



ACA Excise Tax PEBB Plan to Mitigate Tax Liability

Background

In 2018, the Affordable Care Act (ACA) calls for a 40 percent tax on employer-sponsored health care premiums that exceed a maximum threshold. The purpose of the tax is to support the expansion of coverage to the uninsured and Medicaid, support cost-effective delivery mechanisms 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.

The maximum annual premium thresholds are \$10,200 for employee only coverage and \$27,500 for employee and family coverage.

Regulations and related advice from the IRS continue to be released. Both the Board and its consultants are watching closely.

Long-standing Board policy rations premium costs across these family tiers: employee only, employee and spouse/domestic partner, employee and child(ren), and employee and family. This ratio structure keeps the family tier premiums low compared with the employee only tier.

Currently, employee and family premiums are 1.37 times the employee only premium. The Excise Tax Threshold has the family premium being 2.7 times the employee only premium.

	PEBB Current Tier Ratio	Excise Tax Threshold
Employee Only	1.00	1.00
Employee and Children	1.15	2.70
Employee and Spouse	1.34	2.70
Employee and Family	1.37	2.70

Solution

Adjusting PEBB family tier ratios in 2017 and 2018 will better align them with the Excise Tax Threshold.

	PEBB 2016 Tier Ratio	PEBB 2017 Tier Ratio	PEBB 2018 Tier Ratio	Excise Tax Threshold
Employee Only	1.00	1.00	1.00	1.00
Employee and Children	1.15	1.40	1.70	2.70
Employee and Spouse	1.34	1.65	2.00	2.70
Employee and Family	1.37	2.00	2.70	2.70

This will increase the employee and family premium rate, reduce the premiums for the other tiers and move all premiums below the Excise Tax Threshold.

The example below shows how redistributing tier ratios over the two years will keep all tiers under the threshold. The example uses fictitious annual premium trend increases of 6% for medical, 4% for dental and 3% for vision.

PEBB Statewide Premiums + Moda Preferred Dental + VSP	PEBB 2016 Premiums	PEBB 2017 Premiums	PEBB 2018 Premiums	Excise Tax Premium Threshold
Employee Only	\$1,188	\$971	\$818	\$850
Employee and Children	\$1,366	\$1,359	\$1,391	\$2,292
Employee and Spouse	\$1,592	\$1,601	\$1,636	\$2,292
Employee and Family	\$1,628	\$1,941	\$2,209	\$2,292

PEBB will use stabilization funds to offset the increase in premiums for employees enrolled in the Employee and Family tier, decreasing the subsidy to \$0 by 2021.

This process of redistributing tier ratios will not increase total premium, so it will not impact the overall cost to the state as the employer.