



In the Literature

Highlights from Commonwealth Fund-Supported Studies in Professional Journals

Taxing Cadillac Health Plans May Produce Chevy Results

December 3, 2009

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Journal: *Health Affairs* Web First, December 3, 2009

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Synopsis

It is often assumed that high-cost health insurance plans—referred to by some as “Cadillac” plans—provide rich benefits to users. But in this study comparing high- and low-cost employer-based plans, researchers found that benefit design explains only a fraction of the variation in family coverage costs. Other factors, such as industry sector and geographic differences in the costs of delivering care, are more likely explanations for why some health plans charge higher premiums.

The Issue

For several decades, many economists and policymakers have believed that the U.S. tax code—specifically the regulation that allows employers’ contributions for health insurance premiums to be treated as nontaxable income for employees—has led to some Americans being “overinsured.” Several attempts have been made over the years to amend the open-ended tax treatment of employer-based insurance, including proposals in the current health care reform debate. This study, supported by The Commonwealth Fund, analyzed plans over and under a hypothetical standard deduction of \$6,675 for single coverage and \$13,350 for family coverage.

Key Findings

- When high-cost and low-cost family health plan coverage were compared, researchers found that plan characteristics did not greatly differ, except for premiums.
- Only 3.7 percent of variation in the cost of family coverage can be explained by benefit design.

Category	Plans exceeding cap	Plans below cap
Actuarial value	0.810 ^a	0.793
Average premium	\$16,266 ^b	\$9,874
Total enrollment	31%	69%

^a Difference between plans exceeding and below the cap is statistically significant ($p < 0.05$).

^b Difference between plans exceeding and below the cap is statistically significant ($p < 0.01$).

- The type of health plan—health maintenance organization, preferred provider organization, point-of-service, or high-deductible—along with the plan’s benefit design, explained only 6.1 percent of the variation in costs.
- The industry that a company operates in is a highly significant factor in premium variation, as are regional medical costs. Premiums in the manufacturing and retail sectors were 20 percent and 14 percent lower, for example, than in the health care industry. A 1 percent increase in “geographic practice costs”—the relative costs of practicing medicine in a specific area—was associated with an almost equal rise in family premiums.
- Most variation in premiums remains largely unexplained.

Addressing the Problem

The rationale for limiting the deductibility of employer contributions to health insurance assumes that high-cost plans come with rich and perhaps unnecessary benefits. This study found, however, that despite dramatic differences in family premiums for plans over and under the standard deduction, plan characteristics do not vary greatly. Actuarial value and plan type explain only a tiny part of premium variation between plans. The two factors that do play a significant role—industry and regional medical costs—are beyond a firm’s control, and policy efforts should make adjustments accordingly. Limiting the deductibility of employee benefits, say the authors, may not produce the targeted results that some advocates have long expected. A simple cap on deductibility may “exacerbate rather than ameliorate current inequities,” they conclude.

“If policymakers are committed to limiting tax-advantaged benefits, the methodology needs to be more sophisticated (and complex) than what has been proposed.”

About the Study

Using data from the 2007 Kaiser Family Foundation/Health Research and Educational Trust Employer Benefits Survey, the authors examined employer-based plans at 522 sample firms. The authors created a hypothetical standard deduction, based on a Bush administration proposal, of \$6,675 for single coverage and \$13,350 for family coverage, to sort and compare higher- and lower-cost coverage.

The Bottom Line

Benefit design and plan type explain only 6.1 percent of the variation in premiums between low- and high-cost plans. Industry type and regional medical costs also play a role, but the reasons behind most premium variation remain unknown.

Citation

J. Gabel, J. Pickreign, R. McDevitt et al., “Taxing Cadillac Health Plans May Produce Chevy Results,” *Health Affairs* Web First, Dec. 3, 2009.