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THE CADILLAC TAX

Named after America's luxury automobile, the **"Cadillac Tax" refers to an annual excise tax on high-cost employer-sponsored health insurance.** Although the tax is still several years away and regulations may evolve before it is implemented, employers and benefits professionals have questions about whether it could affect them. Let's take a look at the details:

THE TAX IS DELAYED UNTIL 2022

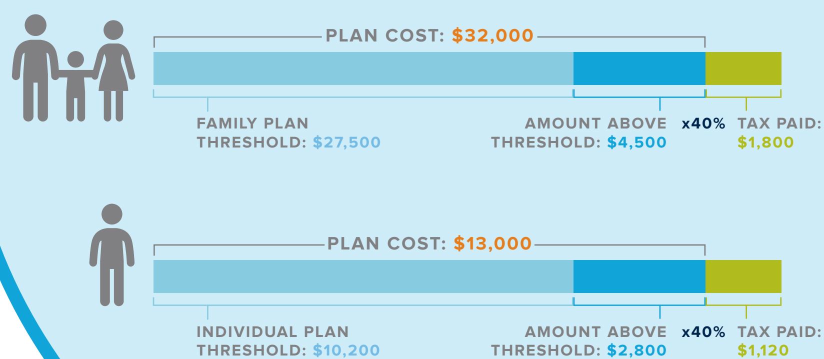
The effective date of the tax continues to be delayed. It is currently **scheduled for 2022.**

WHAT IS ITS PURPOSE?

- To **reduce health care spending** overall by discouraging expensive employer-sponsored plans.
- To **help pay for other provisions** of the Affordable Care Act (e.g., the Medicaid expansion and insurance subsidies for low-income individuals).

HOW IS IT CALCULATED?

The tax is equivalent to 40 percent of the cost of health coverage beyond a certain threshold, depending on the type of plan. The threshold also adjusts to account for age, gender, retirement status and high-risk professions. These thresholds will increase in future years because they are indexed for inflation.



NOTE: Based on threshold amounts proposed for 2018. These amounts are expected to be indexed for inflation.

WHO PAYS THE TAX?

Employers calculate the taxes owed, and then the tax itself is paid by the "coverage provider" or "person who administers the plan benefits."

- **For a typical health insurance plan,** the insurer pays the tax.
- **For self-funded health care,** whoever implements the plan's benefits pays the tax.
- **For HSAs and Archer MSAs,** the employers pay the tax.

WHAT IS INCLUDED IN THE TAX?

The tax applies to pretax group employer-sponsored coverage, including employer- and employee-paid portions.

- Health coverage, including medical, behavioral and prescription drug.
- Health flexible spending accounts (FSAs).
- Health savings accounts (HSAs).
- Archer Medical Savings Accounts (MSAs).
- Governmental plans, with the exception of military coverage.
- On-site medical clinics, with exception of clinics that provide minimal medical care.
- Retiree coverage.
- Multi-employer plans.
- Specified disease or illness and hospital indemnity or other fixed indemnity insurance only when any portion of the premium is paid pretax or by the employer.

LEARN MORE

Aflac will continue to monitor health care reform legislation and provide helpful resources for businesses at aflac.com/health-care-reform.

WHAT ISN'T INCLUDED IN THE TAX?

The tax does not apply to the following insurance products:

- Accident insurance.
- Disability insurance.
- Life insurance.
- Supplemental liability insurance.
- Liability insurance, including general and automobile liability insurance.
- Workers' compensation or similar insurance.
- Automobile medical payment insurance.
- Credit-only insurance.
- Stand-alone Vision.
- Stand-alone Dental.
- Specified Disease and Hospital Fixed Indemnity are excluded if not sponsored by the employer and paid for on an after-tax basis.

IS VOLUNTARY INSURANCE INCLUDED?

Voluntary insurance products are defined as excepted benefits and are not included in the Cadillac Tax calculation, with the exception of two types of coverage — specified disease and hospital indemnity — but only if they are paid for using pretax dollars. In other words, as long as an employer offers these two products after tax, they are also excluded from the tax calculation.

WHAT SHOULD OR SHOULDN'T EMPLOYERS DO NOW?

Employers do not need to make changes to their policies in anticipation of the tax just yet. It's important to wait for further guidance since the tax and regulations may continue to change as 2022 draws near – including the tax threshold amounts and other implementation details.

This material is intended to provide general information about an evolving topic and does not constitute legal, tax or accounting advice regarding any specific situation. Aflac cannot anticipate all the facts that a particular employer or individual will have to consider in their benefits decision-making process. We strongly encourage readers to discuss their HCR situations with their advisors to determine the actions they need to take or to visit healthcare.gov (which may also be contacted at 1-800-318-2596) for additional information.

This article is for informational purposes only and is not intended to be a solicitation.

Aflac herein means American Family Life Assurance Company of Columbus and American Family Life Assurance Company of New York.