

# 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. The Federal Employees Health Benefit Plan'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 plan. This represents 1.3 million enrollees and 2.8 million covered lives.<sup>1</sup> 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 the BC/BS Standard plan, 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
- **\$16,400** per worker in the single plan, or \$1,640 a year

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 relatively high out-of-pocket maximum of \$7,000 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 raising \$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 \$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	<b>\$20,432</b>
Single Coverage	\$6,971	1st	<b>\$16,404</b>
<b>BC/BS Standard Plan Without Vision &amp; Dental</b>			
Family Coverage	\$14,589	5th	<b>\$11,488</b>
Single Coverage	\$6,459	2nd	<b>\$12,429</b>

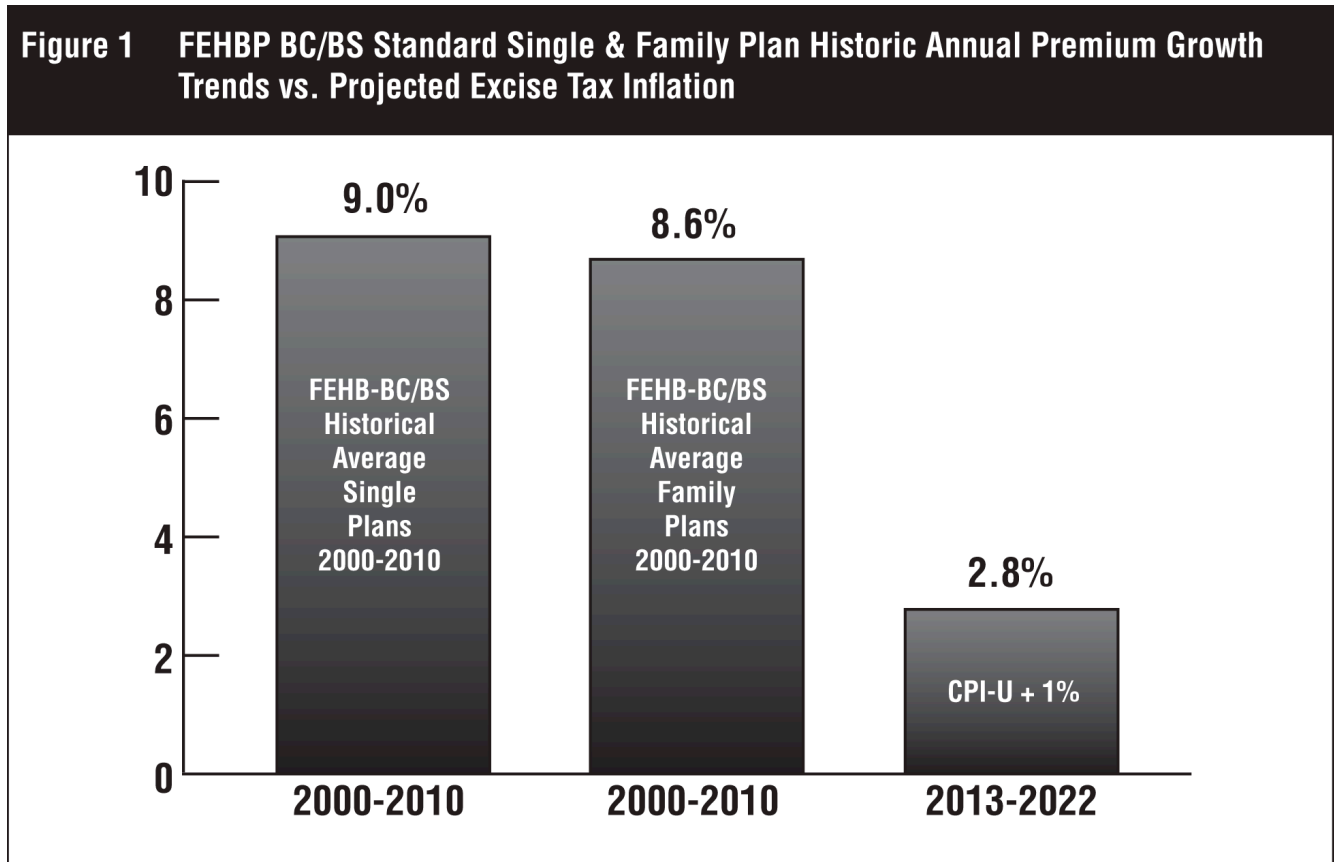
Sources: Communications Workers of America Research Department, FEHBP, Office of Personnel Management

**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:**

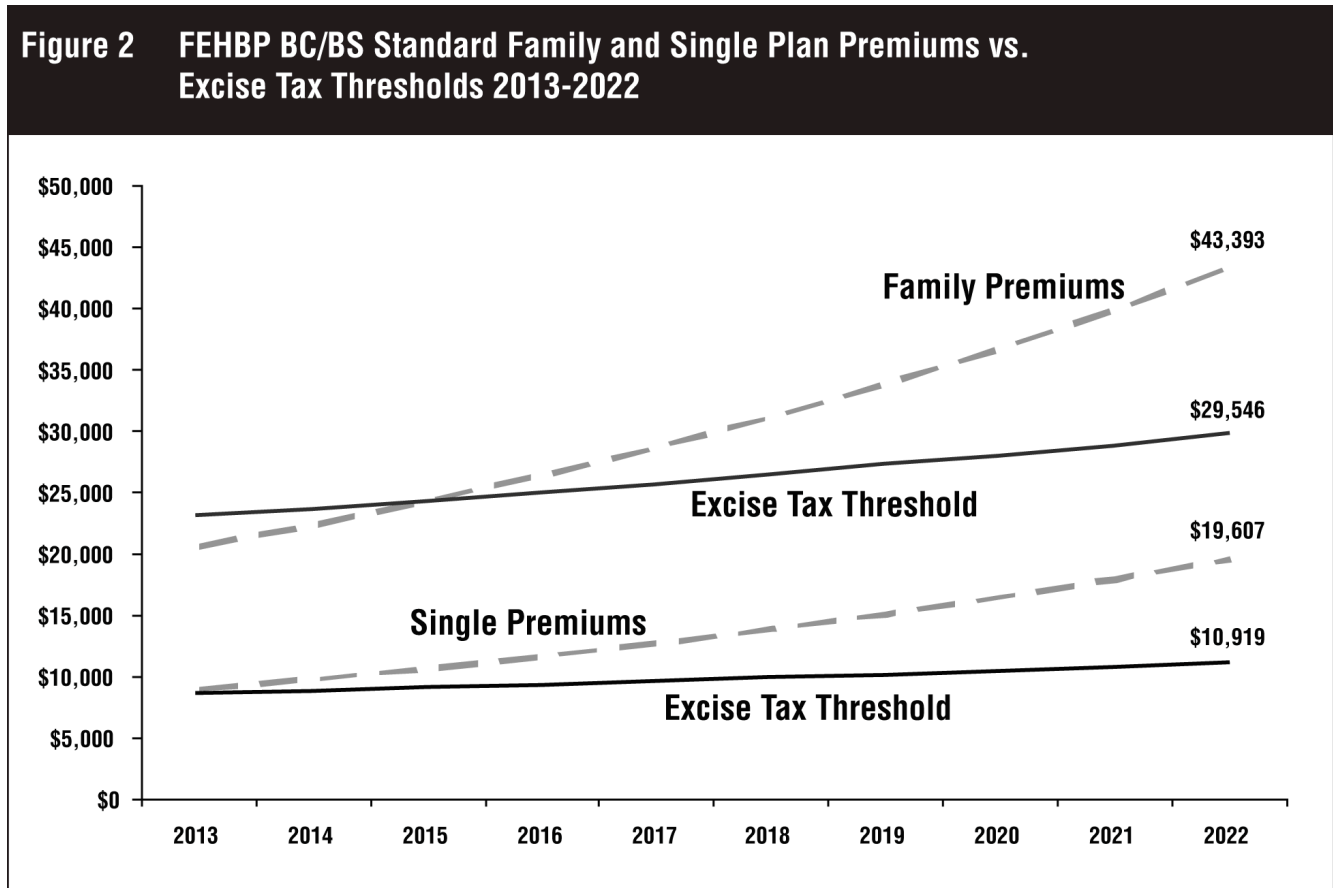
The BC/BS historical average premium growth (2002-2010) is from Office of Personnel Management website; 2000-2001 data is from an OPM response to an American Federation of Government Employees information request.

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).



**Sources:**

The BC/BS Standard family and single plan premiums 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										Total
			2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
<b>Family</b>	\$16,124	\$20,651	\$0	\$0	\$114	\$683	\$1,296	\$1,978	\$2,736	\$3,577	\$4,509	\$5,539	<b>\$20,432</b>
<b>Single</b>	\$6,971	\$9,028	\$211	\$465	\$732	\$1,019	\$1,330	\$1,675	\$2,059	\$2,484	\$2,955	\$3,475	<b>\$16,404</b>

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

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.

<sup>1</sup> Office of Personnel Management response to American Federation of Government Employees information request.