

Federal Workers' Most Popular Health Plan Will Be Hit Hard by Senate Excise Tax

The U.S. Senate health care bill would impose a 40% excise tax on employer-provided health care plans exceeding a certain price. FEHBP's Blue Cross/Blue Shield Standard plan is one of many FEHBP plans that will be significantly affected by the tax. To avoid the tax BC/BS will have to cut benefits or else sharply increase the costs paid by federal employees.

The excise tax would be assessed on the value of health care plans that exceeds \$23,000 for a family and \$8,500 for an individual starting in 2013. These "thresholds" would increase annually at the rate of general inflation plus one percentage point — roughly 3% a year. This is far below the 8.6% to 9% rate of increase that the BC/BS Standard plans averaged over the last 11 years. [Figure 1, p. 2]

About 48 percent of federal workers are enrolled in the BC/BS Standard plans. Including retirees and dependents, the plan covers nearly 3.8 million Americans.¹ If the cost of this plan continues to rise 9% a year, federal employees will get clobbered by the excise tax. At that inflation rate, the cost of the excise tax over 10 years for each worker in BC/BS Standard plans, including average dental and vision coverage, will be as follows [Table 1]:

- **\$20,400** per worker in the family plan, or \$2,040 a year; the tax would be about \$5,500 in 2022.
- **\$16,400** per worker in the single plan, or \$1,640 a year; the tax would be about \$3,500 in 2022.

The BC/BS Standard plan is touted as the type of plan that will not be taxed under the Senate bill. That's because it is not considered a "Cadillac" plan — the supposed target of this tax. It is more like a Chevy — it provides basic coverage, but participants bear significant costs. For example, federal employees pay about 30 percent of the premium and there is a substantial out-of-pocket maximum — either \$5,000 or \$7,000, depending on whether in network or not — in the family plan.

The excise tax is projected to raise about \$150 billion over 10 years. There are far better ways to pay for health care reform than to tax the middle class. Health reform legislation approved by the House of Representatives (H.R. 3962) would require most employers to provide coverage and raise \$135 billion over 10 years, according to the Congressional Budget Office. And the wealthy are asked to pay their fair share too, with a surcharge on the top 0.3% of taxpayers that raises another \$460 billion.

Table 1 Comparison of Excise Tax Burden *Per Worker* for FEHBP Blue Cross/Blue Shield Standard Plans

BC/BS Standard Plan Including Vision & Dental	2010 Premium	Year Plan is First Taxed	Total Tax Burden Per Worker 2013-2022
Family Coverage	\$16,124	3rd	\$20,432
Single Coverage	\$6,971	1st	\$16,404
BC/BS Standard Plan Without Vision & Dental			
Family Coverage	\$14,589	5th	\$11,488
Single Coverage	\$6,459	2nd	\$12,429

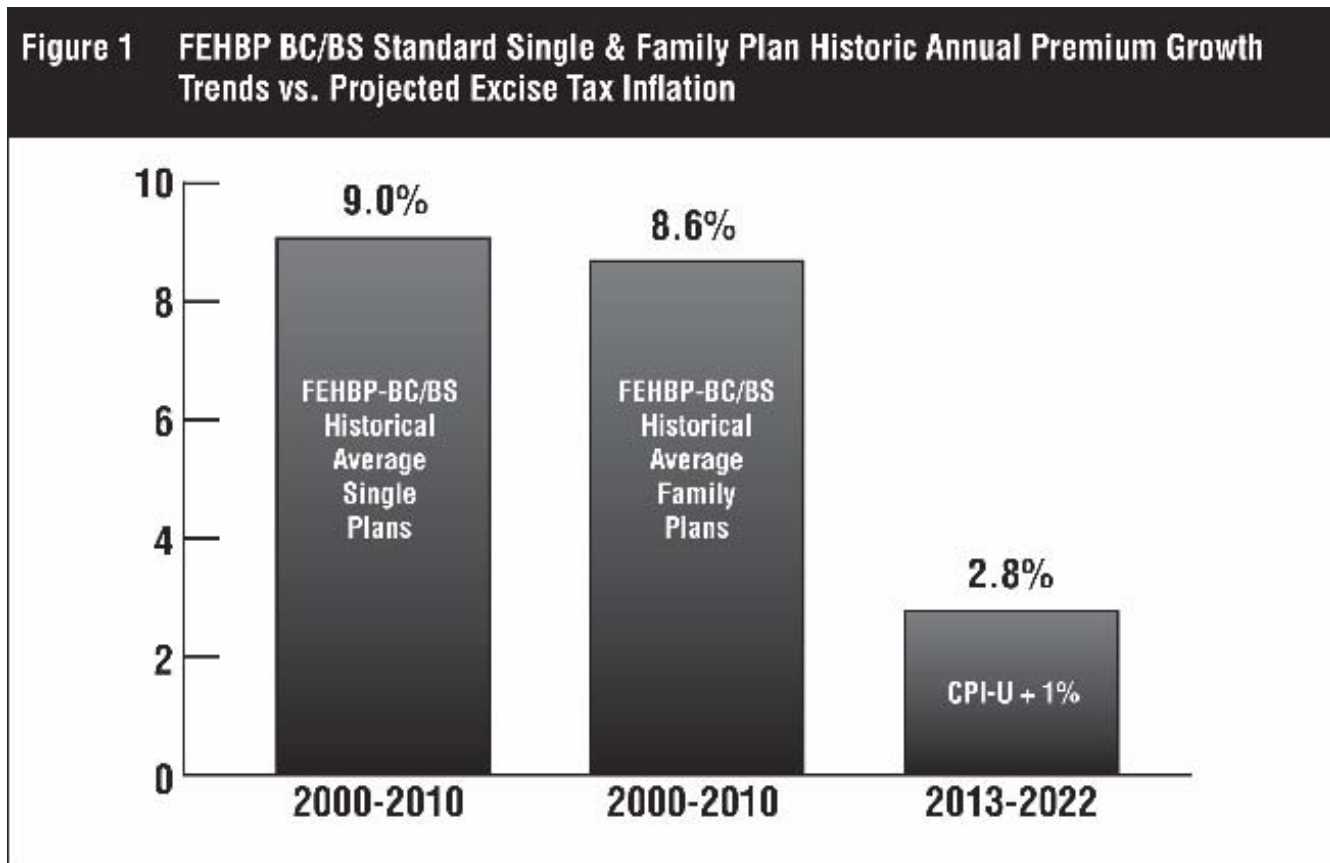
Sources: Communications Workers of America Research Department, FEHBP, Office of Personnel Management

2010 Premium: Includes dental and vision coverage at \$1,535 per year for family and \$512 per year for single coverage, the median price levels for all plans available.

2013-2022 Tax Impact is based on a \$23,000 or \$8,500 threshold adjusted by CPI-U + 1%. The estimate for 2013-2019 from the Congressional Budget Office, "Long Term Budget Outlook Update (August 2009)." CPI-U of 2% is assumed for 2020-2022, the same rate as in 2017-2019. The mean CPI-U over 10 years (2013-2022) is 1.8% plus 1 percentage point, or a 2.8% rate. A premium growth trend of 9% for single plans and 8.6% for family plans is assumed. This is based on the average total growth of FEHBP plans from 2000 to 2010.

Dramatic Growth in BC/BS Standard Plan Premiums

The rates at which the cost of the FEHBP BC/BS Standard plans grew from 2000 to 2010 — 9% for singles and 8.6% for families — is more than three times faster than the 2.8% rate at which the Senate excise tax threshold is indexed to grow. [Figure 1] If this historical average holds true for the next 10 years, insurance premiums will grow at almost triple the rate that the excise tax threshold is set to grow. In just three years, this excise tax that was claimed to only affect high-cost health plans will start to hit middle-class workers covered by the FEHBP's most popular plan.



Sources:

The BC/BS historical average premium growth (2002-2010) is from Office of Personnel Management website; 2000-2001 data is from an OPM response to an American Federation of Government Employees information request.

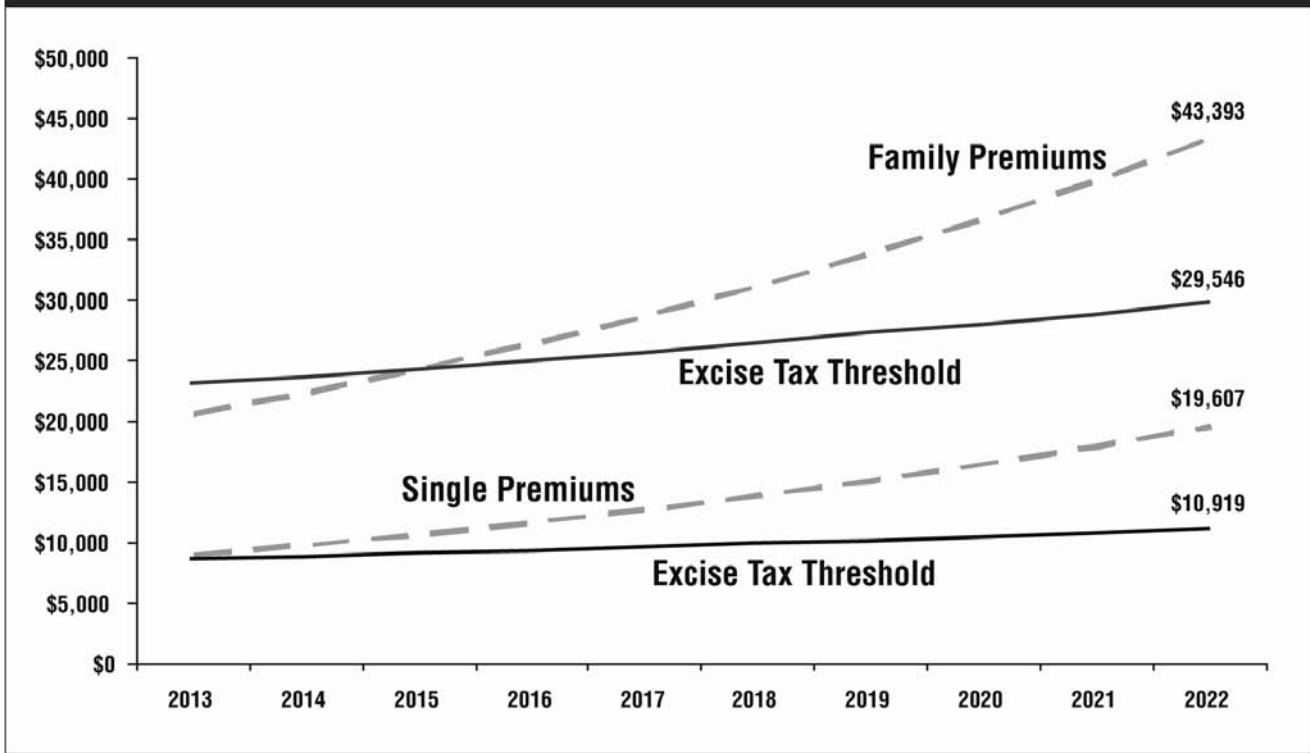
The CPI-U + 1% estimate for 2013-2019 is from the Congressional Budget Office, "Long Term Budget Outlook Update (August 2009)." CPI-U of 2% is assumed for 2020-2022, the same rate as in 2017-2019. The mean CPI-U over 10 years (2013-2022) is 1.8% plus 1 percentage point, or a 2.8% rate.

Plans Get Hit Shortly After Excise Tax Takes Effect

If the BC/BS Standard family-plan (with dental and vision coverage) premiums grow at their historic rate, within three years (2015) of the implementation of the excise tax the BC/BS plan will hit the excise tax threshold and have to begin paying the tax. [Figure 2] The only way to avoid the tax will be for plans to reduce benefits to cut costs.

The situation will be even worse for those with single coverage. Single plan premiums will be over the threshold in the first year of the tax (2013).

Figure 2 FEHBP BC/BS Standard Family and Single Plan Premiums vs. Excise Tax Thresholds 2013-2022



Sources:

The BC/BS Standard family and single plan premiums, including average dental and vision coverage, are projected forward from 2010 at an 8.6% and 9% annual growth rate, respectively. This represents the average growth rate of these plans from 2000 to 2010.

The excise tax threshold begins in 2013 at \$23,000. The threshold is projected forward based on the CPI-U + 1% estimate for 2013-2019 from the Congressional Budget Office, "Long Term Budget Outlook Update (August 2009)." CPI-U of 2% is assumed for 2020-2022, the same rate as in 2017-2019. The mean CPI-U over 10 years (2013-2022) is 1.8% plus 1 percentage point, or a 2.8% rate.

The excise tax would likely hit the family plan slowly at first — costing \$114 per worker in 2015 — but by 2022 plan premiums would exceed the threshold by almost \$14,000 if benefits are not cut. At a 40% excise tax rate, that's a tax burden of approximately \$5,500 per worker in that year alone. For single plans, a \$211 tax burden in 2013 will balloon into a nearly \$3,500 per worker tax by 2022. [Table 2]

Such a tax will present the FEHBP with a major dilemma — it will have to dramatically reduce health benefits in order to get the cost of its health plans below the threshold and avoid the tax, or pay the tax. Either way federal employees pay. They will lose benefits, have higher out-of-pocket health care costs, or face higher premiums — or all of the above.

Table 2 Tax Burden from U.S. Senate Excise Tax Proposal on FEHBP Blue Cross/Blue Shield Standard Plan

Premiums Include Vision and Dental	2010 Premium	2013 Premium	Tax Owed										
			2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Family	\$16,124	\$20,651	\$0	\$0	\$114	\$683	\$1,296	\$1,978	\$2,736	\$3,577	\$4,509	\$5,539	\$20,432
Single	\$6,971	\$9,028	\$211	\$465	\$732	\$1,019	\$1,330	\$1,675	\$2,059	\$2,484	\$2,955	\$3,475	\$16,404

Premiums Without Vision and Dental	2010 Premium	2013 Premium	Tax Owed										
			2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Family	\$14,589	\$18,685	\$0	\$0	\$0	\$0	\$202	\$790	\$1,446	\$2,176	\$2,987	\$3,886	\$11,488
Single	\$6,459	\$8,364	\$0	\$176	\$417	\$675	\$955	\$1,267	\$1,614	\$1,999	\$2,426	\$2,899	\$12,429

Sources: Communications Workers of America Research Department

Threshold of \$23,000 (Family) and \$8,500 (Single) adjusted by CPI-U + 1% estimate for 2013-2019 from the Congressional Budget Office, "Long Term Budget Outlook Update (August 2009)." CPI-U of 2% is assumed for 2020-2022, the same rate as in 2017-2019. The mean CPI-U over 10 years (2013-2022) is 1.8% plus 1 percentage point, or a 2.8% rate.

Dental and vision coverage priced at \$1,535 per year for family coverage and \$512 per year for single coverage. These are median price levels for all plans available. 2013 = 2010 premium rate trended forward by the premium cost growth assumption used.

Premium Growth Assumption of 8.6% (Family) and 9% (Single) based on 2000 to 2010 average of Blue Cross/Blue Shield Standard Plan cost growth.

FEHBP Plans Compared to Other Large Employer Health Plans

There are some who claim the FEHBP plans are "Cadillacs" – exactly the type of plans that should be taxed. But in a typical FEHBP plan federal employees pay 30 percent of the premiums, and out-of-pocket costs can raise the employees' share of health costs up to between 33 and 50 percent with the out-of-pocket maximum a relatively high \$5,000 to \$7,000 – depending on whether in network or not – in the family plan.

Table 3 compares premiums under the BC/BS Standard Plan with those of large firms with more than 5,000 employees compiled by Watson Wyatt. As can be seen, the average premiums for the BC/BS Standard plans are roughly comparable to the costs of other large employers.

In 2009, the premiums for the FEHBP BC/BS Standard plans (not including dental or vision care) are \$5,872 for individuals and \$13,446 for families. By comparison, the average cost of other large employers is \$5,478 and \$13,568. For singles, the BC/BS cost is 7% higher; for a family plan the BC/BS cost is slightly lower.

Table 3 Comparison of BC/BS Standard Plan Premiums with Other Large Employers' Health Plan Premiums, 2009

	Single	Family
BC/BS Standard Plan	\$5,872	\$13,446
Watson Wyatt Average for Large Employers	\$5,478	\$13,568

Sources: OPM/FEHBP, Watson Wyatt Data Services

But these price comparisons alone do not explain why the plans cost what they do. According to a recent study published by the prestigious journal *Health Affairs*, only 3.7% of the variation in the cost of family plans can be explained by benefit design, and only 6.1% of cost variation can be explained by benefit design plus plan type (HMO, PPO, POS, or high-deductible).²

The same study found that two powerful variables that help explain variation in premiums among health plans are the industry in which a plan sponsor operates (which may capture characteristics such as health status) and the cost of medical inputs in particular geographical areas, both of which are beyond a plan sponsor's control.

Similarly, according to the actuarial consulting firm Milliman, "whether someone hits the [excise tax] ceiling is not so much driven by benefit richness as it is by age, gender, profession, health status, and the geography of the covered population."³

Indexing the Excise Tax to the Cost of FEHBP Plans

If Congress and the Administration insist on including a tax on "Cadillac" plans in health care reform, it should be designed to exempt average plans that provide modest coverage to the middle class. After all, forcing health plans to reduce their costs to below the proposed threshold will simply result in benefit cuts and increased cost sharing, and create a new class of "underinsured" – the opposite direction that health care reform should go in.

Instead, Congress could define a "Cadillac" plan as one that costs more than a certain percentage of the weighted average cost of FEHBP plans without cutting benefits below the 2010 level. If the federal government is successful at making cost-saving reforms in the delivery of health care (as opposed to cost-shifting reforms) under FEHBP, then the thresholds would rise slowly and inefficient plans would pay the tax. If the federal government failed to bring down costs in FEHBP plans, then working people would not be penalized by seeing their premiums rise to pay excise taxes, or by having their benefits cut to avoid the tax.

1 Office of Personnel Management response to American Federation of Government Employees information request.

2 Jon Gabel, Jeremy Pickreign, Roland McDevitt, Thomas Briggs, "Taxing Cadillac Plans May Produce Chevy Results," *Health Affairs* (Dec. 3, 2009).

<http://content.healthaffairs.org/cgi/reprint/hlthaff.2008.0430v1?maxtoshow=&HITS=10&hits=10&RESULTFORMAT=&author1=gabel&andorexactfulltext=and&searchid=1&FIRSTINDEX=0&resourcetype=HWCIT>

3 Robert Dobson, "No Room to Stand," Milliman Health Reform Briefing Paper (Sept. 2009) (referring to previous version of the excise tax). <http://www.milliman.com/perspective/healthreform/pdfs/no-room-to-stand.pdf>