
PEBB Excise Tax Status Update

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What we'll cover

- PEBB's current status under the excise tax provision
- Background information: What is the excise tax?
- PEBB's liability under the excise tax/avoidance
- Re-weighting PEBB Premium Tier Ratios
- The Family Tier Subsidy
- Two-Year delay in implementing the excise tax
- Next steps and issues moving forward



PEBB's Current Status Under the Excise Tax Provision

- In October 2015, the PEBB Board moved to modify the structure of PEBB's premium tier ratios beginning in 2017. This move will eliminate PEBB's exposure to the excise tax liability over the next 10+ years.
- Planning for the implementation of the tier ratio changes has already started and will continue even with the two year delay recently announced by the IRS.

Background – What is the Excise Tax?

- In 2018 (now 2020), the Affordable Care Act (ACA) calls for a 40 percent tax on employer-sponsored health care premiums that exceed a maximum threshold. This excise tax is also known as the “Cadillac Tax”.
- The purpose of the excise tax is to support the expansion of coverage to the uninsured and Medicaid, support cost-effective care delivery and reduce the current tax subsidization of rich benefit plans.
- This tax is applied to both fully and self-insured plans and is payable by the fully insured vendor or the self-insured group.

Calculating the Excise Tax Threshold

- The thresholds for maximum annual premiums are \$10,200 for the employee only tier and \$27,500 for the employee and family tier. Contributions to flexible spending accounts (FSAs), health reimbursement arrangements (HRAs) and health savings accounts (HSAs) will likely be included in the calculation of the premiums.
- The threshold includes a Consumer Price Index (CPI) + 1 percent increase in 2019, and a CPI increase will be applied in subsequent years.

Current Status of the Federal Excise Tax

- The excise tax was originally scheduled to take effect on January 1, 2018, but was recently delayed until 2020.
- Final regulations have yet to be issued so uncertainty still exists over many areas of this provision of the ACA.

Assessing PEBB's Exposure to the Excise Tax

- In 2013, PEBB's actuaries, Mercer Consulting, conducted an analysis of PEBB's plan offerings and determined there was a liability or exposure to the excise tax resulting from PEBB's premium tier structures not aligning with the excise tax thresholds in the ACA provision.
- PEBB sets premiums using a predetermined ratio between the employee only, employee and spouse/domestic partner, employee and child(ren) and employee and family.
- With PEBB's current tier ratios, employee and family premiums are 1.37 times the employee only premium. The excise tax threshold ratios have the family premiums being 2.7 times the employee only premium resulting in an excise tax liability.

Avoidance of the Excise Tax

- PEBB’s premiums have long been designed to keep the family tier premiums low in relation to the employee only tier.
- The PEBB Board determined that the best way to mitigate the risk of paying the excise tax was through a redistribution of the premium tier ratios, which currently stood far outside the marketplace norm.
- PEBB’s actuarial consultants developed a phased-in approach to lessen the impact on families in 2018.

Phase in of Recommended Tier Ratios	Current Tier Ratio	Interim Tier Ratio	Recommended Ratio
Year	2016	2017	2018
Employee Only	1.00	1.00	1.00
Employee & Partner	1.34	1.65	2.00
Employee & Child(ren)	1.15	1.40	1.70
Employee & Family	1.37	2.00	2.70

The Family Tier Subsidy

- Moving to the recommended tier ratios meant that actual employee premium contributions would change. It would be a “net zero” impact across all tiers but would result in higher employee contributions for those enrolled in the employee and family tier. All other tiers would see lower contributions.
- The PEBB Board moved to reduce the contributions for those enrolled in the employee and family tier so their premium contributions would not increase beyond the status quo. The expected impact on the PEBB Stabilization Fund for an annual family tier subsidy is as follows:

Year	Subsidy			
	2019	2020	2021	Total
Employee & Family Subsidy (Monthly)	\$15.00	\$10.00	\$5.00	
Employee & Family Subsidy (Total)	\$3,600,000	\$2,400,000	\$1,200,000	\$7,200,000

Implications on Premium Tier Ratios

- Below is a chart showing the estimated 2016, 2017 and 2018 premiums representing the most expensive combination of plan premiums.
- In 2016 and 2017, the employee only premium rates will be over the threshold (highlighted). In 2018, the employee only and the employee and family tier will be under the threshold resulting in no tax implications.

Annual Statewide Plan Premiums with ODS Traditional and VSP	Current Tier Ratio	Adjusted Tier Ratio	Adjusted Tier Ratio
Year	2016	2017	2018
Employee Only	\$14,256	\$11,412	\$9,408
Employee & Family	\$19,536	\$22,824	\$25,416

- Assumes trend rate of 3.4 percent
- Premiums are rounded to the nearest \$1
- FSA and HSA contributions are not included

Impact in Avoiding the Excise Tax

- Moving to the recommended tier ratios reduces PEBB’s exposure to the excise tax as highlighted below
 - Assumes 3.4 percent medical trend, excluding dental and vision
 - 3.4% trend is just above estimated CPI of 3%
 - Includes FSA Contributions
 - Includes Age and Gender Adjustment
 - Excise tax would reduce to minimal through 2027
 - Note: Does not reflect two year-delay in implementation by IRS

Active Excise Tax (\$M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Current Tier Ratio	\$16	\$16	\$17	\$18	\$18	\$19	\$20	\$21	\$22	\$23	\$190
% of EEs	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	
Recommended Tier Ratio	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
% of EEs	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	

Impact in Avoiding the Excise Tax cont.

- Moving to the recommended tier ratios reduces PEBB’s exposure to the excise tax as highlighted below
 - Assumes 6.0 percent medical trend, excluding dental and vision
 - Includes FSA Contributions
 - Includes Age and Gender Adjustment
 - Excise tax would reduce to under \$1 million through 2025
 - Note: Does not reflect two year-delay in implementation by IRS

Active Excise Tax (\$M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Current Tier Ratio	\$13	\$15	\$18	\$21	\$24	\$27	\$30	\$34	\$38	\$43	\$262
% of EEs	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	
Recommended Tier Ratio	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1	\$3	\$8	\$12
% of EEs	0%	0%	0%	0%	0%	0%	3%	7%	17%	43%	

Next Steps and Issues Moving Forward

- While the PEBB Board has taken action to address its liability under the excise tax, it will continue to monitor guidance the IRS issues on the provision and act accordingly.
- The most concerning aspect of the provision is how the excise tax thresholds are indexed for inflation based on the Consumer Price Index (CPI). The cost of health care has traditionally risen much faster than CPI and if the trend continues, the excise tax will eventually affect all plans.
- The measures the Board has put in place should protect PEBB from any exposure in the next 10+ years.