Cadillac Tax: Essential Planning Guide

A smart strategy that starts now.
## Cadillac Tax

### Overview

The Cadillac Tax is an excise tax scheduled to take effect in 2018 to reduce health care usage and costs by encouraging employers to offer plans that are cost-effective and engage employees in sharing in the cost of care. It is a 40% tax on employers that provide high-cost health benefits to their employees.

This fact sheet is based on Cigna’s current understanding of the Cadillac Tax. Final regulations have not been issued, and we expect further guidance before the tax is assessed.

<table>
<thead>
<tr>
<th>CADILLAC TAX</th>
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</thead>
<tbody>
<tr>
<td><strong>What it is/fee duration</strong></td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
</tr>
</tbody>
</table>
| **Amount** | • The tax is 40% of the cost of plans that exceed predetermined threshold amounts.  
• Cost includes the total premiums paid by both employers and employees, but not cost-sharing amounts such as deductibles and copays when care is received.  
• For planning purposes, the thresholds for high-cost plans are $10,200 for individual coverage, and $27,500 for family coverage.  
• These thresholds will be updated for 2018 when final regulations are issued and indexed for inflation in future years.  
• The thresholds will also be adjusted for:  
  − High-risk professions such as law enforcement and construction.  
  − Group demographics including age and gender.  
• For pre-65 retirees and individuals in high-risk professions, the threshold amounts are $11,850 for individual coverage and $30,950 for family coverage. |
| **Who calculates and pays** | **Insured:** Employers calculate and insurers pay  
**Self-funded:** Employers calculate and pay |
| **How a plan’s cost is determined** | The tax is based on the total cost of each employee's coverage above the threshold amount. The cost includes premiums paid by employers and employees plus:  
• Employer and employee contributions to Health Care Flexible Spending Accounts, Health Reimbursement Accounts and Health Savings Accounts.  
• The cost of Employee Assistance Plans with counseling benefits, onsite medical clinics and wellness programs. |
How the tax will be paid
Forms and instructions for paying the tax are not yet available.

Tax implications
Not tax deductible.

Business affected
Insured and self-funded group health plans.

Business excluded
- Stand-alone dental
- Stand-alone vision
- Accident coverage
- Disability benefits
- Long-term care insurance

How it works: Examples based on current threshold amounts

Self-only coverage
A $12,000 individual plan would pay an excise tax of $720 per covered employee:
$12,000 - $10,200 = $1,800 above the $10,200 threshold
$1,800 x 40% = $720

Family coverage
A $32,000 family plan would pay an excise tax of $1,800 per covered employee:
$32,000 - $27,500 = $4,500 above the $27,500 threshold
$4,500 x 40% = $1,800

These charts show how the tax increases as the plan’s cost increases.

Self-only coverage

<table>
<thead>
<tr>
<th>Plan Cost</th>
<th>$11,000</th>
<th>$12,000</th>
<th>$13,000</th>
<th>$14,000</th>
<th>$15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax</td>
<td>$320</td>
<td>$720</td>
<td>$1,120</td>
<td>$1,520</td>
<td>$1,920</td>
</tr>
</tbody>
</table>

Family coverage

<table>
<thead>
<tr>
<th>Plan Cost</th>
<th>$28,000</th>
<th>$30,000</th>
<th>$32,000</th>
<th>$34,000</th>
<th>$36,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax</td>
<td>$200</td>
<td>$1,000</td>
<td>$1,800</td>
<td>$2,600</td>
<td>$3,400</td>
</tr>
</tbody>
</table>
Cadillac Tax

A smart strategy that starts now.
PLANNING FOR THE 2018 CADILLAC TAX

Are you one of the 60% of large employers* who will be affected by tax penalties?

Cross the cost threshold on health coverage:
- Individual: $10,200**
- Family: $27,500**

FACE A 40% PENALTY:
- Per employee, per year / On $$ over threshold / Non-tax-deductible
- Wait until 2018 to deal with this issue and face the greatest negative impact.

A strategy to mitigate the tax impact by getting below thresholds

Start now

* Towers Watson – NBGH Health Employer Survey 2013
** The thresholds will also be adjusted for: High-risk professions such as law enforcement and construction, group demographics including age and gender, and for pre-65 retirees and individuals in high-risk professions - the 2018 amounts are $11,850 for individual coverage and $30,950 for family coverage
HOW DO YOU PROTECT YOUR COMPANY, YOUR PEOPLE AND THEIR BENEFITS?

Where costs are saved not shifted

Where sacrifices in benefits and service are avoided

Where health improvement is well supported

And where employees feel engaged in their health

Cigna CDHP an optimal choice and strategy for today and tomorrow.
HOW CAN A CIGNA CDHP\(^1\) HELP YOU AVOID OR MINIMIZE THE IMPACT OF THE CADILLAC TAX?

Cigna CDHP – A smart strategy and solution for the coming Cadillac Tax.

1. This chart is used for illustrative purposes only. Your specific plan design and demographics will influence your actual results. This specific illustration modeled out the expected medical costs for employees enrolled in the individual tier of a plan with an 8% cost share and book of business average demographics in one of our more popular markets.

2. Assumes 30% of employees enroll in the CDHP option and 70% remain in the current traditional/non-CDHP.

3. 2018 figures include any applicable Cadillac tax.
CIGNA CDHP – A BETTER CUSTOMER-FOCUSED SOLUTION

Better Experience

75% register to use our award-winning online tools

Nearly 50% more complete health assessment

33% more cost views per registered user

Better Health

Better health risk profile for full-replacement CDHP customers

96% had consistent or higher use of evidenced-based medical best practice measures in 1st year

Better Bottom Line

12% first year cost savings

Nearly 4% lower pharmacy costs

5% decrease in use of ER services

An effective counter to the 2018 Cadillac Tax and lower total medical costs up to 12% in the first year without shifting costs onto employees

* Results are from the 8th Annual Choice Fund Experience Study, April 2014

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### BY THE NUMBERS: CADILLAC TAX AND THE CHOICES

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018³</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Plan</strong></td>
<td>$8,671.36</td>
<td>$9,365.06</td>
<td>$10,114.27</td>
<td>$10,923.41</td>
<td>$12,436.20</td>
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<tr>
<td><strong>CDHP with 30% enrollment²</strong></td>
<td>$8,447.07</td>
<td>$9,082.04</td>
<td>$9,767.80</td>
<td>$10,508.42</td>
<td>$11,755.54</td>
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<tr>
<td><strong>CDHP cost if added in 2018 as full replacement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$10,885.97</td>
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<tr>
<td><strong>CDHP cost if added in 2018 and 30% enrollment²</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$11,971.13</td>
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<tr>
<td><strong>Full Plan Replacement</strong></td>
<td>$7,923.74</td>
<td>$8,421.64</td>
<td>$8,959.37</td>
<td>$9,540.12</td>
<td>$10,167.33</td>
</tr>
</tbody>
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Data in chart represents total costs per employee per year.

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