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But employers are already exploring the available options or at least they should be. Reason: If a plan exceeds certain limits, it is subject to a stiff penalty in ...

Ken Berry, JD • Jul. 07, 2015



Under a special provision of Obamacare – the Affordable Care Act (ACA) — millions of Americans might have to trade in their Cadillacs for Hyundais. This has nothing to

do with the vehicle parked in your garage and everything to do with your health

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employers in the form of higher premiums. The increases could render Cadillac plans unaffordable and eventually cause insurers to stop selling them.

Despite the name, the tax isn't limited to plans with top-of-the-line benefits. For these purposes, a Cadillac plan is one costing more than \$10,200 a year for single health insurance coverage and \$27,500 for family coverage. The National Council of State Legislatures (NCSL) places the average cost of family coverage above \$16,800 for 2015. (Of course, costs will be higher or lower in various parts of the country.) Costs will be even higher in 2018. Maybe the Cadillac tax should be renamed for a less expensive vehicle.

The thresholds established by the ACA will be indexed for inflation beginning in 2018. In addition, the IRS is expected to issue regulations providing additional guidance.

How much is the tax? It's a whopping 40 percent of the excess above the applicable threshold. For example, if the plan provides coverage costing \$11,200 to an employee who is single, the tax is \$400 (40% of \$11,200 – \$10,200). You can see how this tax could quickly escalate. According to a survey by the consulting firm Mercer cited in a recent article in Forbes magazine, about 33 percent of employer plans will face the Cadillac tax in 2018 and the number will mushroom to 60 percent by 2022.

The tax could be especially problematic for small businesses, self-employed individuals and retirees. That's because insurers base premiums on risk factors reflecting higher rates for an older population. Although risk is spread out over the entire base for large companies with hundreds or thousands of employees, smaller operations don't have that luxury.

Rates are also higher when safety is a concern. Recognizing this issue, the thresholds for the Cadillac tax are raised to \$11,850 for single coverage and \$30,950 for family

coverage for employers in high-risk industries. Furthermore, some employers with

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What can an employer do? Now is a good time to analyze the options, including shifting to a different plan or insurer, reducing coverage and/or increasing deductibles. You can play a prominent role in the decision-making process. Get the word out to your small business clients before it's too late. 2018 will be here before you know it.

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