State of Vermont
Agency of Administration

Robin Lunge, Director
Health Care Reform

Public Employees' Health Benefits Report

Report of the Agency of Administration
Pursuant to Act 54 of 2015 Section 22
Pursuant to Act 46 of 2015 Section 51

Submitted to the

House Committee on Appropriations
House Committee on Education
House Committee on General, Housing and Military Affairs
House Committee on Government Operations
House Committee on Health Care
House Committee on Ways and Means
Senate Committee on Appropriations
Senate Committee on Education
Senate Committee on Economic Development, Housing and General Affairs
Senate Committee on Government Operations
Senate Committee on Health and Welfare
Senate Committee on Finance
Health Reform Oversight Committee

December 4, 2015

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Statutory Charge

This report is submitted to fulfill the requirements for a Public Employee Benefit Study pursuant to Section 22 of Act 54 of 2015 and the Education Spending and Health Care Costs study pursuant to Section 51 of Act 46 of 2015. Both these studies focus on the Excise Tax on High Cost Employer Sponsored Health Coverage pursuant to 26 U.S.C § 4980I, and the Administration has treated them as a single work.

Act 54 of 2015
* * * Public Employees' Health Benefits * * *

Sec. 22. PUBLIC EMPLOYEES' HEALTH BENEFITS; REPORT

(a) The Director of Health Care Reform in the Agency of Administration shall identify options and considerations for providing health care coverage to all public employees, including State and judiciary employees, school employees, municipal employees, and State and teacher retirees, in a cost-effective manner that will not trigger the excise tax on high-cost, employer-sponsored health insurance plans imposed pursuant to 26 U.S.C. § 4980I. One of the options to be considered shall be an intermunicipal insurance agreement, as described in 24 V.S.A. chapter 121, subchapter 6.

(b) The Director shall consult with representatives of the Vermont-NEA, the Vermont School Boards Association, the Vermont Education Health Initiative, the Vermont State Employees' Association, the Vermont Troopers Association, the Vermont League of Cities and Towns, the Department of Human Resources, the Office of the Treasurer, and the Joint Fiscal Office.

(c) On or before November 1, 2015, the Director shall report his or her findings and recommendations to the House Committees on Appropriations, on Education, on General, Housing and Military Affairs, on Government Operations, on Health Care, and on Ways and Means; the Senate Committees on Appropriations, on Education, on Economic Development, Housing and General Affairs, on Government Operations, on Health and Welfare, and on Finance; and the Health Reform Oversight Committee.[1]

[1] Meeting the statutory deadlines depended on the assumption that the actuaries could reuse existing data sets from previous health care reform studies. This assumption proved too optimistic. The tax is complex, requiring multiple employer specific adjustments and trends to compute the tax. Federal guidance is incomplete, which militated towards collecting a more complete data set that might accommodate future federal guidance. Additionally, the State was seeking to test a wide variety of potential policy changes to reduce potential tax exposure for public employers, including scenarios that require combining the claims data of multiple employers. Given these factors, the actuaries concluded that the study required specific and extensive data sets from each employer involved in the study. Due to these factors, the Director of Health Care Reform informed all committee chairs and legislative leadership on October 20, 2015, that the Public Employee Benefit Study would be submitted on December 4, 2015.

Act 46 of 2015

Sec. 51. EDUCATION SPENDING: HEALTH CARE COSTS

(a) The General Assembly finds:

(1) Health care expenses are a major cause of increases in school budgets and education property taxes.

(2) Until the State solves the problems associated with the cost of health care, it will be increasingly difficult for school districts to contain education spending and education property taxes.

(b) On or before November 1, 2015, as part of the study to identify options and considerations for providing health care coverage to all public employees, the Director of Health Care Reform in the Agency of Administration shall report to the Health Reform Oversight Committee, the House and Senate Committees on Education, the House Committee on Health Care, and the Senate Committee on Health and Welfare with options for:

(1) the design of health benefits for school employees that will not trigger the excise tax on high-cost, employer-sponsored insurance plans pursuant to 26 U.S.C. § 4980I; and

(2) ways to administer the school employees' health benefits, including possibly through the Vermont Education Health Initiative (VEHI), Vermont Health Connect (VHC), or through another applicable mechanism.

(c) When identifying and analyzing the options required by subsection (b) of this section, the Director shall consult with representatives of the Vermont – National Education Association, the Vermont School Boards' Association, VEHI, VHC, the Office of the Treasurer, and the Joint Fiscal Office.

Executive Summary

Acts 46 and 54 of 2015 require the Director of Health Care Reform to identify public employee health benefit options that will not trigger the excise tax on high-cost, employer-sponsored health insurance plans imposed pursuant to 26 U.S.C. § 4980I. This report is submitted to meet that requirement and proceeds in four parts. First, the report will provide an overview of the tax, including identifying areas that lack definitive federal guidance. Second, the report estimates tax owed by public employers under the status quo. Third, the study analyzes multiple strategies designed to reduce or eliminate tax liability. Fourth, the study recommends continued monitoring and attention to this issue. Additionally, the appendices describe the methods used to estimate tax liability, provide additional data and analysis not included in the main body of the report, and describes the stakeholder process used to develop the report.

Congress passed the excise tax as part of the Affordable Care Act in 2010; however, the tax does not start until January 1, 2018. Initial studies, such as the issue brief developed by the Joint Fiscal Office, have been conducted without the benefit of any federal guidance beyond the statute. Two subsequent IRS bulletins have provided guidance that allows this study to apply a more rigorous and sophisticated analysis, albeit one where fundamental questions about the tax remain unanswered. Accordingly, one of the major conclusions of the study is that considerable uncertainty remains on issues that will affect the basic calculation of the tax and may change the study's estimates substantially. This uncertainty will remain at least until the federal government promulgates regulations or the tax is modified or repealed.

Overview of the Tax

The federal Excise Tax on High Cost Employer Sponsored Health Coverage levies a 40% tax on the cost of health benefits above certain tax thresholds beginning January 1, 2018.[2] Specifically, the total cost of health benefits, determined by adding the health insurance premium, or its COBRA equivalent, to certain Health Reimbursement Account, Health Savings Account, and Flexible Spending Account spending, is compared to a statutory tax threshold that can be adjusted to reflect employer demographics, the inclusion of non-Medicare retirees and high risk employees in the employer's insurance pool, and inflation as measured by the Consumer Price Index. Taxpayers accrue tax liability monthly; however, payment will likely be made annually in the subsequent calendar year.

Status Quo Results

The study estimated tax liability for participating employer groups; the State of Vermont, school district members of VEHI, municipalities, and the Vermont State Colleges. The analysis features the following key results:

- Unsettled federal rules have a huge potential impact on tax estimates
- Each employer group in the study will owe tax starting in 2018 and annually thereafter absent plan changes
- The tax owed by employers is estimated to increase substantially on a percentage basis over time
- Estimated tax liability varies considerably by employer
- Tax estimates vary significantly depending on how fast annual health care costs grow
- Some employer benefit plans generate more tax than others when employers offer multiple benefit plans

[2] 26 U.S.C. 4980I

- Self-only coverage within health plans generate the majority of estimated tax liability during the first years of the tax under the most likely scenario
- Active employees and Non-Medicare retirees generate more estimated tax liability than Medicare retirees during the study period

Two major unsettled federal issues have a huge potential impact on tax estimates and future liability. First, is the so called "Aggregation" issue. IRS guidance suggests that when calculating the cost of benefits that two person and family plan premiums may be averaged. The effect of doing that would lower the cost of family plans, reducing overall tax liability. We think that is what the law permits; however, we calculated the tax using an *aggregated scenario* that permits averaging and a *non-aggregated* scenario that does not permit this type of averaging.

The second major unsettled federal issue involves how to calculate adjustments to the tax thresholds, which is the amount of benefit value allowed before the tax kicks in. The ACA provides several factors, in addition to inflation, that would increase the base threshold. The most important and uncertain of these adjustments is the age and gender adjustment that allows employers to increase their tax threshold if the employee group is older or includes more women on average than the national workforce. Our actuaries made assumptions to calculate this adjustment for the employers in the study, despite the lack of final federal guidance on the issue. Overall, the age and gender adjustment reduced tax liability by millions of dollars.

The study estimates that each employer group in the study will owe tax starting in 2018 and annually thereafter absent plan changes.[3] Table ES1 sets forth the estimated tax liability for each employer under the aggregated scenario, where the employer can average benefit value for certain coverage, and a non-aggregated scenario where this averaging does not occur.

Table ES1: Estimated Employer Tax Liability, 2018 - 2027

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
VEHI	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Muni	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
VSC	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Non-Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
VEHI	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Muni	$426,068	$713,299	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391
VSC	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518

In either scenario, tax grows rapidly on a percentage basis. Table ES2 on the next page demonstrates annual tax growth on a percentage basis for the State of Vermont and VEHI in both the aggregated and non-aggregated scenario.

[3] The report is based on data from VEHI's current plans. It is important to note that VEHI will be changing plan designs for 2018 and thereafter.

Table ES2: State of Vermont and VEHI Annual Tax Increases by Percentage

State of Vermont	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Aggregated	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Annual Increase %		110%	96%	73%	100%	75%	46%	37%	29%	25%
Non-Aggregated	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Annual Increase %		97%	70%	47%	35%	30%	24%	22%	22%	23%
VEHI	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Aggregated	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Annual Increase %		74%	63%	221%	150%	77%	101%	100%	56%	39%
Non-Aggregated	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Annual Increase %		115%	105%	130%	289%	81%	51%	38%	31%	26%

Generally, the public employers in the study are similarly situated in that all participating employers are estimated to accrue tax liability starting in 2018 and the estimated tax grows substantially on an annual basis. Yet, estimated tax liability varies considerably by employer. Specifically, the study uses the *per employee per year* cost of the tax as a benchmark to differentiate employers.[4]

Table ES3: Per Employee Per Year Tax Estimate, Aggregated Scenario

Aggregated	Contracts	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	12,024	$30	$63	$122	$212	$424	$741	$1,080	$1,479	$1,909	$2,387
VEHI	21,276	$4	$7	$11	$36	$91	$161	$323	$648	$1,014	$1,408
Muni	4,408	$8	$15	$27	$50	$115	$215	$370	$601	$876	$1,231
VSC	1,485	$18	$53	$106	$177	$450	$785	$1,151	$1,564	$2,012	$2,498

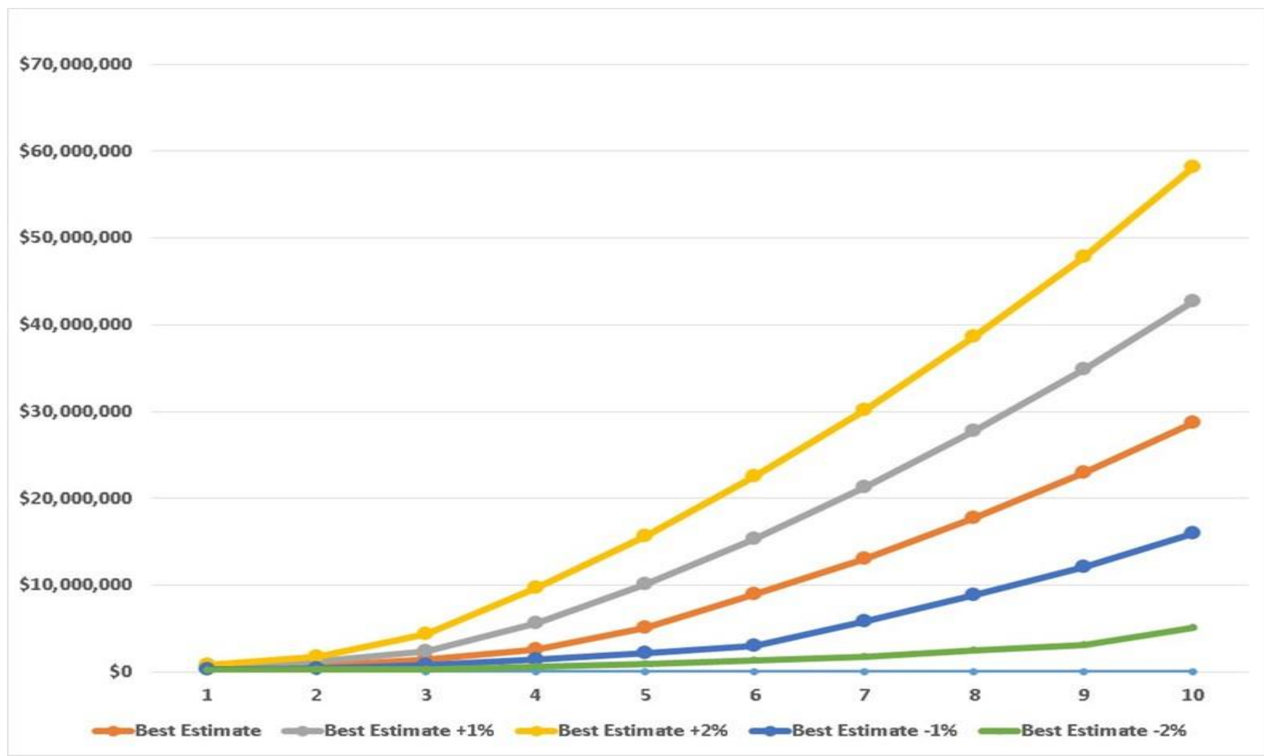
The State of Vermont and Vermont State Colleges start with higher cost health insurance plans. Accordingly, their plans are subject to tax more quickly than VEHI and municipalities and they outpace VEHI and municipalities on a per employee basis throughout the study's time period.

Tax estimates vary significantly depending on how fast annual health care costs grow. The actuaries estimated 6.5% annual health care cost growth for Vermont's public employers; however, they tested scenarios ranging from 4.5% annual cost growth to 8.5% annual cost growth. Chart ES4 provides the range of tax liability for years 1-10 of the tax depending on the trend assumptions for the State of Vermont under the aggregated scenario.[5]

[4] In this study, per employee means only those employees covered by a health insurance plan through their employer, rather than all employees working for the public entity.

[5] A similar chart is available for all employers in Appendix B.

Chart ES4: Tax Liability and Annual Cost Growth between 4.5% and 8.5%



Tax liability is markedly different depending on the trend. For example, the State of Vermont estimated tax liability in 2027 at 4.5% growth, the lowest realistic scenario according to the actuaries, is approximately $5 million. Alternatively, State of Vermont estimated tax liability is approximately $58 million assuming 8.5% annual health care growth, the highest actuarial estimate.

Policy Strategies

The study tested various strategies designed to reduce or eliminate tax liability. Specific scenarios are set forth below grouped by broad category.

- Avoiding the Tax Entirely
  - Scenario 1: Stop offering employer sponsored health insurance to public employees
- Change Plan Designs to Reduce Overall Costs
  - Scenario 2: Adopt different plan designs
  - Scenario 3: Eliminate higher cost benefit plans
  - Scenario 4: Remove Flexible Spending Account (FSA) contributions
- Reduce Health Plan Costs
  - Scenario 5: Enact one time plan cost changes
  - Scenario 6: Engage in payment and delivery system reform
- Consolidate Employer Groups
  - Scenario 7: Create a combined public employer risk pool
  - Scenario 8: Require purchase of insurance in Vermont Health Connect
  - Scenario 9: Have VEHI employers purchase lower metal level plans in Vermont Health Connect
  - Scenario 10: Explore the multiemployer plan option

The order of the scenarios should not be considered a ranking or recommendation. Additionally, it is crucial to note that strategies are not mutually exclusive. Frequently, the tax analysis reveals multiple factors working simultaneously.

Overall, each scenario that maintains employer sponsored health insurance triggers the excise tax. Yet, most strategies delay or reduce tax liability. Delayed tax liability may be important to policymakers, providing time to either determine whether Congress will amend or repeal the law, develop a long term strategy for addressing the tax, or provide systemic payment and delivery reforms the time to work and reduce overall health care costs. The results of each scenario are summarized on the next pages.

Avoiding the Tax Entirely

Scenario 1: Eliminate Employer Sponsored Health Care Coverage for Public Employees

The only way to guarantee elimination of excise tax liability is to stop providing employer sponsored health insurance. Scenario 1 assumes that participating public employers stop offering health insurance starting January 1, 2018, thereby eliminating all excise tax liability. The purpose of this scenario is to create a framework to examine such a change, focusing on the types of decisions that would need to be made by public employers and identifying expenses and potential expenses that employers and employees may incur.

Public employers would avoid excise tax liability and save any money currently spent on health insurance. These savings would be offset by a variety of expenses and potential expenses. Expenses include the federal penalties and state assessments that would be levied if public employers dropped insurance coverage. The study identifies other potential expenses that employers and employees may incur, including increased wages, payroll taxes, income taxes, unemployment insurance, workers' compensation, and retirement liabilities. Additionally, the lack of employer coverage may increase participation in Vermont's other government health programs, including Vermont Premium Assistance, Vermont Cost Sharing Reductions, and Medicaid. Lastly, private businesses will likely see increased costs due to expanded enrollment in their own health insurance if public employers no longer offer health care coverage.

Change Plan Designs to Reduce Overall Costs

Scenario 2: Change Overall Plan Designs[6]

One strategy to reduce tax liability is to redesign benefit plans. This can be done in myriad ways, and re-evaluating plan designs to lower costs is a major component of the current health insurance landscape. Overall, new plan designs are meant to lower premiums, which could lower tax liability. Employers and employees could see premium savings, which they could spend on out of pocket costs if needed. The use of tax preferred vehicles like FSAs, HSAs and HRAs, while subject to the tax calculation, may make consumers more sensitive to health care expenses, lowering utilization, costs, and ultimately reducing the tax. It may also reduce costs by causing people to forego needed care. These could be designed in such a way that does not initially raise out of pocket costs for enrollees.

Additionally, the study tested the type of plan design changes necessary annually so that the benefit costs do not trigger the tax. The strategy eliminates tax liability; however, it is not a sustainable strategy. First, plan out of pocket costs

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[6] The report is based on data from VEHI's current plans. It is important to note that VEHI will be changing plan designs for 2018 and thereafter.

will need to increase annually. Out of pocket costs do not stabilize because annual health care cost growth exceeds the statutory inflator. In this study, health care costs are projected to grow 6.5% annually while inflation is pegged at 2.3% annually after 2019. Furthermore, tax reductions are eventually off-set in part by federal penalties that are triggered when plan out of pocket costs, as measured by actuarial value, exceed the federal standard.

Scenario 3: Remove High Cost Benefit Plans

The status quo analysis revealed that some employer benefit plans generate more tax than others when employers offer multiple benefit plans. Accordingly, one strategy to reduce tax liability would be to eliminate higher cost plans. This strategy would reduce tax liability as per employee spending moderates. This may result in requiring the use of in-network providers or higher costs for some employees. Also, the tax reduction may be off-set in part if employees in the higher cost plans increase the risk of the lower cost plan.

Scenario 4: Remove Flexible Spending Account (FSA) Contributions

FSA contributions for medical expenses are counted towards the benefit value for tax calculation purposes. The national trend seems to be that employers are reconsidering FSA usage because it provides a way to quickly lower tax exposure without disrupting the underlying health benefits. No longer offering FSAs would reduce the tax liability for the State of Vermont, VEHI, and Vermont State Colleges substantially, as FSA contributions contribute significantly to estimated tax liability in the early years of the tax.[7] The emergence of this strategy, and how it may allow a tax reduction without disrupting an entire benefit plan, makes it a prominent factor in a number of tax reduction scenarios. This strategy could be combined with removing HRAs and HSAs and other scenarios do so.

Removing FSAs would affect employers and employees by removing a tax vehicle that exempts out of pocket costs from payroll and income taxes. Accordingly, any excise tax reduction for employers would be off-set in part by payroll taxes paid by the employer. Additionally, employees would be subject to payroll tax and income tax liability on those former FSA contributions.

Reduce Health Plan Costs

Scenario 5: Enact One Time Plan Cost Changes

The study tested three onetime plan changes to measure their efficacy in reducing the tax, using the State of Vermont as the example employer. Overall, the plan changes offer three important potential lessons. First, employers should review costs that are built into premiums that could be allocated elsewhere. Second, employers should re-evaluate administrative costs when feasible. Third, the tax has a compounding effect over time. Accordingly, cost reductions that lead to a reduced tax liability in earlier years are more valuable than changes made in later years. These strategies may not be applicable for every study participant. An employer group, such as VEHI, may have much less flexibility to pursue these strategies. Additionally, employers purchasing insurance, rather than being self-insured, could not pursue these strategies due to federal and state insurance regulation. Lastly, it is important to note that many additional one-off

[7] VEHI does not offer FSAs, but some of its members offer them to their employees.

strategies could potentially be tested or pursued. These three strategies, requested by stakeholders, are illustrative of the type of incremental plan changes that employers may pursue if the tax is implemented as scheduled in 2018.

Scenario 6: Engage in Payment and Delivery System Reform

The State of Vermont, federal government, and stakeholders throughout the health care industry have made substantial investments in transforming Vermont's health care payment and delivery system. The study sets forth the potential financial benefits, in terms of reduced excise tax, of broader payment and delivery system reform between employers, insurance companies, and health care providers. Given the structure of the tax, with its reliance on the Consumer Price Index as its inflator and measurement of appropriate health care growth, the only effective long term strategy to deal with the excise tax is to bend the cost curve as far as possible. Specifically, health care costs are estimated to grow 6.5% annually in this study. Inflation is projected to grow at 2.3% after 2019. Accordingly, bending the cost curve toward an annual growth rate more aligned with inflation would be the only sustainable tax reduction strategy over the medium to long term.

Consolidate Employer Groups

Scenario 7: Combined Public Employer Risk Pool

Overall, this scenario was particularly uncertain given the number of systemic changes and assumptions involved. The combined public employer risk pool delays the tax until 2021 and reduces total tax liability. Overall, the tax is reduced on a per employee per year basis for all employers; however, municipalities begin to pay more in 2027. This may be due to the risk of the combined pool being slightly less favorable than the community rated insurance pool that many municipalities participate in as part of Vermont Health Connect. Yet, the tax rises substantially once triggered. Here, the use of a single plan means that, once triggered, all active members are subject to the tax simultaneously, as being in a single plan makes the tax an all or nothing proposition. Once above the tax threshold, virtually all health care spending growth above the rate of inflation is subject to the 40% tax. Tax reductions are likely due to multiple factors, including those not specific to the creation of a combined public pool. Additionally, significant savings were achieved by using VEHI administrative costs, which are much lower than other participating employers. It is not certain that a combined public employer risk pool could achieve or maintain those administrative costs while scaling up enrollment. Any increase in administrative costs would limit the tax reduction. Lastly, policymakers would need to consider the administrative complexity of creating the insurance pool.

Scenario 8: Each Public Employer Purchases Insurance in Vermont Health Connect

The study tested the impact of placing public employers (who have not already done so) into the fully-insured market through employer-sponsored group health plans. The actuaries estimated the tax liability based on employers moving into group health insurance plans with plans comparable to what they have today. Estimated tax liability is delayed for the State of Vermont and Vermont State Colleges and reduced for all employers compared to the status quo, as public employers generally benefit from the effect of community rating. Specifically, employers are charged premiums

based on the demographics and risk of the entire pool, not only their employees. Yet, the estimated large group market savings are speculative, because this group is not currently community rated. Other employers would pay more as a result of moving public employees into a community rated small or large group market. Accordingly, there is a risk that private employers with younger and healthier employees might leave a community-rated large group market and be self-insured rather than pay increased premiums. Therefore, it is not clear whether public employers would be able to continue in a large group market with favorable risk compared to the status quo or simply create their own risk pool as private employers exit the large group market. Additionally, the tax impact varies by employer. Specifically, municipalities, particularly those with fewer than 100 employees participating in the small group market, may not realize savings.

Scenario 9: VEHI Employers Purchase Group Insurance in Vermont Health Connect at a Lower Metal Level

The actuaries tested a scenario where VEHI employers purchase lower cost health insurance plans at various lower AV levels, signified by a lower metal level. Entering Vermont Health Connect reduces excise tax liability for VEHI employers; however, the use of lower metal level plans provides no additional excise tax relief until 2023. Beginning in 2023, lower metal level plans reduce tax liability significantly. Despite this general trend, the use of platinum plans increases tax liability in the small group market, even while the large group market sees overall decreases in tax liability. This occurs because some VEHI small group market employers currently have gold level plans.

While the scenarios show only modest excise tax reductions in early years, lower metal level plans may reduce health care costs for employers and employees. Additionally, like plan design changes, using Vermont Health Connect provides some flexibility to respond to increased health care costs and the looming excise tax. While the analysis focused on VEHI, the strategy of choosing lower cost plans through Vermont Health Connect is extendable to other employers. Also, employers could adopt lower cost plans outside Vermont Health Connect.

Scenario 10: Explore Multiemployer Plan Option

The law contains a special provision that provides employers with the flexibility to be subject to only the highest tax threshold for multiemployer plans, also known as Taft-Hartley Plans.[8] A multiemployer plan is a plan maintained pursuant to a collective bargaining agreement to which more than one employer contributes and is overseen by a board of trustees who are appointed half by union and half by contributing employers. These plans were developed to meet the demands of industry groups where employees in the workforce would not normally receive benefits due to the temporary or migratory nature of their work.[9]

Applying the other-than-self-only tax threshold to all public employer health plans, regardless of number of people on the plan would have a considerable impact on estimated tax liability, reducing tax liability by millions of dollars as employees with single coverage do not generate any tax liability during the ten-year study period. Accordingly, creating a combined public employer pool that qualifies federally as a multiemployer plan may be a specific strategy to

[8] 26 U.S.C. §4980I(b)(3)(B)(ii)

[9] IRS, Multiemployer Plan Examination Guidelines, https://www.irs.gov/irm/part4/irm_04-072-014.html

reduce the tax worth considering. Yet, the strategy is untested. It is not clear that Vermont employees could legally create a qualifying plan, and the startup and operational requirements are unknown.

Recommendations

Multiple areas exist for further study. These include, but are not limited to, monitoring of federal action regarding the tax, deciding whether to retain the tax modeling capacity built for this study, exploring the multiemployer plan option to create a combined public employee insurance pool, and ensuring public employers are ready to comply with the tax.

State policymakers should continue to monitor federal regulations and legislation, which may dramatically change the estimated tax liability. Specifically, policymakers should compare federal regulations to the assumptions made in this report to see how to properly aggregate employees, calculate employer specific adjustments including the key age/gender adjustment, and determine if regulations diverge from the assumptions made in the study in ways that change estimated tax liability and the viability of future scenarios.

The study required sophisticated actuarial modeling based on actual plan and claims data provided by employers. At the present time, the State will not have access to that model after the study concludes. Therefore, the State lacks the ability to estimate tax liability in light of new federal guidance, changed benefit plans, or enrollment changes. The State and other participating public employers should consider whether future access to the model is needed.

Public employers should begin to assess their readiness to comply with the tax, as the required tax filings may be cumbersome, require special expertise, and be resource intensive. Additionally, public employers may want to review their benefit operations and cost allocations for opportunities to reduce prospective tax liability.

Part I. Excise Tax Overview

The federal government has not yet provided sufficient guidance to calculate the tax with accuracy. Federal regulations have neither been proposed nor adopted, and current IRS guidance leaves fundamental questions unanswered. Accordingly, the study made many legal and actuarial assumptions that affected estimated tax liability and could be contrary to future federal guidance.

The Excise Tax

The federal Excise Tax on High Cost Employer Sponsored Health Coverage levies a 40% tax on the cost of health benefits above certain adjustable tax thresholds beginning January 1, 2018. The tax uses three fundamental calculations. First, taxpayers, in this case employers, insurers, or plan administrators, must calculate the benefit value for each employee with coverage.[10] Second, employers must calculate the employer specific tax threshold using a statutory minimum and a series of adjustments. Third, taxpayers must compare the benefit value of each employee to the employer specific tax threshold to determine the excess benefit, which is subject to a 40% tax.

Benefit for Tax Purposes[11]

The benefit for tax purposes is the total annual cost of several items[12]:

- The value of an employee's health insurance premium, both the employer and employee share[13]
- Employer contributions to a Health Reimbursement Arrangement (HRA)
- Pre-tax contributions to a Health Savings Account (HSA)[14]
- Flexible Spending Account (FSA) spending for health services[15]

Employers must sum the value of each of these benefits to determine the total benefit amount for each individual employee. [16] The split of premium cost between the employer and employee is irrelevant for tax purposes.

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[10] Individuals are not legally responsible for the tax. The taxpayer is always an insurer, employer, or person who administers the plan. Yet, nothing in the statute prevents employers from passing this cost along to employees or prohibits employers and employees from bargaining regarding how to address the tax. We viewed the question of how employers and employees might bargain regarding the tax beyond the scope of the study.

[11] 26 U.S.C. § 4980I(d)(1)(A); IRS Notice 2015-16, Sec. III, pgs. 5-10.

[12] 26 U.S.C. § 4980I(b).

[13] For self-insured employers, Section 4980I(d)(2)(A) provides that the cost of applicable coverage is to be determined using rules similar to the rules of section 4980B(f)(4)" regarding the determination of the COBRA applicable premium. See IRS Bulletin 2015-16. Notice 2015-6 set forth two methods self-insured plans may use to determine the cost of COBRA coverage: the actuarial basis method and the past cost method. The actuarial basis method asks employers to make a reasonable estimate of the cost of providing coverage to the covered individuals for a future 12-month period, while the past cost method calculates costs incurred for a prior 12-month period. The IRS is also considering allowing self-insured plans to use actual costs rather than the other two methods, but it has not furnished any guidance on how that would work.

[14] 26 U.S.C. § 4980I(d)(2)(C); IRS Notice 2015-16, Sec. IIID, pg. 8.

[15] 26 U.S.C. § 4980I(d)(2)(B).

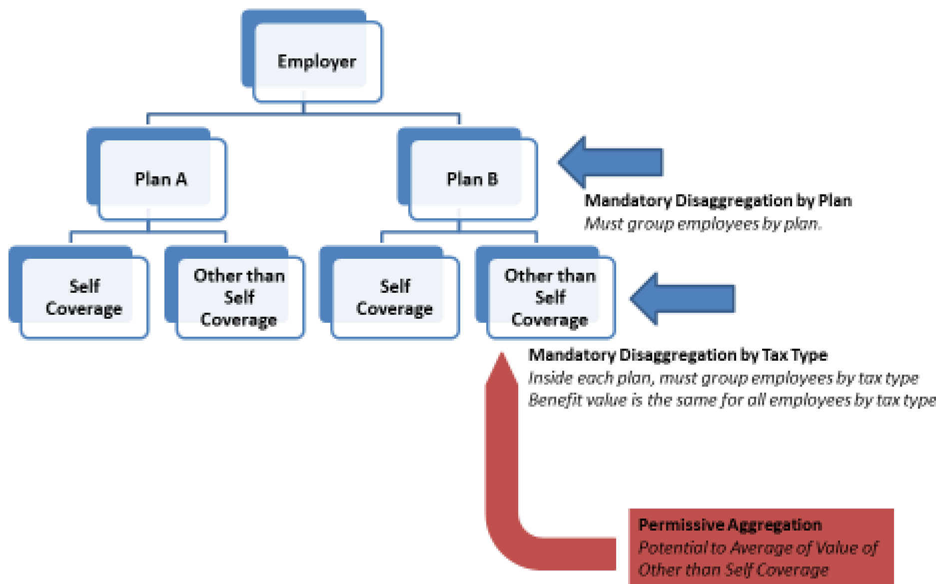
[16] Several other common health care payments are not considered part of the benefit for tax purposes. These include employees' out of pocket payments, employees' after-tax contributions to HSAs, dependent care FSAs, stand-alone dental or vision plans, and FSAs limited to dental and/or vision.

Aggregation

IRS guidance is complicated and incomplete regarding how to group employees; however, the rules regarding how to group employees could affect tax liability significantly. Issues surrounding employee grouping are typically referred to as the aggregation and disaggregation rules.

Current IRS guidance suggests that taxpayers must group employees by benefit package. Next, within the benefit plan, taxpayers must group employees by tax threshold type, self-only coverage and other-than-self-only coverage. Additionally, IRS guidance suggests that you may average the benefit costs of employees in other-than-self-only coverage. Specifically, employers would average the cost of couple, adult with dependents, and family plans. Averaging other-than-self-only coverage has the potential to significantly delay and reduce tax liability for employers.[17]

Figure 1: Potential Aggregation Rules



The study estimates tax liability both with and without the ability to average the benefit costs of other-than-self-only coverage, creating aggregated and non-aggregated scenarios. This was done given the lack of definitive federal guidance and the potential for the two approaches to yield substantially different estimated tax liability.

Tax Thresholds

Once the employer determines the benefit value, they must calculate the tax threshold for their employees. The tax threshold is the point at which benefit value is deemed in excess and the 40% tax is levied. There are two tax thresholds, one for self-only coverage, a single person health insurance policy, and a separate threshold for other-than-self-only coverage, commonly couple, single adult with dependents, and family policies.

The tax threshold calculation starts with the statutory tax thresholds set forth in the law. The 2018 tax thresholds are $10,200 for self-only coverage and $27,500 for other-than-self-only coverage. The statutory thresholds are subject to five potential adjustments. Table 1 below lists the five potential adjustments, including the entity making the adjustment

[17] IRS Notice 2015-16, Sec. IV.C.1., pg. 13-14.

and the frequency of the adjustment. Adjustments can only serve to raise the statutory tax threshold and lower tax liability, and, in some cases, may be combined.

Table 1: Tax Threshold Adjustments

Adjustment	Description	Adjuster	Frequency
Health Care Adjustment Percentage[18]	Triggered if increases in cost of health care between 2010 and 2018 exceed 55% based on 2010 to 2018 cost increase for Blue Cross Blue Shield standard benefit option under Federal Employee Health Benefit Program.	IRS	2018 Only
Cost of Living Adjustment	Threshold increased by inflation (Consumer Price Index) +1 for 2019 and CPI for years after 2019.	IRS	Annual
Age and Gender Adjustment[19]	Age and gender adjustments, if age/gender characteristics of employer's workforce differ from national workforce[20]	Employer	Re-determined annually
Qualified Retiree Adjustment	Employee specific adjustment that applies to employees who are (1) receiving coverage as a retiree, (2) age 55 or older, and (3) not entitled to/eligible for enrollment in Medicare	Employer	Annually in the amount of $1,650 for self-only coverage and $3,450 for other-than-self-only coverage in 2018 and indexed thereafter
High Risk Professions Adjustment	Employee specific adjustment given if the majority of employer's covered employees is engaged in a high risk profession or repairing/installing electrical or telecommunication lines.	Employer	Annually in the amount of $1,650 for self-only coverage and $3,450 for other-than-self-only coverage in 2018 and indexed thereafter

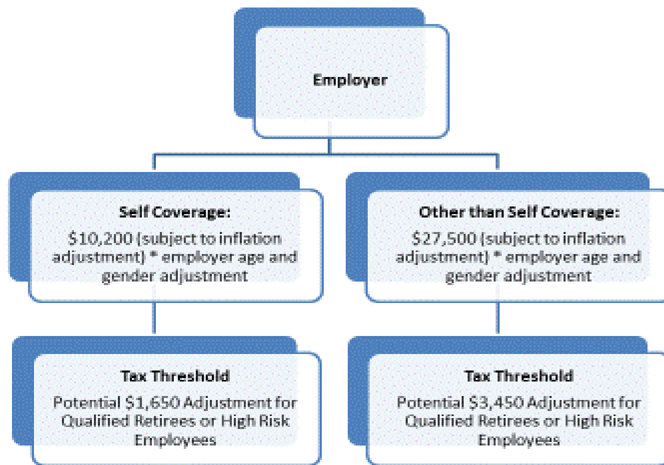
The employer[21] will use the statutory tax thresholds and adjustments to determine a tax threshold for each employee.

Tax Calculation

Next, employers must compare the benefit value of each employee to the employer specific tax threshold to determine the excess benefit, which is subject to a 40% tax. Figure 2 on the next page demonstrates the tax threshold calculation.

[18] It is not anticipated that this adjustment will be triggered given the rate of health care cost growth since 2010.
[19] 26 U.S.C. § 4980I(b)(3)(C)(iii)
[20] Note in methodology and lack of federal guidance.
[21] 26 U.S.C. § 4980I(c)(4)(A).

Figure 2: Employer Tax Threshold Adjustments



[12]

Not taking the adjustments into account results in different outcomes, highlighted by the examples below. In the first example, the tax calculation uses the statutory tax thresholds, without the five potential tax threshold adjustments. The second tax calculation example demonstrates the potential ability of tax adjustments to reduce tax liability for each employee.

Table 2: Example Tax Calculation Using Statutory Tax Threshold for 2018 (Tax for a Single Employee)

Step 1: Determine Benefit			
Full premium cost for single coverage	$11,260		
Health Reimbursement Arrangement (HRA)	$0		
Health Savings Account (HSA) pre-tax dollars only	$0		
Flexible Spending Account (FSA) for health expenses	$520	**Step 2: Determine Tax Threshold**	
Benefit Cost	$11,780	$10,200	**Step 3: Calculate Excess Benefit & Excise Tax**
		Excess Benefit	($11,780-$10,200) = $1,580
		Excise Tax	$1,580*40% = $632

Table 3: Example Tax Calculation Using Adjusted Tax Threshold for 2018 (Tax for a Single Employee)

Step 1: Determine Benefit		Step 2: Determine Tax Threshold	
Full premium for single coverage	$11,260	Statutory Threshold = $10,200	
Health Reimbursement Arrangement (HRA)	$0	Age and Gender Adjustment ($10,200 * 10%) = $11,220	
Health Savings Account (HSA) pre-tax dollars only	$0		
Flexible Spending Account (FSA) for health expenses	$520		
Benefit Cost	$11,780	$11,220	**Step 3: Calculate Excess Benefit & Excise Tax**
		Excess Benefit	($11,780-$11,220) = $560
		Excise Tax	$560*40% = $224

Here, the age and gender adjustment assumes that the employer's total workforce is 10% more expensive on average than the national workforce. Accordingly, the self-only coverage tax threshold is increased 10%. As such, the same employee incurs almost 2/3 less tax liability due to the age and gender adjustment.

The adjustment for the age and gender composition of the workforce of each of Vermont's public employers is a particularly important one. In 2018 for the most popular State of Vermont plan, for example, the particular method used by the actuaries raises the self-only tax threshold from $10,200 to $11,250 and the other-than-self-only tax threshold from $27,500 to $30,350. Consequently, the tax liability is hugely different from estimates that used the statutory threshold. While critically important, the federal government has not published final guidance on how to calculate the age and gender adjustment.

Retirees

The definition of employee for purposes of the Excise Tax includes "any former employees, surviving spouse, or other primary insured individual."[22] Accordingly, the Excise Tax applies to coverage offered to retirees. As noted in the preceding section, a qualified retiree receives a tax threshold adjustment if they are (1) receiving coverage as a retiree, (2) age 55 or older, and (3) not entitled to or eligible for enrollment in Medicare.[23] It is important to note that retirees in the Vermont State Teachers' Retirement System of Vermont are considered "employees" of the State, not school districts, for purpose of health care coverage and the excise tax.[24]

Taxpayer

Overall, the employer is responsible for calculating the tax and reporting it to both the IRS and the "coverage provider" who is responsible for paying the tax. The IRS is still considering approaches for determining who is the

[22] 26 U.S.C. § 4980I(d)(3).
[23] 26 U.S.C. § 4980I(f)(2).
[24] "For purposes of group hospital-surgical-medical expense insurance, the term 'employees' shall include… former employees as defined in this subdivision who are retired and are receiving a retirement allowance from the Vermont State Retirement System or the State Teachers' Retirement System of Vermont." 3 V.S.A. § 631(a)(2)(A).

"person that administers the benefit plan."[25] The two approaches under consideration include (a) the person who performs day-to-day functions including receiving and processing claims, such as a Third Party Administrator, or (b) the person who has the ultimate authority under the plan, the employer.[26]

The total cost of the tax may change depending on who remits the tax payment. The law states that the tax is due from the insurer, employer, or "person that administers the plan benefits" if self-insured.[27] Therefore, an insurer or administrator may remit the tax on behalf of an employer if the plan is fully insured or the employer is not the "person that administers the plan benefits." This matters because the law prohibits taxpayers from deducting the tax as a business expense.[28] Therefore, an insurer or administrator paying the tax on behalf of an employer would record that tax payment as taxable income. Additionally, the insurance company or administrator would be allowed to charge the employer a gross up amount sufficient to cover the income tax liability incurred by the insurer or administrator. Gross up payments could add substantial cost to employers on top of their tax liability. Private employers may deduct the gross up payment, but public employers have no tax liability from which to deduct.

[25] See 26 U.S.C. §4980I(c)(4) and IRS Notice 2015-52, Sec. IIIB, pg. 4.
[26] Comments on this issue were due to the IRS on October 1, 2015.
[27] 26 U.S.C. § 4980I(c)(2).
[28] 26 U.S.C. § 4980I(f)(10).

Part II: Estimated Status Quo Tax Liability

The study estimated tax liability for participating employer groups, the State of Vermont, education employees enrolled in VEHI, municipalities, and the Vermont State Colleges. The status quo analysis sets forth key assumptions and key results followed by a discussion of the results.

Key Assumptions[29]

- Employers maintain current benefit plans and same level of out of pocket costs[30]
- Health care costs grow 6.5% annually
- Inflation adjustment is 3.3% in 2019 and 2.3% in all later years
- Calculation includes employer specific age and gender adjustment and employee specific adjustments for Non-Medicare retirees and high risk workers as applicable
- Medicare retirees are not aggregated with active employees and Non-Medicare retirees due to the EGWP benefit for Medicare retirees[31]
- Estimate includes an Aggregated Scenario that averages other-than-self-only coverage benefit costs and a Non-Aggregated scenario that does not average other-than-self-only benefit costs

Key Results

- Unsettled federal rules have a huge potential impact on tax estimates[32]
- Each employer group in the study will owe tax starting in 2018 and annually thereafter absent plan changes
- The tax owed by employers is estimated to increase substantially on a percentage basis over time
- Estimated tax liability varies considerably by employer
- Tax estimates vary significantly depending on how fast annual health care costs grow
- Some employer benefit plans generate more tax than others when employers offer multiple benefit plans
- Self-only coverage within health plans generate the majority of estimated tax liability during the first years of the tax under the most likely scenario
- Active employees and Non-Medicare retirees generate more estimated tax liability than Medicare retirees during the study period

Discussion of Results

<u>Each Employer Group in the Study Will Owe Tax Starting in 2018 and Annually Thereafter Absent Plan Changes</u>

The study estimated the tax liability for each participating public employer under the status quo, absent plan changes. The actuaries estimate that tax liability will begin to accrue in 2018 for each employer in both the aggregated and non-aggregated scenario. Table 4 on the next page sets forth the estimated tax liability for each employer under both scenarios.

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[29] A full description of the actuarial methods used to estimate tax liability is available in Appendix A.

[30] It is critical to note that VEHI will be introducing new plan designs s for plan years starting July 2018. The plan designs were not taken into consideration for this study given the lack of claims data and historical experience.

[31] It is the opinion of the actuaries that use of an Employer Group Waiver Plan (EGWP) for prescription drug coverage for Medicare retirees means that Medicare retirees and Non-Medicare retirees have different plans and cannot be grouped for aggregation purposes. There is no federal guidance on this specific issue. Accordingly, the study tests a scenario where Medicare retirees and Non-Medicare retirees are aggregated.

[32] Federal uncertainty is described in the preceding section and throughout the report.

Table 4: Estimated Employer Tax Liability, 2018 - 2027

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
VEHI	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Muni	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
VSC	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Non-Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
VEHI	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Muni	$426,068	$713,299	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391
VSC	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518

Tax Owed by Employers Increases Substantially on a Percentage Basis

Estimated tax liability grows substantially on an annual basis for all employers in both the aggregated and non-aggregated scenario. Table 5 below displays estimated annual percentage change in tax liability for the State of Vermont and VEHI in both the aggregated and non-aggregated scenario.

Table 5: State of Vermont and VEHI Annual Tax Increases by Percentage

State of Vermont	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Aggregated	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Annual Increase %		110%	96%	73%	100%	75%	46%	37%	29%	25%
Non-Aggregated	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Annual Increase %		97%	70%	47%	35%	30%	24%	22%	22%	23%
VEHI	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Aggregated	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Annual Increase %		74%	63%	221%	150%	77%	101%	100%	56%	39%
Non-Aggregated	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Annual Increase %		115%	105%	130%	289%	81%	51%	38%	31%	26%

A plan by plan analysis revealed that not every employee benefit plan exceeds the tax threshold in 2018. However, each year more employee benefit plans become subject to the tax as annual health care costs exceed the allowed inflation adjustment. When a plan becomes subject to the tax it shifts the entire group of employees from being below the tax threshold to above the tax threshold, creating a large jump in tax liability. For example, the actuaries estimate that VEHI's most popular plan will not exceed the threshold from 2018-2020; however, it exceeds the tax threshold in 2021. This creates an unusually large jump in tax liability in 2021. Annual growth levels off in later years as nearly all employee benefits are subject to the tax. In these years, the tax increase is due to the mismatch between health care cost trends and inflation.

Estimated Tax Liability Varies Considerably by Employer

Generally, the public employers in the study are similarly situated as described in the above results. All participating employers are estimated to accrue tax liability starting in 2018 and the estimated tax grows substantially on an annual basis. Yet, each public employer accrues tax at a different rate. Specifically, the study uses the *per employee per year* cost of the tax as a benchmark to differentiate employers. In this context, per employee means only those employees with a health insurance contract through their employer, rather than all employees with the public entity.

Table 6: Per Employee Per Year Tax Estimate, Aggregated Scenario

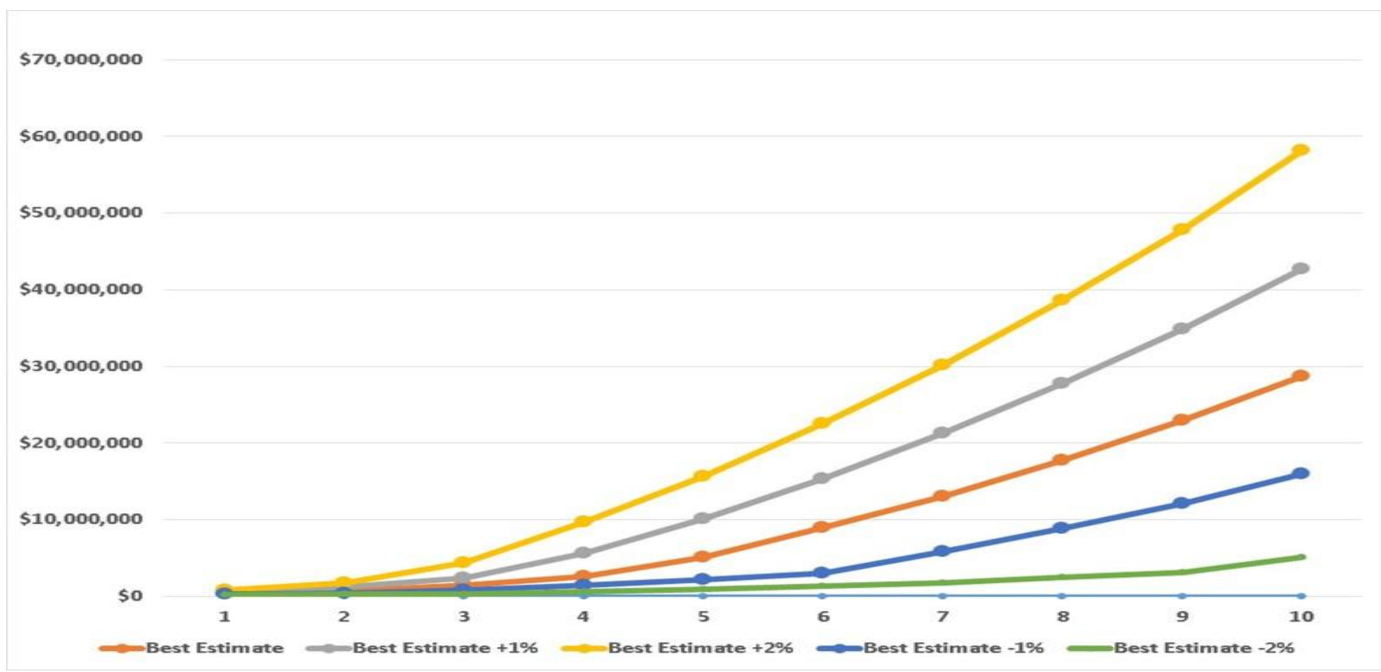
Aggregated	Contracts	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	12,024	$30	$63	$122	$212	$424	$741	$1,080	$1,479	$1,909	$2,387
VEHI	21,276	$4	$7	$11	$36	$91	$161	$323	$648	$1,014	$1,408
Muni	4,408	$8	$15	$27	$50	$115	$215	$370	$601	$876	$1,231
VSC	1,485	$18	$53	$106	$177	$450	$785	$1,151	$1,564	$2,012	$2,498

The State of Vermont and Vermont State Colleges start with higher cost health insurance plans. Accordingly, they reach the tax threshold first and continue to outpace VEHI and municipalities on a per employee basis.

Tax Estimates Vary Significantly Depending on How Fast Annual Health Care Costs Grow

The study demonstrates the sensitivity of the tax to annual health care cost growth. The actuaries estimated 6.5% annual health care cost growth for Vermont's public employers; however, they tested scenarios ranging from 4.5% annual cost growth to 8.5% annual cost growth. Table 7 provides the range of tax liability depending on the trend assumptions for the State of Vermont under the aggregated scenario. Tax liability is markedly different depending on the trend. For example, the State of Vermont estimated tax liability in 2027 at 4.5% growth, the lowest realistic scenario according to the actuaries, is approximately $5 million. Alternatively, State of Vermont estimated tax liability is approximately $58 million assuming 8.5% annual health care growth, the highest actuarial estimate.

Chart 7: Tax Liability and Annual Cost Growth between 4.5% and 8.5%[33]



Even the most optimistic trend, estimated at 4.5%, exceeds the allowed annual growth for inflation, estimated at 2.3% annually after 2019. The mismatch between benefit cost growth and inflation drives tax liability higher over time. Also, tax liability seems to accelerate starting in 2022. Plan specific analysis reveals that this is approximately the point at which most employer plans are above the tax threshold. Accordingly, nearly every dollar spent on health care growth in excess of inflation is subject to the 40% tax in these later years.

Health care costs exceeding underlying inflation or economic growth is not specific to public employee benefit plans. Traditionally, health care cost growth for all employers, public and private, have exceeded inflation. The Kaiser Family Foundation's Employer Health Benefit Surveys provide a good resource on historical health care cost growth for employers. See www.kff.org. Vermont specific data can be found through the Green Mountain Care Board.[34]

Federal Aggregation Rules and Tax Threshold Adjustments May Significantly Reduce Tax Liability

The proposed aggregation rules, the ability to average other-than-self-only coverage plan costs, have the potential ability to reduce the tax. Similarly, the tax threshold adjustments, and the age and gender adjustment in particular, have the potential to reduce tax liability. Together, these concepts, if enshrined in federal regulations, may reduce tax liability by millions of dollars.

Table 8 on the next page demonstrates the estimated reduction in tax liability for employers due to aggregation.

[33] A similar chart is available for all employers in Appendix B.

[34] The Green Mountain Care Board's Annual Expenditure Analysis discusses growth rate by payer in Vermont. See http://gmcboard.vermont.gov/resources_reports.

Table 8: Estimated Reduction in Tax Liability Due to Aggregation by Employer

SOV	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Non-Aggregated	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Aggregated	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Tax Reduction	$1,165,364	$2,244,082	$3,618,157	$4,948,305	$4,996,698	$4,166,994	$3,289,657	$2,079,624	$1,204,153	$984,544
VEHI	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Non-Aggregated	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Aggregated	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Tax Reduction	$49,417	$140,703	$349,504	$583,923	$3,342,591	$6,159,975	$7,591,343	$6,186,835	$4,575,301	$2,982,236
Muni	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Non-Aggregated	$426,068	$713,299	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391
Aggregated	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Tax Reduction	$391,314	$648,367	$1,132,469	$1,808,322	$2,454,159	$3,073,137	$3,557,316	$3,831,485	$4,029,724	$3,995,161
VSC	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Non-Aggregated	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518
Aggregated	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Tax Reduction	$15,425	$145,812	$366,790	$575,854	$522,783	$423,223	$312,797	$165,206	$56,513	$36,404

The tax reduction value of aggregation peaks and then diminishes over time. The value diminishes as the entire population of other-than-self-only enrollees gradually become subject to the tax, and this number of other-than-self-only enrollees likely exceeds the number subject to tax in the Non-Aggregated scenario.[35] That peak occurs earlier for the State of Vermont and Vermont State Colleges as each starts from a generally higher benefit cost than VEHI or municipalities.

The age and gender adjustment serves to increase the tax threshold, delaying when plans reach the tax threshold and reducing tax liability for plans that exceed the threshold. For example, the difference between the self-only coverage statutory threshold of $10,200 and SelectCare tax threshold of $11,250 has the potential to reduce the tax liability generated by each self-only enrollee by $420. Table 9 compares inflation adjusted statutory tax thresholds to the age and gender adjusted tax thresholds for the State of Vermont and VEHI, demonstrating how the adjustment may significantly change the tax calculation.

[35] Eventually, after 2027, the aggregated scenario may create more tax liability than the non-aggregated scenario. This may occur for the following reason. Family plans reach the tax threshold quickly in the Non-Aggregated scenario; however, couple plans take longer to reach the threshold. Under the Aggregated scenario, where the value of all other-than-self-only coverage is being averaged, other-than-self-only plans take longer to reach the tax threshold initially; however, more employees exceed the tax threshold once it is reached. A longer term study could assess whether the non-aggregated scenario is less expensive over a longer time period. While potentially more expensive in nominal terms, a long term study would need to account for the present value of the tax reductions between 2018 and 2027. The author does not wish to make too much of this point given that we would need to look out approximately 15 – 30 years to measure this effect.

Table 9: Statutory and Adjusted Tax Thresholds for Selected Plans, 2018 – 2027[36]

Tax Thresholds by Year		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV Tax Thresholds	Self-Coverage	$11,250	$11,650	$11,900	$12,150	$12,450	$12,750	$13,050	$13,350	$13,650	$13,950
	Other-than-Self Coverage	$30,350	$31,350	$32,100	$32,800	$33,600	$34,350	$35,150	$35,950	$36,800	$37,600
Inflation Adjusted Statutory Tax Thresholds	Self-Coverage	$10,200	$10,540	$10,780	$11,030	$11,280	$11,540	$11,810	$12,080	$12,360	$12,640
	Other-than-Self Coverage	$27,500	$28,410	$29,060	$29,730	$30,410	$31,110	$31,830	$32,560	$33,310	$34,080
Tax Thresholds by Year		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI Tax Thresholds	Self Coverage	$11,050	$11,400	$11,650	$11,950	$12,200	$12,500	$12,800	$13,100	$13,400	$13,700
	Other-than-Self Coverage	$29,750	$30,750	$31,450	$32,200	$32,950	$33,700	$34,450	$35,250	$36,050	$36,900
Inflation Adjusted Statutory Tax Thresholds	Self Coverage	$10,200	$10,540	$10,780	$11,030	$11,280	$11,540	$11,810	$12,080	$12,360	$12,640
	Other-than-Self Coverage	$27,500	$28,410	$29,060	$29,730	$30,410	$31,110	$31,830	$32,560	$33,310	$34,080

The study estimates that the tax threshold adjustments reduce tax liability by millions of dollars, as the adjusted thresholds exceed the statutory thresholds.[37]

Some Employer Benefit Plans Generate More Tax than Others When Employers Offer Multiple Benefit Plans

The analysis calculated estimated tax liability on a plan by plan basis. The analysis revealed that individual plans accrue tax liability at different rates since they start at different cost levels. Table 10 illustrates this point by comparing the per employee per year cost of the State of Vermont Total Choice plan for active employees, which is the highest cost State offering, to SelectCare, the State's less expensive and most heavily utilized plan. Additionally, the table compares VEHI's two most popular plans.

Table 10: Per Employee Per Year Cost of SOV and VEHI's Most Popular Plans, Active Employees Only

State of Vermont Active Employees	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
TotalChoice Active Total	$451	$575	$965	$1,427	$1,901	$2,432	$3,001	$3,621	$4,286	$5,021
SelectCare Active Total	$16	$62	$134	$253	$574	$1,057	$1,572	$2,138	$2,743	$3,418
VEHI Active Employees	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
VHP Total	$3	$5	$7	$44	$120	$206	$435	$916	$1,444	$2,011
Comp $1,200 MMH Rx $5/$20/$45 Total	$0	$0	$0	$0	$0	$2	$3	$5	$7	$69

[36] Additionally, some employees receive the qualified retiree adjustment or high risk employee adjustment of $1,650 for self-only coverage and $3,450 for other-than-self coverage during these years, further reducing or delaying tax liability for the employer.
[37] Estimated tax liability using the statutory tax thresholds is available in Appendix B.

Self-Only Coverage Generate Majority of Estimated Tax Liability during the First years of the Tax under the Most Likely Scenario

Self-only coverage generates much of the tax in early years, particularly in the aggregated scenario. Table 11 divides estimated tax liability by employer between tax due to self-only coverage and other-than-self-only coverage for all employees, including retirees.

Table 11: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability by Employer, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Self-Only	$341,632	$716,251	$1,303,770	$1,946,900	$2,626,729	$3,440,231	$4,320,728	$5,282,883	$6,332,000	$7,473,729
Other-than-Self-Only	$16,175	$35,893	$168,856	$602,769	$2,466,783	$5,467,482	$8,660,586	$12,501,287	$16,627,229	$21,228,195
VEHI	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Self-Only	$85,039	$148,052	$238,521	$764,000	$1,782,885	$2,852,422	$4,182,789	$5,888,302	$7,785,154	$9,853,910
Other-than-Self-Only	$0	$0	$2,819	$11,130	$156,431	$573,146	$2,697,252	$7,902,619	$13,779,221	$20,093,088
Muni	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Self-Only	$34,754	$64,932	$120,398	$188,480	$261,981	$340,591	$436,488	$571,070	$730,189	$898,240
Other-than-Self-Only	$0	$0	$0	$30,189	$245,443	$608,061	$1,196,220	$2,078,560	$3,132,319	$4,527,991
VSC	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Self-Only	$26,842	$78,109	$156,914	$236,185	$325,305	$429,450	$543,344	$667,620	$795,392	$942,500
Other-than-Self-Only	$0	$0	$0	$26,064	$343,589	$735,787	$1,166,507	$1,655,544	$2,192,431	$2,767,613

For each employer, other-than-self-only plan tax liability eventually exceeds self-only coverage liability, as other-than-self-only coverage plans begin to exceed the tax threshold. Conversely, other-than-self-only tax liability generally exceeds self-only generated tax liability in the non-aggregated scenario. Table 12 illustrates the split of tax between self-only coverage and other-than-self-only coverage in the non-aggregated scenario.

Table 12: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability by Employer, Non-Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Self-Only	$341,632	$716,251	$1,303,770	$1,946,900	$2,626,729	$3,440,231	$4,320,728	$5,282,883	$6,332,000	$7,473,729
Other-than-Self-Only	$1,181,539	$2,279,974	$3,787,013	$5,551,074	$7,463,481	$9,634,475	$11,950,243	$14,580,912	$17,831,382	$22,212,739
VEHI	$134,456	$288,755.7	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Self-Only	$85,039	$148,052	$238,521	$764,000	$1,782,885	$2,852,422	$4,182,789	$5,888,302	$7,785,154	$9,853,910
Other-than-Self-Only	$49,417	$140,703	$352,323	$595,053	$3,499,022	$6,733,121	$10,288,595	$14,089,455	$18,354,522	$23,075,324
Muni	$426,068	$713,299.4	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391
Self-Only	$34,754	$64,932.4	$120,398	$188,480	$261,981	$340,591	$436,488	$571,070	$730,189	$898,240
Other-than-Self-Only	$391,314	$648,367	$1,132,469	$1,838,511	$2,699,602	$3,681,197	$4,753,536	$5,910,045	$7,162,044	$8,523,152
VSC	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518
Self-Only	$26,842	$78,109	$156,914	$236,185	$325,305	$429,450	$543,344	$667,620	$795,392	$942,500
Other-than-Self-Only	$15,425	$145,812	$366,790	$601,919	$866,372	$1,159,011	$1,479,304	$1,820,751	$2,248,944	$2,804,018

Again, we see the potential ability of the aggregation rules to shape the tax and reduce tax liability.

Active Employees and Non-Medicare Retirees Generate More Estimated Tax Liability than Medicare Retirees during the Study Period

Medicare retirees generate very little tax liability during this time series since they start at such a low cost compared to plans for active employees and Non-Medicare retirees. For example, the most popular State of Vermont and VEHI Medicare retiree plans do not generate tax liability during the time period measured in the aggregated scenario.

Medicare Retirees and Averaging Benefit Costs

One issue discussed at length in the stakeholder group is whether Medicare retirees could be aggregated with both active employees and non-Medicare retirees. This would be potentially useful in lowering tax liability given that Medicare enrollee costs are lower than active employees and Non-Medicare retirees. The actuaries believe the State's EGWP pharmacy benefit for Medicare eligible retirees means that Medicare retirees have a different plan than active and Non-Medicare retirees. Accordingly, they cannot be aggregated with active employees and Non-Medicare retirees. Given that there is no federal guidance on this issue, the study analyzed an alternative status quo where Medicare retirees can be grouped and averaged with other employees.

Table 13: Estimated Tax when Aggregating All Employees, including Medicare Eligible Retirees

Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV Status Quo	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
SOV Aggregate Medicare	$0	$0	$0	$0	$3,900	$55,324	$107,183	$799,274	$1,650,095	$2,956,764
Tax Reduction	**$357,807**	**$752,144**	**$1,472,626**	**$2,549,669**	**$5,089,612**	**$8,852,389**	**$12,874,131**	**$16,984,896**	**$21,309,134**	**$25,745,160**
VEHI Status Quo	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
VEHI Aggregate Medicare	$884	$1,303	$35,903	$81,762	$134,688	$524,374	$1,582,358	$3,387,022	$6,026,575	$13,687,655
Tax Reduction	**$84,155**	**$146,749**	**$205,437**	**$693,367**	**$1,804,628**	**$2,901,194**	**$5,297,684**	**$10,403,900**	**$15,537,800**	**$16,259,343**
VSC Status Quo	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
VSC Aggregate Medicare	$0	$0	$0	$0	$0	$0	$0	$1,759	$29,052	$368,002
Tax Reduction	**$26,842**	**$78,109**	**$156,914**	**$262,249**	**$668,894**	**$1,165,238**	**$1,709,851**	**$2,321,405**	**$2,958,771**	**$3,342,111**

More federal guidance is needed to evaluate this scenario, as considerable uncertainty remains. Beyond guidance on the aggregation rules, the State needs more information on the age and gender tax threshold adjustment, which does not presently contain information on how to account for retirees. Legal analysis would need to occur to ensure that a plan including Medicare enrollees and Non-Medicare enrollees complies with federal law. Additionally, the State would need to off-set any estimated excise tax reduction with any additional costs incurred due to a modification of retiree prescription drug arrangements.

Part III: Health Policy Strategies to Reduce or Eliminate the Tax

The study tested various strategies designed to reduce or eliminate tax liability. Specific scenarios are set forth below grouped by broad category.

- Avoiding the Tax Entirely
  - Scenario 1: Stop offering employer sponsored health insurance to public employees
- Change Plan Designs to Reduce Overall Costs
  - Scenario 2: Adopt different plan designs
  - Scenario 3: Eliminate higher cost benefit plans
  - Scenario 4: Remove Flexible Spending Account (FSA) contributions
- Reduce Health Plan Costs
  - Scenario 5: Enact one time plan cost changes
  - Scenario 6: Engage in payment and delivery system reform
- Consolidate Employer Groups
  - Scenario 7: Create a combined public employer risk pool
  - Scenario 8: Require purchase of insurance in Vermont Health Connect
  - Scenario 9: VEHI Employers Purchase Group Insurance in Vermont Health Connect at a Lower Metal Level
  - Scenario 10: Explore multiemployer plan option

The order of the scenarios should not be considered a ranking or recommendation. Each scenario analysis will include a description of the scenario, key assumptions, results, and considerations. The key in evaluating scenario results is trying to determine what mechanism is reducing estimated tax liability and then evaluating whether you need that particular strategy to achieve those results. For example, in evaluating a combined public employer risk pool the analysis seeks to determine whether any reduced tax liability is accomplished by the creation of the pool or whether it is due to increasing out of pocket costs, which can be accomplished without the creation of a combined public employer risk pool.

Additionally, it is crucial to note that strategies are not mutually exclusive. Frequently, the tax analysis reveals multiple factors working simultaneously. For example, the study assumed that public employers would stop offering FSAs, HSAs, and HRAs as a first strategy to avoid tax liability, raising out of pocket costs for a segment of their enrolled population, prior to raising out of pocket costs for everyone. Accordingly, many scenarios feature the interaction between the tax reduction due to ending FSAs, HSAs, and HRAs and other factors.

Overall, each scenario that maintains employer sponsored health insurance triggers the excise tax. Yet, most strategies delay or reduce tax liability. Delayed tax liability may be important to policymakers, providing time to either determine whether Congress will amend or repeal the law, develop a long term strategy for addressing the tax, or provide systemic payment and delivery reforms the time to work and reduce overall health care costs.[38]

[38] It is important to note that the excise tax is subject to considerable scrutiny in Washington with many people, including Vermont's congressional delegation, calling for its repeal. Policymakers should continue to monitor the situation carefully, along with monitoring future IRS guidance and Treasury regulations.

Avoiding the Tax Entirely

Scenario 1: Eliminate Employer Sponsored Health Care Coverage for Public Employees

Summary

The only way to guarantee elimination of excise tax liability is to stop providing employer sponsored health insurance. Scenario 1 assumes that participating public employers stop offering health insurance starting January 1, 2018, thereby eliminating all excise tax liability. The purpose of this scenario is to create a framework to examine such a change, focusing on the types of decisions that would need to be made by public employers and identifying expenses and potential expenses that employers and employees may incur.

Public employers would avoid excise tax liability and save any money currently spent on health insurance. These savings would be offset by a variety of expenses and potential expenses. Expenses include the federal penalties and state assessments that would be assessed if public employers dropped insurance coverage. The study identifies other potential expenses that employers and employees may incur, including increased wage costs, payroll taxes, income taxes, unemployment insurance, workers' compensation, and retirement costs. Additionally, enrollment may increase participation in other government health programs, including Vermont Premium Assistance, Vermont Health Connect cost sharing reductions, and Medicaid. Lastly, private businesses may see increased costs due to expanded enrollment in their own health insurance if public employers no longer offer health care coverage.

Key Assumptions

- Public employers stop offering health care coverage
- Employers with 50 or more employees pay the federal Employer Shared Responsibility Payment
- Employers with more than four employees pay the Vermont Employer Health Care Contribution
- We were unable to determine the amount of state assessment currently paid by public employers. For this reason, the assessment estimates may not be entirely new costs to the employer nor entirely new revenue to the State.

Results

The key to this scenario is creating a framework that demonstrates that total pool of savings generated by no longer offering insurance and then off-setting those savings with expenses incurred. Projected savings from not offering insurance are set forth in Table 14. These savings would be off-set by federal penalties and state taxes assessed due to a failure to offer insurance, as set forth in Table 15 and Table 16 on the next page.

Table 14: 2016 Current Public Employer Health Care Spending[39]

Employer	Estimated 2016 Employer Health Care Spending
State of Vermont CY 16	$147,121,894
VEHI CY 16	$204,087,381
Municipalities CY 16	$61,281,337
Vermont State Colleges FY 15	$20,500,450

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[39] The goal is to place penalty and assessment costs in context. The estimates, particularly the municipal estimate, should be further refined if policymakers pursue this strategy. State of Vermont estimate provided by the Vermont Department of Human Resources. VEHI estimate provided by VEHI based on averaging estimated FY 16 and FY 17 costs, excluding retiree, private school, and association spending. Municipal estimate based on analysis of 2013 Vermont data by Wakely Consulting for Green Mountain Care project trended to 2016. Vermont State Colleges data provided by Vermont State Colleges, including retiree costs.

Table 15: Federal Employer Shared Responsibility Payment

	# FTEs	ACA ESRP Adjusted Count	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Burlington	844	814	$1,904,760	$1,986,160	$2,067,560	$2,157,100	$2,246,640	$2,344,320	$2,442,000	$2,539,680	$2,653,640	$2,759,460
Rutland City	195	165	$386,100	$402,600	$419,100	$437,250	$455,400	$475,200	$495,000	$514,800	$537,900	$559,350
Colchester	115	85	$198,900	$207,400	$215,900	$225,250	$234,600	$244,800	$255,000	$265,200	$277,100	$288,150
Shelburne	66	36	$84,240	$87,840	$91,440	$95,400	$99,360	$103,680	$108,000	$112,320	$117,360	$122,040
St. Albans City	60	30	$70,200	$73,200	$76,200	$79,500	$82,800	$86,400	$90,000	$93,600	$97,800	$101,700
St. Johnsbury	50	20	$46,800	$48,800	$50,800	$53,000	$55,200	$57,600	$60,000	$62,400	$65,200	$67,800
Bennington	92	62	$145,080	$151,280	$157,480	$164,300	$171,120	$178,560	$186,000	$193,440	$202,120	$210,180
Brattleboro	150	120	$280,800	$292,800	$304,800	$318,000	$331,200	$345,600	$360,000	$374,400	$391,200	$406,800
Springfield	99	69	$161,460	$168,360	$175,260	$182,850	$190,440	$198,720	$207,000	$215,280	$224,940	$233,910
Montpelier	105	75	$175,500	$183,000	$190,500	$198,750	$207,000	$216,000	$225,000	$234,000	$244,500	$254,250
Barre City	80	50	$117,000	$122,000	$127,000	$132,500	$138,000	$144,000	$150,000	$156,000	$163,000	$169,500
Barre Town	50	20	$46,800	$48,800	$50,800	$53,000	$55,200	$57,600	$60,000	$62,400	$65,200	$67,800
Hartford	98	68	$159,120	$165,920	$172,720	$180,200	$187,680	$195,840	$204,000	$212,160	$221,680	$230,520
Chittenden Transit Authority	105	75	$175,500	$183,000	$190,500	$198,750	$207,000	$216,000	$225,000	$234,000	$244,500	$254,250
Vermont State Housing Authority	71	41	$95,940	$100,040	$104,140	$108,650	$113,160	$118,080	$123,000	$127,920	$133,660	$138,990
Williston	71	41	$95,940	$100,040	$104,140	$108,650	$113,160	$118,080	$123,000	$127,920	$133,660	$138,990
Essex Town	70	40	$93,600	$97,600	$101,600	$106,000	$110,400	$115,200	$120,000	$124,800	$130,400	$135,600
Stowe	75	45	$105,300	$109,800	$114,300	$119,250	$124,200	$129,600	$135,000	$140,400	$146,700	$152,550
South Burlington	120	90	$210,600	$219,600	$228,600	$238,500	$248,400	$259,200	$270,000	$280,800	$293,400	$305,100
Middlebury	59	29	$67,860	$70,760	$73,660	$76,850	$80,040	$83,520	$87,000	$90,480	$94,540	$98,310

No public employer in Vermont pays this penalty today. The estimate does not include VEHI due to the large number of employers, 270 overall, that participate in VEHI. Any VEHI employer with 50 or more employees would be subject to the penalty. The municipal estimate includes only employers with 50 or more employees. All other municipalities would be exempt from this federal penalty.

Table 16: Vermont Employer Health Care Contribution[40]

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
State of Vermont	$5,478,361	$5,774,193	$6,085,999	$6,414,643	$6,761,034	$7,126,129	$7,510,940	$7,916,531	$8,344,024	$8,794,601
VEHI	$11,524,839	$12,147,180	$12,803,128	$13,494,496	$14,223,199	$14,991,252	$15,800,780	$16,654,022	$17,553,339	$18,501,219
VSC	$677,576	$714,165	$752,730	$793,378	$836,220	$881,376	$928,970	$979,135	$1,032,008	$1,087,736

Municipalities excluded due to the large number of municipalities subject to the assessment. Any municipal employer with more than four employees would be required to pay the assessment.[41]

Quantifying other expenses is not possible at this time as they hinge on whether employers offer additional compensation in lieu of insurance and, if so, how much compensation is offered. Potential expenses are listed in Table 17.

Table 17: Potential Expenses

Indirect Cost	Payer	Rates
Increased Wages	Employer	Subject to negotiation
Payroll Taxes	Potentially employers and employees if wages are increased[42]	7.65%
Income Taxes	Employees if wages are increased	10%-39.6% for federal taxes 3.55% to 8.95% for state taxes
Unemployment Insurance	Employer if wages are increased	Variable
Workers Comp	Employer if wages are increased	Variable
Retirement Costs	Employer, employee, and retirement fund if wages are increased[43]	Variable

[40] The estimated tax liability is accrued for that calendar year. Yet, an employer would pay a slightly different amount in that year because while the assessment is set for a calendar year assessment payment lags by one quarter. Accordingly, for each calendar year employers remit three payments at the assessment value for the present year and one payment at the assessment value for the previous year. Stated mathematically, an employer paying for calendar year 2019 would pay (2018*1/4) + (2019*3/4).

[41] Public employers may already be paying the Employer Health Care Contribution on some employees. If so, not all of this liability will be a new cost to the employer.

[42] Both employers and employees would have payroll tax liability to the extent any of the present value of health insurance is converted to wages paid to the employees.

[43] Retirement obligations would increase with increased wages; however, the retirement funds would see a near elimination of OPEB liability if the State and other participating employers stopped offering health care and therefore no longer offered health care to retirees.

Migration Costs	Private employers	Public employees may migrate to the insurance of a spouse or partner in the private sector, shifting health insurance costs to that business.
Additional Public Program Utilization	State government	Removal of health insurance may make more Vermonters eligible for public programs, including Vermont Health Connect subsidies and Medicaid.

Particular attention should be paid to the issue of payroll taxes and income taxes. Currently, the value of employer sponsored insurance is excluded from the definition of income. Therefore, it is not subject to payroll or income taxes. Replacing health insurance coverage with compensation subject to taxation makes it much less valuable, as employees would receive it net of federal and state taxes paid. The reduction in value due to the loss of the tax expenditure may have important economic implications beyond the scope of this study.

Considerations

Scenario 1 represents a paradigm shift for public employers and employees. The end of employer sponsored insurance requires public employers to rethink their entire compensation structure. This includes unwinding the various ways health insurance creates variations in compensation. For example, three similarly situated employees, each with the same job title and wages, receive very different total compensation depending on whether they take insurance and the size of their family. Additionally, public employers would be creating an environment where employees may have very different benefit plans and benefit costs depending on whether they migrate to a spouse or partner's insurance plan or enter Vermont Health Connect. Employee costs and coverage in Vermont Health Connect may vary depending on whether the employee qualifies for federal and state subsidies. Finally, participation in public programs such as Medicaid, Dr. Dynasaur, Vermont Premium Assistance, and Vermont Health Connect cost sharing reductions may increase due to no longer offering health care benefits to public employees.

Change Plan Designs to Reduce Overall Cost

Scenario 2: Adopt Different Plan Designs

Summary

One strategy to reduce tax liability is to redesign benefit plans. This can be done in myriad ways, and re-evaluating plan designs to lower costs is a major component of the current health insurance landscape. Overall, new plan designs are meant to lower premiums, which could lower tax liability. Employers and employees could see savings, which they could spend on out of pocket costs if needed. Alternatively, the use of tax preferred vehicles like FSAs, HSAs and HRAs, while subject to the tax calculation, may make consumers more sensitive to health care expenses, lowering utilization, costs, and ultimately reducing the tax. These could be designed in such a way that does not initially raise out of pocket costs for enrollees. Overall, thoughtful approaches to plan redesign could be a valuable tool in addressing the tax, and the stakeholder group discussed this issue several times since VEHI intends to offer new plan designs beginning in 2018.

Additionally, the scenario analyzed a more mechanical approach where we determined the plan design changes needed to avoid the tax every year. Specifically, out of pocket costs are increased annually so that the benefit costs, here the premium after FSAs, HRAs, and HSAs are removed, do not exceed the tax threshold. The strategy eliminates tax liability; however, it is not a sustainable strategy. First, plan out of pocket costs will need to increase annually. Out of pocket costs do not stabilize because annual health care cost growth exceeds the statutory inflator. In this study, health care costs are projected to grow 6.5% annually while inflation is pegged at 2.3% annually after 2019. Furthermore, tax reductions are eventually off-set in part by federal penalties that are triggered when plan out of pocket costs, as measured by actuarial value, fall below the minimum federal standard. Additionally, employer specific analysis reveals that out of pocket costs increase at different rates for different employers based on current plan costs. Overall, the strategy has less impact on municipalities, which currently have generally lower plan costs.

Description

Out of pocket costs are raised annually so that the benefit cost is below the employer's tax threshold. The increased out of pocket costs are measured using actuarial value (AV). AV is the percentage of the total plan costs covered on average by an insurer, with the individual paying the rest out of pocket. In other words, the lower the AV the greater the out of pocket costs to the employee and the lower the premium of the plan.

Key Assumptions

- Employers maintain current covered services
- Health care costs grow 6.5% annually
- Inflation adjustment is 3.3% in 2019 and 2.3% in all later years.
- No FSA, HRA, or HSA contributions are assumed[44]

[44] We assumed that employers would eliminate FSA, HSA, and HRA contributions for some members prior to increasing out of pocket costs for all members. We made this assumption because it seems to reflect the behavior of employers in response to potential tax liability and it greatly simplified the actuarial analysis, particularly given the resources available for the study.

- Estimate includes aggregated scenario[45]
- Out of pocket costs are increased so that tax liability is not accrued
- Table 20 shows most popular State, VEHI, and VSC plans. Additional data is available in Appendix B

Results

Table 18 shows the reduction in AV required for public employers to avoid excise tax liability from 2018 to 2027.

Table 18: Illustration of Plan Design Changes to Achieve AV Levels that Avoid Excise Tax

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV SelectCare	96%	96%	93%	89%	85%	81%	77%	74%	71%	67%	64%
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
VSC POS	95%	94%	91%	87%	83%	79%	75%	71%	68%	65%	61%
I	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
VEHI Vermont Health Plan (VHP)	96%	96%	96%	96%	93%	89%	86%	82%	78%	75%	72%

The plans start at similar AVs, but the AV is reduced at different rates. The difference between the three plans is largely due to their initial value and the elimination of FSA contributions. For example, the State maintains its SelectCare AV in initial years through elimination of tax liability attributed to FSAs. Whereas, the state colleges start above the threshold and do not have heavy FSA utilization. Accordingly, its AV falls at a faster rate.

Table 19 provides some context to the AV scenarios above by providing examples of out of pocket costs per individual at various AV levels. These are illustrative only. Plans could be designed to have a different out of pocket cost structure. Additionally, it is important to note that these illustrations are for single plans and reflect 2016 only. The dollar amounts in Table 19 would need to be increased annually during the study period to reach the same AV.

Table 19: Illustration of Plan Designs to Achieve AV Levels in Table 18[46]

	Plan 1	Plan 2	Plan 3	Plan 4
Actuarial Value	90%	85%	80%	75%
Deductible	$500	$750	$1,250	$2,000
Coinsurance	10%	15%	20%	25%
Max Out of Pocket	$1,200	$2,000	$2,500	$3,100

Considerations

The Approach to Plan Design Matters

Plan design can be done in myriad ways, and re-evaluating plan designs to lower costs is a major component of the current health insurance landscape. On one hand, employers can use plan design to lower costs and try to make

[45] The Non-Aggregated scenario would require more out pocket payments by employees in early years, further reducing the plan AV.
[46] The table shows simple examples of the types of plan design changes required to reduce the AV in five percentage point increments. Please note that a number of plan design changes can produce the same effect on actuarial value. This table shows one such plan design change. Illustrations based on the 2016 HHS AV Calculator for Individual and Small Group Markets.

employees more sensitive to health care utilization. The municipal market is a good example of this strategy. Many municipalities entered Vermont Health Connect. There, municipalities have more plan options, beyond simply receiving the benefit of a community rated market that shares risk. They are able to use tax preferred vehicles like FSAs, HSAs, and HRAs that, while subject to the tax calculation, may make consumers more sensitive to health care expenses, lowering utilization, costs, and ultimately reducing the tax. These could be designed in such a way that does not initially raise out of pocket costs for enrollees and may save premium costs for employers and employees. Overall, thoughtful approaches to plan redesign could be a valuable tool in addressing the tax, and the stakeholder group discussed this issue several times since VEHI intends to offer new plan designs beginning in 2018. Alternatively, plans can be redesigned solely to avoid the tax. Considerations regarding this approach are described below.

Plan Out of Pocket Costs Will Need to Increase Annually

In these scenarios, employee out of pocket costs increase annually as illustrated above by the drop in AV level. Out of pocket costs do not stabilize because annual health care cost growth exceeds the statutory inflator. In this study, health care costs are projected to grow 6.5% annually while inflation is pegged at 2.3% annually after 2019.

Increasing Out of Pocket Costs Each Year to Avoid Tax Eventually Triggers Federal Penalties

The Affordable Care Act requires a minimum AV of 60 to avoid federal penalties.[47] Increasing out of pocket costs to avoid tax liability will eventually bring plan AV value below 60 triggering this penalty and reducing the financial benefit of lowering plan AV.[48] The penalties, along with projected annual out of pocket increases, make increasing out of pocket costs a more likely short term strategy rather than long-term strategy unless Congress changes the law or health care cost growth can be more closely aligned with inflation.

AV Value Falls at Different Rates Based on Current Cost of Plan

Each plan starts at a different cost given the plan design and the claims experience of its population. Accordingly, AV plan reductions differ by plan, with more expensive plans seeing the largest decline in AV in early years. A comparison of the two State of Vermont plans, Total Choice and SelectCare, demonstrate this point. Total Choice costs more today. As a result, the AV reductions are steeper in the first year and over the entire time series.

Table 20: AV Reduction Comparison, Total Choice and SelectCare

State of Vermont	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
TotalChoice	93%	75%	72%	68%	65%	62%	59%	56%	53%	50%	47%
SelectCare	96%	96%	93%	89%	85%	81%	77%	74%	71%	67%	64%

[47] Federal law does not prohibit employers offering plans with an AV below 60. It only penalizes employers that do so.
[48] Some plans analyzed during the study fall below the 60AV threshold during the study period, including the Total Choice plan offered by the State of Vermont. Please see Appendix B for a complete AV reduction analysis of public employer plans.

Less Impact on Municipalities in the AV Scenario

The study analyzed AV reductions to 14 separate municipal plans. AV value fell over time; however, they generally fell at a slower rate than other public employers. This can be attributed to the generally lower starting costs of municipal plans. Discussion in the stakeholder group focused on the fact that municipalities have seen lower costs by utilizing some of the strategies set forth in this study, including entering Vermont Health Connect and redesigning health insurance plans. See Appendix B for full municipal results for this scenario.

New Plans Represent Change for Many Public Employees

New plan designs, particularly those that rely on FSAs, HSAs, and HRAs, may represent a change for many public employees. For employers, these plans may provide flexibility to manage costs while waiting to see how the tax evolves. Accordingly, employers could retrench on FSA, HSA, and HRA contributions once the tax threshold is reached.

This scenario is related to Scenario 10, where we estimate the excise tax liability if VEHI employers entered Vermont Health Connect at various metal levels. In that scenario, you see the reduction in cost due to lowering the AV level, and increasing out of pocket costs; however, innovative plan designs could be used to buy up employees to a higher metal level.

Change Plan Designs to Reduce Overall Cost

Scenario 3: Eliminate Higher Cost Benefit Plans

Summary

The status quo analysis revealed that some employer benefit plans generate more tax than others when employers offer multiple benefit plans. Accordingly, one strategy to reduce tax liability would be to eliminate higher cost plans, but it is only available to employers offering multiple plans. This strategy would reduce tax liability as per employee spending moderates. This may result in requiring the use of in-network providers or higher costs for some employees. Also, the tax reduction may be off-set in part if employees in the higher cost plans increase the risk of the lower cost plan.

Key Assumptions

- All employees in a higher cost plans are migrated into per employee cost of most popular plan
- Plans that are lower cost than most popular plan are unchanged
- Municipalities are not included since they are not a single employer group that can migrate to another employer plan
- Per employee cost will not significantly increase with addition of employees from more expensive plan
    - We expect that there would be some off-setting costs; however, we would expect some tax reduction overall for the State of Vermont and VEHI

Results

The scenario reveals overall tax reductions for the State of Vermont and VEHI. The Vermont State Colleges see reductions in initial years, but these reductions disappear in later years as the per employee cost of their most popular plan exceeds the per employee cost of the other plans. Results are set forth in Table 21, using the aggregated scenario for active employees only. The contracts migrated is the number of employees being moved from a higher cost plan to a lower cost plan. In each case, the number of contracts moved is a small fraction, less than five percent, of all contracts for the employer.

Table 21: Tax Reduction Due to Migrating Plans that Exceed Per Employee Cost of Most Popular Plan

Aggregated Scenario	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV – Status Quo	12,024 Total	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
SOV - Tax Reduction	491 Migrate	$213,288	$251,681	$407,836	$576,686	$651,468	$675,459	$701,377	$728,346	$757,373	$786,651
VEHI - Status Quo	21,276 Total	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
VEHI - Tax Reduction	742 Migrate	$40,294	$80,644	$139,016	$177,797	$288,926	$558,475	$762,436	$805,977	$852,133	$901,406
State Colleges - Status Quo	1,485 Total	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
State Colleges - Tax Reduction	50 Migrate	$1,313	$3,875	$7,813	$11,025	$6,679	$709	($5,872)	($12,761)	($20,686)	($28,662)

Considerations

This scenario would change the plan structure for anyone enrolled in a discontinued plan. Covered services would likely not change, as these are regulated by federal and state law. Yet, this may result in requiring the use of in-network providers or higher costs for some employees. Also, the tax reduction may be off-set in part if employees in the higher cost plans increase the risk of the lower cost plan. For example, the State Total Choice plan is more expensive than the most popular SelectCare plan. The State would need to work with its actuaries to determine whether the absorption of Total Choice enrollees changes the risk profile of the pool as a whole. Here, we acknowledge that there may be some off-setting costs, but we do not calculate them. Our assumption is that migrating less than five percent of the population will not fundamentally change the price of the risk pool so that it exceeds the per employee cost of the higher prices plans. Additionally, this strategy is not available to employers that only offer one plan.

Change Plan Designs to Reduce Overall Cost

Scenario 4: Remove Flexible Spending Account (FSA) Contributions

Summary

FSA contributions for medical expenses are counted towards the benefit value for tax calculation purposes. The national trend seems to be that employers are reconsidering FSA usage because it provides a way to quickly lower tax exposure without disrupting underlying health benefits. Additionally, it affects only a subset of employees. No longer offering FSAs would reduce the tax liability for the State of Vermont, VEHI, and Vermont State Colleges substantially, as FSA contribution comprise a significant portion of tax liability in the early years of the tax. The emergence of this strategy, and how easy it is to implement, makes it a prominent factor in a number of tax reduction scenarios. Removing FSAs would affect employers and employees by removing a tax vehicle that exempts out of pocket costs from payroll and income taxes. Accordingly, any excise tax reduction for employers would be off-set in part by payroll taxes paid by the employer. Additionally, employees would be subject to payroll tax and income tax liability on those former FSA contributions.

Description

- Employers no longer offer FSAs to their employees

Key Assumptions

- Lack of FSA does not change utilization of health care
- Scenario does not calculate employer payroll tax off-set

Results

FSA contributions for medical expenses are counted towards the benefit value for tax calculation purposes. No longer offering FSAs, and reducing that spending, would lower the benefit value and ultimately lower the tax. No longer offering FSAs would reduce the tax liability for the State of Vermont, VEHI, and Vermont State Colleges substantially, as FSA contribution comprise a significant portion of tax liability in the early years of the tax. Table 22 sets forth the potential tax reduction for these employers in the aggregated scenario.

Table 22: FSA Tax Reduction for Selected Employers, Active Employees Only

Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV Estimated Tax Liability	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
SOV FSA Tax Reduction	$119,766	$132,452	$126,258	$388,176	$519,418	$555,555	$592,936	$633,100	$674,833	$721,076
VEHI Estimated Tax Liability	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
VEHI FSA Tax Reduction	$47,644	$68,573	$100,911	$122,689	$176,989	$334,418	$452,568	$469,827	$483,034	$498,354
VSC Estimated Tax Liability	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
VSC FSA Tax Reduction	$12,644	$13,050	$13,526	$40,075	$49,161	$50,012	$50,861	$51,722	$52,563	$53,429

The value of eliminating FSAs reduces the tax by one-third or more for each employer in 2018 and the tax reduction value of eliminating FSAs in 2018 compounds over time. The table accounts for active employees only. Municipalities were not included due to insufficient data.

Considerations

Less Disruption

The national trend seems to be that employers are reconsidering FSA usage because it provides a way to quickly lower tax exposure without disrupting underlying health benefits. Specifically, the removal of FSAs does not change plan benefits or co-payments. Additionally, it affects only a subset of employees. Table 22A sets forth the number of FSA enrollees compared to total active enrollees in the employer's health plan.

Table 22A: Active Employees Participating in FSAs

Aggregated Scenario	Contracts
SOV	12,024
SOV	922 FSAs
VEHI	21,276
VEHI	511 FSAs
VSC	1,485
VSC	171 FSAs

The emergence of this strategy, and how easy it is to implement, makes it a prominent factor in a number of tax reduction scenarios run by the actuaries.

Increased Marginal Cost

Removing FSAs would affect employers and employees by removing a tax vehicle that exempts out of pocket costs from payroll and income taxes. Accordingly, any excise tax reduction for employers would be off-set in part by payroll taxes paid by the employer. Generally, this will still produce a net reduction in expense for employers as the excise tax rate of 40% is higher than the payroll tax rate of 7.65%. For example, both State of Vermont plans exceed the threshold in 2018. Accordingly, the State reduces its tax obligation by 40 cents for every dollar of FSA contribution avoided. Yet, this ratio may not hold true for plans that have yet to reach the tax threshold or exceed the tax threshold by less than the full value of the FSA contributions. In these cases, the net savings would be less. A plan by plan and employee by employee analysis of FSA contributions would be required to determine the proper off-set amount and net savings.

Additionally, employees would be subject to payroll and income taxes on the value of former FSA contributions. Payroll taxes will reduce the value of the contributions by 7.65% while income taxes vary depending on the applicable

marginal tax rates. Overall, like the scenario where employers drop insurance, any elimination of a tax preference for health care reduces the present cash value of that compensation for employees.

Reduce Health Plan Costs

The report analyzed ways to reduce the tax by reducing the cost of a health plan. Here, the strategies seek to change the overall costs of the plan rather than enrollee out of pocket costs or the plan design. The study sets forth two separate scenarios to pursue this strategy, one based on small scale administrative changes by an employer or employer group and the other based on broader payment and delivery system reform between the government, employers, insurance companies, and health care providers. The small scale changes demonstrate the potential to lower tax liability immediately, though incrementally. Payment and delivery system reform demonstrates how bending the overall health care cost curve leads to substantial potential reductions in tax liability. Given the structure of the tax, with its reliance of the Consumer Price Index as its inflator and measurement of appropriate health care growth, the only effective long term strategy to deal with the excise tax is to bend the cost curve as far as possible.

Scenario 5: Enact One Time Plan Cost Changes

Summary

The study tested three onetime plan changes to measure their efficacy in reducing the tax, using the State of Vermont as the example employer. Overall, the plan changes offer three important potential lessons. First, employers should review costs that are built into premiums that could be allocated elsewhere. Second, employers should re-evaluate administrative costs when feasible. Third, the tax has a compounding effect over time. Accordingly, cost reductions that lead to a reduced tax liability in earlier years are more valuable than changes made in later years. These strategies may not be applicable for every study participant. An employer group, such as VEHI, may have much less flexibility to pursue these strategies. Employers purchasing insurance products will be unable to pursue these strategies as most of these costs are required to be built into the premium rate by state and federal law. Lastly, it is important to note that many additional one-off strategies could potentially be tested or pursued. These three strategies, requested by stakeholders, are illustrative of the type of incremental plan changes that employers may pursue if the tax is implemented as scheduled in 2018.

Description

- Remove benefit and wellness division costs from the premium
- Remove administrative costs from the premium
- Test the impact of one low growth year at the start of the tax period

Key Assumptions

- We assume that removal of administrative costs from the premium is permissible in self-insured plans. It is not clear that employers can do this given current COBRA rules. This as an aggressive tax strategy.
- These strategies cannot be used if an employer is using a fully insured product

Results

Each of these strategies reduced the tax liability; however, they did not fundamentally alter the long-term outlook of the tax.

Remove Benefit and Wellness Division Costs

Insurance premiums may include various administrative costs, taxes, and fees. The State of Vermont allocates the cost of some employees and activities associated with its benefits and wellness activities to the insurance premiums paid by employees. Currently, the overall cost of the Benefits and Wellness Division is approximately $1.8 million, and it is paid for via health insurance premiums on a per employee basis. The scenario removes this cost, to be paid for via the state budget, and re-prices employee premiums accordingly. Table 23 demonstrates the tax reduction due to this strategy compared to the status quo tax estimate for the State of Vermont.

Table 23: Tax Reduction from Reallocating Benefit and Wellness Division Cost

SOV Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Tax without Benefits & Wellness Costs	$299,506	$554,676	$1,244,991	$2,257,193	$4,402,806	$8,169,057	$12,194,646	$16,946,369	$22,066,971	$27,751,669
Tax Reduction	$58,301	$197,467	$227,635	$292,477	$690,707	$738,655	$786,668	$837,801	$892,259	$950,255
SOV Non-Aggregated Scenario	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Status Quo Tax	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Tax without Benefits & Wellness Costs	$1,288,352	$2,610,766	$4,677,881	$7,048,718	$9,567,698	$12,515,178	$15,670,079	$19,196,551	$23,248,080	$28,711,673
Tax Reduction	$234,819	$385,459	$412,902	$449,257	$522,512	$559,528	$600,893	$667,244	$915,301	$974,796

Tax reduction occurs in 2018 and grows over time. The tax reduction is not perfectly efficient in year 1, i.e. the employer does not receive tax reduction equal to the reduced cost ($1.8 million) multiplied by the tax rate of 40%. This is due to the fact that the State's most popular plan is over the tax threshold in 2018 by less than the per employee savings. In this way, tax reductions are weighted to later years. Overall, employers should review all costs built into a premium to ensure that they are not paying a 40% tax on costs that could be reallocated within their organization.

It is important to note that these benefit and wellness costs do not go away; rather, the State reallocates them to the state budget. Other employers may not have this opportunity. Specifically, VEHI is an employer group with no clear way to re-allocate costs. Additionally, employers buying insurance via Vermont Health Connect, like many municipalities, cannot re-allocate costs from the insurance premiums purchased there.

Remove Administrative Costs from the Premiums

Typically, plan administrative costs are built into an insurance premium. The study tested the tax reductions due to removing administrative costs from the premium. These costs would be reallocated. It is not clear whether removing these costs is compliant with the COBRA rules and regulations or state law. Employers should seek legal advice to determine if this type of allocation is permitted. If permissible, this strategy may reduce and delay the tax as depicted in Table 24.

Table 24: Tax Reduction from Removing Administrative Costs

SOV Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Tax without Admin costs	$198,878	$299,599	$551,850	$1,359,993	$2,456,579	$5,970,170	$9,852,831	$14,215,143	$19,158,215	$24,653,844
Tax Reduction	$158,929	$452,544	$920,776	$1,189,677	$2,636,933	$2,937,542	$3,128,483	$3,569,027	$3,801,014	$4,048,080
SOV Non-Aggregated Scenario	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Status Quo Tax	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Tax without Admin costs	$686,555	$1,762,304	$3,407,403	$5,697,430	$8,118,187	$10,974,501	$14,032,690	$17,414,111	$21,139,244	$25,947,422
Tax Reduction	$836,615	$1,233,921	$1,683,380	$1,800,545	$1,972,024	$2,100,205	$2,238,282	$2,449,684	$3,024,138	$3,739,046

Again, the tax reduction is distributed on a per employee basis. The elimination of administrative costs reduces the tax liability for those plans already over the tax threshold while slowing the growth of other plans not yet at the tax threshold. In this way, tax reductions are weighted to later years rather than being fully realized in year one.

Testing the Impact of One Low Growth Year at the Start of the Tax Period

Third, the tax has a compounding effect over time. Accordingly, cost reductions that lead to a reduced tax liability in early years can be quite valuable. Here, the actuaries tested the tax reductions generated by an unusually low cost year by applying a hypothetical 2.46% instead of the current estimate of 7.70% for calendar year 2016. The growth rate assumptions are the same as the underlying report for 2017 and beyond. Overall, one early low growth year reduced tax by more than 30% in the aggregated scenario and by more than half in the non-aggregated scenario. Table 25 demonstrates that single low growth year two years prior to the tax.

Table 25: Tax Reductions from One Low Year at the Start of the Tax Period

SOV Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Tax with Low Growth year	$245,357	$354,848	$968,704	$1,789,308	$2,882,766	$6,274,837	$10,177,301	$14,544,100	$19,508,554	$25,026,956
Tax Reduction	$112,449	$397,296	$503,922	$760,361	$2,210,746	$2,632,876	$2,804,013	$3,240,070	$3,450,675	$3,674,968
SOV Non-Aggregated Scenario	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Status Quo Tax	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Tax with Low Growth year	$685,975	$1,597,025	$3,597,920	$5,857,979	$8,243,516	$11,071,806	$14,134,374	$17,502,980	$21,243,097	$26,133,687
Tax Reduction	$837,195	$1,399,201	$1,492,863	$1,639,996	$1,846,694	$2,002,900	$2,136,597	$2,360,814	$2,920,284	$3,552,781

Considerations

Overall, the tax scenarios demonstrate how small strategies may reduce tax liability substantially. Employers likely should re-evaluate all costs, as they likely do today, in order to avoid paying a 40% tax on essentials that could be paid for outside the tax calculation. As stated above, not all study participants may be able to use these strategies. Additionally, some tax strategies may be aggressive. Employers would need to perform the relevant legal analysis and determine their level of risk for employing aggressive tax strategies. This includes analysis of both COBRA and the ACA.

Reduce Health Plan Costs

Scenario 6: Engage in Payment and Delivery System Reform

Summary

The State of Vermont, federal government, and stakeholders throughout the health care industry have made substantial investments in transforming Vermont's health care payment and delivery system. The study sets forth the potential financial benefits, in terms of reduced excise tax, of broader payment and delivery system reform between employers, insurance companies, and health care providers. Given the structure of the tax, with its reliance of the Consumer Price Index as its inflator and measurement of appropriate health care growth, the only effective long term strategy to deal with the excise tax is to bend the cost curve as far as possible. Specifically, health care costs are estimated to grow 6.5% annually in this study. Inflation is projected to grow at 2.3% after 2019. Accordingly, bending the cost curve toward an annual growth rate more aligned with inflation would be the only sustainable tax reduction strategy over the medium to long term.

Description

- The study assumes that the State's investments in payment and delivery system reform being made through the State Innovation Model (SIM) project and/or all-payer model project, and other aligned or similar private sector efforts, will lower the cost of care over time and employer premium costs specifically if they participate.
- The Blueprint for Health has demonstrated savings from implementing payment reforms as an incentive to change the way health care is delivered in a primary care setting.

Key Assumptions

- Keep status quo plan and enrollment assumptions
- Reduce annual cost growth from 6.5% to 5.5% assuming payment and delivery system reform reduces total costs by 1% annually
- Reduce annual cost growth from 6.5% to 4.5% assuming payment and delivery system reform reduces total costs by 2% annually

Results

The tax creates an environment where employers must keep annual health care cost growth at or below inflation or be subject to the tax, a powerful incentive to bend the health care cost curve and create consistent annual cost growth more aligned with inflation. The actuaries tested tax liability if annual costs grew at 5.5% and 4.5% annually, rather than the projected status quo of 6.5%. Table 26 sets forth the reduced tax liability from the status quo tax estimate if payment and delivery system reform efforts bend the cost curve by one percent and two percent respectively.

Table 26: Potential Tax Reductions from Payment and Delivery System Reform, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1% Reduction in Growth Due to Payment and Delivery System Reform										
State of Vermont	$80,093	$385,046	$649,654	$1,138,979	$2,944,666	$5,900,082	$7,186,489	$8,907,103	$10,819,746	$12,772,273
VEHI	$49,091	$72,457	$101,665	$573,212	$1,650,616	$2,482,958	$5,056,636	$10,804,410	$17,167,794	$21,356,499
Muni	$20,798	$42,568	$73,893	$131,596	$373,236	$739,933	$1,231,776	$1,941,526	$2,736,360	$3,717,542
VSC	$17,113	$48,473	$68,509	$116,841	$459,844	$773,780	$941,500	$1,152,650	$1,386,348	$1,632,269
2% Reduction in Growth Due to Payment and Delivery System Reform										
SOV	$134,981	$497,829	$1,136,218	$1,923,390	$4,140,541	$7,580,083	$11,180,430	$15,328,509	$19,810,037	$23,618,330
VEHI	$72,119	$126,719	$193,433	$690,492	$1,804,984	$3,245,765	$6,649,085	$13,496,922	$20,901,617	$28,682,209
Muni	$34,420	$60,926	$109,398	$199,527	$474,038	$891,559	$1,541,990	$2,527,869	$3,700,174	$5,197,986
VSC	$22,468	$70,674	$135,098	$204,241	$571,214	$1,024,250	$1,521,757	$2,070,758	$2,596,340	$3,046,991

Overall, bending the cost curve has the potential to save public employers millions of dollars over the study period. The excise tax provides a clear financial incentive for public employers to engage in payment and delivery system reform.[49]

Considerations

The level of cost containment described above, 1% or 2% below projected trend, is significant and represents a departure from the historical experience of employers in the study. The federal and state government, along with the private sector, is making large investments in achieving this level of change to truly bend the cost curve over time.

The State of Vermont, along with many stakeholders, are engaged in a broad, multifaceted program of health care reform designed to achieve the Triple Aim of better care, better health, and lower costs. The Vermont Health Care Innovation Project (VHCIP), funded through a $45 million federal State Innovation Model (SIM) grant, has directed the most recent iteration of Vermont's longstanding commitment to health care reform. Specifically, VHCIP is working to design value-based payment models for all payers, support provider readiness for increased accountability, and improve our health data infrastructure to enable all to use timely information for clinical decision-making and policy-making.

A hallmark of VHCIP's activities is collaboration between the public and private sectors. For example, more than 60% of Vermonters are participating in the Medicaid and commercial Shared Savings ACO Programs, which align with the Medicare Shared Savings ACO Program. The three ACOs in Vermont, organizations comprised of health care providers committed to health reform, include the majority of Vermont's health care providers. Vermont is also designing – and testing – various other value-based payment models intended to promote better sustainability of health care costs and higher quality. These include: pay-for-performance through enhanced Blueprint for Health payments, episodes of care/bundled payments, prospective payment systems, and capitation. By statute, payment and delivery system reform is the responsibility of the Green Mountain Care Board, and the VHCIP is co-directed by the board and the Agency of Administration.

The SIM project is continuing to work towards achieving its ambitious milestones while also developing a sustainability plan designed to continue innovation into the future when the tax will be implemented. While many

[49] The state employee plan recently began participating in the Blueprint for Health and other payment reforms offered by Blue Cross Blue Shield. VEHI has also recently expressed interest in looking into these efforts.

Vermonters participate in payment and delivery system reform, participation could be more robust. Specifically, self-insured employers could be a more active part of payment reform.

Concurrently, Vermont is also pursuing an all-payer model. An all-payer model is an agreement between the state and the federal government on a sustainable rate of growth for health care spending in that state; the agreement will include strict quality and performance measurement. The model would also include any necessary Medicare payment waivers, the renewal of a global commitment waiver for Medicaid, and the state's vision for the payment of providers. Currently, state and federal discussions have pegged the preliminary financial targets at 3.5% with a cost ceiling of 4.2%. Both of these rates are below the lowest trend explored in this study. Again, pursuit of the all-payer model, and continued work toward health care spending more closely aligned with economic growth, are the only way to sustainably address a tax given its statutory inflator.

Consolidate Employer Groups

The study tested three scenarios that consolidate employer groups. These scenarios were drawn from the statutory language of Act 54 and Act 46. Specifically, the actuaries tested (1) a combined public employee insurance pool, (2) requiring public employers to purchase insurance in the fully insured market of Vermont Health Connect, and (3) a scenario where VEHI employers purchase lower cost plans on Vermont Health Connect at various lower AV levels, signified by a lower metal level.

The key in evaluating the scenario results is trying to determine what factors are reducing estimated tax liability and then evaluating whether you need that particular strategy to achieve those results. For example, in evaluating a combined public employer risk pool the analysis seeks to determine first whether tax reductions are estimated to occur and, if so, what factors are driving the reduction. For example, we are attempting to analyze whether any reduced tax liability is accomplished by the creation of the pool or whether it is due to increasing out of pocket costs, which can be accomplished without the creation of a combined public employer risk pool. Additionally, it is crucial to note that strategies are not mutually exclusive. Frequently, the tax analysis reveals multiple factors working simultaneously.

Scenario 7: Combined Public Employer Risk Pool

Summary

Overall, this scenario was particularly uncertain given the number of systemic changes and assumptions involved. The combined public employer pool delays the tax until 2021 and reduces total tax liability. Overall, the tax is reduced on a per employee per year basis for all employers; however, municipalities begin to pay more in 2027. This may be due to the risk of the combined pool being slightly less favorable than the community rated insurance pool that many municipalities participate in as part of Vermont Health Connect. Yet, the tax rises substantially once triggered. Here, the use of a single plan means that, once triggered, all active members are subject to the tax simultaneously, as being in a single plan makes the tax an all or nothing proposition. Once above the tax threshold, virtually all health care spending growth above the rate of inflation is subject to the 40% tax. Tax reductions are likely due to multiple factors, including those not specific to the creation of a combined public pool. Additionally, significant cost reductions were achieved by using VEHI administrative costs, which are much lower than other participating employers. It is not certain that a combined public insurance pool could achieve or maintain those administrative costs while scaling up enrollment to a combined pool. Any increase in administrative costs would limit the tax reduction. Lastly, policymakers would need to consider the administrative complexity of creating the insurance pool.

Description

Per the statutory charge, the study tested the efficacy of a combined public employer pool in reducing the tax. The hypothesis is that a larger insurance pool may present opportunities for efficiency that would reduce costs and ultimately lower the tax.

Key Assumptions

- All participating employer groups are in a single risk pool
- SelectCare, the most popular State of Vermont plan, is the benefit plan for the pool
- Medicare eligible retirees are in a separate but similar plan
- VEHI administrative expenses, taxes, and fees were used to develop premiums
- No FSA, HRA, or HSA contributions are assumed
- Health care costs grow 6.5% annually
- Inflation adjustment is 3.3% in 2019 and 2.3% in all later years.

Results

Tax is Delayed

The combined public insurance pool scenario reveals overall tax reductions compared to the status quo, delaying tax liability until 2021. Table 27 sets forth the overall tax reduction for all employers combined compared to the status quo.

Table 27: Estimated Combined Public Employee Insurance Pool Tax Reduction

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax All Employers	$504,442	$1,043,237	$1,991,277	$3,805,717	$8,209,146	$14,447,170	$23,203,915	$36,547,887	$51,373,936	$67,785,266
Public Risk Pool Tax	$0	$0	$0	$0	$725,864	$2,866,965	$5,844,501	$19,132,727	$33,592,368	$49,919,101
Tax Reduction	$504,442	$1,043,237	$1,991,277	$3,805,717	$7,483,283	$11,580,205	$17,359,413	$17,415,160	$17,781,569	$17,866,165
Non-Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax All Employers	$2,125,962	$4,222,202	$7,458,198	$11,722,121	$19,525,377	$28,270,499	$37,955,028	$48,811,038	$61,239,628	$75,783,612
Public Risk Pool Tax	$0.00	$0.00	$0.00	$2,486,934	$9,231,693	$17,777,707	$27,054,749	$37,289,836	$48,495,697	$60,909,936
Tax Reduction	$2,125,962	$4,222,202	$7,458,198	$9,235,188	$10,293,684	$10,492,792	$10,900,278	$11,521,201	$12,743,931	$14,873,675

Tax is Reduced for All Employers

It is important to understand the effect of the strategy at the employer group level. Accordingly, Table 28 compares estimated per employee per year tax liability under the status quo by employer to the combined pool using the aggregated scenario. The comparison reveals the combined pool to be less expensive for all employers until 2027 when it becomes more expensive per person for municipalities as a group.

Table 28: Estimated Combined Public Employee Insurance Pool Tax Liability Per Employee Per Year

	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	12,024	$29.76	$62.55	$122.47	$212.05	$423.61	$740.83	$1,079.62	$1,479.06	$1,909.45	$ 2,387.05
VEHI	21,276	$4.00	$6.96	$11.34	$36.43	$91.15	$161.01	$323.37	$648.19	$1,013.55	$1,407.55
Muni	4,408	$7.88	$14.73	$27.31	$49.61	$115.11	$215.21	$370.40	$ 601.10	$ 876.25	$1,231.00
VSC	1,485	$18.08	$52.60	$105.67	$176.60	$450.43	$784.67	$1,151.42	$1,564.42	$2,012.00	$2,498.39
Aggregated	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Combined Public Employee Pool	39,193	$0	$0	$0	$0	$18.52	$ 73.15	$149.12	$488.17	$857.10	$1,273.67

Many municipalities are in Vermont Health Connect. In this scenario, those municipalities leave the community rated market for this all public employer risk pool. The risk and demographics of this pool may be more expensive than the status quo, ultimately driving up per employee municipal costs.

Tax Rises Substantially Once Triggered

The use of a single benefit plan makes the tax grow significantly once triggered. Each employer has multiple plans in the status quo tax estimates. Each plan reaches the tax in different years and at different amounts. Here, the use of a single plan means that, once triggered, all active members are subject to the tax simultaneously. Being in a single plan makes the tax an all or nothing proposition. Once above the tax threshold, virtually all health care spending growth above the rate of inflation is subject to the 40% tax.

Considerations

Overall, this scenario was particularly uncertain given the number of systemic changes and assumptions involved. Tax reductions are likely due to multiple factors, including those not specific to the creation of a combined public pool. Savings were achieved in part by increased out of pocket costs attributed to the elimination of FSA, HRA, and HSA contributions, moving some public employees from higher cost plans into a lower cost plan, and certain technical assumptions about the tiering of plan prices. More detailed analysis would help ensure that tax reductions would materialize, particularly for VEHI members. Removing FSA, HRA, and HSA contributions and selecting lower cost plans can be done by employers absent a new combined public insurance pool.

Additionally, significant savings were achieved by using VEHI administrative costs, which are much lower than other participating employers. It is not certain that a combined public insurance pool could achieve or maintain those administrative costs while scaling up enrollment to a combined pool. Any increase in administrative costs would limit the tax reduction.

Lastly, policymakers would need to consider the administrative complexity of creating the insurance pool. Specifically, an analysis of state and federal law, review of bargaining relationships, and operational plan, including any one time or ongoing costs, would need to be developed to create the combined insurance pool.

Consolidate Employer Groups

Scenario 8: Require Purchase of Public Employer Insurance in Vermont Health Connect

Summary

The study tested the impact of placing public employers (who have not already done so) into the fully-insured market through employer-sponsored group health plans. The actuaries estimated the tax liability based on employers moving into group health insurance plans with plans comparable to what they have today. Estimated tax liability is delayed for the State of Vermont and Vermont State Colleges and reduced for all employers compared to the status quo, as public employers generally benefit from the effect of community rating. Specifically, employers are charged premiums based on the demographics and risk of the entire pool, not only their employees. Yet, the estimated large group market savings are speculative, because this group is not currently community rated. Other employers would pay more as a result of moving public employees into a community rated small or large group market. Accordingly, there is a risk that private employers with younger and healthier employees might leave a community-rated large group market and be self-insured rather than pay increased premiums. Therefore, it is not clear whether public employers would be able to continue in a large group market with favorable risk compared to the status quo or simply create their own risk pool as private employers exit the large group market. Additionally, the tax impact varies by employer. Specifically, municipalities, particularly those with fewer than 100 employees participating in the small group market, may not realize savings.

Key Assumptions

- The small group market is defined as employers with 100 employees or fewer and the large group market is defined as employers with over 100 employees[50]
  - State of Vermont and the state colleges enter large group market while VEHI and municipalities split into large and small group market depending on employer size
- All fully insured plans meet ACA requirement of medical loss ratio,[51] Vermont requirements of community rating, and are subject to the ACA Health Insurance Provider Fee.[52] All small group plans meet metal levels for actuarial value.[53]
- The large group market becomes a community rated market using Vermont's current community rating requirements.[54]
- Employer assigned the Vermont Health Connect plan closest to their current plan
- No change made to Medicare eligible retirees who continue in a separately administered plan
- No FSA, HRA, or HSA contributions are assumed
- Health care costs grow 6.5% annually
- Inflation adjustment is 3.3% in 2019 and 2.3% in all later years.

The scenario relies on estimates of the interaction of public employee groups with the existing small group market and a future community rated large group market.[55] The actuaries made assumptions about the composition of those markets,

[50] 33 V.S.A. § 1802.
[51] 42 U.S.C. §300gg-18.
[52] 26 U.S.C. § 9010.
[53] 42 U.S.C. § 18022.
[54] Current Vermont law allows large employers to purchase Vermont Health Connect plans beginning in 2017. Under federal rules, this would require that the large group become community rated.
[55] See Section 15 of Act 54 of 2015.

including migration into a large group market. Public employees would comprise approximately ten percent of the small group market but as much as half of the large group market. Accordingly, these assumptions are quite susceptible to change when a large group market emerges and this could change estimated excise tax liability.

Results

Tax is Reduced

Estimated tax liability is reduced compared to the status quo. Public employers benefit from the effect of community rating. Specifically, employers are charged premiums based on the demographics and risk of the entire pool, not only their employees. Public employers benefit from this dynamic and pay less. Other employers would pay more as a result of moving public employees into the community rated market. There is a risk that private employers with younger and healthier employees might leave the large group market and be self-insured rather than pay increased premiums. The next four tables provide tax estimates on an employer basis.

The analysis estimated that participation in the fully insured large group and small group markets would delay liability until 2023 and reduce tax thereafter.

Table 29: State of Vermont Estimated Tax Liability when Participating in Large Group Market

State of Vermont - Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Scenario Tax	$0	$0	$0	$0	$0	$318,510	$876,278	$1,499,468	$4,351,509	$8,281,084
Tax Reduction	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,589,202	$12,105,036	$16,284,702	$18,607,720	$20,420,840

Yet, as stated above, this scenario cannot anticipate the behavior of other large group employers and whether they would exit the market once public employers entered. If so, these tax reductions may not be achievable.

The same general dynamic exists for the state colleges. Tax is delayed until 2024 and reduced thereafter.

Table 30: Vermont State Colleges Estimated Tax Liability when Participating in Large Group Market

State Colleges - Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Scenario Tax	$0	$0	$0	$0	$0	$0	$21,005	$97,932	$187,273	$640,206
Tax Reduction	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,688,847	$2,225,232	$2,800,550	$3,069,907

The analysis is different for educational employers enrolled in VEHI and municipalities since they have employers who qualify for both the small and large group markets.

For VEHI participants, tax is delayed for the small group market and reduced overall.[56] Tax reductions occur in both the small group market and large group market.

[56] The modest amount of large group market tax is due to certain Medicare enrollees. Medicare enrollees were not put into the Vermont Health Connect in this scenario.

Table 31: VEHI Employers Estimated Tax Liability when Participating in Large and Small Group Markets

VEHI - Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Scenario Tax – Small Group	$0	$0	$0	$0	$4,106	$39,342	$203,252	$536,669	$1,463,870	$3,159,487
Scenario Tax – Large Group	$481	$1,101	$1,958	$3,028	$4,489	$534,537	$1,351,868	$3,993,466	$8,679,731	$13,806,447
Tax Reduction	$84,559	$146,951	$239,382	$772,101	$1,930,721	$2,851,689	$5,324,921	$9,260,788	$11,420,775	$12,981,064

Some municipalities are already participating in the small group market. The introduction of more public employees to that market may drive up their costs. Accordingly, no tax reduction occurs until 2020 and significant tax reductions do not occur until 2022. Overall, it seems that large group market municipalities are better positioned to reduce tax liability in this scenario.

Table 32: Municipal Employers Estimated Tax Liability when Participating in Large and Small Group Markets

Municipalities - Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Scenario Tax - Small Group	$34,754	$64,932	$119,286	$207,271	$391,399	$632,106	$1,088,701	$1,833,803	$2,748,083	$3,906,042
Scenario Tax - Large Group	$0	$0	$0	$0	$0	$0	$0	$0	$176	$43,643
Tax Reduction	$0	$0	$1,112	$11,398	$116,025	$316,546	$544,007	$815,827	$1,114,251	$1,476,546

Considerations

The estimated large group market savings are speculative. It is not clear whether public employers would be able to continue in a large group market with favorable risk compared to the status quo or simply create their own risk pool as private employers exit the large group market.

The tax impact varies by employer. Specifically, municipalities, particularly those with fewer than 100 employees participating in the small group market, may not realize savings.

Consolidate Employer Groups

Scenario 9: VEHI Employers Purchase Group Insurance in Vermont Health Connect at a Lower Metal Level

Summary

The actuaries tested a scenario where VEHI employers purchase lower cost group health insurance plans on Vermont Health Connect at various lower AV levels, signified by a lower metal level. Entering Vermont Health Connect reduces excise tax liability for VEHI employers; however, the use of lower metal level plans provides no additional excise tax relief until 2023. Beginning in 2023, lower metal level plans reduce tax liability significantly. Despite this general trend, the use of platinum plans increases tax liability for VEHI employers in the small group market, even while the large group market sees overall decreases in tax liability. This occurs because some small group market employers currently have gold level plans. While the scenarios show only modest excise tax reductions in early years, lower metal level plans may reduce health care costs for employers and employees. Additionally, like plan design changes, using Vermont Health Connect provides some flexibility to respond to increased health care costs and the looming excise tax. In this scenario, Vermont Health Connect provides a mechanism to provide lower cost plans; however, an employer could provide lower cost plans without transitioning to Vermont Health Connect.

Key Assumptions

- The small group market is defined as employers with 100 employees or fewer and the large group market is defined as employers with over 100 employees[57]
  - VEHI employers enters appropriate community rated market, depending on size
- All fully insured plans meet ACA requirement of medical loss ratio,[58] Vermont requirements of community rating, and are subject to the ACA Health Insurance Provider Fee.[59] All small group plans meet metal levels for actuarial value.[60]
- The large group market becomes a community rated market using Vermont's current community rating requirements.[61]
- Employer assigned platinum, gold, and silver coverage
- No change made to Medicare eligible retirees
- No FSA, HRA, or HSA contributions are assumed
- Health care costs grow 6.5% annually
- Inflation adjustment is 3.3% in 2019 and 2.3% in all later years.

Once again, the scenario relies on estimates of the interaction of public employee groups with the existing small group market and a future community rated large group market. The actuaries made assumptions about the composition of those markets, including migration into a large group market. Public employees would comprise approximately ten percent of the small group market but as much as half of the large group market. Accordingly, these assumptions are quite susceptible to change when a large group market emerges and this could change estimated excise tax liability.

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[57] 33 V.S.A. § 1802.

[58] 42 U.S.C. §300gg-18.

[59] 26 U.S.C. § 9010.—

[60] 42 U.S.C. § 18022.

[61] Current Vermont law allows large employers to purchase Vermont Health Connect plans beginning in 2017. Under federal rules, this would require that the large group become community rated.

Results

A challenge in evaluating this scenario is that the results have three reference points. First, there are the status quo tax results. Second, there are tax reductions due to moving VEHI employers into Vermont Health Connect, as described in the previous scenario. Third, there are tax reductions due to reducing the metal level once inside Vermont Health Connect.

Lower Metal Levels Reduce Excise Tax over Medium and Long term

Table 33 compares the status quo tax liability to placing VEHI employers in Vermont Health Connect at their current benefit level and then shows additional excise tax reductions due to using a lower metal level. Lower metal levels do not provide additional excise tax reductions until 2023. This means that excise tax reductions are largely due to entering Vermont Health Connect in the first years of the tax. Beginning in 2023, lower metal level plans reduce tax liability significantly.

Table 33: VEHI Employers Estimated Tax Liability at Various Metal Levels in Vermont Health Connect (VHC)

VEHI - Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Tax Reduction in VHC, Keep Similar Plan	$84,559	$146,951	$239,382	$772,101	$1,930,721	$2,851,689	$5,324,921	$9,260,788	$11,420,775	$12,981,064
Further Change Due to Platinum Plan	$0	$0	$0	-$5,211	-$36,557	$301,178	$446,399	$1,526,224	$3,895,952	$3,317,274
Further Change Due to Gold Plan	$0	$0	$0	$0	$4,106	$525,484	$1,325,951	$4,088,259	$9,373,980	$15,220,761
Further Difference Due to Silver Plan	$0	$0	$0	$0	$4,106	$525,484	$1,326,665	$4,103,183	$9,498,520	$16,081,813

Another way to illustrate the large drop in estimated tax when enrolling in Vermont Health Connect versus more modest tax reductions due to changing metal levels is to present the tax estimate on a per employee per year basis. Table 34 sets forth per employee per year costs for the status quo tax estimate, enrollment in Vermont Health Connect in a plan similar to the employer's current plan, and at lower metal level plans.

Table 34: VEHI Employers Estimated Tax at Various Metal Levels in Vermont Health Connect, Per Employee Per Year

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI - Status Quo	$4.00	$6.96	$11.34	$36.43	$91.15	$161.01	$323.37	$648.19	$1,013.55	$1,407.55
VEHI In Exchange	$0.02	$0.05	$0.09	$0.14	$0.40	$26.97	$73.09	$212.92	$476.76	$797.42
VEHI in Exchange Platinum	$0.03	$0.07	$0.12	$0.49	$2.68	$16.17	$65.75	$178.14	$370.49	$809.39
VEHI in Exchange Gold	$0.02	$0.05	$0.09	$0.14	$0.21	$2.27	$10.77	$20.77	$36.17	$82.03
VEHI in Exchange Silver	$0.02	$0.05	$0.09	$0.14	$0.21	$2.27	$10.74	$20.07	$30.32	$41.55

The Platinum Plan Scenario Increases Tax in the Small Group Market

The previous table shows increased tax liability in 2021 and 2022 when enrolling VEHI employers in platinum plans. The base case places employers in Vermont Health Connect in plans similar to what they have today. Some small group employers have gold plans. Accordingly, moving them to a platinum plan increases benefit value and increases tax liability compared to staying in Vermont Health Connect at their current level. Table 35 shows difference in tax liability for small group and large employers when enrolled in Vermont Health Connect at their present benefit level and being enrolled in platinum plans.

Table 35 Tax Difference When Enrolled in a Platinum Plan Rather than a Plan Similar to Your Current Plan

VEHI - Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Platinum Small Group	$0	$0	$0	$5,211	$36,557	$184,965	$372,587	$1,037,457	$1,951,943	$2,530,333
Platinum Large Group	$0	$0	$0	$0	$0	-$486,142	-$818,986	-$2,563,680	-$5,847,895	-$5,847,607

Large group employers see further tax reductions when enrolled in a platinum plan. Small group employers see significant tax increases. Both markets see tax reductions in the gold plan and silver plan scenarios.

Considerations

Important Difference between Tax Reductions and Cost Reductions

The scenarios show only a modest further reduction of tax from 2018 to 2022. Yet, there may still be additional premium savings to the employer and employees of moving to a lower metal level plan. Any premium savings would need to be compared to any potential increased out of pocket costs borne by the employee.[62]

Plan Design Flexibility

The scenario shows plans at different metal levels. The stakeholder group discussed how employers may use vehicles such as FSAs, HRAs, and HSAs to take a plan and buy it up to the next metal level by paying for a certain amount of out of pocket expenses. Like plan design changes, using Vermont Health Connect provides some flexibility to respond to increased health care costs and the looming excise tax.

[62] Potential increased out of pocket costs depend on both the plan design and the utilization of services by the employee and their family.

The law contains a special provision that provides employers with the flexibility to be subject to only the highest tax threshold for multiemployer plans, also known as Taft-Hartley Plans.[63] A multiemployer plan is a plan maintained pursuant to a collective bargaining agreement to which more than one employer contributes and is overseen by a board of trustees who are appointed half by union and half by contributing employers. These plans were developed to meet the demands of industry groups where employees in the workforce would not normally receive benefits due to the temporary or migratory nature of their work.[64]

This scenario allows the employer to apply the other-than-self-only tax threshold to all public employer health plans. This would have a considerable impact on estimated tax liability, reducing tax liability by millions of dollars as employees with single coverage do not generate any tax liability during the ten year study period. Accordingly, creating a combined public employer pool that qualifies federally as a multiemployer plan may be a specific strategy to reduce tax worth considering. Yet, the strategy is untested. It is not clear that Vermont employees could legally create a qualifying plan and the startup and operational requirements are unknown.

Summary

The ability to eliminate the self-only coverage tax threshold is a potent mechanism to reduce tax. Tax liability would be either delayed or significantly reduced for all employers. Yet, the strategy is untested. It is not clear that Vermont employees could legally create a qualifying plan and, if so, the operational requirements of creating and administering such a plan.

Key Assumptions

- Employees from all participating employers form a qualifying multiemployer plan
- Other-than-self-only tax threshold is applied to all employees in the status quo analysis

Results

The ability to eliminate the self-only coverage tax threshold is a potent mechanism to reduce tax. Here, all tax liability for VEHI would be eliminated for two years. Municipalities and the state colleges would avoid tax liability for three years. All employers, including the State, would experience millions of dollars of aggregate tax reductions, as set forth in Table 36.

[63] 26 U.S.C. §4980I(b)(3)(B)(ii)

[64] IRS, Multiemployer Plan Examination Guidelines, https://www.irs.gov/irm/part4/irm_04-072-014.html

Table 36: Annual Tax Reductions by Using a Multiemployer Plan

SOV	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Multiemployer Plan Tax Due	$16,175	$35,893	$168,856	$602,769	$2,466,783	$5,467,482	$8,660,586	$12,501,287	$16,627,229	$21,228,195
Tax Reduction	$341,632	$716,251	$1,303,770	$1,946,900	$2,626,729	$3,440,231	$4,320,728	$5,282,883	$6,332,000	$7,473,729
VEHI	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Status Quo Tax	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Multiemployer Plan Tax Due	$0	$0	$2,819	$11,130	$156,431	$573,146	$2,697,252	$7,902,619	$13,779,221	$20,093,088
Tax Reduction	$85,039	$148,052	$238,521	$764,000	$1,782,885	$2,852,422	$4,182,789	$5,888,302	$7,785,154	$9,853,910
Muni	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Status Quo Tax	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Multiemployer Plan Tax Due	$0	$0	$0	$30,189	$245,443	$608,061	$1,196,220	$2,078,560	$3,132,319	$4,527,991
Tax Reduction	$34,754	$64,932	$120,398	$188,480	$261,981	$340,591	$436,488	$571,070	$730,189	$898,240
VSC	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Status Quo Tax	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Multiemployer Plan Tax Due	$0	$0	$0	$26,064	$343,589	$735,787	$1,166,507	$1,655,544	$2,192,431	$2,767,613
Tax Reduction	$26,842	$78,109	$156,914	$236,185	$325,305	$429,450	$543,344	$667,620	$795,392	$942,500

Considerations

Multiemployer plans under this section of federal law are currently untested, so additional legal analysis is needed to determine whether public employee groups in Vermont could form a qualifying multiemployer plan. Typically, multiemployer plans do not include public employees, and it is unclear if federal law anticipates public employees creating a multiemployer plan.[65] Combining public employees into a multiemployer plans would require complex planning, compliance with myriad federal laws, potential changes to state laws, an analysis of its impact on existing collective bargaining relationships, and operational planning. Moreover, this strategy would seem to require its own study and additional financial resources.

[65] The requirements under 26 U.S.C. § 414(f) are: a plan (A)to which more than one employer is required to contribute, (B)which is maintained pursuant to one or more collective bargaining agreements between one or more employee organizations and more than one employer, and (C)which satisfies such other requirements as the Secretary of Labor may prescribe by regulation.

Part IV: Recommendations

Multiple areas exist for further study. These include, but are not limited to, monitoring of federal action regarding the tax, deciding whether to retain the tax modeling capacity built for this study, exploring the multiemployer plan option to create a combined public employee insurance pool, and ensuring public employers are ready to comply with the tax.

Federal Changes

State policymakers should continue to monitor federal regulations and legislation, which may dramatically change the estimated tax liability. Specifically, policymakers should compare federal regulations to the assumptions made in this report to see how to properly aggregate employees, calculate employer specific adjustments including the key age/gender adjustment, and determine if regulations diverge from the assumptions made in the study in ways that change estimated tax liability and the viability of future scenarios.

Tax Modeling Capacity

The study required sophisticated actuarial modeling based on actual plan and claims data provided by employers. At the present time, the State will not have access to that model after the study concludes. Therefore, the State lacks the ability to estimate tax liability in light of new federal guidance, changed benefit plans, or enrollment changes. The State and other participating public employers should consider whether future access to the model is needed.[66]

Employer Readiness

Public employers should begin to assess their readiness to comply with the tax, as the required tax filings may be cumbersome, require special expertise, and be resource intensive. Additionally, public employers may want to review their benefit operations and cost allocations for opportunities to reduce prospective tax liability.

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[66] Additionally, it is unlikely that the State could rebuild the model at the same price it paid for this model. The tax analysis was much more complex than anticipated, and the actual cost of the actuarial services used were higher than the fixed price paid for the contract.

Part V: Appendices

Appendix A: Methodological Appendix

Appendix A sets forth the methodology, data, and assumptions used to create the tax estimates in the report. Wakely Consulting drafted Appendix A.1, which discusses the methods, data, and assumptions used for the excise tax estimates. Some of the scenarios in the report were created directly by Wakely. Other scenarios were derived from Wakely analysis by Administration staff. Other scenarios are just descriptive. Additionally, the Agency of Administration drafted Appendix A.2, which explains the methods, data, and assumptions used to calculate the federal Employer Shared Responsibility Payment and Vermont Employer Health Care Contribution.

Appendix A.1
Wakely Consulting Group: Methodology & Assumptions

Wakely
Consulting Group

Methodology & Assumptions

December 3, 2015

Julie Peper, FSA, MAAA
720.226.9814

Julie Andrews, FSA, MAAA
720.501.2323

Karan Rustagi, ASA, MAAA
720.282.4965

Lane Portman
720.398.5671

Public Employee Benefit Study

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EXECUTIVE SUMMARY

Wakely Consulting Group (Wakely) was retained by State of Vermont's Agency of Administration (AoA) to estimate ten-year excise tax liabilities from 2018-2027 based on the statute and guidance published as of October 2015. The excise tax is a component of the Affordable Care Act (ACA) and it is levied on health plans with premiums over an applicable threshold. The tax is 40% of the excess by which the premiums exceed the threshold.

Our review included an examination of the State of Vermont's (SoV), Vermont Education Health Initiative (VEHI), Vermont State Colleges (VSC) and municipalities (munis) excise tax liability under current benefit offerings. Additional scenarios were tested demonstrating policy actions that could be implemented to mitigate the excise tax risk/liability. This report provides the methodology, assumptions, caveats, and limitations of the analysis for the scenarios below. The results of the analyses were provided to AoA in an Excel document.

Scenario numbering aligns with the main report to be delivered by AoA. Additional scenarios not explicitly presented were derived by AoA from these scenarios and their documentation.

- Status Quo.
  - Scenario 2 - Benefit Adjustment to Eliminate Tax, includes All-in Aggregation Variation
- Scenario 5 - State of Vermont – Administrative Expense Scenarios
  - $1.8M Adjustment to Premium for human resources expenses
  - Full Administrative Expense Adjustment to Premium
  - 2016 Rate Increase Adjustment - 2.46%
- Scenario 7 - Combined Public Employee Insurance Pool
- Scenario 8 - Public Employer Plans participate in Small Group or Large Group Market
  - Plan offering is similar to what is currently offered
- Scenario 9: VEHI Sub-scenarios
  - Everyone is enrolled in a platinum plan
  - Everyone is enrolled in a gold plan
  - Everyone is enrolled in a silver plan

The following section outlines the development of the estimated tax assumptions, interpretations of regulatory guidance, and reliance on data provided by several organizations.

We understand that this report may be shared with the State of Vermont (State) legislature as part of their review. If this report is shared with the State, it must be shared in its entirety.

DATA, ASSUMPTIONS, AND REGULATORY INTERPRETATIONS

Data Sources

The data is the foundation for the development of our estimates. The data used came from multiple sources. With some exception the data included: paid and allowed historical claim experience and membership, July 2015 enrollment, current premiums, premium components, and contributions to

Flexible Spending Accounts (FSA), Health Reimbursement Accounts (HRAs), and Health Savings Accounts (HSAs).

- State of Vermont: The State provided the following information: current premiums, premium components, enrollment as of July 2015, calendar year 2014 exposures, claim experience, and HRA contributions.
- VEHI: On behalf of VEHI, Blue Cross Blue Shield of Vermont (BCBS VT) provided the following information: enrollment as of July 2015, exposures and claim experience for calendar year 2014. Separately, VEHI provided information on current premiums, premium components, and FSA Contributions.
- VSC: On behalf of VSC, CIGNA provided the following information: enrollment as of July 2015, exposures and claim experience for 7/13-6/14. Separately, VSC provided information on current premiums, premium components, and FSA contributions.
- Municipalities: BCBS VT provided high-level exposures and claim experience for thirteen municipalities for the 2014 calendar year. Premiums and FSA contributions were not provided. Separately, the Vermont League of Cities and Towns (VLCT) provided information surveyed from five groups. The information included high level enrollment, claims, premiums, and contributions to FSA/HSA/HRA plans.

The following assumptions were made to account for limitations in the data.

- The municipality data did not provide detailed enrollment; only the average subscriber age was provided. When determining the age/gender factor adjustment for this population, the factor for the age was compared to a like factor for the average age of the national workforce. This method is an approximation of the age/gender factor and should not impact the results materially.
- The municipality data was a mix of large and small group plans. BCBS VT identified three plans as large group, but the identity of the plans were not disclosed. As market information was not available, enrollment was used to identify the three largest plans to be labeled as large group (Groups 2, 11 and 13).
- The municipality data provided by BCBS VT and VLCT overlapped for four of the plans. The plans that overlapped were not identified so we used enrollment information from both sources to identify likely overlaps. (Group 11=A, 10=B, 12=C, and 2 = D). For these plans the information was combined for development of the excise tax. For example, the VLCT information on HRA/HSA/FSA and proportion of high-risk employees enhanced the calculation. Group #14 is based on information provided entirely by VLCT.
- Premium information for the municipalities was not available for the analysis. Premiums were estimated using pooled municipality claims and reported AVs to develop an estimate of paid claims. Claims were pooled for credibility. Premiums were developed by applying an administrative expense margin of 15% to the claims. Self and other-than-self tiers were defined using the SoV tier relationships.
- The following assumptions were made regarding FSA/HRA/HSA contributions
    - Only actives were assumed to contribute to FSA/HRA/HSA accounts.
    - For SoV we calculated average contributions by plan and tier from the data provided by the state. These average contributions were applied to the number of employees by tier that contributed to an FSA account.
    - For VEHI we used data provided via a survey sent out to all VEHI school districts to determine total dollars contributed to FSA/HRA/HSA accounts. The data was used to determine the number of active accounts and the average contributions to

HRA/HSA/FSAs. The average contribution was refined to vary by tier using the SoV FSA/HRA/HSA tier relationships. The contributions did not vary by plan with the exception of the CDHP $1800 Plan. The plan specific HSA contribution survey data for the CDHP $1800 plan from the survey was used. FSA/HRA contributions for the remaining plans were distributed proportionally.

- For the Munis we used data provided by the VLCT to determine HSA/HRA/FSA contributions for 5 groups. VLCT provided us with averages of employee and employer HSA/HRA/FSA contributions. We applied those average contributions to all of the employees except where not appropriate. For example, we did not assume HSA contributions to a non-HDHP plan or multiple contributions to both an FSA and an HSA. We assumed no contributions for the groups for which we had no HRA/HSA/FSA data (the groups provided by BCBS).
- VSC provided us with a total dollar FSA contribution and total number of contributing employees. Similar to VEHI, we used the SOV FSA contributor tier ratios to determine dollar amounts contributed per tier. We distributed the total number of contributors across the plans using the plan distributions.

Key Assumptions

Below is an outline of the key assumptions. Additional assumptions were made but the ones below are the most significant to the analyses.

- *Tax Evaluation Period*: Tax estimates were calculated for each of the ten years starting with the first year that the tax is effective, 2018-2027.

- *Health cost adjustment percentage for 2018 threshold*. The statute allows for a one-time adjustment to the 2018 threshold amounts if the rate of change in FEHB program premiums upon which these threshold amounts were initially based is lower than the actual. The thresholds were based on 2010 FEHB program premiums trended to 2018 using a trend factor of 1.55. The actual annual trends from 2010 to 2015 have been less than the average annual trend represented by a 10-year trend factor of 1.55 so we are assuming that there will be no threshold adjustment.

- *Trend:* Historical annual premium trend provided by SoV (2003-2015) and VEHI (1994-2017) were used to define a range of trends and a base assumption of 6.5%. The range of trends tested were +/- 1% and +/-2%. In looking at the historical VEHI and SoV trends, this trend range encompasses the 10 year average trends experienced. Current premiums were trended from the base data through the end of the tax evaluation period. Trending included periods from the time period of the data to 2018.

- *Definition of 'employer'*. The definition of employer is not clearly defined in the statute. In the non-government employer markets, the definition is relatively straightforward. An employer is a legal tax-paying entity. For government employers, the definition becomes less clear. For example, is the district considered the employer of teachers or is VEHI the employer of all public teachers in the state? The definition is important to determine the level at which the threshold adjustments are set. For example, to determine who gets high risk employee threshold adjustment, the majority of the employees of an employer in a plan must qualify and

when they do, everyone in the plan receives a higher threshold. The determination of who receives the higher threshold can be greatly impacted by how broadly an employer is defined. The determination for each employer was based on discussions with the state: State of Vermont, VEHI, VSC, and for each municipality group provided, each was identified as a separate employer. Certain scenarios required a different interpretation.

- *Enrollment*. No change in enrollment was projected over the 10 year tax evaluation period.

- *Consumer Price Index for All Urban Consumers (CPI-U).* For 2018-2027, the cost of living threshold adjustment was based on recent Congressional Budget Office (CBO) CPI-U projections of 2.3%. The year 2019 included the 1.0% additional trend as specified in statute. For years 2020+, the projection of 2.3% is applied. Amounts were rounded to the nearest $50 as specified in statute. Source: 2015 CBO Long Term Budget Outlook Appendix A, Table A-1, projects CPI-U to increase on average 2.3% from 2015-2040[1] . HRA/HSA/FSA contributions were also trended using the CPI-U rate.

- *Cost of applicable coverage – permissive aggregations/disaggregations.* The COBRA equivalent premiums for self-insured are determined based on 'similarly-situated non-COBRA individuals. The similarly-situated individuals are determined using a set of mandatory and permissive disaggregation rules. For example, all members in the same benefit package must be aggregated and then members in self-only vs. other-than-self-only must be disaggregated. It is permissible to further disaggregate family coverage by tier (employee plus spouse, employee plus dependent, etc.). Further disaggregation may be permissible by non-health-related criteria that are traditionally used in the group market such as geography, job categories, and nature of compensation. Retired employees who have not attained age 65 and those who have may be treated as similarly-situated. We performed the aggregation by benefit package (with and without HRA/HSA/FSA contributions), mandatory disaggregation by self-only vs. other-than-self-only. Since the permissive disaggregation based on region and occupation are not finalized, we did not perform these aggregations and disaggregations in determining cost of applicable coverage for similarly-situated individuals.

Regulatory Interpretations

The excise tax is imposed by the ACA and codified by IRS code 4980(I)[2]. Further guidance has been issued through additional IRS guidelines N-15-16[3] and N-15-52[4]. The statute and guidance were reviewed for development of the excise tax. As the regulations are yet to be finalized, certain interpretations had to be made.

- *Multiple Threshold Adjustments*. High-risk employees were assumed to receive a threshold adjustment for high-risk status as well as age/gender adjustment if the age/gender mix was different than FEHB program. Qualified retirees were assumed to receive a threshold

[1] 50250-breakout-AppendixA.pdf http://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50250/50250-breakout-AppendixA-2.pdf
[2] https://www.irs.gov/pub/irs-drop/n-15-16.pdf
[3] https://www.irs.gov/pub/irs-drop/n-15-16.pdf
[4] https://www.irs.gov/pub/irs-drop/n-15-52.pdf

adjustment for qualified retiree status as well as age/gender adjustment if the age/gender mix was different than FEHB program. Qualified retirees and high-risk professions were assumed to get the threshold adjustment once instead of twice (once for high-risk status and another for retiree status). (Note: the additional threshold PMPM adjustments were adjusted for cost of living but not age and gender)

- *Age and gender threshold adjustments* – the age and gender adjustments are defined in terms of the national workforce and are based on the comparison of weighted average demographic cost factors applied to the representative national workforce and employee population. No reference is made to the treatment of retirees or to the treatment of Medicare eligible retirees and their unique cost profile due to coordination with Medicare. Due to the lack of guidance and information on dependents for the national workforce, only actives were considered in the development of the age & gender factor adjustments except for Scenario 3: All-In Aggregation which is discussed later. Also, the demographic cost factors to be applied in creating the adjustment are yet to be developed; Wakely applied factors based on large group experience described further below. Variation in the estimated tax liability may result from misalignment with the federal demographic factors yet to be released.

- *Employee Assistance Programs (EAPs).* The guidance notes that the Treasury and IRS are considering excluding the cost of EAPs from applicable coverage. We are assuming that final regulations will exclude EAPs from applicable coverage. We will also assume that administrative costs provided to us in the data request will not include the cost of EAP.

- *Health FSAs.* The statute and guidance define the cost of applicable coverage to equal the sum of salary reduction contributions plus the reimbursements out of the FSAs in excess of salary contributions. One of the ways in which reimbursements can exceed salary contributions is when an employee uses the entire benefit prior to completing all of the salary reduction contributions due to termination of employment. In this case, the employer has to cover the difference and the difference is included as the cost of applicable coverage in excise tax calculations. We expect that there will be some employees at year end who have not used up their entire contribution amounts. We therefore assumed any reimbursements in excess of salary reductions will be negligible due to some employees not using up all of their contributions and will offset those that use more than what they contribute.

  Additionally, some employers may offer non-elective flex credit towards the FSA. In these cases, the cost of applicable coverage should be calculated as the reimbursements made from the FSA account and not the contributions made to the account. Since we did not have any information on employer non-elective flex credit, we did not incorporate this rule.

  When an employer does not make flex credits available, a safe harbor is made available to avoid double counting of roll-over FSA amounts. In this case, the entire contribution made to the account for a given plan year would count towards the cost of applicable coverage in that year and the roll-over amount would be ignored in the following year. When non-elective flex credits are available under a cafeteria plan with an FSA, the Treasury and IRS are considering a safe harbor that would allow the FSA to be valued under the safe harbor in certain situations. This variation on safe harbor has not been finalized. Valuing FSAs with various funding levels, roll-over features, and non-elective flex contributions can be complicated and Wakely did not have all the data available to value these benefits accurately so we were unable to model these

situations. We expect that the impact on overall tax will not be material as a result of these situations.

Some employees may elect to defer to a cafeteria plan the FSA contribution amounts and non-elective employer flex credits that exceed the FSA contribution limits. The cafeteria plan can be used for benefits other than health coverage expenses that do not count towards excise tax threshold. If the FSA contributions amounts exceed the IRS contribution limit, we assumed the FSA contributions up to the limit count towards the excise tax calculations and any amount over the limit is used for benefits other than medical coverage. This assumption may not be accurate as some healthy members may use little from the FSA account towards medical benefits and more towards other benefits such as dependent care. However, we believe this assumption produces a conservative approximation.

- *Dental/Vision.* The guidance specify that standalone dental and vision will be excluded for the purpose of calculating excise tax but it is unclear if integrated dental and vision will be excluded for fully insured plans. We excluded any dental/vision coverage for the purposes of calculating excise tax based on the state's interpretation that they should be excluded and because they would be included for self-insured plans per the IRS guidance. Only SoV had integrated vision coverage representing less than 0.2% of claims.

- *On-site medical clinics.* On-site medical clinics are not considered applicable coverage. For self-insured plans, we will assume that the provided claim costs do not include cost of on-site medical clinics.

    - *COBRA employees.* The statutory definition of employers per 26 U.S.C. § 4980I(d)(3) leaves the status of COBRA enrollees unclear but we included COBRA enrollees to ensure conservative tax estimates. It is unclear whether COBRA enrollees are considered employees for the purpose of tax calculations. One could argue they are not technically employees. However, retirees are also not 'employees' but retiree premiums count towards the tax. The difference is that retiree premiums are paid by the employer. COBRA premiums however are paid by the employee and it is unclear if that distinction matters. Since the tax does not apply to individual insurance, one could argue it should not apply to COBRA. In the post-ACA world, we do not expect a material number of COBRA employees. This assumption adds conservatism.

- *Self-insured methods for determining COBRA equivalent premiums.* The statute specify two methods to determine the applicable premiums for self-insured plans: actuarial basis method and the past-cost method. The actuarial basis method involves determining the cost of coverage for 'similarly situated individuals' taking into account 'factors as the Secretary may prescribe in the regulations'. These factors are not yet prescribed. The past cost method allows determining the cost of coverage using the cost of coverage in the prior period as long as there has not been any significant changes in coverage or in covered employees. Since the actuarial basis method is not described in the statute or guidance, the method that we used most closely aligns with our understanding of the past-cost method.[5]

[5] N-15-16 proposes a third method, the actual cost method, or basing the cost of coverage on actual costs paid by the plan. This method was ignored due to timing issues where this method would conflict with Statute requiring cost determination prior to the calendar year.

- *Income tax and excise tax reimbursement.* The statute notes that the entity responsible for paying taxes could be a health plan if the plan is fully-insured. The health plan may pass on the tax liability to the employer and request a reimbursement. However, the reimbursement for excise tax may generate an income tax liability which may then be reimbursed by the employer as well. The Treasury and IRS are considering whether some or all of the income tax reimbursement could be excluded from the cost of applicable coverage. Since the regulations are not finalized on this and due to the complexity of determining the income tax based on marginal tax rate, Wakely ignored any income tax considerations in determining cost of applicable coverage.

- *Treatment of pre-tax contributions vs. post-tax contributions.* Employer contributions towards premiums (pre-tax or post-tax) are counted towards 'applicable coverage'. Employer contributions to HRA/HSA accounts are also counted towards applicable coverage. Employee contributions to premiums using post-tax dollars is counted towards applicable coverage. Employee contributions to HRA/HSA/FSA using post-tax dollars are deductible on employee's income tax and not counted towards applicable coverage for excise tax calculations. Post-tax employee contributions are deductible for HSA and Archer MSAs, but the guidance is silent on FSAs and HRAs so we assumed they are deductible.

THRESHOLD CALCULATIONS AND PREMIUMS

Threshold

The excise tax statute 26 U.S.C. § 4980I defines the excise tax as 40 percent of excess benefits for any employer-sponsored coverage during a taxable period. The term "excess benefit" means, any employer-sponsored coverage made available by an employer to an employee during any taxable period. The excess benefit is determined as the sum of the excess amounts of the aggregate cost of the applicable employer-sponsored coverage of the employee for the month, over an amount equal to 1/12 of the annual limitation. In 2018, the dollar limit for an employee with self-only coverage will be $10,200 multiplied by the health cost adjustment percentage, and in the case of an employee with coverage other than self-only coverage, $27,500 multiplied by the health cost adjustment percentage.

The statute does allow for some adjustments to the threshold which are described in more detail below.

- Based on our review of emerging experience as described above and regulatory guidance we assumed no health cost adjustment percentage to the 2018 threshold.
- CPI-U. The threshold will be adjusted for CPI-U each year with 2019 receiving an additional 1.0% cost of living increase.
- High-risk employee adjustment. In the case of an individual who participates in a plan sponsored by an employer where the majority of employees covered by the plan are engaged in a high-risk profession or employed to repair or install electrical or telecommunications lines: (a) the dollar amount for self only coverage shall be increased by $1,650, and (b) the dollar amount for other than self-only coverage shall be increased by $3,450. This adjustment is only applicable where a significant percentage of employees are identified as high-risk. These amounts were adjusted for CPI-U only in each year of the analysis.

- Qualified Retiree Adjustment. Any individual identified as a qualified retiree will have their threshold increased by the same additional amounts as the high risk employee adjustment. The threshold applies only at the individual level unlike the high risk employee adjustment which applies at the employer level. These amounts were adjusted for CPI-U only in each year of the analysis.
- Age/Gender adjustment. In general under 4980(I) (b)(C)(iii) the threshold amount determined for any taxable period shall be increased by the amount equal to the excess (if any) of (a) the premium cost of the Blue Cross/Blue Shield standard benefit option under the Federal Employees Health Benefits Plan for the type of coverage provided such individual in such taxable period if priced for the age and gender characteristics of all employees of the individual's employer, over (b) that premium cost for the provision of such coverage under such option in such taxable period if priced for the age and gender characteristics of the national workforce. The following outline the assumptions and methods used to develop a reasonable representation for this adjustment.
    - This adjustment is an additive dollar adjustment to the threshold and is derived from using FEHB program cost ratios by age/gender groups and the most recent premium cost of the FEHB program standard option. The FEHB program cost ratios by age/gender are not published yet. We approximated the age/gender adjustment using Wakely age/gender cost factors that were based on a statistically-credible and nationally-representative large group population from Truven Marketscan data (Copyright 2014 TRUVEN HEALTH. All Rights Reserved).
    - Data on the national workforce as published by the Department of Labor for July 2015 [6](and referenced in N-15-52) in Table A-8a was used to define the age and gender characteristics of the national workforce. The Treasury and IRS are considering using the Current Population Survey as summarized in Table A-8a. Employed Persons and Employment-Population Ratios by Age and Sex, Seasonally Adjusted (Table A-8a) to demonstrate the national workforce, but the documentation also states that the age and gender adjustment is determined separately for self-only coverage and other-than-self-only coverage. The Table A-8a contains ten year banded age ranges for male & female only with no indication of family status. Therefore, the factors were developed for all employees and not split by self and other-than-self coverage.
    - No guidance has been provided regarding the treatment of retirees and Medicare eligible retirees for purposes of the age/gender adjustment. By definition the reference to national workforce would preclude inclusion of retirees who have exited the workforce. With no guidance, only actives were used in the development of age/gender adjustments except where noted in the development of Scenario 3 –All In Aggregation.
    - The final age/gender threshold adjustment is based on the comparison of the weighted average Wakely age/gender cost factors applied to the national workforce data as defined by Table A-8a and the active employee population defined at the employer level.

[6] http://www.bls.gov/web/empsit/cpseea08a.htm

Premiums

The premiums used in the threshold calculation were determined as follows:

- State of Vermont: Premiums are based on current contract premiums by tier trended through the tax evaluation period. Any applicable FSA/HRA/HSA contributions are added to the premiums for comparison to the threshold for estimation of the excise tax.
- VEHI: Premiums are based on current contract premiums by tier trended through the tax evaluation period. Any applicable FSA/HRA/HSA contributions are added to the premiums for comparison to the threshold for estimation of the excise tax.
- VSC: Premiums are based on current contract premiums by tier trended through the tax evaluation period. Any applicable FSA/HRA/HSA contributions are added to the premiums for comparison to the threshold for estimation of the excise tax.
- Municipalities: Premiums were not available for all of the municipalities, premiums were estimated using pooled municipality claims and reported AVs from the BCBS VT data to develop an estimate of paid claims. Claims were pooled for credibility. Premiums were developed by applying an administrative expense margin of 15% to the claims. Self and other than self tiers were defined using the SoV tier relationships. For Group 14, VLCT provided premiums were used.

We did not make an explicit adjustment for aging of Vermont population, since both the costs of coverage and the threshold will reflect aging. We acknowledge that the Vermont population is aging. However, the annual age/gender adjustments to thresholds should theoretically capture a large portion of the aging of the population. The age/gender adjustment to threshold may not fully capture the aging to the same extent as the cost projections. Additionally, aging will likely cause shifting of population between family tiers as dependents age out of dependent coverage. This effect will result in less dependents generating a tax liability which will likely benefit the state. We will ignore this effect due to uncertainty around actual impacts.

The threshold for other-than-self coverage were compared to premiums with and without allowable aggregation at self-only and other-than-self levels. Self-only excise tax testing is not impacted. Aggregation as the other-than-self level required the calculation of the contract/subscriber weighted premium for the other-than-self tiers.

Caveats & Limitations

The regulations explaining the application and calculation of the excise tax have not been finalized as of the time of this analysis. Several important pieces of the calculation had to be estimated. As a result, the actual tax liability will be different and potentially materially from the projected liability.

One key omission to date are the yet to be developed age and gender threshold adjustment factors. Enough information is not available in the statute and guidance at this point to predict the accuracy of the methods applied for the age and gender adjustment in the analysis. The regulatory guidance was sufficient to conclude that the method employed was reasonable. However, the results are highly sensitive to this assumption.

In developing these estimates, we have relied upon reports, analysis and other information provided by the State, VEHI, VSC, VLCT, Cigna and BCBS VT. Coordination and aligning data from multiple sources and varying formats is challenging. We reviewed the reporting for reasonableness, but did not audit it. Any errors or omissions in the information provided could impact the results provided in this report. Key information provided includes:

1. Paid and allowed claim experience for calendar year 2014 and July 2013 – June 2014.
2. Member enrollment July 2015
3. Current benefit premiums
4. Benefit premium components for administrative expense, taxes and fees
5. Average age
6. HSA/HRA/FSA contributions

Several data sources were incomplete or unavailable for development of the excise tax liability under that status quo and policy intervention scenarios. Adjustments were made to complete the calculations. Each assumption, alone or in combination, could materially impact the excise tax liability. Assumptions include the following:

- Allocation of FSA/HRA/HSA contributions by plan.
- Application of tiering relationships to FSA/HRA/HSA to create self and other-than-self tiers for VEHI, VSA and the munis.
- Development of muni premiums as described above.
- Estimates of administrative expenses, taxes and fees for development of premiums and the portion assumed when calculating benefit interventions.

This report, when distributed, must be provided in its entirety and include caveats regarding the variability of results and Wakely's data reliance.

SCENARIOS

The estimated excise tax liability was established under current interpretations of the application of the tax and under existing benefit offerings: the "Status Quo". Certain policy interventions proposed by the State were evaluated against the status quo for their effectiveness in reducing the estimated tax liability. The assumptions and methods used are described below, noting variations from the status quo.

Status Quo

The status quo scenario estimates the excise tax liability absent any policy interventions. Plan designs, enrollment mix and existing FSA/HSA/HRA contributions are assumed to continue unchanged through the tax estimation period from 2018 to 2027.

Scenario 2 –Benefit Adjustment to Eliminate Tax

The status quo model served as the basis from which benefit adjustments designed to eliminate the estimated excise tax liability are made. The first benefits to be eliminated were any FSA/HRA/HSA accounts. After the accounts were eliminated, we modeled benefit reductions by assuming the employer will start shifting some of the claim costs to members in the form of higher member cost sharing. This member contribution includes any deductibles, copays, or coinsurance payments. We increased the member cost sharing until the premiums were reduced enough to eliminate the tax. Only cost sharing components were considered, no reduction in covered services was modeled.

Plan actuarial values were calculated as paid-to-allowed ratios for VSC, SOV, and VEHI plans based on historical claims experience. These ratios may not match the pricing actuarial values to the extent that there is selection by product. For municipality plans, the paid-to-allowed ratio used was the reported metal level AV. We also assumed that a reduction in actuarial value produces a proportionate reduction in premiums. Proportionate reduction in premiums due to reductions in actuarial value are approximations and not necessarily fully representative of changes in AV needed to avoid excise taxes in the future.

For SoV, VEHI and VSC the portion of the admin costs, expenses and fees were based on PMPM costs and used to define a percentage of premium that was held constant throughout the evaluation period. For the munis administrative fees, and taxes were assumed to be 15%.Dependent upon the portion of premiums for administrative expenses, taxes and fees, a smaller/bigger reduction in AV may be required.

Once the plan actuarial values are below the minimum AV of 60% required under the ACA, any further reduction in tax may be offset by increase in penalty for not offering minimum creditable coverage. Although, upon the request of the state, we allowed the AVs to go below 60% as the intent of this scenario is to show what level of benefit reductions are needed but we note that these estimates are not reliable.

Scenario 2 (variation) The "All-in" Aggregation Variation: The key difference from above of this variation is that Medicare eligible retirees and non-Medicare retirees would be considered to have the same plan and their premiums were blended for the purposes of tax calculations. This scenario necessitated the application of an age and gender factor for retirees in the determination of the comparative threshold. We approximated the age/gender adjustment using Wakely age/gender cost factors that were based on a statistically-credible and nationally-representative large group population from Truven Marketscan data (Copyright 2014 TRUVEN HEALTH. All Rights Reserved). The factors were not adjusted for coordination of benefits, such as Medicare.

Scenario 5 – State of Vermont Administration Expense Scenarios

The final scenario includes three scenarios for the State of Vermont only. The scenarios all involve policy interventions to the state's plans driven by reductions in overall state premiums through alternative funding of non-benefit related expenses in the state's budget.

State of Vermont - $1.8M HR Adjustment to Premium

This scenario is identical to the status quo with the only exception that total premiums were reduced by $1.8 million to reflect a policy intervention where human resources expenses were funded elsewhere in the state budget.

State of Vermont - Full Admin Expense Adjustment to Premium

This scenario is identical to the previous one with the only exception that total premiums were reduced by the full amount of administrative expenses to reflect a policy intervention where all administrative functional expenses would be funded elsewhere in the state budget. Fees, reinsurance costs, and taxes were still included in the premiums.

State of Vermont - 2016 Rate Increase Adjustment - 2.46%

This scenario is identical to the status quo with the only change that premiums in 2016 increased by 2.46% over 2015 premiums instead of 5.50%.

Scenario 7 – Combined Public Employee Insurance Pool

The combined public employee's insurance pool scenario is a policy intervention where economies may be achieved through singular plan design, expense savings, and aggregation of experience.

Allowed claim costs for actives and non-Medicare retirees for all plans was trended to 2015. The selected singular plan design was the State of Vermont SelectCare plan. No additional adjustment was made to historical experience except induced demand for variation in covered benefits. Benefits covered by all plans was assumed to be substantially similar. We used HHS induced demand factors to normalize allowed amounts for differences in induced demand due to varying benefit richness.

Premiums for testing against the excise tax were built up by taking paid claims and adding administrative expense, taxes and fees. Non-benefit PMPM expenses were assumed to be the lesser of 2015 non-benefit expenses for VEHI and SOV. The excise tax was estimated based on the premium trended through the excise tax evaluation period. The threshold was developed using the same methodology defined above based on the combined population.

No HSA/HRA/FSA contributions were included in the combined employee insurance pool.

The Medicare eligible benefits were developed similar to the status quo, assuming participation in the SelectCare plan with EGWP.

Scenario 8 – Public Employer Plans Participate in Small Group or Large Group Market & Scenario 9 – VEHI Participate in Exchange at Lower Metal Level

These scenarios were designed to capture a possible policy intervention where benefit coverage responsibility is shifted from current self-funded arrangements to the State's existing small group exchange and large group markets. Small group is defined as groups with up to 100 employees.

The estimated excise tax liability for the new market premiums was calculated. Additionally, the market impact of large insured population shifts on existing markets was evaluated. Where market designation was unavailable, market level was defined as described above in the data limitations section.

These two scenarios generated four sub-scenarios. The scenarios are driven by the variations in the actuarial value of the new plans.

- Scenario 8: Plan offering is similar to what is currently offered as defined by paid to allowed relationships or stated actuarial values.
- Scenario 9: VEHI sub-scenarios
    - Everyone is enrolled in a platinum plan
    - Everyone is enrolled in a gold plan
    - Everyone is enrolled in a silver plan

The large group market is assumed to be fully-insured and community rated and the small group market will follow exchange rating rules. The community rating is yet to be defined. We assumed community rating implied that the rates will be same for all employees regardless of age, gender, and health status and will only vary by AV and tier. There will be a more detailed study conducted by the Green Mountain Care Board on the impact to large group market but it has not yet been completed so a high-level estimate of this market was developed. MVP, CIGNA, and BCBS of VT rate filings were obtained for large and small group to evaluate and establish the makeup of the market. The market impact will be inaccurate to the extent that the public employees have a significantly different demographic makeup or health status that cannot be rated for through available rating factors.

The small group exchange market in Vermont is part of an individual/small group merged market. The small group public employees would comprise less than a tenth of the total small group market once combined. The estimated impact on the overall market would increase expected allowed costs by an insignificant amount. In calculating the estimated tax liability, the small group plans were assumed to migrate to exchange plans with actuarial values (AVs) dependent upon the sub-scenario being run. We estimated AVs using paid to allowed ratios for credible plans. For munis, we used the AVs provided to us in the data summaries. Additionally, each district and municipality enrolled on the small group exchange was considered its own employer for determination of the threshold.

The newly merged large group market premiums following the blending of the large group public employees is evaluated for its impact on average rate levels of the combined large group market. The starting average allowed costs for the current large group market were obtained from rate filings of the three largest carriers' large group filings. The experience from the filings was combined with that of the public employees joining the market. The market level impact was defined by the variation in the estimated weighted average allowed PMPM pre- and post- market merger. The comparison indicated that large group public employees joining the large group market would increase the average expected allowed PMPMs in that market by 10%.

For calculating the estimated tax liability, for the large group VEHI, SOV, VSC, and municipalities premiums were adjusted to reflect any impact of the newly merged market. Once the public employees in the large group market join the current large group market, the estimated allowed PMPMs used to develop their premiums will be the same as the merged large group market's

allowed PMPMs due to rating restrictions. The merged markets allowed PMPMs were 6.5% lower than the public employee allowed PMPMs.

The premiums for plans for each of the public employee groups (VEHI, SOV, VSC, and Municipalities) were developed similar to Scenario 1, each plans' allowed costs were adjusted for the merged market rate level impact. The revised allowed costs were adjusted by the plans' actuarial values as defined by the sub-scenario being run. The final premiums were defined by adding non-benefit expenses. Non-benefit expenses in the large group market are limited to 15% of premium by MLR regulation. 15% was assumed as the total allowable non-benefit expenses. The exchange tier ratios were applied to estimate the premiums by family tier for individual and small group, and large group tier ratios were used for the large group market. The excise tax followed the same methodology applied in the development of the status quo scenario.

VEHI and the municipalities had a large number of plans where it would not have been feasible to perform these calculations on each plan. We therefore aggregated the plans by approximate AV ranges, and calculated the premiums for the plan groupings by AV separately for VEHI plans and Muni plans. No FSA/HSA/HRA contributions were included.

Appendix A.2: Agency of Administration Fiscal Estimates

Appendix A.2 explains the methods, data, and assumptions used to calculate the Vermont Employer Health Care Contribution and federal Employer Shared Responsibility Payment.

Vermont Employer Health Care Contribution[67]

The Vermont Commissioner of Labor levies a quarterly assessment on employers for each full time equivalent (FTE) that is not covered by health insurance or is covered by Medicaid. The law exempts seasonal employees, as defined by the statute, and provides an exemption of four FTEs for each employer. The value of the assessment is set in statute; however, it is adjusted annually based on any percentage increase in the second lowest cost silver level plan in Vermont Health Benefits Vermont Health Connect. Revenue from this assessment is deposited into the State Health Care Resources Fund, which supports the State's Medicaid program.

First, Agency of Administration needed to estimate the per FTE annual assessment value for the time series in the study, 2018 – 2027. We used the following steps to estimate the per FTE annual assessment value. The methods used are grouped by year.

- 2015: The 2015 assessment is already being levied by the Vermont Department of Labor.
- 2016: Agency of Administration grew the 2015 assessment by 5.3%. 5.3% represents the estimated projected increase in the second lowest cost silver level plan. Vermont Health Connect staff provided the estimate.
- 2017-2024: Agency of Administration used the National Health Expenditure (NHE) projections for 2014 – 2024, which call for 5.4% annual growth in private health insurance from 2017 – 2024.[68]
- 2025-2027: Agency of Administration staff applied the 2014-2024 NHE projections to the final three years of the study.

Second, we determined the number of FTEs per employer group. Employee counts were provided by the State of Vermont and Vermont State Colleges. VEHI is not an employer; rather, it serves approximately 270 education employers. We used the 2015 Teacher and Staff Survey Report compiled by the Agency of Education to estimate total education employees.[69] We did not attempt to estimate the total number of municipal employees; however, we estimated the assessment value for each municipal employer with more than 50 employees.

Third, we multiplied the blended rate times the number of FTEs minus the statutory exemption of four FTEs.

Table A2-1: Vermont Employer Health Care Contribution

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
$563.36	$604.49	$637.13	$671.53	$707.80	$746.02	$786.30	$828.76	$873.51	$920.68	$970.40	$1,022.80	$1,078.03

[67] The assessment is levied pursuant to 21 V.S.A 2001-2004.More information is available at the Vermont Department of Labor website. See http://labor.vermont.gov/wordpress/wp-content/uploads/HC-1-Health-Care-Contribution-Worksheet.pdf.
[68] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/downloads/proj2014.pdf.
[69] http://education.vermont.gov/documents/edu-data-teacher-staff-survey-report-sy2015.pdf.

The assessment estimates are subject to several caveats. First, the study did not adjust the number of FTEs during the time series. Static employment numbers seem unlikely over time. The assessment value assigned to VEHI is the estimated aggregate value for all VEHI affiliated employers. The assessment would be owed by each individual employer, not VEHI. Municipal estimates are only provided for employers with more than 50 employees; however, the assessment would apply to all municipal employers with more than four FTEs. Future legislative changes to the assessment would change the estimates. 2016 – 2027 values represent estimates. Actual value may change over time.

Federal Employer Shared Responsibility Payment

Agency of Administration calculated the federal Employer Shared Responsibility Payment (ESRP) for each employer group. The federal penalty is levied pursuant to 26 USC 4980H(c)(5) against any employer with more than 50 employees that does not offer insurance, subject to the definition of FTE and various exclusions.

First, Agency of Administration needed to estimate the per FTE annual payment value for the time series in the study, 2018 – 2027. The initial penalty was set by statute at $2,000 for 2014 to be indexed in future year using the Premium Adjustment Percentage. The Premium Adjustment Percentage is the percentage by which the average premium for health insurance exceeds the average per capita premium in 2013. The federal government has published the Premium Adjustment Percentage for the past two years, allowing for accurate calculation of the 2015 and 2016 ESRP.[70] We estimated the ESRP for 2017 – 2027 by estimating the Premium Adjustment Percentage.

We estimated the Premium Adjustment Percentage by adding the Congressional Budget Office (CBO) estimates of potential Gross Domestic Product and excess health care cost growth, which is the projected rate of per capita health spending beyond potential Gross Domestic Product.[71] The cumulative amount of these numbers allowed for an estimate of the annual Premium Adjustment Percentage, which was multiplied by the statutory ESRP of $2,000 for each year.

We were unable to find national ESRP estimates for years after 2016. Accordingly, there is no available benchmark to check the reasonability of the payment estimate. Any miscalculation of the Premium Adjustment Percentage would change the ESRP and change the estimates provided in the report.

Second, we determined the number of FTEs per employer group. Employee counts were provided by the State of Vermont and Vermont State Colleges. VEHI is not an employer; rather, it serves approximately 270 education employers. VEHI was omitted from these estimates since VEHI does not have data on how many employers have more than 50 FTEs and fewer than 50 FTEs. VLCT provided data for municipalities with 50 or more FTEs. The number of FTEs was calculated based on total employees. Actual amounts for the penalty calculation may differ and would likely be adjusted downward, reducing liability.

Third, we multiplied the annual ESRP times the number of FTEs minus the statutory exemption of 30 FTEs. The ESRP value is in Table A2-2 on the next page.

[70] See https://www.cms.gov/CCIIO/Resources/Fact-Sheets-and-FAQs/Downloads/2016-PN-Fact-Sheet-final.pdf at page 4.

[71] See http://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50250/50250-breakout-Chapter2-2.pdf page 36 et seq.

Table A2-2: Estimated Annual Employer Shared Responsibility Payment

YEAR	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Commercial Growth	N/A	4.3%	3.9%	4.1%	4.1%	4.1%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Prem Adj % Index	N/A	4.3%	8.3%	12.8%	17.4%	22.2%	27.3%	32.7%	38.3%	44.1%	50.1%	56.4%	63.0%	69.9%
ESRP Calculated	$2,000	$2,086	$2,166	$2,256	$2,348	$2,444	$2,546	$2,654	$2,766	$2,882	$3,002	$3,128	$3,260	$3,398
ESRP Rounded per Statute		$2,080	$2,160	$2,250	$2,340	$2,440	$2,540	$2,650	$2,760	$2,880	$3,000	$3,120	$3,260	$3,390

The penalty estimates are subject to several caveats. First, the study did not adjust the number of FTEs during the time series. Static employment numbers seem unlikely over time. Penalty liability is not estimated for VEHI employers; however, VEHI employers with more than 50 FTEs would be subject to the penalty. Future changes to federal law may change the penalty amount.

Appendix B: Additional Analysis

Appendix B contains five sub-appendices. Sub-appendices B.1 through B.4 contain tax estimates for an individual employer or employer group.

- Appendix B.1: State of Vermont
- Appendix B.2: VEHI
- Appendix B.3: Municipalities
- Appendix B.4: Vermont State Colleges

Each sub-appendix can serve as a quick reference guide for readers interested in a single employer. Additionally, each employer or employer group was sent additional information not provided in the report or appendices. These included specific and detailed year by year analysis by benefit plans.

Additionally, Appendix B.5 contains a link to further data and estimated excise tax using the statutory tax thresholds absent any adjustments.

Appendix B.1: State of Vermont

Table B1-1: Estimated Employer Tax Liability, 2018 - 2027

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Non-Aggregated	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
SOV	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468

Table B1-2: State of Vermont Annual Tax Increases by Percentage

State of Vermont	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Aggregated	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Annual Increase %		110%	96%	73%	100%	75%	46%	37%	29%	25%
Non-Aggregated	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Annual Increase %		97%	70%	47%	35%	30%	24%	22%	22%	23%

Table B1-3: Per Employee Per Year Tax Estimate, Aggregated Scenario

Aggregated	Contracts	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	12,024	$30	$63	$122	$212	$424	$741	$1,080	$1,479	$1,909	$2,387

Chart B1-4: Tax Liability and Annual Cost Growth between 4.5% and 8.5%

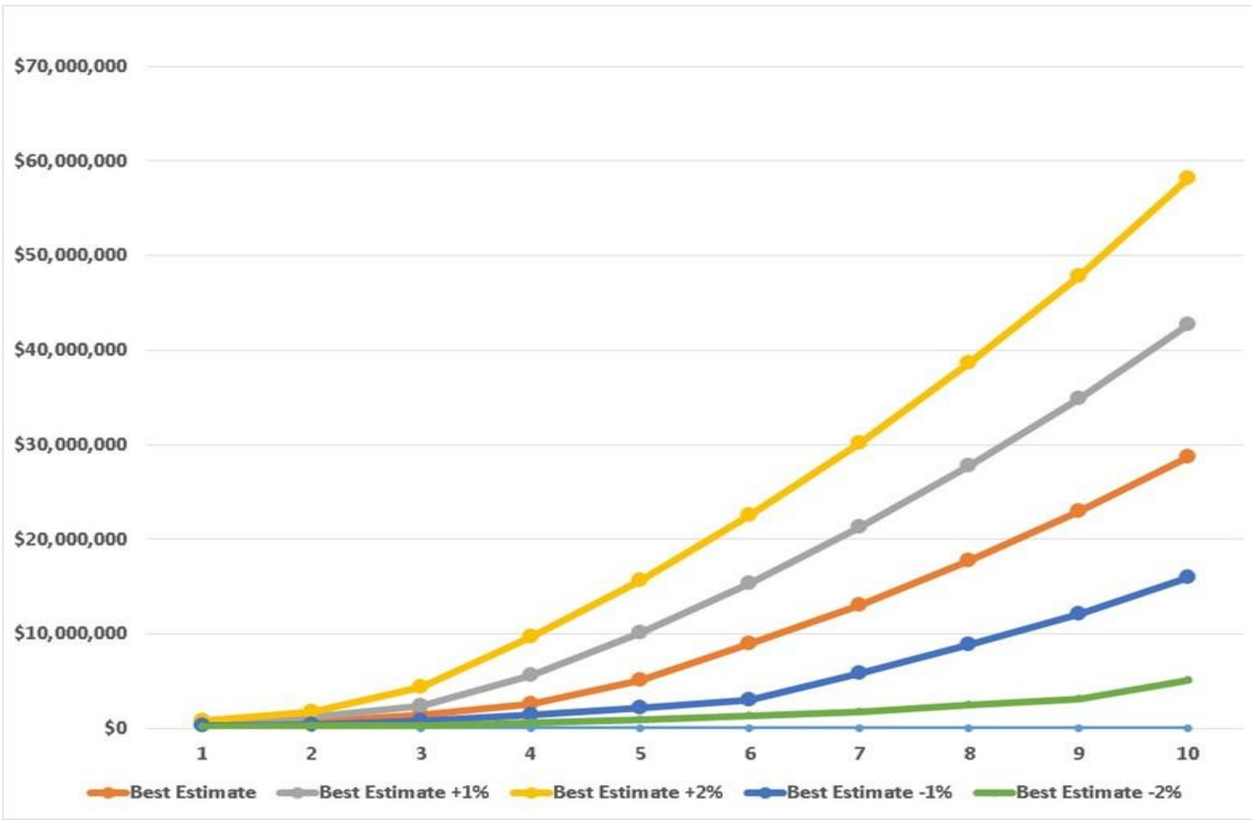

Table B1-5: Tax Liability and Annual Cost Growth between 4.5% and 8.5%

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Best Estimate	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Best Estimate +1%	$602,257	$1,214,625	$2,380,194	$5,647,585	$10,120,639	$15,381,615	$21,292,685	$27,808,912	$34,878,226	$42,731,503
Best Estimate +2%	$857,663	$1,768,993	$4,375,255	$9,711,099	$15,628,027	$22,582,055	$30,180,466	$38,608,106	$47,838,000	$58,128,704
Best Estimate -1%	$277,714	$367,098	$822,972	$1,410,691	$2,148,846	$3,007,631	$5,794,825	$8,877,067	$12,139,483	$15,929,651
Best Estimate -2%	$222,826	$254,314	$336,407	$626,279	$952,971	$1,327,630	$1,800,884	$2,455,661	$3,149,192	$5,083,594
Non-Aggregated	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Best Estimate	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Best Estimate +1%	$2,381,387	$4,373,672	$7,104,960	$10,354,967	$13,845,699	$17,807,758	$22,479,318	$28,729,849	$35,503,012	$43,329,456
Best Estimate +2%	$3,247,624	$5,785,805	$9,271,662	$13,390,594	$17,846,123	$23,653,974	$30,933,932	$39,192,460	$48,384,989	$58,708,179
Best Estimate -1%	$835,048	$1,644,404	$3,177,467	$4,906,447	$6,673,875	$8,575,476	$10,897,271	$13,347,875	$15,949,569	$18,850,210
Best Estimate -2%	$610,925	$725,741	$1,362,814	$2,468,456	$3,569,443	$4,774,051	$6,095,814	$7,534,885	$9,058,878	$10,825,406

Table B1-6: Estimated Reduction in Tax Liability Due to Aggregation by Employer

SOV	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Non-Aggregated	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Aggregated	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Tax Reduction	$1,165,364	$2,244,082	$3,618,157	$4,948,305	$4,996,698	$4,166,994	$3,289,657	$2,079,624	$1,204,153	$984,544

Table B1-7: Statutory and Adjusted Tax Thresholds for Selected Plans, 2018 – 2027

Tax Thresholds by Year		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV Tax Thresholds	Self Coverage	$11,250	$11,650	$11,900	$12,150	$12,450	$12,750	$13,050	$13,350	$13,650	$13,950
	Other-than-Self Coverage	$30,350	$31,350	$32,100	$32,800	$33,600	$34,350	$35,150	$35,950	$36,800	$37,600
Inflation Adjusted Statutory Tax Thresholds	Self Coverage	$10,200	$10,540	$10,780	$11,030	$11,280	$11,540	$11,810	$12,080	$12,360	$12,640
	Other-than-Self Coverage	$27,500	$28,410	$29,060	$29,730	$30,410	$31,110	$31,830	$32,560	$33,310	$34,080

Table B1-8: Per Employee Per Year Cost of SOV Most Popular Plans, Active Employees Only

State of Vermont Active Employees	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
TotalChoice Active Total	$451	$575	$965	$1,427	$1,901	$2,432	$3,001	$3,621	$4,286	$5,021
SelectCare Active Total	$16	$62	$134	$253	$574	$1,057	$1,572	$2,138	$2,743	$3,418

Table B1-9 Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Self-Only	$341,632	$716,251	$1,303,770	$1,946,900	$2,626,729	$3,440,231	$4,320,728	$5,282,883	$6,332,000	$7,473,729
Other-than-Self-Only	$16,175	$35,893	$168,856	$602,769	$2,466,783	$5,467,482	$8,660,586	$12,501,287	$16,627,229	$21,228,195

Table B1-10: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability, Non-Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Self-Only	$341,632	$716,251	$1,303,770	$1,946,900	$2,626,729	$3,440,231	$4,320,728	$5,282,883	$6,332,000	$7,473,729
Other-than-Self-Only	$1,181,539	$2,279,974	$3,787,013	$5,551,074	$7,463,481	$9,634,475	$11,950,243	$14,580,912	$17,831,382	$22,212,739

Table B1-11: Estimated Tax when Aggregating All Employees, including Medicare Eligible Retirees

Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV Status Quo	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
SOV Aggregate Medicare	$0	$0	$0	$0	$3,900	$55,324	$107,183	$799,274	$1,650,095	$2,956,764
Tax Reduction	**$357,807**	**$752,144**	**$1,472,626**	**$2,549,669**	**$5,089,612**	**$8,852,389**	**$12,874,131**	**$16,984,896**	**$21,309,134**	**$25,745,160**

Table B1-12: 2016 Current Public Employer Health Care Spending

Employer	Estimated 2016 Employer Health Care Spending
State of Vermont	$147,121,894

Table B1-13: Federal Employer Shared Responsibility Payment

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	$18,297,000	$19,028,880	$19,842,080	$20,655,280	$21,549,800	$22,444,320	$23,420,160	$24,396,000	$25,371,840	$26,510,320	$27,567,480

Table B1-14: Vermont Employer Health Care Contribution

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
State of Vermont	$5,478,361	$5,774,193	$6,085,999	$6,414,643	$6,761,034	$7,126,129	$7,510,940	$7,916,531	$8,344,024	$8,794,601

Table B1-15: AV Reduction Comparison, Total Choice and SelectCare

State of Vermont	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
TotalChoice	93%	75%	72%	68%	65%	62%	59%	56%	53%	50%	47%
SelectCare	96%	96%	93%	89%	85%	81%	77%	74%	71%	67%	64%

Table B1-16: Tax Reduction Due to Migrating Plans that Exceed Per Employee Cost of Most Popular Plan

Aggregated Scenario	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV – Status Quo	12,024 Total	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
SOV - Tax Reduction	491 Migrate	$213,288	$251,681	$407,836	$576,686	$651,468	$675,459	$701,377	$728,346	$757,373	$786,651

Table B1-17: FSA Tax Reduction for Selected Employers, Active Employees Only

Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV Estimated Tax Liability	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
SOV FSA Tax Reduction	$119,766	$132,452	$126,258	$388,176	$519,418	$555,555	$592,936	$633,100	$674,833	$721,076

Table B1-18: Active Employees Participating in FSAs

Aggregated Scenario	
SOV Contracts	12,024
SOV FSA Participation	922

Table B1-19: Tax Reduction from Reallocating Benefit and Wellness Division Cost

SOV Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Tax without Benefits & Wellness Costs	$299,506	$554,676	$1,244,991	$2,257,193	$4,402,806	$8,169,057	$12,194,646	$16,946,369	$22,066,971	$27,751,669
Tax Reduction	$58,301	$197,467	$227,635	$292,477	$690,707	$738,655	$786,668	$837,801	$892,259	$950,255
SOV Non-Aggregated Scenario	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Status Quo Tax	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Tax without Benefits & Wellness Costs	$1,288,352	$2,610,766	$4,677,881	$7,048,718	$9,567,698	$12,515,178	$15,670,079	$19,196,551	$23,248,080	$28,711,673
Tax Reduction	$234,819	$385,459	$412,902	$449,257	$522,512	$559,528	$600,893	$667,244	$915,301	$974,796

Table B1-20: Tax Reduction from Removing Administrative Costs

SOV Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Tax without Admin costs	$198,878	$299,599	$551,850	$1,359,993	$2,456,579	$5,970,170	$9,852,831	$14,215,143	$19,158,215	$24,653,844
Tax Reduction	$158,929	$452,544	$920,776	$1,189,677	$2,636,933	$2,937,542	$3,128,483	$3,569,027	$3,801,014	$4,048,080
SOV Non-Aggregated Scenario	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Status Quo Tax	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Tax without Admin costs	$686,555	$1,762,304	$3,407,403	$5,697,430	$8,118,187	$10,974,501	$14,032,690	$17,414,111	$21,139,244	$25,947,422
Tax Reduction	$836,615	$1,233,921	$1,683,380	$1,800,545	$1,972,024	$2,100,205	$2,238,282	$2,449,684	$3,024,138	$3,739,046

Table B1-21: Tax Reductions from One Low Year at the Start of the Tax Period

SOV Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Tax with Low Growth year	$245,357	$354,848	$968,704	$1,789,308	$2,882,766	$6,274,837	$10,177,301	$14,544,100	$19,508,554	$25,026,956
Tax Reduction	$112,449	$397,296	$503,922	$760,361	$2,210,746	$2,632,876	$2,804,013	$3,240,070	$3,450,675	$3,674,968
SOV Non-Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$1,523,171	$2,996,225	$5,090,783	$7,497,975	$10,090,210	$13,074,706	$16,270,972	$19,863,795	$24,163,382	$29,686,468
Tax with Low Growth year	$685,975	$1,597,025	$3,597,920	$5,857,979	$8,243,516	$11,071,806	$14,134,374	$17,502,980	$21,243,097	$26,133,687
Tax Reduction	$837,195	$1,399,201	$1,492,863	$1,639,996	$1,846,694	$2,002,900	$2,136,597	$2,360,814	$2,920,284	$3,552,781

Table B1-22: Potential Tax Reductions from Payment and Delivery System Reform, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1% Reduction in Growth Due to Payment and Delivery System Reform										
State of Vermont	$80,093	$385,046	$649,654	$1,138,979	$2,944,666	$5,900,082	$7,186,489	$8,907,103	$10,819,746	$12,772,273
2% Reduction in Growth Due to Payment and Delivery System Reform										
SOV	$134,981	$497,829	$1,136,218	$1,923,390	$4,140,541	$7,580,083	$11,180,430	$15,328,509	$19,810,037	$23,618,330

Table B1-23: Estimated Combined Public Employee Insurance Pool Tax Reduction

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax All Employers	$504,442	$1,043,237	$1,991,277	$3,805,717	$8,209,146	$14,447,170	$23,203,915	$36,547,887	$51,373,936	$67,785,266
Public Risk Pool Tax	$0	$0	$0	$0	$725,864	$2,866,965	$5,844,501	$19,132,727	$33,592,368	$49,919,101
Tax Reduction	$504,442	$1,043,237	$1,991,277	$3,805,717	$7,483,283	$11,580,205	$17,359,413	$17,415,160	$17,781,569	$17,866,165
Non-Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax All Employers	$2,125,962	$4,222,202	$7,458,198	$11,722,121	$19,525,377	$28,270,499	$37,955,028	$48,811,038	$61,239,628	$75,783,612
Public Risk Pool Tax	$0.00	$0.00	$0.00	$2,486,934	$9,231,693	$17,777,707	$27,054,749	$37,289,836	$48,495,697	$60,909,936
Tax Reduction	$2,125,962	$4,222,202	$7,458,198	$9,235,188	$10,293,684	$10,492,792	$10,900,278	$11,521,201	$12,743,931	$14,873,675

Table B1-24: Estimated Combined Public Employee Insurance Pool Tax Liability Per Employee Per Year

	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SOV	12,024	$29.76	$62.55	$122.47	$212.05	$423.61	$740.83	$1,079.62	$1,479.06	$1,909.45	$ 2,387.05
Combined Public Employee Pool	39,193	$0	$0	$0	$0	$18.52	$ 73.15	$149.12	$488.17	$857.10	$1,273.67

Table B1-25: State of Vermont Estimated Tax Liability when Participating in Large Group Market

State of Vermont - Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Scenario Tax	$0	$0	$0	$0	$0	$318,510	$876,278	$1,499,468	$4,351,509	$8,281,084
Tax Reduction	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,589,202	$12,105,036	$16,284,702	$18,607,720	$20,420,840

Table B1-26: Annual Tax Reductions by Using a Multiemployer Plan

SOV	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$357,807	$752,144	$1,472,626	$2,549,669	$5,093,512	$8,907,713	$12,981,314	$17,784,170	$22,959,229	$28,701,924
Multiemployer Plan Tax Due	$16,175	$35,893	$168,856	$602,769	$2,466,783	$5,467,482	$8,660,586	$12,501,287	$16,627,229	$21,228,195
Tax Reduction	$341,632	$716,251	$1,303,770	$1,946,900	$2,626,729	$3,440,231	$4,320,728	$5,282,883	$6,332,000	$7,473,729

Appendix B.2: VEHI

Table B2-1: Estimated Employer Tax Liability, 2018 - 2027

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Non-Aggregated	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
VEHI	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234

Table B2-2: VEHI Annual Tax Increases by Percentage

VEHI	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Aggregated	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Annual Increase %		74%	63%	221%	150%	77%	101%	100%	56%	39%
Non-Aggregated	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Annual Increase %		115%	105%	130%	289%	81%	51%	38%	31%	26%

Table B2-2A: Per Employee Per Year Tax Estimate, Aggregated Scenario

Aggregated	Contracts	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI	21,276	$4	$7	$11	$36	$91	$161	$323	$648	$1,014	$1,408

Chart B2-3: Tax Liability and Annual Cost Growth between 4.5% and 8.5%

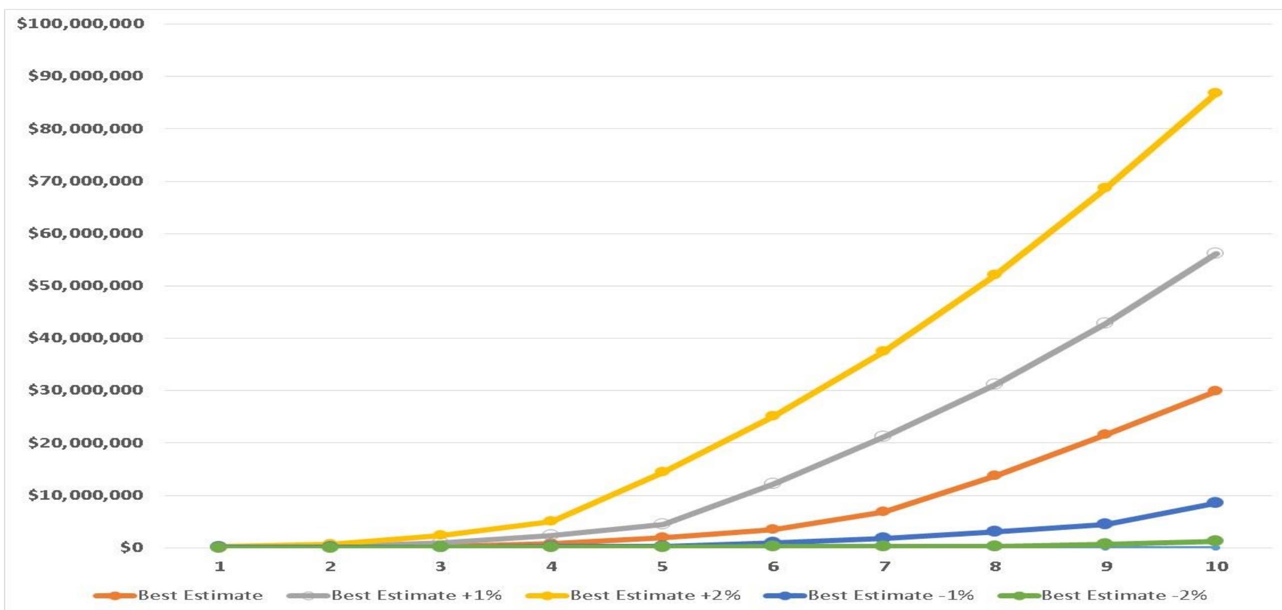

Table B2-4: Tax Liability and Annual Cost Growth between 4.5% and 8.5%

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Best Estimate	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Best Estimate +1%	$137,277	$226,768	$964,258	$2,386,187	$4,422,589	$12,212,479	$21,246,283	$31,160,683	$42,866,648	$56,225,576
Best Estimate +2%	$191,399	$644,362	$2,288,783	$5,054,182	$14,448,476	$25,122,061	$37,440,507	$52,098,996	$68,658,003	$86,760,352
Best Estimate -1%	$35,948	$75,595	$139,675	$201,917	$288,700	$942,610	$1,823,405	$2,986,512	$4,396,581	$8,590,499
Best Estimate -2%	$12,921	$21,334	$47,907	$84,637	$134,331	$179,803	$230,957	$294,000	$662,758	$1,264,789
Non-Aggregated	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Best Estimate	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Best Estimate +1%	$266,351	$553,246	$2,000,302	$6,684,784	$12,130,731	$18,382,990	$25,471,842	$33,487,064	$43,609,447	$56,832,899
Best Estimate +2%	$453,764	$1,171,228	$6,332,538	$12,472,275	$19,875,694	$28,305,116	$38,322,704	$52,716,959	$68,958,764	$86,906,138
Best Estimate -1%	$44,125	$1,644,404	$3,177,467	$4,906,447	$6,673,875	$8,575,476	$10,897,271	$13,347,875	$15,949,569	$18,850,210
Best Estimate -2%	$16,840	$26,344	$59,170	$126,800	$239,563	$380,615	$559,295	$753,060	$1,272,839	$3,019,658

Table B2-5: Estimated Reduction in Tax Liability Due to Aggregation by Employer

VEHI	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Non-Aggregated	$134,456	$288,756	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Aggregated	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Tax Reduction	$49,417	$140,703	$349,504	$583,923	$3,342,591	$6,159,975	$7,591,343	$6,186,835	$4,575,301	$2,982,236

Table B2-6: Statutory and Adjusted Tax Thresholds for VEHI Plans for Active Employees

Tax Thresholds by Year		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI Tax Thresholds	Self Coverage	$11,050	$11,400	$11,650	$11,950	$12,200	$12,500	$12,800	$13,100	$13,400	$13,700
	Other-than-Self Coverage	$29,750	$30,750	$31,450	$32,200	$32,950	$33,700	$34,450	$35,250	$36,050	$36,900
Inflation Adjusted Statutory Tax Thresholds	Self Coverage	$10,200	$10,540	$10,780	$11,030	$11,280	$11,540	$11,810	$12,080	$12,360	$12,640
	Other-than-Self Coverage	$27,500	$28,410	$29,060	$29,730	$30,410	$31,110	$31,830	$32,560	$33,310	$34,080

Table B2-7: Per Employee Per Year Cost of VEHI's Most Popular Plans, Active Employees Only

VEHI Active Employees	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VHP Total	$3	$5	$7	$44	$120	$206	$435	$916	$1,444	$2,011
Comp $1,200 MMH Rx $5/$20/$45 Total	$0	$0	$0	$0	$0	$2	$3	$5	$7	$69

Table B2-8: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability by Employer, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Self-Only	$85,039	$148,052	$238,521	$764,000	$1,782,885	$2,852,422	$4,182,789	$5,888,302	$7,785,154	$9,853,910
Other-than-Self-Only	$0	$0	$2,819	$11,130	$156,431	$573,146	$2,697,252	$7,902,619	$13,779,221	$20,093,088

Table B2-9: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability by Employer, Non-Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI	$134,456	$288,755.7	$590,844	$1,359,053	$5,281,907	$9,585,543	$14,471,385	$19,977,757	$26,139,677	$32,929,234
Self-Only	$85,039	$148,052	$238,521	$764,000	$1,782,885	$2,852,422	$4,182,789	$5,888,302	$7,785,154	$9,853,910
Other-than-Self-Only	$49,417	$140,703	$352,323	$595,053	$3,499,022	$6,733,121	$10,288,595	$14,089,455	$18,354,522	$23,075,324

Table B2-10: Tax Liability and Annual Cost Growth between 4.5% and 8.5%

Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI Status Quo	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
VEHI Aggregate Medicare	$884	$1,303	$35,903	$81,762	$134,688	$524,374	$1,582,358	$3,387,022	$6,026,575	$13,687,655
Tax Reduction	**$84,155**	**$146,749**	**$205,437**	**$693,367**	**$1,804,628**	**$2,901,194**	**$5,297,684**	**$10,403,900**	**$15,537,800**	**$16,259,343**

Table B2-11: 2016 Current Public Employer Health Care Spending

Employer	Estimated 2016 Employer Health Care Spending
VEHI	$204,087,381

Table B2-12: Vermont Employer Health Care Contribution

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI	$11,524,839	$12,147,180	$12,803,128	$13,494,496	$14,223,199	$14,991,252	$15,800,780	$16,654,022	$17,553,339	$18,501,219

Table B2-13: Illustration of Plan Design Changes to Achieve AV Levels that Avoid Excise Tax

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI Vermont Health Plan (VHP)	96%	96%	96%	96%	93%	89%	86%	82%	78%	75%	72%

Table B2-14: Tax Reduction Due to Migrating Plans that Exceed Per Employee Cost of Most Popular Plan

Aggregated Scenario	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI - Status Quo	21,276 Total	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
VEHI - Tax Reduction	742 Migrate	$40,294	$80,644	$139,016	$177,797	$288,926	$558,475	$762,436	$805,977	$852,133	$901,406

Table B2-15: FSA Tax Reduction, Active Employees Only

Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI Estimated Tax Liability	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
VEHI FSA Tax Reduction	$47,644	$68,573	$100,911	$122,689	$176,989	$334,418	$452,568	$469,827	$483,034	$498,354

Table B2-16: Active Employees Participating in FSAs

Aggregated Scenario	Contracts
VEHI Total Contracts	21,276
VEHI FSA Users	511 FSAs

Table B2-17: Potential Tax Reductions from Payment and Delivery System Reform, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1% Reduction in Growth Due to Payment and Delivery System Reform										
VEHI	$49,091	$72,457	$101,665	$573,212	$1,650,616	$2,482,958	$5,056,636	$10,804,410	$17,167,794	$21,356,499
2% Reduction in Growth Due to Payment and Delivery System Reform										
VEHI	$72,119	$126,719	$193,433	$690,492	$1,804,984	$3,245,765	$6,649,085	$13,496,922	$20,901,617	$28,682,209

Table B2-18: Estimated Combined Public Employee Insurance Pool Tax Liability Per Employee Per Year

	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI	21,276	$4.00	$6.96	$11.34	$36.43	$91.15	$161.01	$323.37	$648.19	$1,013.55	$1,407.55
Aggregated		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Combined Public Employee Pool	39,193	$0	$0	$0	$0	$18.52	$ 73.15	$149.12	$488.17	$857.10	$1,273.67

Table B2-19: VEHI Employers Estimated Tax Liability when Participating in Large and Small Group Markets

VEHI - Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Scenario Tax – Small Group	$0	$0	$0	$0	$4,106	$39,342	$203,252	$536,669	$1,463,870	$3,159,487
Scenario Tax – Large Group	$481	$1,101	$1,958	$3,028	$4,489	$534,537	$1,351,868	$3,993,466	$8,679,731	$13,806,447
Tax Reduction	$84,559	$146,951	$239,382	$772,101	$1,930,721	$2,851,689	$5,324,921	$9,260,788	$11,420,775	$12,981,064

Table B2-20: VEHI Employers Estimated Tax Liability at Various Metal Levels in Vermont Health Connect (VHC)

VEHI - Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Tax Reduction in VHC, Keep Similar Plan	$84,559	$146,951	$239,382	$772,101	$1,930,721	$2,851,689	$5,324,921	$9,260,788	$11,420,775	$12,981,064
Further Change Due to Platinum Plan	$0	$0	$0	-$5,211	-$36,557	$301,178	$446,399	$1,526,224	$3,895,952	$3,317,274
Further Change Due to Gold Plan	$0	$0	$0	$0	$4,106	$525,484	$1,325,951	$4,088,259	$9,373,980	$15,220,761
Further Difference Due to Silver Plan	$0	$0	$0	$0	$4,106	$525,484	$1,326,665	$4,103,183	$9,498,520	$16,081,813

Table B2-21: VEHI Employers Estimated Tax at Various Metal Levels in Vermont Health Connect, Per Employee Per Year

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VEHI - Status Quo	$4.00	$6.96	$11.34	$36.43	$91.15	$161.01	$323.37	$648.19	$1,013.55	$1,407.55
VEHI In Exchange	$0.02	$0.05	$0.09	$0.14	$0.40	$26.97	$73.09	$212.92	$476.76	$797.42
VEHI in Exchange Platinum	$0.03	$0.07	$0.12	$0.49	$2.68	$16.17	$65.75	$178.14	$370.49	$809.39
VEHI in Exchange Gold	$0.02	$0.05	$0.09	$0.14	$0.21	$2.27	$10.77	$20.77	$36.17	$82.03
VEHI in Exchange Silver	$0.02	$0.05	$0.09	$0.14	$0.21	$2.27	$10.74	$20.07	$30.32	$41.55

Table B2-22 Tax Difference When Enrolled in a Platinum Plan Rather than a Plan Similar to Your Current Plan

VEHI - Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Platinum Small Group	$0	$0	$0	$5,211	$36,557	$184,965	$372,587	$1,037,457	$1,951,943	$2,530,333
Platinum Large Group	$0	$0	$0	$0	$0	-$486,142	-$818,986	-$2,563,680	-$5,847,895	-$5,847,607

Table B2-23: Annual Tax Reductions by Using a Multiemployer Plan

VEHI	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$85,039	$148,052	$241,340	$775,129	$1,939,316	$3,425,568	$6,880,042	$13,790,922	$21,564,376	$29,946,998
Multiemployer Plan Tax Due	$0	$0	$2,819	$11,130	$156,431	$573,146	$2,697,252	$7,902,619	$13,779,221	$20,093,088
Tax Reduction	$85,039	$148,052	$238,521	$764,000	$1,782,885	$2,852,422	$4,182,789	$5,888,302	$7,785,154	$9,853,910

Appendix B.3: Municipalities

Table B3-1: Estimated Employer Tax Liability, 2018 - 2027

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Muni	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Non-Aggregated	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Muni	$426,068	$713,299	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391

Table B3-2: Municipalities Annual Tax Increases by Percentage

Municipalities	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Aggregated	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Annual Increase %		87%	85%	82%	132%	87%	72%	62%	46%	40%
Non-Aggregated	$426,068	$713,299	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391
Annual Increase %		67%	76%	62%	46%	36%	29%	25%	22%	19%

Table B3-3: Per Employee Per Year Tax Estimate, Aggregated Scenario

Aggregated	Contracts	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Muni	4,408	$8	$15	$27	$50	$115	$215	$370	$601	$876	$1,231

Chart B3-4: Tax Liability and Annual Cost Growth between 4.5% and 8.5%

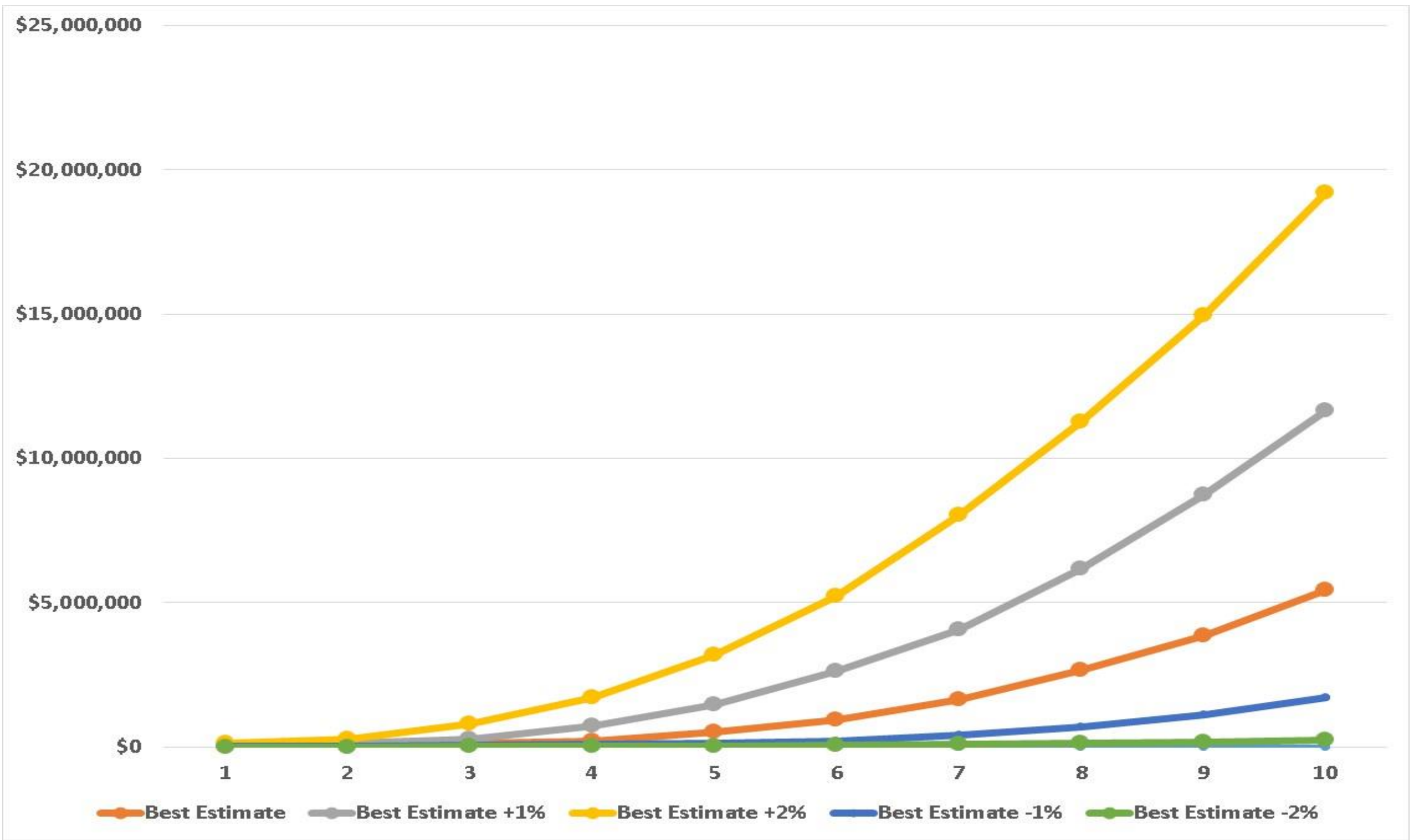

Table B3-5: Tax Liability and Annual Cost Growth between 4.5% and 8.5%

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Best Estimate	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Best Estimate +1%	$77,847	$127,424	$286,639	$727,035	$1,459,984	$2,627,026	$4,083,324	$6,182,673	$8,726,874	$11,646,779
Best Estimate +2%	$126,751	$262,082	$781,923	$1,702,492	$3,204,591	$5,217,903	$8,022,411	$11,268,368	$14,968,832	$19,214,401
Best Estimate -1%	$13,956	$22,365	$46,505	$87,073	$134,188	$208,718	$400,931	$708,104	$1,126,149	$1,708,688
Best Estimate -2%	$333	$4,006	$11,000	$19,142	$33,386	$57,093	$90,717	$121,761	$162,335	$228,245
Non-Aggregated	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Best Estimate	$426,068	$713,299	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391
Best Estimate +1%	$770,453	$1,327,291	$2,304,652	$3,487,187	$4,809,861	$6,294,998	$7,943,379	$9,779,778	$11,949,116	$14,437,132
Best Estimate +2%	$1,256,955	$2,183,810	$3,550,417	$5,098,700	$6,858,978	$8,798,991	$11,158,008	$13,910,819	$17,022,742	$20,685,943
Best Estimate -1%	$224,634	$322,471	$572,148	$894,604	$1,395,520	$2,020,311	$2,759,535	$3,600,117	$4,510,774	$5,500,318
Best Estimate -2%	$67,740	$116,065	$211,072	$311,668	$452,796	$675,775	$928,587	$1,254,705	$1,699,017	$2,204,379

Table B3-6: Estimated Reduction in Tax Liability Due to Aggregation by Employer

Muni	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Non-Aggregated	$426,068	$713,299	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391
Aggregated	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Tax Reduction	$391,314	$648,367	$1,132,469	$1,808,322	$2,454,159	$3,073,137	$3,557,316	$3,831,485	$4,029,724	$3,995,161

Table B3-7: Statutory and Adjusted Tax Thresholds for Selected Plans, 2018 – 2027[72]

Tax Thresholds by Year		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Muni Tax Thresholds *A Range is Used Representing the High and Low for Plans in the Muni Employer Group*	Self-Only Coverage Range	$10,300 – $13,200	$10,600 - $13,650	$10,850 - $13,950	$11,100 - $14,250	$11,350 - $14,600	$11,650 - $14,950	$11,900 - $15,250	$12,150 - $15,650	$12,450 - $16,000	$12,750 - $16,350
	Other-than-Self Coverage	$27,700 - $34,600	$28,650 - $35,700	$29,300 - $36,550	$29,950 - $37,400	$30,650 - $38,250	$31,350 - $39,150	$32,100 - $40,050	$32,800 - $40,950	$33,550 - $41,900	$34,350 - $42,850
Inflation Adjusted Statutory Tax Thresholds	Self-Only Coverage	$10,200	$10,540	$10,780	$11,030	$11,280	$11,540	$11,810	$12,080	$12,360	$12,640
	Other-than-Self Coverage	$27,500	$28,410	$29,060	$29,730	$30,410	$31,110	$31,830	$32,560	$33,310	$34,080

Table B3-9: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability by Employer, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Muni	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Self-Only	$34,754	$64,932	$120,398	$188,480	$261,981	$340,591	$436,488	$571,070	$730,189	$898,240
Other-than-Self-Only	$0	$0	$0	$30,189	$245,443	$608,061	$1,196,220	$2,078,560	$3,132,319	$4,527,991

[72] Additionally, some employees receive the qualified retiree adjustment or high risk employee adjustment of $1,650 for self-only coverage and $3,450 for other-than-self coverage during these years, further reducing or delaying tax liability for the employer.

Table B3-10: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability by Employer, Non-Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Muni	$426,068	$713,299.4	$1,252,867	$2,026,991	$2,961,583	$4,021,788	$5,190,024	$6,481,115	$7,892,233	$9,421,391
Self-Only	$34,754	$64,932.4	$120,398	$188,480	$261,981	$340,591	$436,488	$571,070	$730,189	$898,240
Other-than-Self-Only	$391,314	$648,367	$1,132,469	$1,838,511	$2,699,602	$3,681,197	$4,753,536	$5,910,045	$7,162,044	$8,523,152

Table B3-11: Federal Employer Shared Responsibility Payment

Municipal Groups	# FTEs	ACA ESRP Adjusted Count	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Burlington	844	814	$1,904,760	$1,986,160	$2,067,560	$2,157,100	$2,246,640	$2,344,320	$2,442,000	$2,539,680	$2,653,640	$2,759,460
Rutland City	195	165	$386,100	$402,600	$419,100	$437,250	$455,400	$475,200	$495,000	$514,800	$537,900	$559,350
Colchester	115	85	$198,900	$207,400	$215,900	$225,250	$234,600	$244,800	$255,000	$265,200	$277,100	$288,150
Shelburne	66	36	$84,240	$87,840	$91,440	$95,400	$99,360	$103,680	$108,000	$112,320	$117,360	$122,040
St. Albans City	60	30	$70,200	$73,200	$76,200	$79,500	$82,800	$86,400	$90,000	$93,600	$97,800	$101,700
St. Johnsbury	50	20	$46,800	$48,800	$50,800	$53,000	$55,200	$57,600	$60,000	$62,400	$65,200	$67,800
Bennington	92	62	$145,080	$151,280	$157,480	$164,300	$171,120	$178,560	$186,000	$193,440	$202,120	$210,180
Brattleboro	150	120	$280,800	$292,800	$304,800	$318,000	$331,200	$345,600	$360,000	$374,400	$391,200	$406,800
Springfield	99	69	$161,460	$168,360	$175,260	$182,850	$190,440	$198,720	$207,000	$215,280	$224,940	$233,910
Montpelier	105	75	$175,500	$183,000	$190,500	$198,750	$207,000	$216,000	$225,000	$234,000	$244,500	$254,250
Barre City	80	50	$117,000	$122,000	$127,000	$132,500	$138,000	$144,000	$150,000	$156,000	$163,000	$169,500
Barre Town	50	20	$46,800	$48,800	$50,800	$53,000	$55,200	$57,600	$60,000	$62,400	$65,200	$67,800
Hartford	98	68	$159,120	$165,920	$172,720	$180,200	$187,680	$195,840	$204,000	$212,160	$221,680	$230,520
Chittenden Transit Authority	105	75	$175,500	$183,000	$190,500	$198,750	$207,000	$216,000	$225,000	$234,000	$244,500	$254,250
Vermont State Housing Authority	71	41	$95,940	$100,040	$104,140	$108,650	$113,160	$118,080	$123,000	$127,920	$133,660	$138,990
Williston	71	41	$95,940	$100,040	$104,140	$108,650	$113,160	$118,080	$123,000	$127,920	$133,660	$138,990
Essex Town	70	40	$93,600	$97,600	$101,600	$106,000	$110,400	$115,200	$120,000	$124,800	$130,400	$135,600
Stowe	75	45	$105,300	$109,800	$114,300	$119,250	$124,200	$129,600	$135,000	$140,400	$146,700	$152,550
South Burlington	120	90	$210,600	$219,600	$228,600	$238,500	$248,400	$259,200	$270,000	$280,800	$293,400	$305,100
Middlebury	59	29	$67,860	$70,760	$73,660	$76,850	$80,040	$83,520	$87,000	$90,480	$94,540	$98,310

Table B3-12: AV Reduction Scenarios

Municipalities											
Plan	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Group 1a	80%	80%	80%	80%	80%	80%	80%	80%	78%	74%	71%
Group 1b	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Group 2a - FSA Plan	75%	75%	75%	75%	75%	75%	75%	75%	74%	70%	67%
Group 2b - FSA Plan	90%	90%	90%	90%	90%	90%	90%	90%	90%	86%	82%
Group 2c - FSA Plan	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Group 3	95%	95%	95%	95%	95%	95%	94%	90%	86%	82%	78%
Group 4	65%	65%	65%	65%	65%	65%	64%	61%	58%	55%	53%
Group 5	80%	80%	80%	80%	80%	80%	80%	80%	78%	74%	71%
Group 6	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Group 7a	90%	90%	90%	90%	90%	90%	90%	90%	90%	89%	85%
Group 7b	95%	95%	95%	95%	95%	95%	95%	92%	88%	84%	80%
Group 8a	75%	75%	75%	75%	75%	75%	75%	75%	71%	68%	65%
Group 8b	95%	95%	95%	95%	95%	95%	95%	91%	87%	83%	79%
Group 8c	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Group 9	70%	70%	70%	70%	70%	70%	70%	70%	68%	64%	61%
Group 10a - FSA Plan	75%	75%	75%	75%	75%	75%	75%	72%	69%	66%	63%
Group 10b - FSA Plan	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Group 11a - FSA Plan	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Group 11b	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Group 12	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
Group 13	80%	80%	80%	80%	80%	80%	80%	80%	80%	80%	79%
Group 14 - FSA Plan	77%	77%	77%	77%	77%	77%	77%	77%	77%	77%	63%

Table B3-13: Potential Tax Reductions from Payment and Delivery System Reform, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1% Reduction in Growth Due to Payment and Delivery System Reform										
Muni	$20,798	$42,568	$73,893	$131,596	$373,236	$739,933	$1,231,776	$1,941,526	$2,736,360	$3,717,542
2% Reduction in Growth Due to Payment and Delivery System Reform										
Muni	$34,420	$60,926	$109,398	$199,527	$474,038	$891,559	$1,541,990	$2,527,869	$3,700,174	$5,197,986

Table B3-14: Estimated Combined Public Employee Insurance Pool Tax Liability Per Employee Per Year

	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Muni	4,408	$7.88	$14.73	$27.31	$49.61	$115.11	$215.21	$370.40	$ 601.10	$ 876.25	$1,231.00
Aggregated	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Combined Public Employee Pool	39,193	$0	$0	$0	$0	$18.52	$ 73.15	$149.12	$488.17	$857.10	$1,273.67

Table B3-15: Municipal Employers Estimated Tax Liability when Participating in Large and Small Group Markets

Municipalities - Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Scenario Tax - Small Group	$34,754	$64,932	$119,286	$207,271	$391,399	$632,106	$1,088,701	$1,833,803	$2,748,083	$3,906,042
Scenario Tax - Large Group	$0	$0	$0	$0	$0	$0	$0	$0	$176	$43,643
Tax Reduction	$0	$0	$1,112	$11,398	$116,025	$316,546	$544,007	$815,827	$1,114,251	$1,476,546

Table B3-16: Annual Tax Reductions by Using a Multiemployer Plan

Muni	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$34,754	$64,932	$120,398	$218,669	$507,424	$948,652	$1,632,708	$2,649,630	$3,862,509	$5,426,231
Multiemployer Plan Tax Due	$0	$0	$0	$30,189	$245,443	$608,061	$1,196,220	$2,078,560	$3,132,319	$4,527,991
Tax Reduction	$34,754	$64,932	$120,398	$188,480	$261,981	$340,591	$436,488	$571,070	$730,189	$898,240

Appendix B.4: Vermont State Colleges

Table B4-1: Estimated Employer Tax Liability, 2018 - 2027

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Non-Aggregated	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
VSC	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518

Table B4-2: VSC Annual Tax Increases by Percentage

State Colleges	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Aggregated	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
% Annual Increase		191%	101%	67%	155%	74%	47%	36%	29%	24%
Non-Aggregated	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518
% Annual Increase		430%	134%	60%	42%	33%	27%	23%	22%	23%

Table B4-3: Per Employee Per Year Tax Estimate, Aggregated Scenario

Aggregated	Contracts	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC	1,485	$18	$53	$106	$177	$450	$785	$1,151	$1,564	$2,012	$2,498

Chart B4-4: VSC Tax Liability and Annual Cost Growth between 4.5% and 8.5%

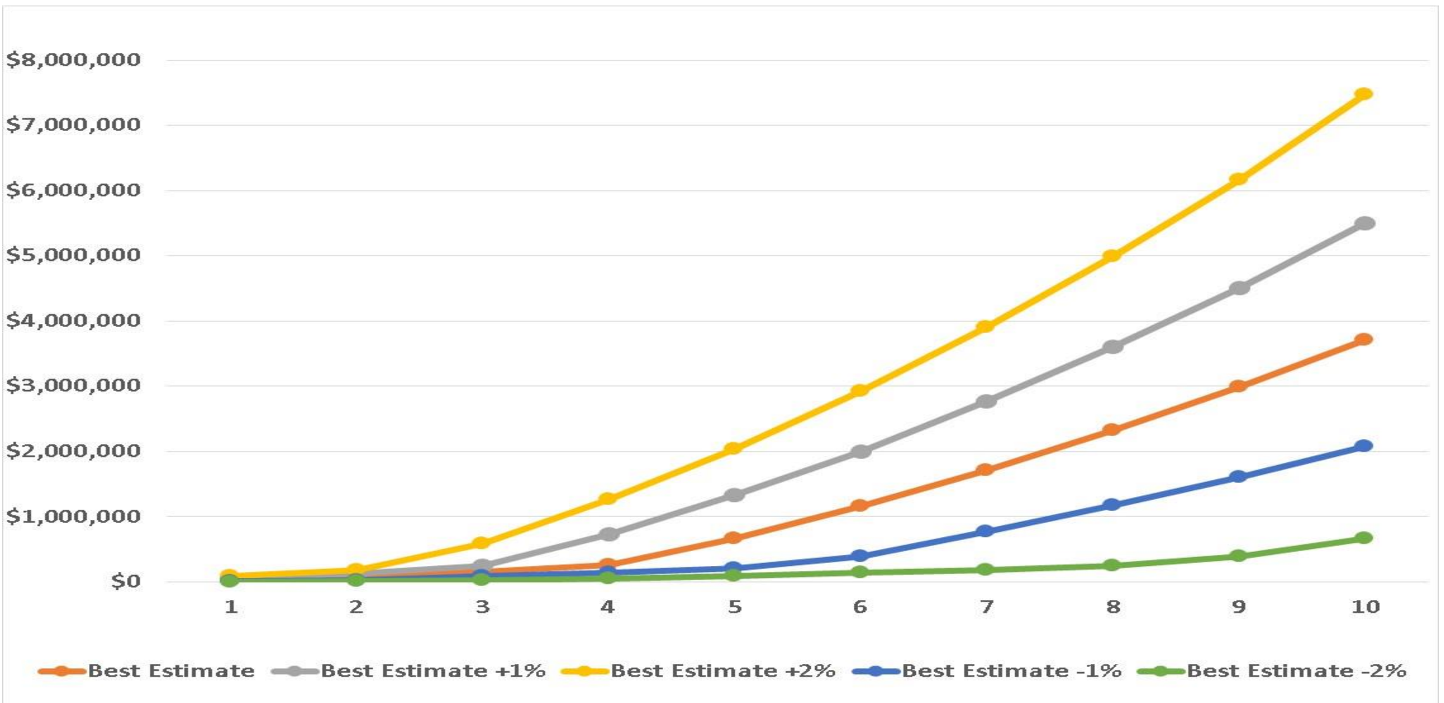

Table B4-4: VSC Tax Liability and Annual Cost Growth between 4.5% and 8.5%

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Best Estimate	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Best Estimate +1%	$57,615	$127,501	$250,005	$730,791	$1,327,497	$2,003,957	$2,772,208	$3,604,305	$4,511,046	$5,503,064
Best Estimate +2%	$88,677	$177,820	$587,229	$1,263,151	$2,038,851	$2,924,158	$3,908,048	$4,984,419	$6,167,277	$7,470,793
Best Estimate -1%	$9,729	$29,636	$88,404	$145,408	$209,050	$391,458	$768,351	$1,170,514	$1,601,475	$2,077,844
Best Estimate -2%	$4,374	$7,435	$21,816	$58,008	$97,680	$140,987	$188,095	$252,406	$391,483	$663,122
Non-Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Best Estimate	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518
Best Estimate +1%	$140,965	$420,427	$804,056	$1,223,668	$1,698,200	$2,220,793	$2,828,532	$3,637,413	$4,518,925	$5,503,064
Best Estimate +2%	$264,542	$620,623	$1,097,923	$1,633,099	$2,228,838	$2,972,489	$3,928,105	$4,984,419	$6,167,277	$7,470,793
Best Estimate -1%	$9,729	$47,140	$251,139	$476,946	$724,212	$994,134	$1,298,552	$1,624,841	$1,971,252	$2,347,280
Best Estimate -2%	$4,374	$7,435	$33,288	$129,226	$286,071	$457,372	$643,779	$838,251	$1,042,340	$1,268,506

Table B4-5: Estimated Reduction in Tax Liability Due to Aggregation by Employer

VSC	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Non-Aggregated	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518
Aggregated	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Tax Reduction	$15,425	$145,812	$366,790	$575,854	$522,783	$423,223	$312,797	$165,206	$56,513	$36,404

Table B4-6: Statutory and Adjusted Tax Thresholds for Selected Plans, 2018 – 2027[73]

Tax Thresholds by Year		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC Tax Thresholds	Self-Only Coverage	$11,750	$12,150	$12,400	$12,700	$13,000	$13,300	$13,600	$13,900	$14,250	$14,550
	Other-than-Self Coverage	$31,650	$32,700	$33,450	$34,250	$35,050	$35,850	$36,650	$37,500	$38,350	$39,250
Inflation Adjusted Statutory Tax Thresholds	Self-Only Coverage	$10,200	$10,540	$10,780	$11,030	$11,280	$11,540	$11,810	$12,080	$12,360	$12,640
	Other-than-Self Coverage	$27,500	$28,410	$29,060	$29,730	$30,410	$31,110	$31,830	$32,560	$33,310	$34,080

Table B4-7: Per Employee Per Year Cost of VSC's Most Popular Plan, Active Employees Only

State Colleges	Contracts	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
POS Active	758	$14	$64	$141	$218	$629	$1,135	$1,691	$2,286	$2,931	$3,628
POS - Cobra	2	$21	$95	$209	$324	$695	$1,145	$1,639	$2,168	$2,738	$3,359
POS - FSA Contributor	162	$84	$136	$215	$452	$917	$1,429	$1,991	$2,592	$3,242	$3,945
POS Total	**922**	**$26**	**$77**	**$154**	**$259**	**$680**	**$1,187**	**$1,744**	**$2,340**	**$2,985**	**$3,684**
PPO Active	29	$34	$157	$346	$536	$829	$1,165	$1,534	$1,932	$2,351	$2,821
PPO - Cobra	-	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
PPO - FSA Contributor	6	$207	$334	$528	$760	$1,069	$1,409	$1,781	$2,183	$2,604	$3,078
PPO Total	**35**	**$64**	**$187**	**$377**	**$574**	**$870**	**$1,207**	**$1,576**	**$1,975**	**$2,394**	**$2,865**
OAP Active	12	$10	$47	$104	$162	$593	$1,130	$1,719	$2,349	$3,033	$3,771
OAP - Cobra	-	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
OAP - FSA Contributor	3	$83	$134	$211	$445	$912	$1,427	$1,990	$2,594	$3,247	$3,953
OAP Total	**15**	**$25**	**$65**	**$126**	**$218**	**$657**	**$1,189**	**$1,773**	**$2,398**	**$3,076**	**$3,807**

[73] Additionally, some employees receive the qualified retiree adjustment or high risk employee adjustment of $1,650 for self-only coverage and $3,450 for other-than-self coverage during these years, further reducing or delaying tax liability for the employer.

Table B4-8: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability by Employer, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Self-Only	$26,842	$78,109	$156,914	$236,185	$325,305	$429,450	$543,344	$667,620	$795,392	$942,500
Other-than-Self-Only	$0	$0	$0	$26,064	$343,589	$735,787	$1,166,507	$1,655,544	$2,192,431	$2,767,613

Table B4-9: Self-Only Coverage Tax Liability Versus Other-than-Self-Only Coverage Tax Liability by Employer, Non-Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC	$42,267	$223,921	$523,704	$838,103	$1,191,677	$1,588,461	$2,022,648	$2,488,370	$3,044,337	$3,746,518
Self-Only	$26,842	$78,109	$156,914	$236,185	$325,305	$429,450	$543,344	$667,620	$795,392	$942,500
Other-than-Self-Only	$15,425	$145,812	$366,790	$601,919	$866,372	$1,159,011	$1,479,304	$1,820,751	$2,248,944	$2,804,018

Table B4-10: Estimated Tax when Aggregating All Employees, including Medicare Eligible Retirees

Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC Status Quo	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
VSC Aggregate Medicare	$0	$0	$0	$0	$0	$0	$0	$1,759	$29,052	$368,002
Tax Reduction	**$26,842**	**$78,109**	**$156,914**	**$262,249**	**$668,894**	**$1,165,238**	**$1,709,851**	**$2,321,405**	**$2,958,771**	**$3,342,111**

Table B4-11: Federal Employer Shared Responsibility Payment

	# FTEs	ACA ESRP Adjusted Count	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC	1013	983	$2,300,220	$2,398,520	$2,496,820	$2,604,950	$2,713,080	$2,831,040	$2,949,000	$3,066,960	$3,204,580	$3,332,370

Table B4-12: Vermont Employer Health Care Contribution

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC	$677,576	$714,165	$752,730	$793,378	$836,220	$881,376	$928,970	$979,135	$1,032,008	$1,087,736

Table B4-13: Illustration of Plan Design Changes to Achieve AV Levels that Avoid Excise Tax

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC POS	95%	94%	91%	87%	83%	79%	75%	71%	68%	65%	61%

Table B4-13A: Illustration of Plan Designs to Achieve AV Levels in Table 12[74]

	Plan 1	Plan 2	Plan 3	Plan 4
Actuarial Value	90%	85%	80%	75%
Deductible	$500	$750	$1,250	$2,000
Coinsurance	10%	15%	20%	25%

[74] The table shows simple examples of the types of plan design changes required to reduce the AV in five percentage point increments. Please note that a number of plan design changes can produce the same effect on actuarial value. This table shows one such plan design change. Illustrations based on the 2016 HHS AV Calculator for Individual and Small Group Markets.

Max Out of Pocket	$1,200	$2,000	$2,500	$3,100

Table B4-14: Tax Reduction Due to Migrating Plans that Exceed Per Employee Cost of Most Popular Plan

Aggregated Scenario	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
State Colleges - Status Quo	1,485 Total	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
State Colleges - Tax Reduction	50 Migrate	$1,313	$3,875	$7,813	$11,025	$6,679	$709	($5,872)	($12,761)	($20,686)	($28,662)

Table B4-15: FSA Tax Reduction for Selected Employers, Active Employees Only

Aggregated Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC Estimated Tax Liability	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
VSC FSA Tax Reduction	$12,644	$13,050	$13,526	$40,075	$49,161	$50,012	$50,861	$51,722	$52,563	$53,429

Table B4-16: Active Employees Participating in FSAs

Aggregated Scenario	Contracts
VSC Estimated Tax Liability	1,485
VSC FSA Tax Reduction	171 FSAs

Table B4-17: Potential Tax Reductions from Payment and Delivery System Reform, Aggregated Scenario

Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1% Reduction in Growth Due to Payment and Delivery System Reform										
VSC	$17,113	$48,473	$68,509	$116,841	$459,844	$773,780	$941,500	$1,152,650	$1,386,348	$1,632,269
2% Reduction in Growth Due to Payment and Delivery System Reform										
VSC	$22,468	$70,674	$135,098	$204,241	$571,214	$1,024,250	$1,521,757	$2,070,758	$2,596,340	$3,046,991

Table B4-18: Estimated Combined Public Employee Insurance Pool Tax Liability Per Employee Per Year

	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
VSC	1,485	$18.08	$52.60	$105.67	$176.60	$450.43	$784.67	$1,151.42	$1,564.42	$2,012.00	$2,498.39
Aggregated	#	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Combined Public Employee Pool	39,193	$0	$0	$0	$0	$18.52	$ 73.15	$149.12	$488.17	$857.10	$1,273.67

Table B4-19: Vermont State Colleges Estimated Tax Liability when Participating in Large Group Market

State Colleges - Aggregated	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Scenario Tax	$0	$0	$0	$0	$0	$0	$21,005	$97,932	$187,273	$640,206
Tax Reduction	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,688,847	$2,225,232	$2,800,550	$3,069,907

Table B4-20: Annual Tax Reductions by Using a Multiemployer Plan

VSC	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Status Quo Tax	$26,842	$78,109	$156,914	$262,249	$668,894	$1,165,238	$1,709,851	$2,323,164	$2,987,823	$3,710,113
Multiemployer Plan Tax Due	$0	$0	$0	$26,064	$343,589	$735,787	$1,166,507	$1,655,544	$2,192,431	$2,767,613
Tax Reduction	$26,842	$78,109	$156,914	$236,185	$325,305	$429,450	$543,344	$667,620	$795,392	$942,500