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The BottomsLine

ABOUT TBG

The Bottoms Group, LLC, has for decades been listening to clients and developing employee benefit, insurance and estate planning solutions customized to their unique and changing needs.

For more information about TBG, visit **www.thebottomsgroup.com**

CADILLAC TAX DELAYED AND POISED FOR EVENTUAL REPEAL

BY DAVID BOTTOMS

Since the passage of the Affordable Care Act on March 23, 2010, the excise tax on high-cost health plans, better known as the "Cadillac Tax", has loomed large in the minds of employers.

The Cadillac Tax, previously slated to begin in 2018 and now delayed, as a result of Congress' 11th hour 2016 spending package, until 2020 will impose a 40% excise tax on health plans which exceed a cost threshold of $10,200 a year for individual coverage and/or $27,500 per year for family coverage. Practically, this means that, when the tax takes effect, each dollar spent on health coverage within the context of an employer benefit program and in excess of these limits will be assessed a forty cent tax. (continued page 3)

COST OF LIFE INSURANCE INCREASES

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During the 1980s, the combination of relatively high interest rates and emerging technology allowed for flexibility in the design of life insurance policies. However, flexibility requires management and ongoing attention. Just paying the planned premium is not necessarily enough to keep the coverage healthy. Unless they are prompted, consumers are unlikely to review their policies on their own and consider changes so the policy will serve its intended purpose. In recent years, the speed of change has been accelerating. This article is intended to help TBG's clients and friends better understand a recent development that may have an impact upon their existing life insurance coverage. In short, policy reviews are essential. TBG is ready to help. (continued page 3)

THE BENEFIT OF ANCILLARY PLANS

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There are many group benefit options available to add value and enhance your employee benefits package. These benefits are important because they show employees that they are valued by providing many options to them and their families, thus improving the overall experience of employer-offered benefits.

In addition to medical benefits, many employers choose to offer dental, vision, life/accidental death & dismemberment, short term disability and long term disability. Other available options are worksite products such as accident, critical illness and hospital indemnity. Many of these plans can be implemented as a completely voluntary option, allowing the employee to see additional benefits provided to them giving a sense of value.

Dental policies have the option of being employer funded or voluntary; there are usually greater discounts on premium when the employer funds a large portion of the premium as it is assumed that the overall participation would be greater. Many employees take advantage of the 100% preventive care on dental plan and if any other services need to be done they are already insured.

Vision policies are similar to dental policies in that they may be employer-sponsored or voluntary. Most employees who enroll will use the benefit allowance on frames or contacts. Many vision plans offer a single copay for the vision exam which can also detect health issues aside from just the vision correction.

The more common employer-paid options, which typically include 100% participation, are Life/AD&D, Short Term Disability and Long Term Disability. It is important that these benefits are made aware to the employees. If they are unable to work, this offers some financial protection. In addition, if an employee were to pass away while covered under the plan, the life insurance would be there to assist the family. If a death is also considered an accident, the AD&D insurance would also be available to the employee/beneficiary. There are also some situations where portions of the policy may be paid if a covered employee loses sight or an appendage in the event of an accident.

Voluntary benefits are becoming more prevalent in the workplace. They allow the employer to offer additional options while giving employees the option to select policies that may best fit their needs.

WHAT ARE SOME RECENT INCREASES?

These carriers announced increases to the COI rate and/or other charges on in-force UL policies. Here's what happened:

EFFECTIVE DATE	CARRIER	ISSUING CARRIER	NUMBER OF POLICIES IMPACTED	RATE INCREASE	POLICY YEAR OF ISSUE
June 1, 2015	Transamerica	Transamerica Life Insurance Co.	Not Available	Not Available	Select policies issued from 1987-1998
August 1, 2015	Legal and General	Banner Life William Penn	Not Available	Not Available	Select policies issued from 1995-2010
September 1, 2015	US Financial Life	US Financial Life	Not Available	Not Available	Not available
October 1, 2015	Voya	Security Life of Denver Reliastar Life Insurance Carrier	Not Available	9%-42%	Select policies purchased prior to 2009
January 1, 2016	AXA	AXA Equitable Life Insurance Co.	1,000 policies, Ages 70+	Face Amount: $1M+	Select policies issued from 2004-2008

WHAT DO POLICYHOLDERS NEED TO DO?

Understanding the policy details is crucial. A policy review is an opportunity to address COI increases and to understand how it may impact your goals. For some, the only alternative to paying higher premiums may be to request a reduction in the death benefit amount.

Pay special attention to policies with crediting interest rate that's close to, or at, the guaranteed minimum crediting rate. Those policies may be causing the most stress for carriers. Request in-force illustrations at lower interest rates to help depict how sensitive the policy is to declining interest rates.

Review policies on a regular basis. It's important to make that policyowners understand both current and guaranteed charges.

CADILLAC TAX DELAYED AND POISED FOR EVENTUAL REPEAL

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While news of the delayed implementation of the Cadillac Tax until 2020 will no doubt come as good news to many employers, the delay also increases the likelihood that the tax will be fully recalled before it is rolled out given almost universal support for repeal by the likely 2016 presidential candidates in both the Republican and Democratic camps.

In today's hyper-polarized political environment it would be reasonable to question why agreement exists on both sides of the aisle on this issue… especially since it involves changes to the Affordable Care Act.

The short answer is that labor unions and large corporations, both of which have very strong lobbying operations in Washington, have agreed to take on the Cadillac Tax as a key issue. While these two groups rarely see eye-to-eye, they both agree that implementation of the Cadillac Tax would reduce their ability to use health benefit plans as a key tool for recruitment of members/employees. Their joint effort almost assures the eventual repeal of the tax and will come as welcome news to employers who invest heavily in their benefit plans as a means of attracting and retaining employee talent.

While many employers, particularly smaller employers, do not currently provide health plans with values in excess of the current limits, the inflation factor tied to the Cadillac Tax health cost threshold is linked to the general Consumer Price Index (CPI), not the faster increasing rate of medical cost inflation. This means that over time, the Cadillac Tax would likely affect almost all employers offering group health benefits to their employees, not only those employers offering what are generally considered "Cadillac plans."

While largely unrecognized by the general public, current tax code rules, which have been in effect since 1954, have provided huge incentives for employers to provide health benefits to their employees while reducing the employer's payroll tax liability and providing the employer with the ability to provide health benefits as a form of untaxed compensation to employees. Better known is that current rules allow employees to pay their portion of the health premiums with pre-tax dollars. Altogether, the current income and payroll tax exclusion afforded to employer provided benefit plans saves individual taxpayers and their employers more than $250 billion a year in taxes.

The Cadillac Tax was designed as a means of clawing back some of that lost revenue without doing so via an outright repeal of the employer tax exclusion for health coverage, which would have met almost immediate opposition across the political spectrum. The Cadillac Tax, despite its more subtle and delayed approach, appears to have met, in a more subtle and delayed manner, the same opposition it sought to avoid.

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