Will Looming Tax Threaten Decent Health Plans?

By Lenny Potash

Among the good, mixed and complicated provisions of the Affordable Care Act (ACA), there is an Excise tax on health plans valued at more than $10,200 individual/$27,500 family that's scheduled to take effect in 2018. For the most part, decent healthcare plans that have been negotiated by unions and are offered to public employees in California, including retirees, exceed these thresholds. The tax will be 40% on the dollars that exceed these amounts. Providers (not individuals) of the coverage are responsible for the tax and have already been trying to negotiate cheaper plans that would not be taxed. These providers are employers, trust funds, retirement systems, and insurance companies that offer the plans and collect the premiums, be they from employers or workers.

The tax is sometimes called “The Cadillac Tax” by those who believe employees with decent healthcare are “privileged” and don't deserve good healthcare. Most of us, on the other hand, know that workers have given up years of salary adjustment in order to get and keep their healthcare coverage. Most of us believe everyone deserves decent healthcare. It's kind of like everyone deserves a reliable Chevy. This tax will punish providers of good healthcare plans and encourage them to degrade coverage with higher deductibles and co-pays, fewer benefits and narrower provider networks.

The issue is already on the negotiating table and will likely only increase in importance as costs of healthcare and especially drugs continue to rise and 2018 approaches. Many agreements are for a term of 2 or 3 or years or more. Although the tax will be the provider's responsibility, providers and employers have had considerable experience and a track record of shifting costs down until finally, unions representing workers are forced to draw a line by resisting addition costs to workers and defending the quality of their plans.

It's not clear how much increased costs public employee retirement systems will face as a result of the tax or how they intend to deal with it. Retirement systems, health & welfare trusts and unions have long been aware of the many factors that increase healthcare costs. Many have advocated for rate premium and drug regulation, price transparency, and the ACA with the hope it would help moderate costs. But as an example, in June, CalPERS approved a 7.2% increase in HMO rates, attributed largely to the rise in drug prices. There has been precious little about what effect the excise tax will have on retirement systems and retiree health benefits.

For organized labor in this state, the solution is clearly a matter of policy and politics. At their 2014 Convention delegates adopted the following:
“BE IT FINALLY RESOLVED, the California Labor Federation, AFL-CIO strongly encourages Labor Councils to make candidates' commitments to health care reform efforts, including the creation of a single-payer system, a key element in their endorsement decisions.”