'Cadillac tax' may precipitate changes to employer-provided health care insurance

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Even if the Affordable Care Act is ultimately repealed, the law's so-called 'Cadillac tax' on high-cost health care plans has already affected employers' health insurance offerings, says Richard L. Kaplan, the Peer and Sarah Pedersen Professor of Law at Illinois. Credit: L. Brian Stauffer

A new paper from a University of Illinois tax expert says the Affordable

Care Act's "Cadillac tax" has the potential to alter the landscape of the U.S. health insurance market and lead to the widespread adoption of a policy championed by former President George W. Bush - namely, health saving accounts.

Even if President's Obama's signature health care law is ultimately repealed, the Cadillac tax has already affected employers' health insurance offerings, said Richard L. Kaplan, the Peer and Sarah Pedersen Professor of Law at Illinois.

"The tax, which isn't scheduled to take effect until 2020, was enacted to fulfill two related but distinct purposes: to raise revenue to offset the subsidies the Affordable Care Act provides to low-income people who buy health insurance on the open market, and to discourage employers from providing particularly generous health insurance plans with low or no deductibles and minimal co-pays," Kaplan said.

These plans exist because the tax code subsidizes employer-provided health insurance, thereby encouraging employees to trade a higher salary for first-dollar coverage on health insurance.

"Such insurance is very expensive, but employers can deduct the premiums while employees need not report this benefit as income," Kaplan said. "The Cadillac tax was aimed at curbing this sort of compensation, which some argue leads to wasteful spending and overconsumption of health services."

Employers have been shifting more of the health care burden to employees "for years now," Kaplan said.

"There are several reasons for this shift," he said. "First, to reduce the cost of health insurance to employers' bottom line. Second, to allow for wage increases, which resonate with employees more than increased health insurance benefits. And third, to ensure that employees have 'skin in the game' and will be more price-sensitive consumers of health care services."

One of the most direct mechanisms to amplify consumer price sensitivity is to increase the annual deductible - which is exactly what employers are doing, according to Kaplan.

"Fifty-one percent of all workers have a deductible of more than $1,000," Kaplan said.

In a quirk of history, Kaplan argues in the paper that Obamacare is actually helping promote George W. Bush's health care policy by paving the way for health savings accounts.

"Ten years ago, President Bush pushed health savings accounts in which you could set money aside for medical expenses, and balances remaining at the end of the year could be rolled over to the next year, unlike with a flexible spending account," he said.

One of the reasons such accounts were a tough sell was that the account holder couldn't have a low-deductible health insurance policy, Kaplan said.

"As matters have evolved, more and more people now have a high-deductible policy anyway, so they might want to pair that policy with a health savings account."

The trend toward high-deductible plans is "almost inexorable," Kaplan said.

"It's not necessarily the most palatable way to shift costs to employees, but it is becoming more accepted," he said. "The Cadillac tax puts even more pressure on employers to do this, because now employers can say 'We don't want to pay this excise tax.'"

In addition, most health insurance policies available on the Obamacare exchanges have deductibles that would enable the policy holder to establish a health savings account, Kaplan noted.

"Thus, President Obama's health care innovations may indirectly implement Bush's health care approach after all," he said.

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