

Excise Tax on High Cost Employer-Sponsored Health Coverage

January 20, 2016

Session Objectives

- Excise Tax Overview
- Estimated Excise Tax Impact
- Conceptual Avenues for Advocacy
- Federal Updates
- Path Forward

Excise Tax Overview

Excise Tax: Main Components

- Effective January 1, 2020
- 40% tax applies to high cost employer-sponsored plans.
Applies to:
 - Aggregate cost of coverage above threshold
 - Coverage employees are enrolled in, not to the lowest cost of plan offered by employer
- Establishes thresholds for coverage at:
 - \$10,200 self only
 - \$27,500 all other coverage

Applicable Coverage

- Employee and employer contributions toward health coverage (total health premium)
- Employer contributions and employee pre-tax contributions toward a:
 - Flexible Spending Account (FSA)
 - Health Savings Account (HSA)
 - Health Reimbursement Arrangement (HRA)

NOT Applicable Coverage

- After-tax health account contributions made by employees
- Coinsurance
- Copays

Other Considerations

- Carveout of Excepted Benefits not intended for purchasers such as CalPERS
- CalPERS health plans liable for proportionate share even if premiums are below tax thresholds
- Every health premium dollar exceeding tax threshold increases CalPERS' health benefits spend by 40 cents

Estimated Excise Tax Impact

Estimated Impact – Bay Area Regional Rate

Estimated total tax liability based on 2016 rate – 3% Rate Increase

2018	2020	2023
\$20 million	\$28 million	\$61 million

Estimated total tax liability based on 2016 rate – 7% Rate Increase

2018	2020	2023
\$32 million	\$95 million	\$228 Million

These tables represent a straight-line projection to present hypothetical scenarios. They do not represent any statement by CalPERS or any of our contracting health plans as to the actual or expected rate in any year.

Estimated Impact – Statewide Rate

Estimated total tax liability based on 2016 rate – 3% Rate Increase

2018	2020	2023
\$4 thousand	\$2 million	\$38 million

Estimated total tax liability based on 2016 rate – 7% Rate Increase

2018	2020	2023
\$4 million	\$89 million	\$421 million

These tables represent a straight-line projection to present hypothetical scenarios. They do not represent any statement by CalPERS or any of our contracting health plans as to the actual or expected rate in any year.

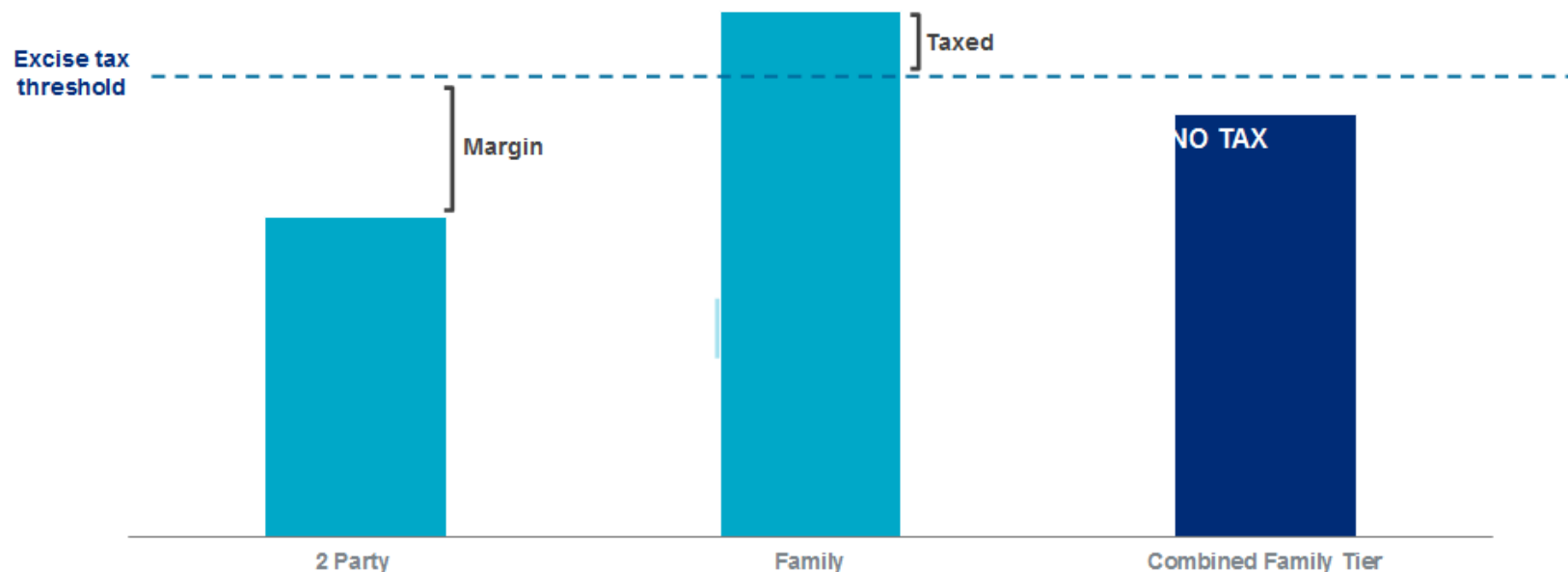
Conceptual Avenues for Advocacy

Conceptual Avenues for Advocacy

- Evaluate potential tax calculation methods:
 - Blend tier premiums
 - Optimize tier ratios
 - Utilize demographic adjustment
- Explore plan value options (for Illustrative Purposes Only):
 - Silver Example
 - Gold Example

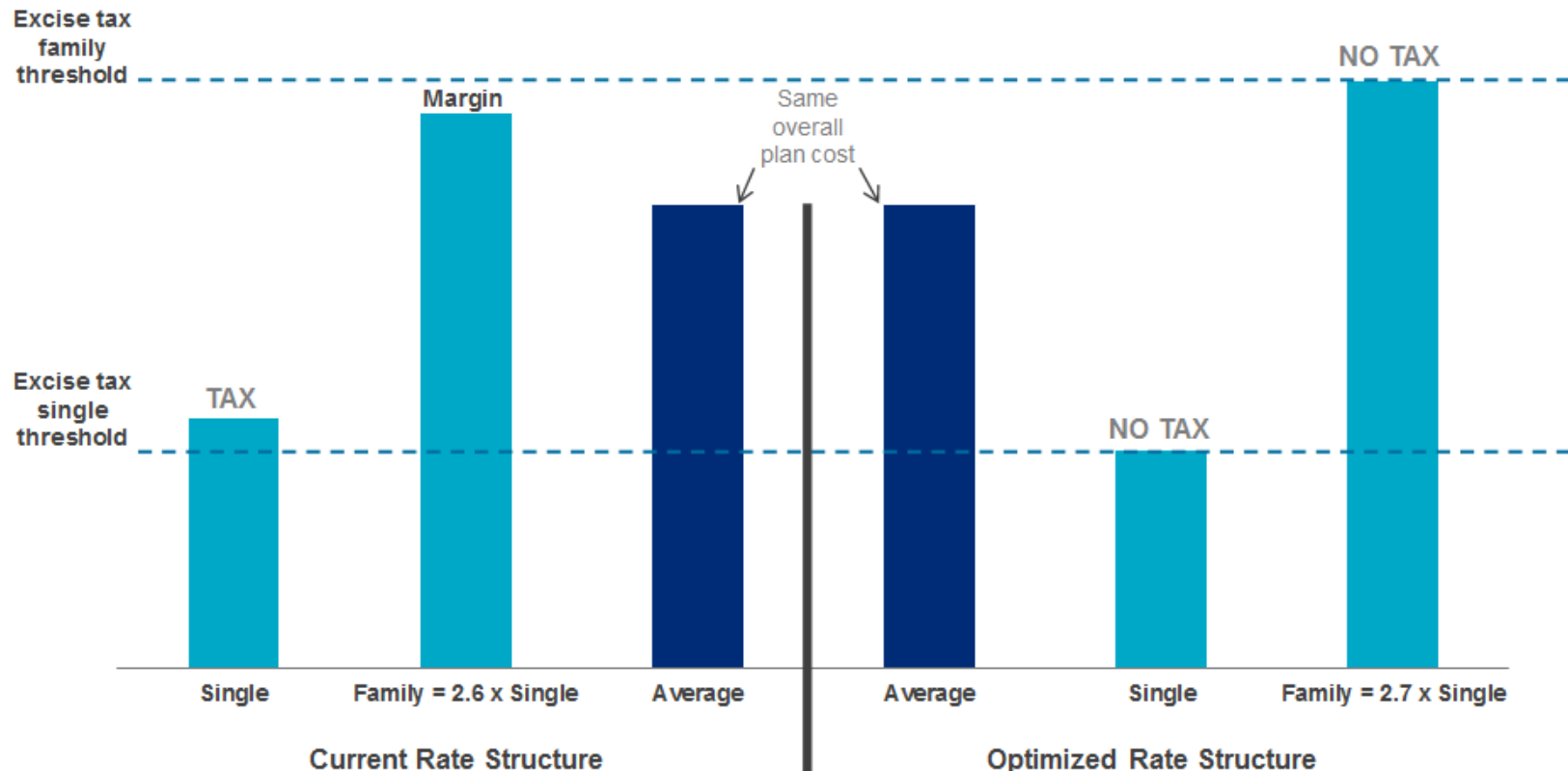
Concept: Blending Premium Tiers

- Blending the non-single tiers reduces the family rate, which may be the only tier that triggers the excise tax.
- Margin for the 2-party rate can be used to reduce tax on the family rate.



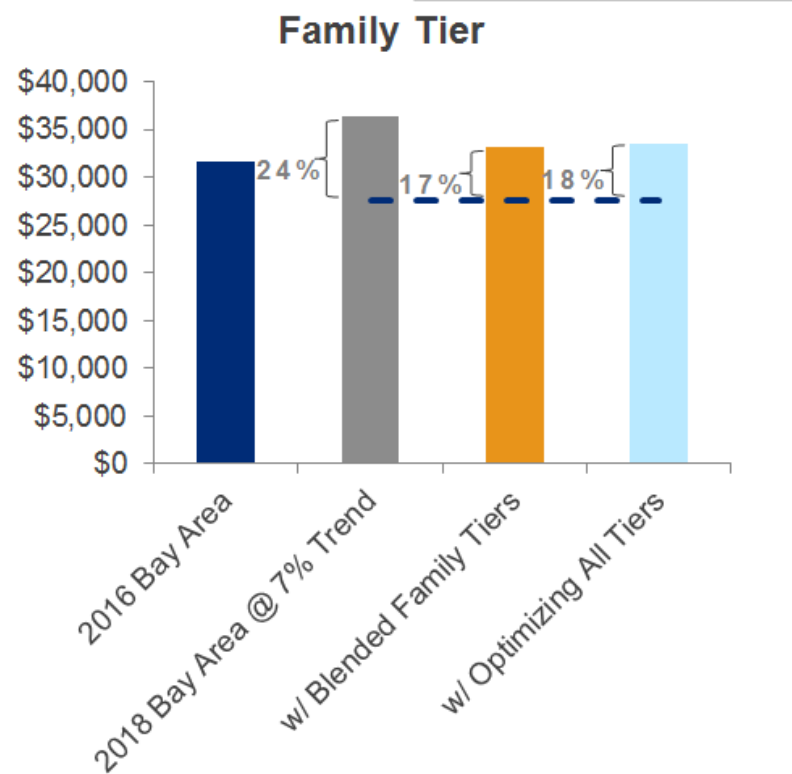
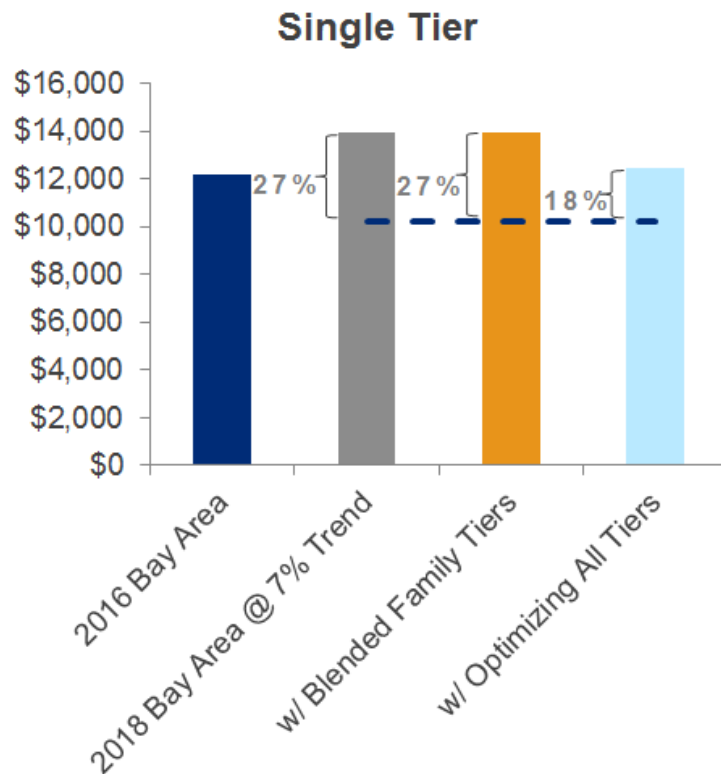
Concept: Optimizing Tier Ratios

- Optimizing tier ratios has a similar effect to blending, raising some costs and lowering others.
- Margin within the family threshold can be used to reduce tax on the single side



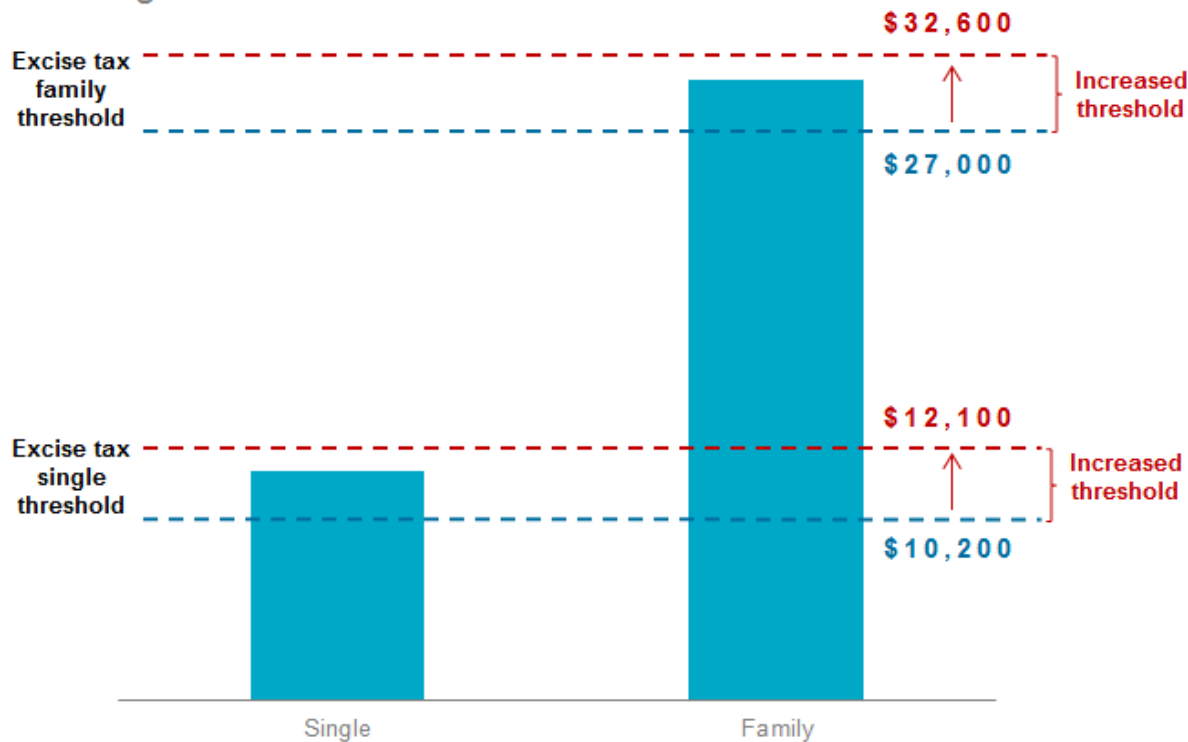
Concept: Potential Impact of Blending/Optimizing

Example Plan: Blue Shield Access+



Concept: Utilizing Demographic Adjustments

- Employer sponsored plans with older populations, or less favorable gender mix, can qualify for a higher tax threshold



	Labor Force	Employer Example
Average age	42.3	50.0
Demographic factor	1.61	1.91

Threshold change: +18.6%

Illustration: CalPERS Rates and 2020 Thresholds

SAMPLE POTENTIAL MAGNITUDE OF PLAN VALUE ADJUSTMENTS

Example Plan: Blue Shield Access+

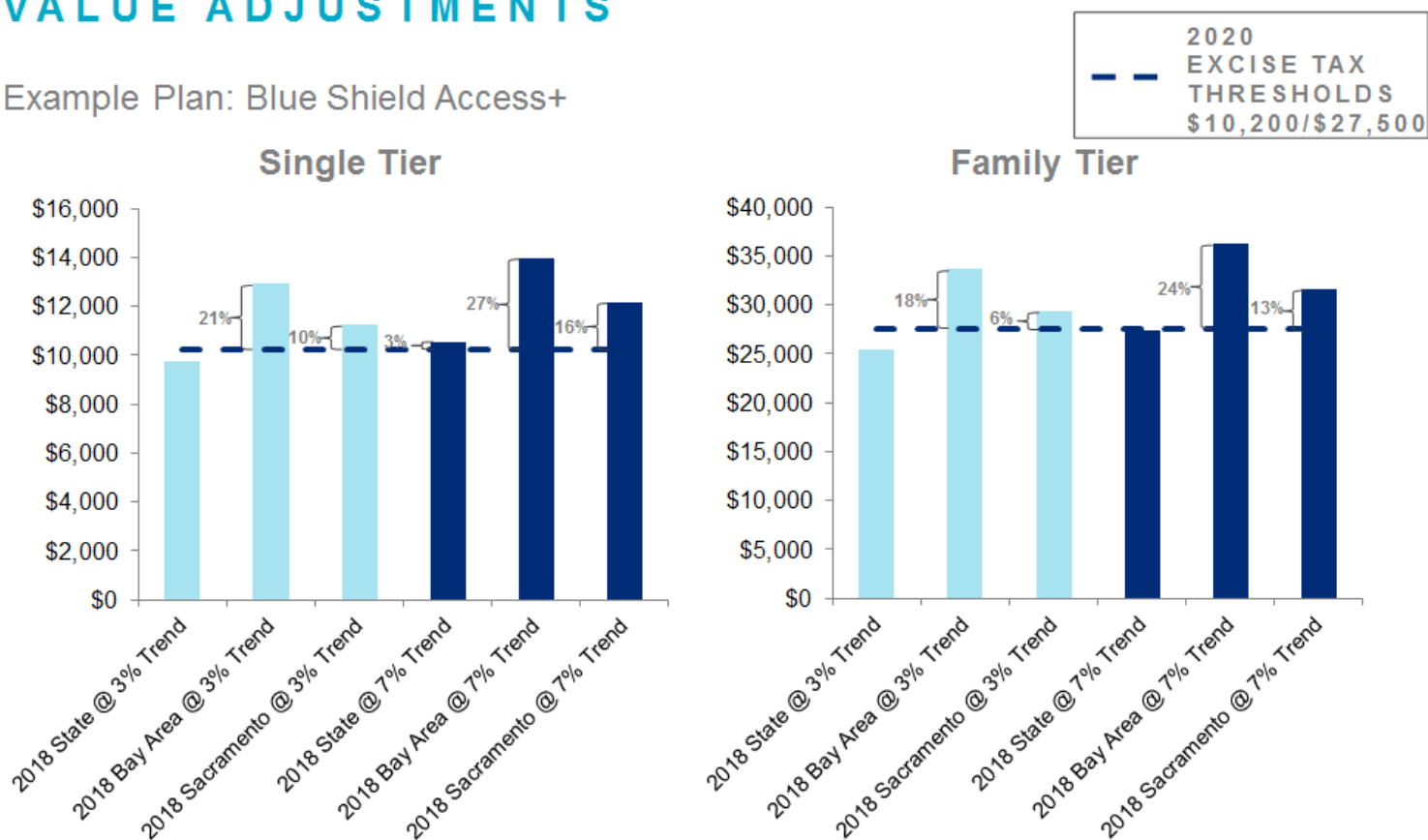


Illustration: Silver Plan Comparison

- Comparison of 2016 Blue Shield Access+ Plan Design to 2016 Blue Shield Covered California Silver Tier Plan (Example Silver Tier Plan)

Service Category	Access+ Plan	Example Silver Tier Plan
Maximum Out of Pocket	Single: \$1,500 Family: \$3,000	Single: \$6,250 Family: \$12,500
Annual Deductible	N/A	Single: \$2,250 medical/\$250 pharmacy Family: \$4,500 medical/\$500 pharmacy
PCP Office Visit	\$15	\$45
Specialty Office Visit	\$15	\$70
Emergency Room	\$50	\$250
Inpatient Services	N/A	20%
Outpatient Visit	\$15	20%
Pharmacy: Retail	Generic: \$5 Brand Formulary: \$20 Non-Formulary: \$50	Generic: \$15 Brand Formulary: \$50 after deductible NonFormulary Brand: \$70 after deductible Specialty: 20% up to \$250 after deductible
Pharmacy: Mail Order	Generic: \$10 Brand Formulary: \$40 Non-Formulary: \$100	
Assumed Plan Value	Approximately 93% – 96%	Approximately 70% – 73%

Illustration: Gold Plan Comparison

- Comparison of 2016 Blue Shield Access+ Plan Design to 2016 Blue Shield Covered California Gold Tier Plan (Example Gold Tier Plan)

Service Category	Access+ Plan	Example Gold Tier Plan
Maximum Out of Pocket	Single: \$1,500 Family: \$3,000	Single: \$6,200 Family: \$12,400
Annual Deductible	N/A	N/A
PCP Office Visit	\$15	\$35
Specialty Office Visit	\$15	\$55
Emergency Room	\$50	\$250
Inpatient Services	N/A	20%
Outpatient Visit	\$15	20%
Pharmacy: Retail	Generic: \$5 Brand Formulary: \$20 Non-Formulary: \$50	Generic: \$15 Brand Formulary: \$50
Pharmacy: Mail Order	Generic: \$10 Brand Formulary: \$40 Non-Formulary: \$100	NonFormulary Brand: \$70 Specialty: 20% up to \$250
Assumed Plan Value	Approximately 93% - 96%	Approximately 81% - 84%

Federal Updates

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Federal Updates

- Recent congressional action
- Current state of play
- Potential election impact

Recent Congressional Action

- Two-year delay of tax implementation (until 2020)
- Deductibility as business expense
- Study on age/gender adjustment
- Proposals not included:
 - Indexing to medical inflation
 - Geographic adjustment relative to individual market plans
 - Specified employer payment of tax

Current State of Play

- Repeal efforts:
 - Alliance to Fight the 40
 - Presidential opposition
 - Presidential candidate support
- Cap on employer exclusion
- Cost of repeal

Election Impact

- Expect limited legislation in 2016
- New President
 - Likely support repeal or modification/delay
 - Part of larger deal
- House Speaker
 - Republican regardless of Presidential outcome
 - Advance tax reform
- New Senate
 - Likely controlled by party that wins White House
 - No 60-vote majority

Path Forward

Path Forward

- Continue to advocate for changes
- Seek a role on any workgroups/task forces to help shape changes
- Leverage opportunities to build coalitions
- Monitor and re-evaluate if and when appropriate