have high costs for reasons other than generous benefits, such as older or less healthy participants. Small employer groups are especially vulnerable to these factors.

(more)

2-2-2 – EXCISE TAX

The work group's recommendations include:

- Base the tax on the value of the plan of benefits, or adjust the dollar thresholds for factors such as health risk, geographic area or industry
- Charge the tax directly to employers or employees to more directly affect purchasing decisions
- Give special consideration to small employers since they are more likely to have higher costs due to factors outside their control

The model for this study analyzed, among other assumptions, the possibility that employers would reduce or eliminate benefits in order to avoid paying the tax. This would potentially reduce revenue from the excise tax, but could also have other effects such as reducing health care spending.

“Actuaries are helping by looking ahead at potential responses from employers and employees to this tax in order to determine a realistic range of possible excise tax amounts and impact on employees,” said **L.J. (Mac) McCarthy**, FSA, MAAA, FCA and member of the joint work group. “By uncovering the excise tax’s sensitivity to key variables such as cost increases and employer behavior, we hope to provide information that can be used to improve the likelihood that the final health care reform legislation will be successful.”

For a copy of the report please visit: http://www.actuary.org/pdf/health/cadillac_jan10.pdf

For more information or to schedule an interview, contact Andrew Simonelli, assistant director of communications for the American Academy of Actuaries, at 202.785.7872. For more information on the American Academy of Actuaries, please visit: www.actuary.org.

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The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

The Society of Actuaries is an educational, research and professional organization dedicated to serving the public and more than 21,000 members. The SOA's vision is for actuaries to be recognized as the leading professionals in the modeling and management of financial risk. Visit www.soa.org.