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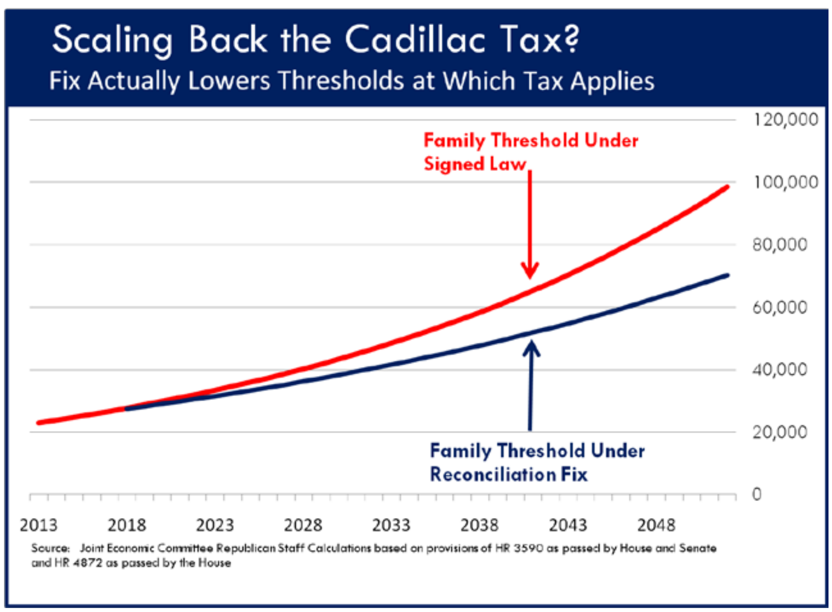
The Cadillac Shuffle: Proclaimed Fix Actually Expands Tax's Reach
Short Term Fix Leads to More Plans Being Hit Earlier and Harder by Tax

The Senate is presently debating a reconciliation package of "fixes" to the health care reform legislation signed into law by President Obama today. Included in that package is a "fix" to the high cost plans or Cadillac tax contained in the new law. The changes have been represented as a "scaling back of the tax." True, the effective date that the tax begins has been delayed for five years, but beyond the ten-year budget window, the allegedly scaled back version of the tax will actually hit even more plans and generate more tax revenue than the original tax signed into law today.

The current "fix" also changes the method by which the thresholds are adjusted for inflation in future years. Instead of adjusting by the Consumer Price Index for All Urban Consumers (CPI-U) plus 1%, the so-called "fix" would adjust those thresholds by just the CPI-U. In addition, a special provision to adjust the initial thresholds if premiums grow faster than the Congressional Budget Office (CBO) projects will ensure that the tax will not hit federal employees', including Members of Congress', favorite plan when the tax is initially applied.[1]

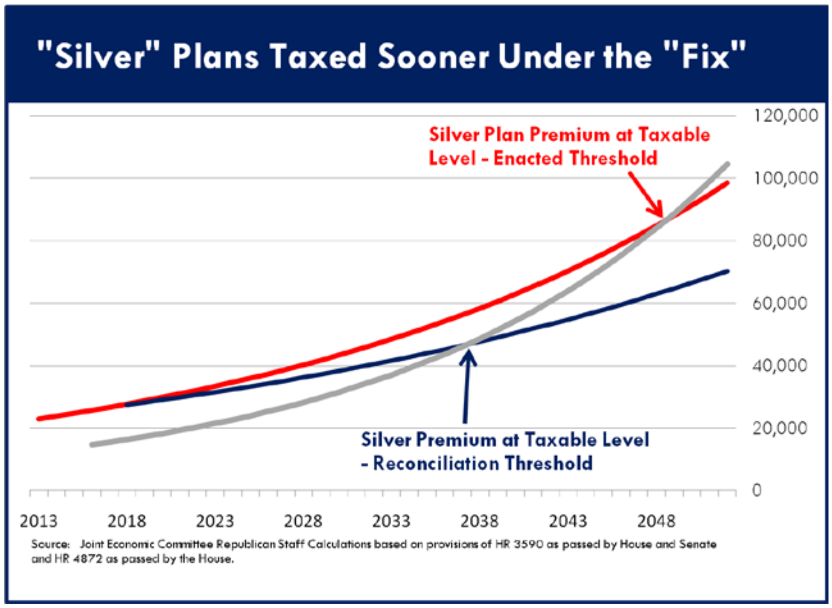


The new thresholds provided in the fix ($10,200 for individual plans and $27,500 for family plans) are essentially the same as the thresholds provided by the enacted legislation after indexing at CPI-U plus 1% for five years. The only plans that benefit in the short term under the reconciliation fix are plans that would have been subject to the tax under the enacted legislation between 2013 and 2017. In fact, for more modest plans,

[1] HR 4872 contains a provision to change the initial thresholds in 2018 based on increases in the Blue Cross Standard Option offered under the Federal Employee Health Benefits Program. If the increase in premiums under that plan, the favorite of federal employees and Members of Congress, is greater than 55% between 2010 and 2018, the thresholds would be adjusted upwards to compensate for the excess cost growth. The 55% factor implies that premiums for that plan will only grow by 5.6% a year. If they grow faster, the thresholds will be higher. Over the last ten years the annualized growth rate for the Blue Cross Standard Option Plan has been 8.6% for self only plans and 8.7% for family plans, significantly higher than the 5.6% annual cost growth factor contained in the reconciliation bill.

the tax bite will hit sooner and harder.

Under the provisions of the proposed "fix", the high cost plans tax will hit the average family plan five years earlier. The subsidized exchange "silver plan" premium would be subject to the tax eleven years earlier (see chart at right).



The irony is that the reconciliation legislation replaces the high cost plans excise tax revenue with revenue from a new Medicare tax on job and growth producing investment income. In reality, while the short term revenues under the high cost plans tax are reduced during the budget window, over the long-term the high cost plans tax revenues will be greater than under the enacted legislation. That is, unless the indexing level is adjusted in the future to prevent average and modest plans from becoming subject to the tax, in which case many of the revenues that are supposed to pay for new health care subsidies will no longer exist.

New Cadillac Tax Will Hit Average Plans Sooner and Will Hit 'Silver' Plan Within Two Decades After Going Into Effect

Plan	Premium in 2010	Years In Which Plans are Subject to Tax		Years Sooner Tax Applies
Individual Plans		**Senate**	**Reconciliation**	
Silver Plan	$3,606	2054	2041	-13
National Average	$5,094	2034	2028	-6
Family Plans		**Senate**	**Reconciliation**	
Silver Plan	$10,601	2049	2038	-11
National Average	$14,124	2032	2027	-5

Source: JEC Senate Republican Staff Calculations, based on enacted and reconciliation high cost plans tax thresholds and indexing (assuming 2.8% annual growth in the CPI-U) and reconciliation legislation's implied annual 5.6% growth rate in premiums.