



## OPERS CONCERNED ABOUT IMPACT OF EXCISE TAX ON RETIREE HEALTH CARE PLAN

An excise tax, or so called “Cadillac tax,” was included as part of the Affordable Care Act (ACA). Scheduled to take effect in 2018, it is a non-deductible excise tax of 40 percent of the value of health coverage that exceeds certain benefit thresholds – initially, \$10,200 for self-only coverage and \$27,500 for family coverage. The thresholds will also be higher for retiree-only plans, or if the majority of covered employees are engaged in specified high-risk professions such as law enforcement and construction, and for group demographics including age and gender.

When the ACA was passed the excise tax was purported to only target a very small percentage of health plans. In fact, it is expected to affect health plans of all types covering millions of Americans—including retirees, low and moderate income families, public sector employees, small businesses, and the self-employed. A survey conducted by Towers Watson indicated that nearly half of U.S. employers are expected to hit the ACA excise tax in 2018 with 82 percent triggering the tax by 2023<sup>1</sup>.

### OPERS backs repeal or exemption from excise tax

The Ohio Public Employees Retirement System has evaluated the impact of the ACA excise tax on the OPERS retiree health care plan and supports

the repeal or an exemption from the excise tax for retiree-only plans.

The tax could wind up costing OPERS millions of dollars at a time when our system has already made changes to our health care plan design to ensure that OPERS can continue providing coverage to our retirees and benefit recipients into the future.



The ACA excise tax design penalizes plans for health care cost factors they cannot control; for instance a plan may have one or more of the following: a higher percentage of disabled workers,

increased utilization by older plan participants, higher than average utilization of specialty drugs, and/or increased costs due to geography/provider competition. Please note that retiree-only plans face significant cost increases compared with active-employee plans due in part to the factors noted above.

Furthermore the ACA excise tax is indexed to the consumer price index, which is lower than health care inflation, which means every year an increasing number of moderate health plans will be subject to the tax.

1 <https://www.towerswatson.com/en-US/Press/2014/09/nearly-half-us-employers-to-hit-health-care-cadillac-tax-in-2018-with-82-percent-by-2023>

## ACTION IS NEEDED NOW

The ACA excise tax problem needs to be addressed now as OPERS has already made plan design changes to avoid the tax, and without excise tax relief OPERS will continue to shift cost to our retirees through plan design up to, and beyond, the 2018 plan year. OPERS supports a repeal or an exemption for retiree-only plans. However, if the ACA excise tax is not repealed or exempted for retiree only plans, we urge Congress to consider one or more of the following changes to the ACA excise tax in lieu of repeal or exemption for retiree-only plans:

**1. Treat all retired employees as similarly situated beneficiaries:**

The excise tax has a different impact on those under 65 and those over 65; we believe that health care plans should be allowed to aggregate all participants to determine the value of coverage.

**2. Define “qualified retirees” to include those under 55:**

The law provides that an additional amount is added to the dollar limits for an individual who is a “qualified retiree.” Part of the definition of a “qualified retiree” is that the individual has attained age 55 – because we have retirees in our coverage under 55, we believe that should be recognized.

**3. Adjust excise tax thresholds for retiree-only plans:**

The law should permit increasing thresholds using annual, age-based adjustments, and that the thresholds for retiree-only plans be increased to reflect their higher costs.

**4. Threshold escalators should reflect actual increases in health care inflation:**

Excise tax threshold increases applied annually should relate to health care inflation occurring in the marketplace.

**5. Use actuarial value or safe harbors for determining the cost of coverage:**

We recommend allowing the cost of applicable coverage to be based on actuarial values as opposed to determining the actual cost of coverage provided to groups of employees.

OPERS continues to advocate for changes to the ACA excise tax when we meet with Members of Congress and their staff.

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With \$91.2 billion in assets, OPERS is the largest public pension fund in Ohio and the 11th-largest public pension fund in the United States. OPERS provides retirement, disability and survivor benefits for more than 1 million public employees. OPERS can be found on the web at [OPERS.org](http://OPERS.org).