# HSA Account Contributions through payroll face risk of early elimination if not exempted from "Cadillac Tax"

Regulatory uncertainty is causing employers with plan costs close to the Cadillac tax threshold to eliminate payroll contributions to HSA accounts in order to avoid excise tax liability, even though many HSA-qualified plans will likely avoid Cadillac tax liability for years.

Developed for the HSA Council, part of the American Bankers' Association

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May 15, 2015

American Bankers Association HSA Council

HSA CONSULTING HEALTH FINANCE SERVICES

# Executive Summary

**If your current HSA-qualified family health plan costs more than $17,000, including wellness programs, your firm is likely to incur excise tax liability in 2018 if anyone makes a maximum contribution.**

- Currently, nearly 20 million Americans are covered by an HSA-qualified plan.
- Employer and employee premiums and contributions to an HSA, and all other benefit accounts, are included in the Cadillac Tax calculation.
- Your firm may have Cadillac Tax liability if even one employee makes an HSA contribution through payroll in excess of the Cadillac Tax thresholds. Because the tax is calculated monthly, large up-front contributions will be hit hardest.
- Employers with HSA-qualified plans in the gold category, and employers in states with above-average premiums for HSA-qualified plans – such as Connecticut, New Hampshire and Alaska – are likely at risk of tax liability in 2018, particularly if the system experiences rate shocks.

**Employer uncertainty may cause over-reaction and harm to HSAs, especially in high cost states.**

- Some employers are currently contracting for healthcare plan designs through 2018. These employers and brokers are reacting ***now*** to the uncertainty around the tax calculation and treatment of account contributions.

**Employers are likely to eliminate contributions through payroll in order to avoid paying the excise tax.**

- HSA Council members have heard from their employer-customers with plan costs close to the excise tax threshold that they are planning to either reduce or eliminate pre-tax contributions in order to avoid the tax.
- Reduced employer contributions harm employees by reducing the value HSAs provide, including funding wellness programs, managing health care costs, and enabling employees to save for future health care expenses.

**Exempting contributions avoids an adverse effect on accounts vital to employee engagement.**

- While Congress debates the future of health care reform it is imperative to pass legislation exempting account contributions to prevent consumers from being exposed to high deductible plans without the ability to fund those deductibles with their employers' assistance. This would likely solve the immediate problem for years.

**Many HSA-qualified plans will likely serve as a "safe haven" from the Cadillac tax for many years.**

- Our study shows that many HSA-qualified plans are expected to remain under the initial Cadillac Tax threshold for years, even with maximum contributions, but exceptions may cause employers to avoid HSAs by playing it safe.

**Like the Alternative Minimum Tax, over time, the Cadillac Tax will apply to all plans, including HSA plans.**

- The Cadillac Tax Growth rate is tied to the consumer price index, not projected health care spending growth and geographical influences, which are more accurate measurements for projecting health care spending than inflation.
- According to the Congressional Budget Office, health care spending per enrollee will grow by an average of 5.9 percent annually after 2018, while inflation will increase by only 2.4 percent per year.

*According to the Optum Fifth Annual Wellness in the Workplace Study, "Making contributions to a health account — such as a health savings account or health reimbursement account — is the most popular type of [wellness] incentive." A 2014 study conducted jointly by UnitedHealthcare, University of Illinois and Optum Bank found that "When employers funded employee HSAs, 84 percent of plan participants opened an account, but only 34 percent did so without employer funding."*

## Helping Employers Navigate Uncertainty

The HSA Council's study is designed to address the uncertainty surrounding Cadillac Tax liability by providing a relational tool employers can use to compare the cost of their plan against average plan data compiled by AHIP and KFF, the industry benchmarks. Some employers are currently contracting for healthcare plan designs through 2018. Since industry data is not consistent and there are considerable state-by-state variations in average premiums, employers and brokers are looking for affordable plan designs that allow them to avoid the Cadillac Tax. HSA-qualified plans can be that solution.

**In most states, HSA-qualified plans and account deposits fully avoid Cadillac tax for first ten years**

- A comparison of average industry data from America's Health Insurance Plans (AHIP) and the Kaiser Family Foundation (KFF) suggests that employer plans falling into the range established by these benchmarks delay liability of the tax, in some cases for years, simply because the cost of the HSA plans do not reach the threshold. Our analysis showed that employees in up to 23% of plans could be affected in 2018, but less than 3% would likely make the monthly level maximum contribution needed to exceed the limit in that year.

## How Will Your Plan be Affected?

- Simply lookup up your 2015 family HSA plan premium in the table on the right to obtain an ***estimate*** from our model as to when your plan could surpass the Cadillac Tax limit when combined with a maximum contribution run through your cafeteria plan.
- If your family HSA plan premium, both employer and employee paid, including wellness programs, but not including any contributions, exceeds $17,150 in 2015, it may be immediately impacted in 2018 for any employees who run the full maximum family contribution through the cafeteria plan, for those making level contributions each month.
- If your plan premium is less than $12,850 in 2015, the model predicts that you will likely have no liability for this tax for the first ten years, if the most likely health cost growth scenario holds true.
- This paper focuses on family HSA plan premiums and accounts, but individual plans will also be affected in a similar fashion.

| HSA Family Premium in 2015, without HSA Contribution | Est. Year Affected by Cadillac Tax w/ Max Contribution |
|---|---|
| $17,150 & higher | **2018** |
| $17,100 | **2019** |
| $16,550 | **2020** |
| $16,050 | **2021** |
| $15,550 | **2022** |
| $15,050 | **2023** |
| $14,600 | **2024** |
| $14,150 | **2025** |
| $13,700 | **2026** |
| $13,250 | **2027** |
| $12,850 | **2028** |
| $12,800 or less | **2029 or later** |

Click here to try HSA Cadillac Tax Calculator.

## Why Is There So Much Uncertainty?

Employers and brokers rely on respected industry sources to project their future health care costs. Even the most respected sources of HSA plan premium data yield much different average premium rates and state-by-state variances:

- The Kaiser Family Foundation/ HRET survey (KFF) is one of the most cited surveys for health plan premiums. While not focused on HSAs, it reports an average HSA premium each year. It is a survey of approximately 400 employers with HSA plans. KFF does not include state by state data, so we applied state variation from the MEPS survey to estimate KFF state-by-state premiums.

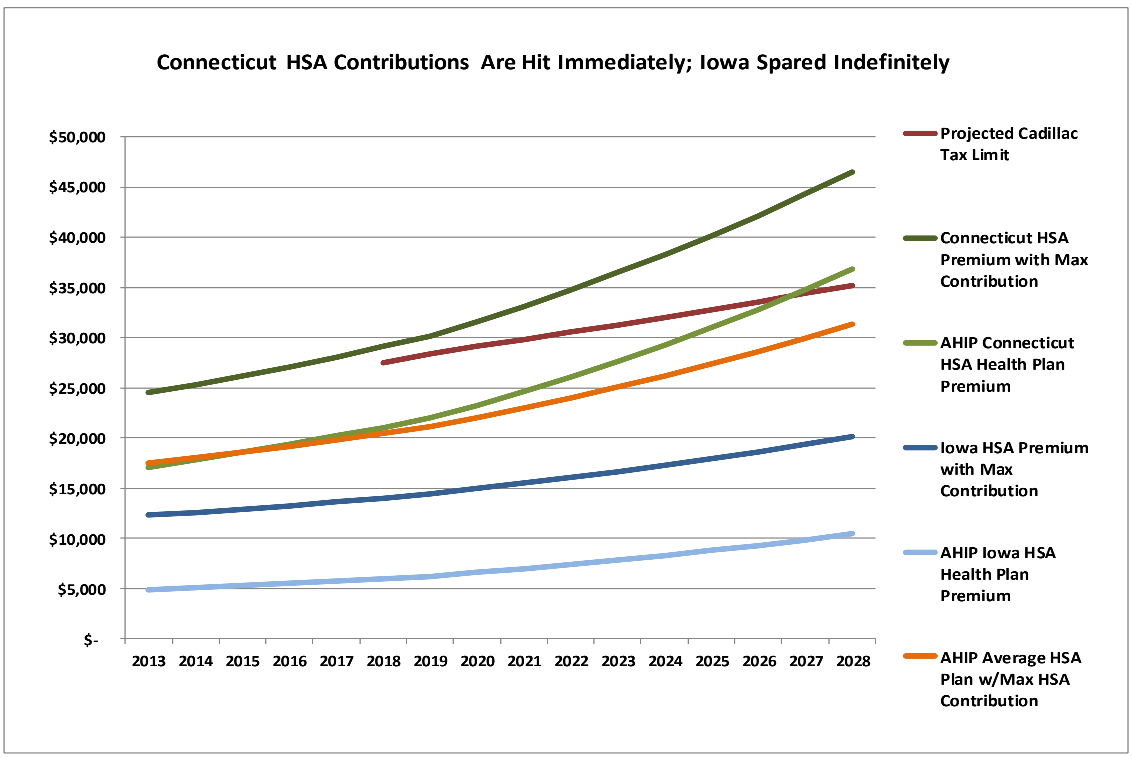
| KFF Selected States (State Variance from MEPS applied to KFF HSA Plans) | Estimated 2014 Average HSA Family Premium | Estimated Year Affected by Cadillac Tax w/ Max Contribution |
|---|---|---|
| Alaska | **$18,757** | **2018** |
| New Jersey | **$15,752** | **2019** |
| California | **$15,113** | **2021** |
| Texas | **$14,532** | **2022** |
| Utah | **$13,891** | **2023** |
| Alabama | **$12,203** | **2027** |
| **KFF HSA Average** | **$14,514** | **2022** |

- The AHIP HSA Census counts Americans in HSA-qualified plans by polling nearly all health plans in the US. It includes the average premium for each health plan's best-selling plan in each state.

| AHIP Census Data Selected States | 2014 Avg Best-Selling HSA Family Premium | Est. Year Affected by Cadillac Tax w/ Max Contribution |
|---|---|---|
| Connecticut | **$17,066** | **2018** |
| California | **$12,626** | **2026** |
| Ohio | **$11,203** | **2029+** |
| Utah | **$9,564** | **2029+** |
| Texas | **$8,896** | **2029+** |
| Iowa | **$4,839** | **2029+** |
| **AHIP HSA Average** | **$10,025** | **2029+** |

- We analyzed both sources of data and found wide differences, but identified states that would likely be affected immediately and states that would likely serve as a safe haven in both methods.

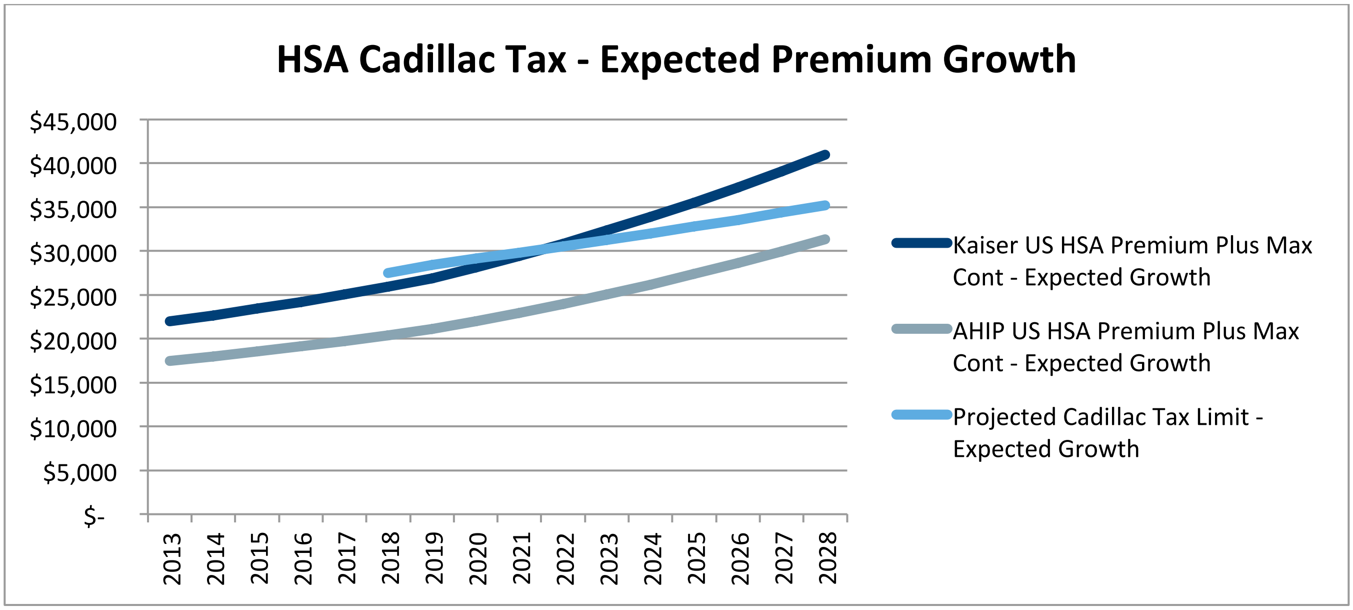
- Large employers with offices in multiple states, face even more uncertainty, given that some employees will live in high-cost states and some will live in lower cost states.

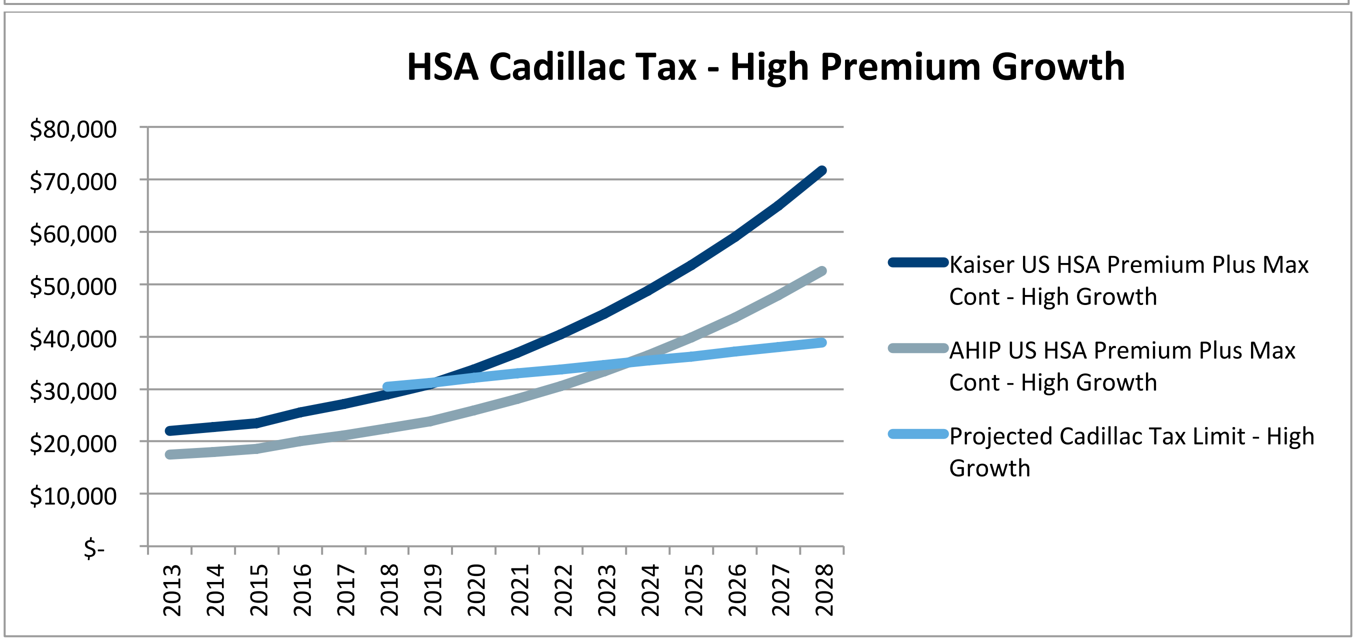



Source: AHIP HSA Census 2014, Devenir Account Survey 2015, HSA Consulting Services Analysis

## What if Health Premiums Grow More Quickly?

We also created models to estimate the effects of a rate-shock scenario caused by: 1) Supreme Court ruling that disallows subsidies in Federally-run public exchanges in the King versus Burwell case; and 2) a general doubling of expected health premium growth rates, back into double digit growth rates seen in the pre-recession period.




Source: AHIP HSA Census 2014, Devenir Account Survey 2015, HSA Consulting Services Analysis

In this scenario, the number of plans affected would grow significantly, since the Cadillac tax grows only at the rate of core inflation. HSA plans still remain a relatively safe haven in this high growth scenario.

Our calculator tool allows you to model this as well.

## Research Methodology

The ACA's Excise Tax on High Premium Health Plans (or "Cadillac Tax") imposes a 40% excise tax on high cost health plans and other health costs provided by employers starting in 2018. This tax is levied on amounts contributed by both employers and employees for plan premiums and HSA account contributions, among other health related costs such as wellness programs, on-site clinics and other health account contributions above an arbitrary limit.

We prepared this analysis at the request of the HSA Council*, part of the American Bankers' Association. This paper attempts to understand the effect of the Cadillac Tax on HSA Plans and HSA Contributions. It addresses the following questions: Will the average HSA plan be affected by the tax and if so, when? Will higher cost HSAs be affected sooner? What if shocks to the system grow health premium costs faster than expected?

We used data from industry leading sources for estimates of current premiums, distribution of current premium levels across the market, health premium growth rates, and inflation measures. The answers to the above questions are to be found at the intersection of estimates for the following factors (with sources of information relied upon for each):

- Cadillac Tax Limits Starting Point in 2018 and Growth Rate Thereafter-
    - Current FEHBP BCBS Standard Plan Premiums – BCBS Policy documents
    - CPI estimates – Congressional Budget Office (CBO)
- HSA Family Plan Premiums and Expected Growth Rates -
    - Current HSA Plan Premiums – AHIP HSA Census (Low Estimate), Kaiser Family Foundation/ HRET Survey (Higher estimate)
    - Current Average Health Plan Premiums, State by state variances - Kaiser Family Foundation/ HRET Survey, MEPS State by State Premium Variations
    - Health Premium Growth Rates - Sisko, et.al. Study in Health Affairs 9-14, CBO Revised estimates 3-15
- HSA Contributions and Growth Rates –
    - Devenir HSA Market Research Report (Best Estimate), Kaiser Family Foundation/ HRET Survey (Higher Estimate)
- HSA Maximum Contribution Limits –
    - HSA Consulting Services estimates based extending average growth from last five years forward. Contribution limits are not rounded to nearest $50 as actual IRS limits will be.
    - All contributions are assumed to be made in equal increments each month. If front-loaded early in the year or paid as part of an employee bonus, the contribution may drive a higher tax liability, since the tax calculation is computed monthly for each employee.
- HSA Plan Premium Variances –
    - Kaiser Family Foundation/ HRET Survey, AHIP HSA Census State by State Listings
- Rate Shock Higher Growth Rate Estimates –
    - Rand Analysis of King vs. Burwell Expected Impact, HSA Consulting Estimates (2 times expected growth rates)

** The ABA HSA Council is made up of financial institutions, health insurers, third party administrators and technology companies working to represent consumers with Health Savings Account (HSA) -qualified health plans and accounts. The HSA Council is part of the American Bankers Association in Washington D.C.*