



## **Cadillac tax likely to become 2016 election issue**

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Even five years after its enactment, the Affordable Care Act continues to draw strong opposition. And while it's still the early days for the ACA, so far "there's no evidence of any major disruption to the existing employer-sponsored insurance market," said Jonathan Gruber, an MIT economist and proponent of the law, during a recent event hosted by Sun Life Financial and Bloomberg.

He attributed widespread skepticism about the law to politics, saying "there's a continued enormous lack of understanding about what the law does that I think is a direct result of the large level of [political] opposition to it."

And while avoiding the ACA's Cadillac tax is front-of-mind for many benefit decision-makers, Gruber maintained the tax is only a mechanism to offset the existing discount already provided to health insurance benefits in the tax code.

"Health insurance is compensation and wages are compensation. They should be taxed the same. And they're not," said Gruber. The result is a system that is expensive, unfair and encourages excessive consumption, he believes. "If the U.S. taxed health insurance like wages, we would raise \$250 billion more a year in revenues," he said. Moreover, "the richer you are, the bigger tax break you get because your tax rate is higher." And, finally, he said, such a system encourages excessive consumption because people are buying health insurance with after-tax dollars.

But Michael Cannon, director of health policy studies at the Cato Institute, believes the still-on-the-horizon Cadillac tax is unlikely to remain in its current form. "A lot of employers are going to be hit by that tax, more and more over time, and more people are going to learn that promise of 'if you like your health plan you can keep it' was a false one," he said.

"The question is how will Congress respond? There are going to be a lot of people who want to repeal that tax on its own, but I think a lot of proponents of the ACA will say to employers and others who want to get rid of the tax: 'We'll help you do that, but you have to go along with part of a broader effort to reopen the ACA and repeal parts of it.'"

The Cadillac tax, set to go into effect in 2018, is a 40% excise tax on health coverage that costs more than \$10,200 for an individual or \$27,500 for a family. About one-third of employers are currently at risk for triggering the tax in 2018 if they make no changes to their most costly plan, according to consulting firm Mercer's National Survey of Employer-Sponsored Health Plans.

But the Cadillac tax, said Gruber, is merely a way to equalize the way wages and health insurance are taxed. "It's essentially offsetting the existing discount in the tax code," he said, emphasizing it's not a new net tax. "It's offsetting a benefit they really shouldn't be getting in the first place."

The intended goal of the Cadillac tax, said Gruber, "is for employers to make the most appropriate tradeoff between wages and health insurance for their employees. I think general economic theory and evidence suggests a number of employers are not doing that – they're providing health insurance which is more generous and wages that are lower than what makes their employees the best off. ... the Cadillac tax moves them in the right direction of more appropriately having that trade-off – maybe a little bit more limited network can save a lot of costs and not really impede much the preferences of their employees."

The Internal Revenue Service and the Department of Treasury are [seeking comments about the Cadillac tax](#), including what constitutes employer-sponsored coverage and different approaches for determining the cost of applicable coverage. Comments are due May 15.

Gruber and Cannon agreed the Cadillac tax is likely to become an issue in the 2016 presidential election, but differed on the reasons why.

"It will have more of an impact on Democrat candidates. Republicans will just say 'we hate taxes, we hate the ACA, we want to get rid of this tax,'" said Cannon, adding the Cadillac tax will affect many union plans and unions tend to support Democrats more often than they support Republicans. "There's going to be a lot of pressure on Democrats from one of their key constituencies to do something to provide them relief from this tax."

But Gruber believes the Republicans will face their own challenges with the Cadillac tax. "A long-standing Republican position has been to get rid of the employer tax subsidy and put them on to individuals instead. The Cadillac tax is heading in that direction," he said. "So the question is: How does the Republican Party resolve its opposition, in some sense, to the fundamental employer system with the fact that this is the biggest thing we've ever done to try to get rid of something they've wanted to get rid of?"