ABAG FINANCE AND PERSONNEL COMMITTEE

Thursday, May 16, 2013
ABAG Conference Room B
MetroCenter—8th and Oak Streets
Oakland, CA

		Recommendation***
1.	**Call to Order**	
2.	**Public Comments**	Information
3.*	**Minutes of March 21, 2013 Meeting**	Action
4.*	**Financial Reports – ABAG** *The February and March 2013 Financial reports will be presented and reviewed.*	Action
5.*	**Prospective 'Cadillac Tax' Mandated as part of Affordable Care Act.** *Staff will provide a brief review of the 'Cadillac Tax' to commence January 1, 2018.*	Information
	THE FOLLOWING ITEMS WILL BE DISCUSSED IN CLOSED SESSION PURSUANT TO THE REQUIREMENTS OF THE RALPH M. BROWN ACT.	
6.	**Public Employee Performance Evaluation** *Title: Executive Director*	Action/Information
7.	**Adjournment**	Action
*	Attachments enclosed with packet.	
**	Supporting documentation will be sent under separate cover.	
***	The Committee may take action on any item on the agenda, which action may be the recommended action, any other action or no action.	

ABAG FINANCE AND PERSONNEL COMMITTEE

Summary Minutes

March 21, 2013

Members Present	Jurisdiction
Supervisor John Gioia, Chair	County of Contra Costa
Mayor Bill Harrison, Vice Chair	City of Fremont
Supervisor Mark Luce	County of Napa
Mayor Julia Pierce	City of Clayton
Supervisor David Cortese	County of Santa Clara
Supervisor Scott Haggerty	County of Alameda
Supervisor David Rabbitt	County of Sonoma
Supervisor Karen Mitchoff	County of Contra Costa
Councilmember Ronit Bryant	City of Mountain View

Members Absent

Supervisor Dave Pine	County of San Mateo

Officers and Staff Present

Ezra Rapport, Executive Director
Patricia Jones, Assistant Executive Director
Kenneth Moy, Legal Counsel
Susan Hsieh, Assistant Finance Director

1. The meeting was called to order by Supervisor Luce, President of ABAG at 5:15 pm.

2. There were no public comments.

3. Supervisor John Gioia was elected Chair and Mayor Bill Harrison was elected Vice Chair. No action was taken regarding potential appointment of representative to the Administrative Committee. /M/Haggerty/S/Cortese/C/approved.

4. Summary Minutes of the January 17, 2013 meeting were approved. /M/Haggerty/S/Pierce/C/approved.

5. Hsieh provided an overview of the Financial Reports for the months of December 2012 and January, 2013. /M/Haggerty/S/Rabbitt/C/approved.

6. Hsieh provided an oral report on the potential financial impacts of Affordable Care Act on ABAG. Information regarding "Cadillac Plans" was requested for the next meeting.

7. The committee approved the allocation of funds received from class-action settlements. /M/Mitchoff/S/Pierce/C/approved.

8. Closed Session. No reportable action.

9. Meeting adjourned.

TO:	Finance and Personnel Committee	DT:	April 21, 2013
FM:	Herbert Pike, Finance Director	Re:	Financial Reports --February 2013

The following are highlights of the financial reports for February 2013.

Overall Summary (Figures 3, 4, 7 & 8)
February 2013 represents the eighth month of the new fiscal year (66.67 percent). February was the first month to reflect a marginal increase in billable rates for labor due to adjustments in leave accrual and diminished payroll costs (from the year prior). While equity continued to decline marginally during the month of February, the adjusted billable labor rates should mitigate losses in the payroll clearing account accumulated year-to-date, also boosted by the seasonal impact of an increase in billable hours to grant programs during the last third of the fiscal year.

Cash on Hand (Figure 1)
Cash on hand decreased to $3.78 million as of February 28th from $3.96 million on January 31st. The decrease of $177 thousand is attributed primarily to the increase in receivables. The February balance includes approximately $1.97 million invested in the Local Agency Investment Fund (LAIF). Currently, ABAG does not hold any other investments. The February 28th cash balance is approximately $263 thousand more than the prior year.

Receivables (Figure 2)
Receivables from grant and service programs amounted to about $4.95 million on February 28th, an increase of $596 thousand from the month prior. The $4.95 million is $1.65 million higher than the receivables of the year prior. The increase in receivables appears to be the result of a surge in grant billings associated with some capital intensive projects that are closing or that will be closing out very soon. Contractors are spending down the funds committed for the work, finding themselves in a use it or lose it situation. Adjustments in staffing have been made and should not adversely affect future collections.

Actual vs. Budgeted Expenses (Figure 9)
Total expenses through February 28th, the eighth month of the new fiscal year, amounted to about $17.53 million, or 71.3 percent, of the adjusted, budgeted annual expense of $24.60 million for FY 2012-13. This appears to reflect the frenzy of activity that accompanied the closure of several major projects. It exceeds the 66.7 percent (eight/twelfths, two/thirds) average and is opposite the normal trend where there is usually a slight lag in the accumulation of expenses in the fiscal year. The primary factor accelerating expense is the closing of the projects, including Trash Capture Devices in numerous jurisdictions within the region, who are trying to

get their claims recorded before the grant expires. Non-labor expense is expected to decline in the latter months of the fiscal year as the projects with high-capital payouts to other entities subsides with many of the deadlines past.

Actual vs. Budgeted Revenues (Figure 10)

As of February 28th, total revenues amounted to about $17.00 million, or 69.0 percent, of the adjusted, budgeted annual revenue of $24.65 million for FY 2012-13. Higher billable labor rates, along with the seasonal increase in billable hours normally realized in the last four month of the fiscal year (less vacation, fewer holidays, lower sick leave usage), should increase overhead recovery.

Fund Equity (Figure 5)

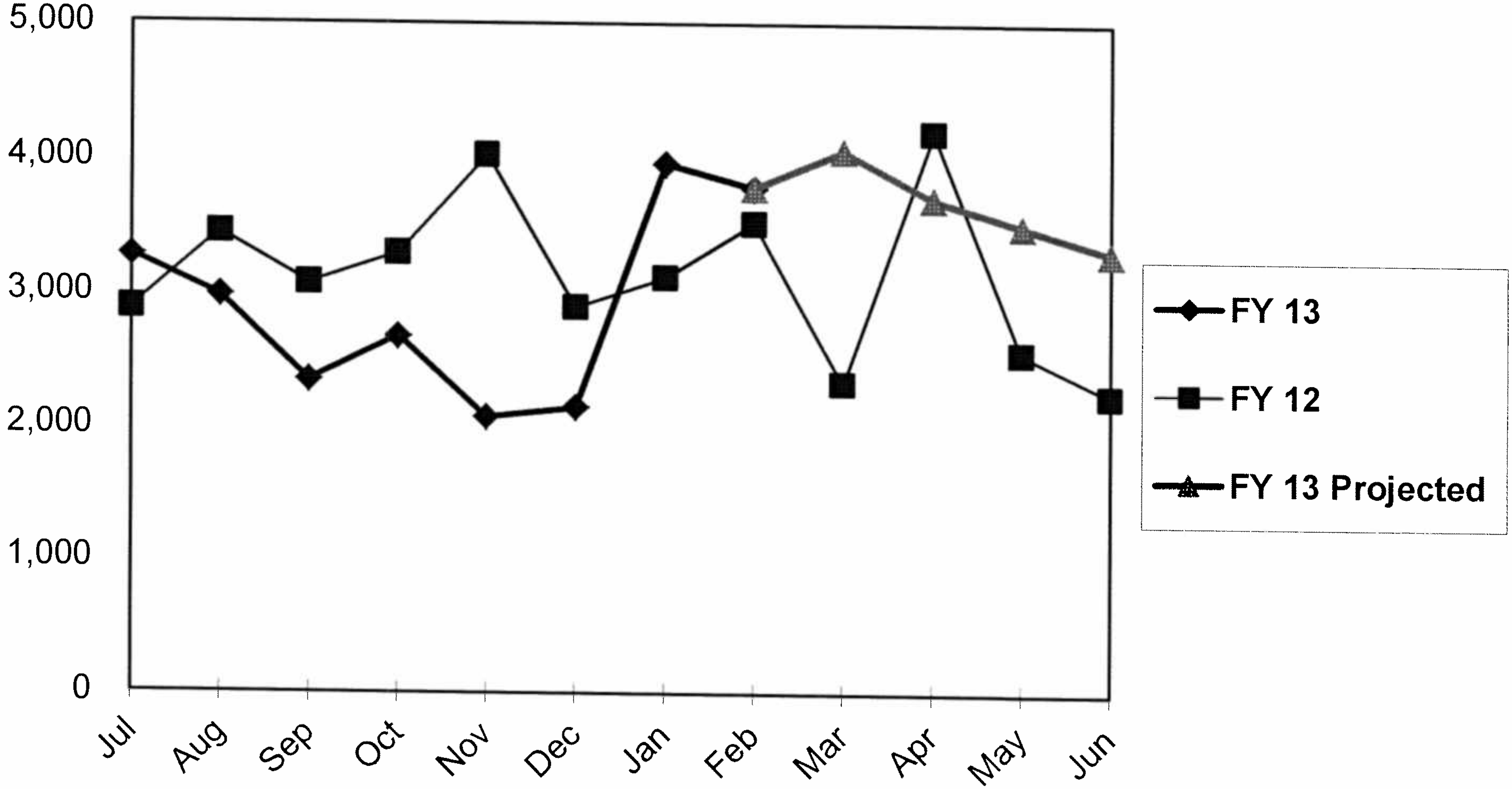
As of February 28th, general fund equity was approximately $630 thousand, a decrease of $35 thousand from the prior month. The Agency's restricted fund equity, consisting of capital, self-insurance, building maintenance and reserves, is $610 thousand. Total fund equity of $1.24 million is $680 thousand less than the year prior. Much of this loss may be expected to be offset by increased grant staffing and greater overhead recovery during the remainder of the fiscal year.

Indirect Cost (Figure 6)

The Agency's actual indirect cost (overhead) rate was 44.29 percent, or 1.34 percent above target. The decrease in February was somewhat unexpected because it was a short month, including holidays, so grant-funded personnel costs are down slightly while utility costs, and other operating cost continue unabated. It is anticipated that the last four months of the fiscal year will see increase billable grant hours that will result in a reduction of overhead as a percent of labor costs and bring the year-end indirect overhead rate closer to the budgeted rate of 42.95 percent.

ABAG Financial Indices

Figure 1--*Cash on Hand--FY 12 and FY 13 ($'000)*



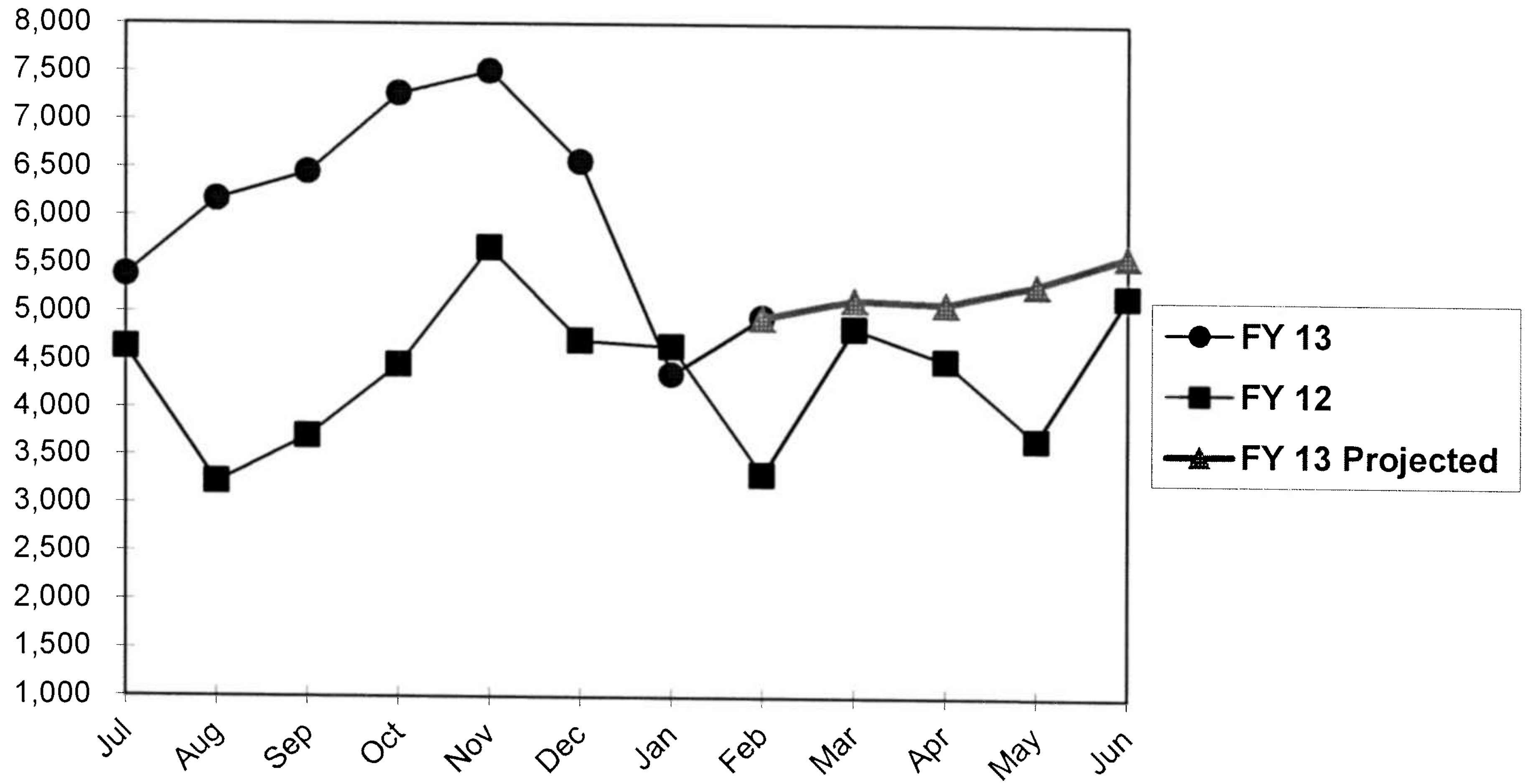
Represents the sum total of cash deposited at our bank and the Local Agency Investment Fund. This chart shows fluctuation patterns of cash on hand for the current and prior fiscal years.

Source: ABAG -INDICES 2013-02.xls

Figure 1

ABAG Financial Indices

Figure 2--*Accounts Receivable--FY 12 and FY 13 ($'000)*



Accounts receivable include receivables generated by grants and service programs over two fiscal years. Reflects the reasonableness of our receivable levels; usually have about six weeks' worth of annual revenues in receivables.

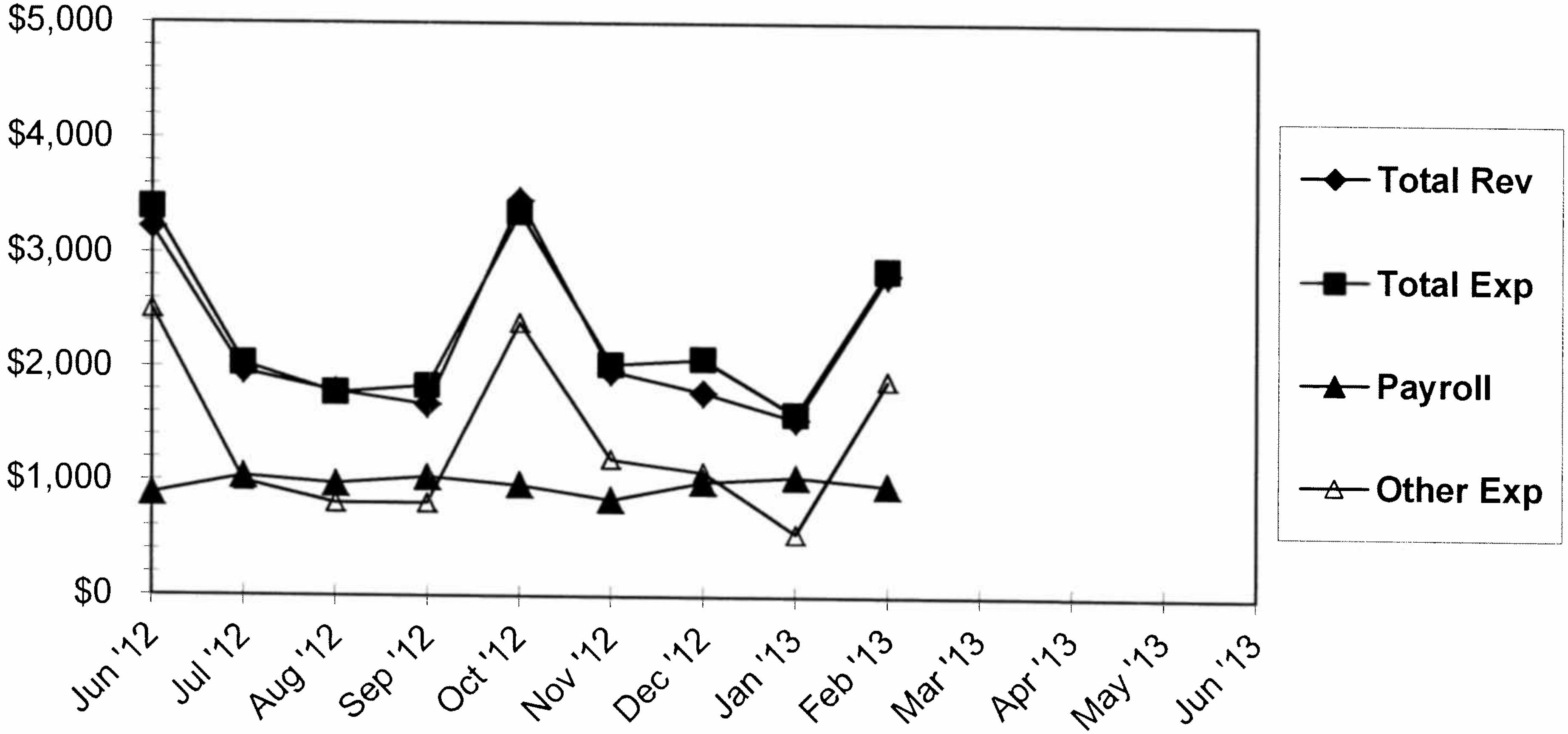
Source: ABAG - INDICES 2013-02.xls

Figure 2

ABAG Financial Indices

Figure 3--*Current Month Revenues & Expenses*

FY 12-13 ($'000)

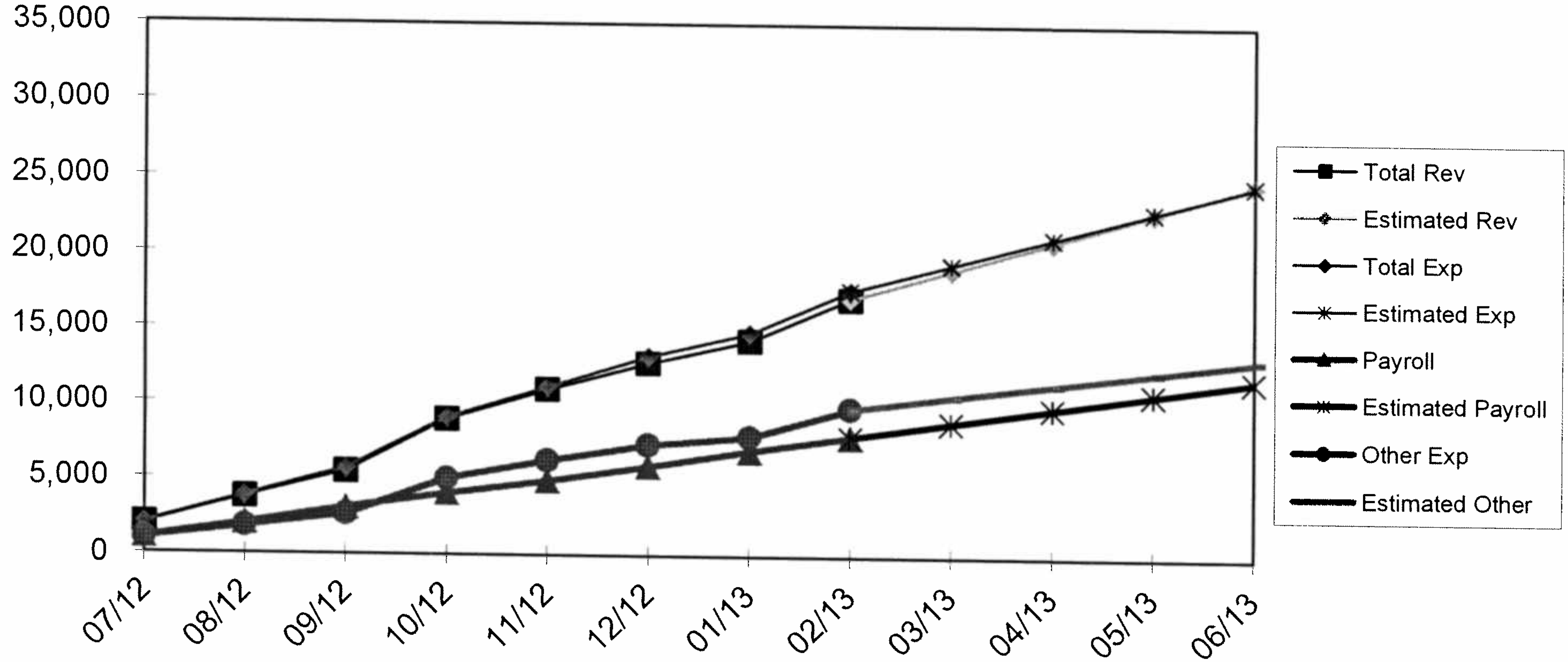


Presents month by month total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall current month net surplus (or deficit) for the Association.

ABAG Financial Indices

Figure 4--Year-to-date Revenues & Expenses

FY 12-13 ($'000)



Presents year-to-date total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall year-to-date net surplus (or deficit) for the Association.

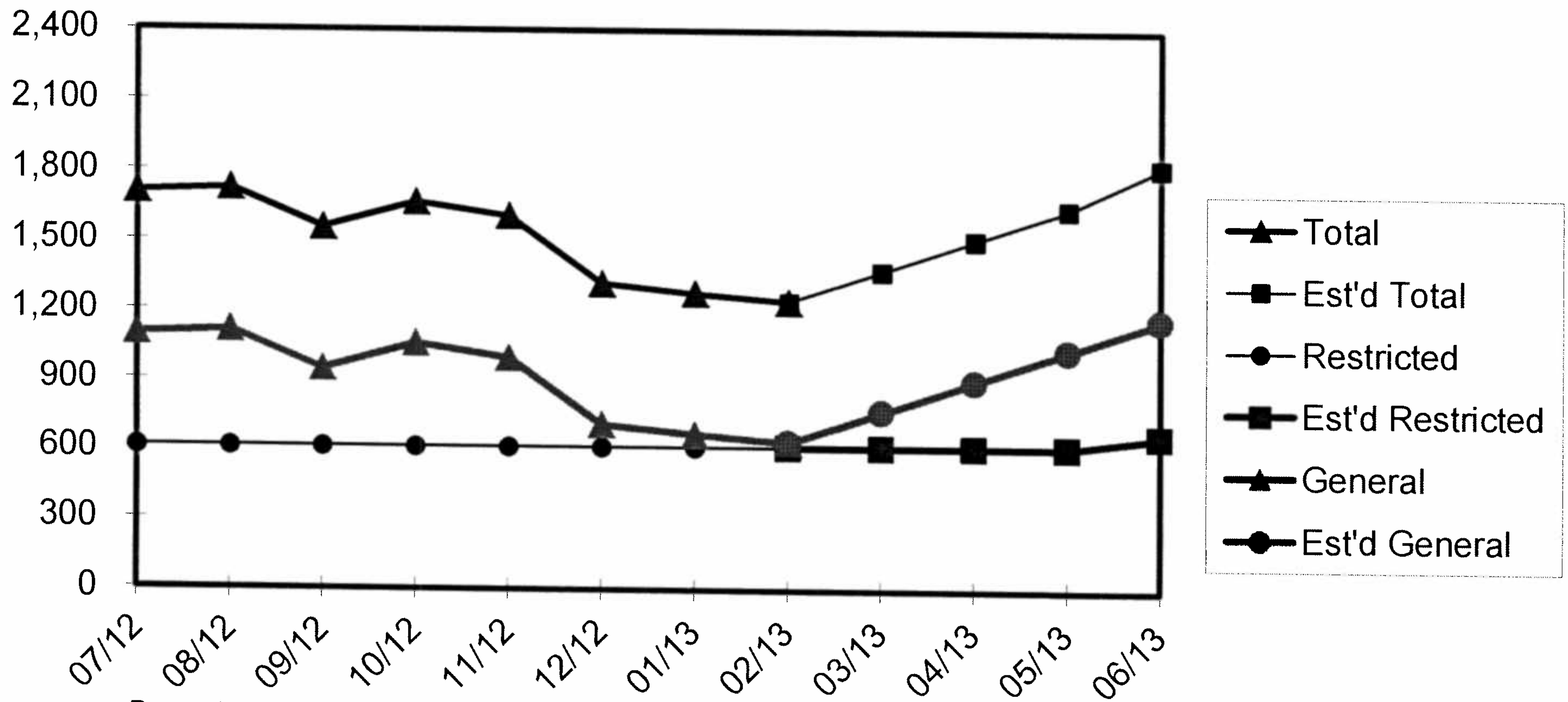
Source: ABAG - INDICES 2013-02.xls

Figure 4

ABAG Financial Indices

Figure 5--*Fund Equity*

FY 12-13 ($'000)



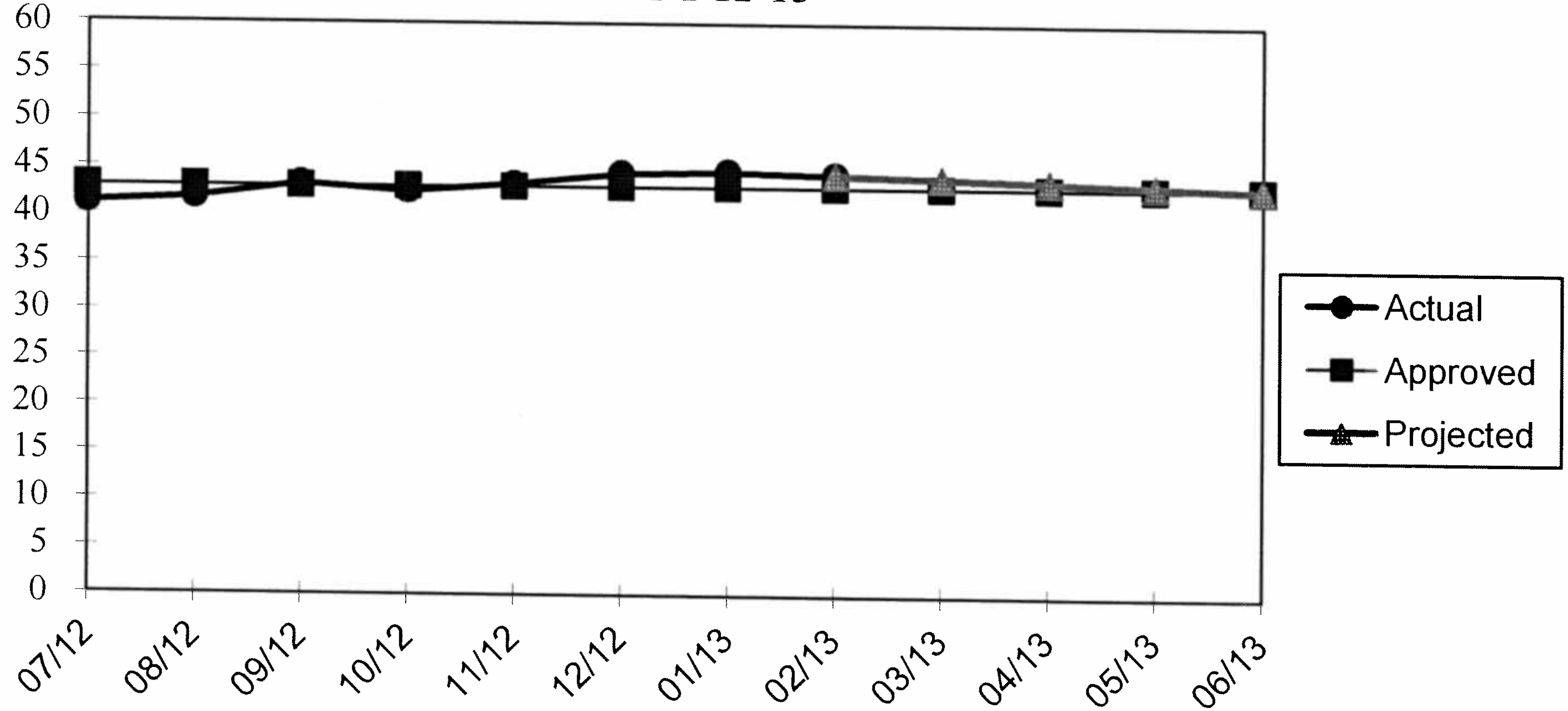
Presents general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building improvement interest, building maintenance, self-insurance, capital and contingency reserve. These restricted equities represent the Association's equities set aside for specific purposes. Total equity is the sum total of general and restricted equities.

Source: ABAG - INDICES 2013-02.xls

ABAG Financial Indices

Figure 6--*Indirect Cost Rate (% of Direct Labor Cost)*

FY 12-13

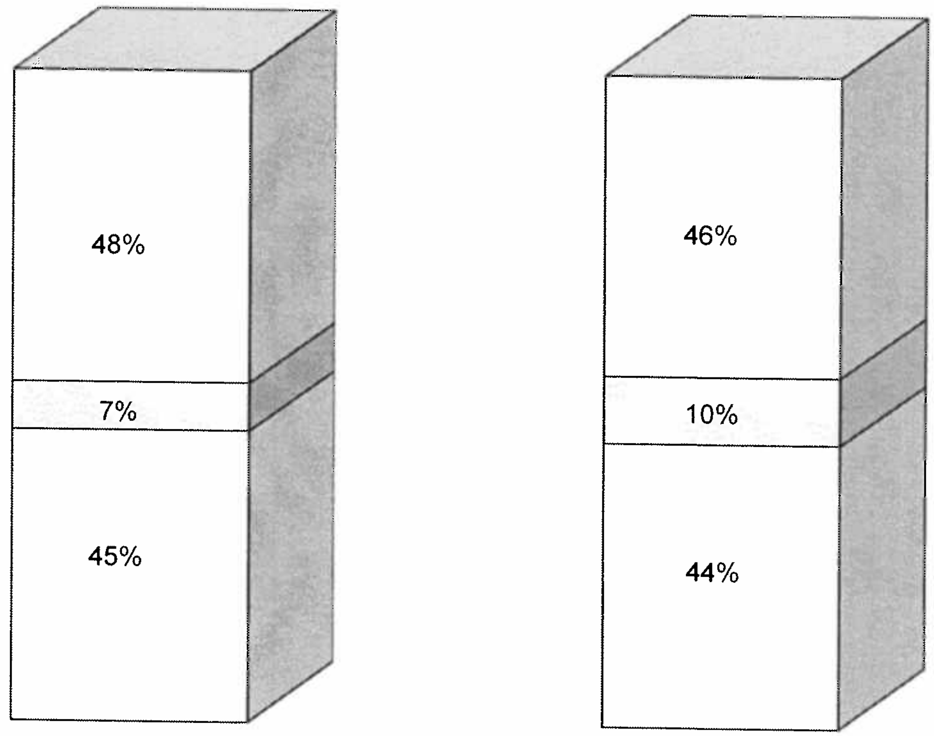


Shows a comparison between the actual indirect cost rate and the approved rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with OMB Circular A-87.

Source: ABAG - INDICES 2013-02.xls

ABAG Financial Indices

Figure 7-- Composition of Expenses FY 12--FY 13
Year to Date
($'000)



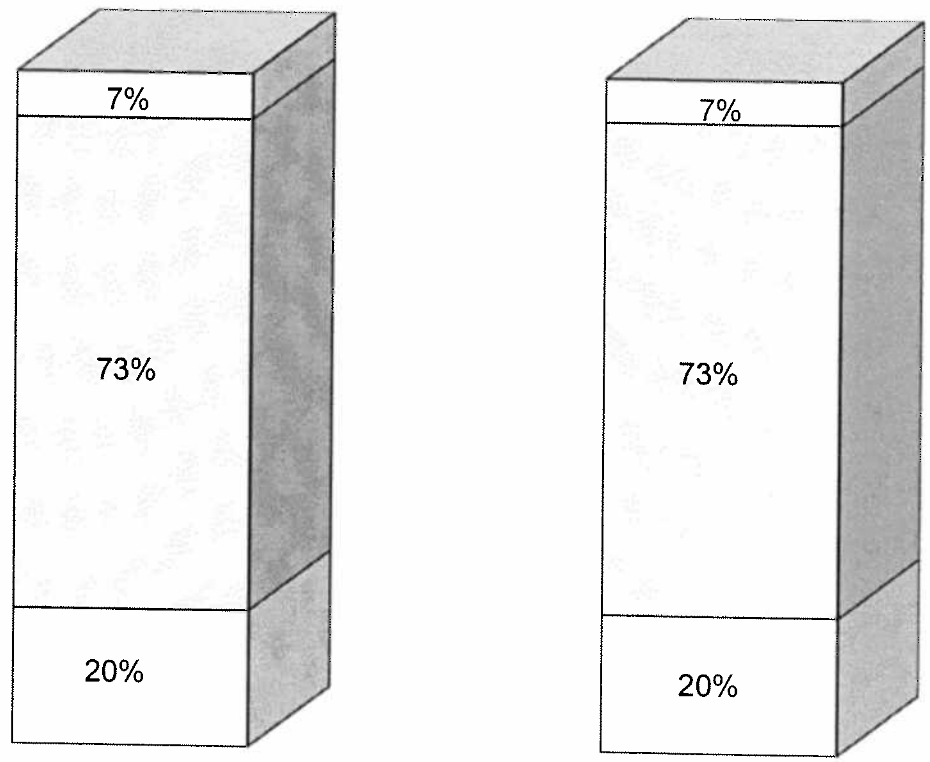
	FY12-13 Expenses (Total $17,531)	FY11-12 Expenses (Total $17,482)
Consultants	$8,386	$8,050
Others	$1,304	$1,829
Payroll	$7,841	$7,603

This chart compares expenses for current and prior fiscal year. It groups expenses into three broad categories--payroll costs, consultants and other expenses.

Source: ABAG - INDICES 2013-02.xls

ABAG Financial Indices

Figure 8-- Composition of Revenues FY 12--FY 13
Year to Date
($'000)



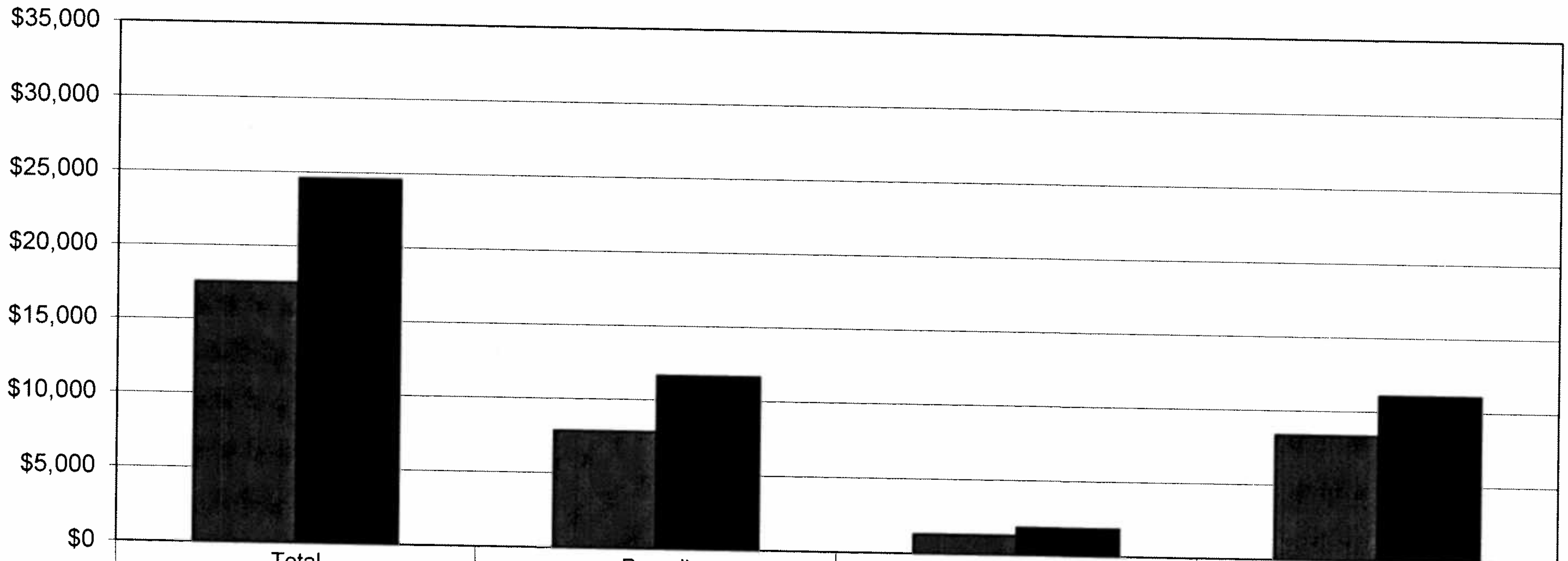
	FY 12-13 Revenue (Total $17,000)	FY 11-12 Revenue (Total $17,762)
Membership	$1,150	$1,155
Grants	$12,417	$13,008
Services & Others	$3,433	$3,599

Presents a breakdown of total revenues into four main sources--membership, grants, services and others. This chart compares revenue sources between current and prior fiscal year.

Source: ABAG - INDICES 2013-02.xls

ABAG Financial Indices

Figure 9--*Actual vs Projected Expenses--FY 12-13*
Year to Date ($'000)



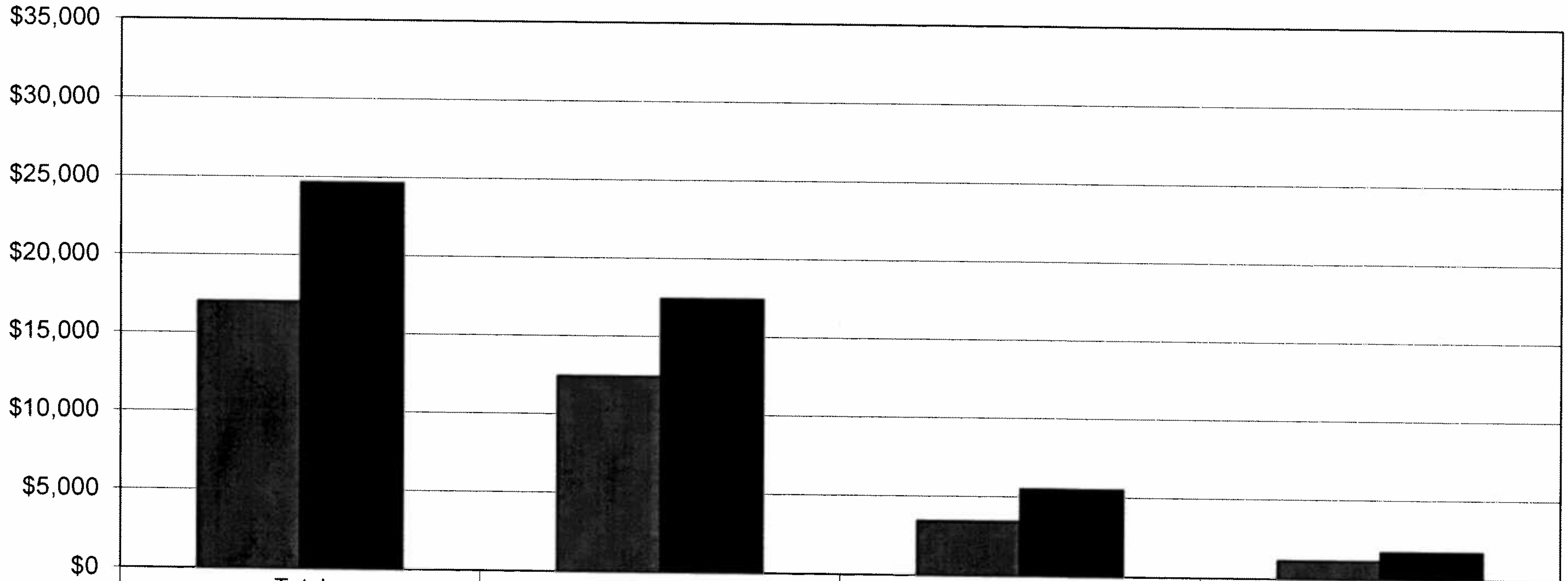
	Total	Payroll	Other	Consultants
Actual	$17,531	$7,841	$1,304	$8,386
Projected	$24,600	$11,650	$1,850	$11,100

Presents a comparison of actual and budgeted/projected total expenses as well as component categories: payroll costs, consultants and other expenses.

Source: ABAG - INDICES 2013-02.xls

ABAG Financial Indices

Figure 10--*Actual vs Projected Revenues--FY 12-13*
Year to Date ($'000)



	Total	Grants	Services & Other	Membership
■ Actual	$17,000	$12,417	$3,433	$1,150
■ Projected	$24,650	$17,424	$5,500	$1,726

Presents a comparison of actual and budgeted/projected total revenues as well as component categories: membership dues, grants, services and other.

Source: ABAG - INDICES 2013-02.xls

TO: Finance and Personnel Committee

FM: Herbert Pike, Finance Director

DT: April 30, 2013

Re: Financial Reports --March 2013

The following are highlights of the financial reports for March 2013.

Overall Summary (Figures 3, 4, 7 & 8)

March 2013 represents the ninth month of the new fiscal year (75.0 percent). During March, there was a $238 thousand increase in Agency equity, a turnaround from the losses in recent months. This is the first indication that the anticipated seasonal trend—increased billable work hours during the latter months of the fiscal year—and the adjustments made in February to increase benefit accruals to mitigate the variance between actual personnel costs and billable payroll costs are having a beneficial impact on mitigating equity losses incurred during the first half of the fiscal year. Other contributors to the increase in equity were SFEP donations and FAN financial services income. Especially for the SFEP donations, offsetting expenses are expected to ensue within the next couple of months. Staff believes that ABAG can approach its budgeted targets by the close of the fiscal year (June 30, 2013), but with continued close scrutiny. The Federal sequestration of funds has impacted any of the Agency's current programs, but there are indications that some grant support for next year may be reduced; none would appear to adversely impact staffing, but would most likely necessitate reductions in outside technical consultants. Actual overhead is finally trending toward the budgeted rate of 42.95 percent, the gap between revenues and expenditures is closing, and the Agency's cash position is improving.

Cash on Hand (Figure 1)

Cash on hand increased to $4.06 million as of March 31st from $3.3.78 million on February 28th. The increase of $273 thousand is attributed primarily to the impact in quarterly billings wherein the first month following the end of a quarter when the billings are mailed and the collections come at the end of that first month and in the beginning of the second month following the end (close) of a quarter . The March balance includes approximately $2.57 million invested in the Local Agency Investment Fund (LAIF). Currently, ABAG does not hold any other investments. The March 31st cash balance is approximately $1.32 million more than the prior year; however, much of the increase is attributed to advanced (pre-paid) grant funds provided by the grantor.

Receivables (Figure 2)

Receivables from grant and service programs amounted to about $5.14 million on March 31st, an increase of $189 thousand from the month prior. The $5.14 million is $298 thousand higher than the receivables of the year prior. Unbilled receivables declined by $526 thousand from the prior month, but billed grant receivables increased by $740 thousand over the same period. Because the close of February was delayed to accommodate some adjustments to the billable labor rates, this may have delayed the release of some of the billings which may be why we are still awaiting collection on those billings.

Actual vs. Budgeted Expenses (Figure 9)
Total expenses through March 31st, the ninth month of the new fiscal year, amounted to about \$19.31 million, or 78.5 percent, of the adjusted, budgeted annual expense of \$24.60 million for FY 2012-13. This appears to reflect the frenzy of activity that accompanied the closure of several major projects. It exceeds the 75.0 percent (nine/twelfths, three/fourths) average and is opposite the normal trend where there is usually a slight lag in the accumulation of expenses in the fiscal year. The primary factor accelerating expense is the closing of the projects, including Trash Capture Devices and Energy Retrofits in numerous jurisdictions within the region, who have been trying to get their claims recorded before the grants expire. Non-labor expense is expected to decline in the latter months of the fiscal year as the projects with high-capital payouts to other entities subsides with many of the deadlines past.

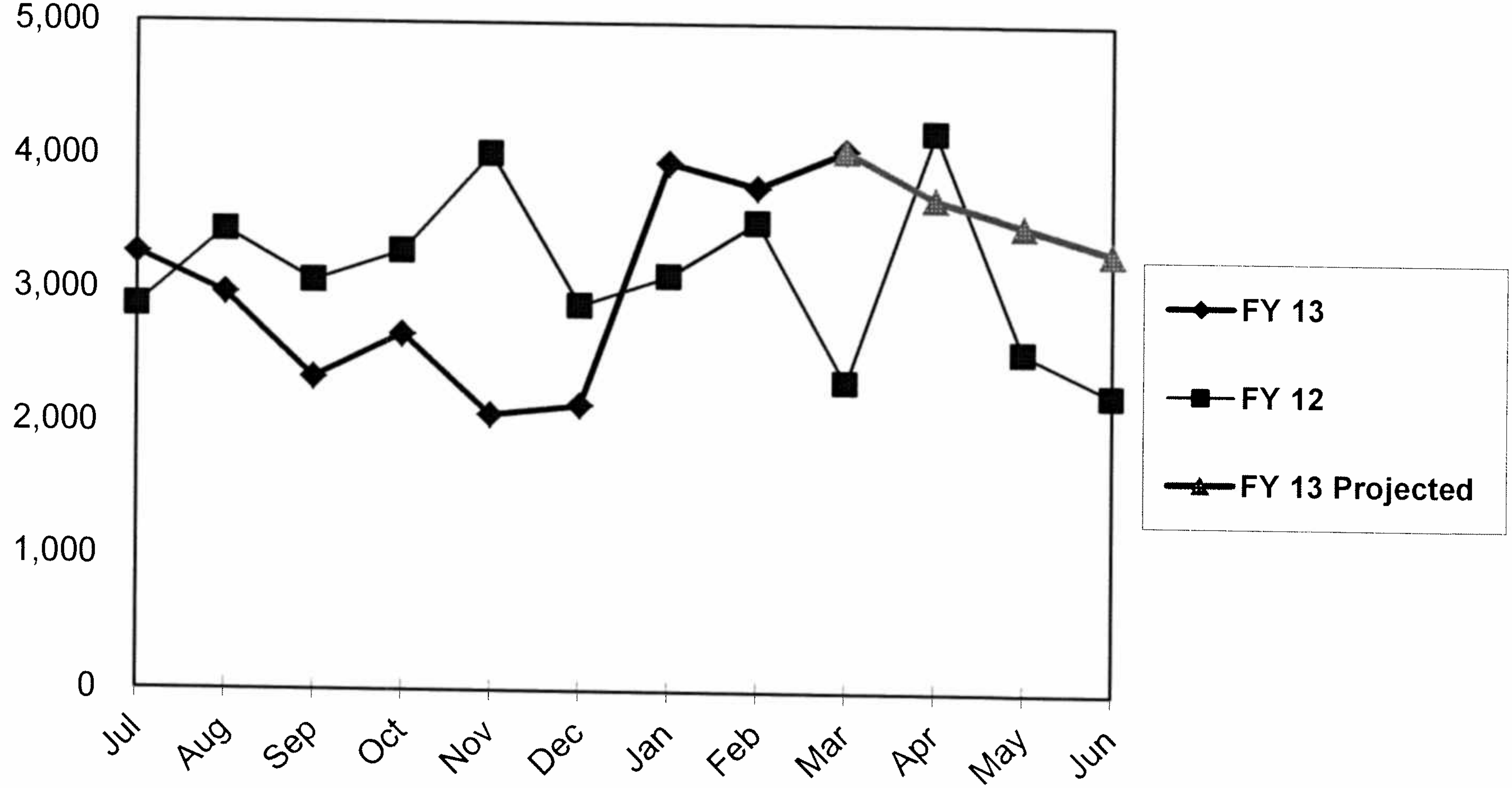
Actual vs. Budgeted Revenues (Figure 10)
As of March 31st, total revenues amounted to about \$19.02 million, or 77.14 percent, of the adjusted, budgeted annual revenue of \$24.65 million for FY 2012-13. Higher billable labor rates, along with the seasonal increase in billable hours normally realized in the last three months of the fiscal year (less vacation, fewer holidays, lower sick leave usage), should increase overhead recovery.

Fund Equity (Figure 5)
As of March 31st, general fund equity was approximately \$869 thousand, an increase of \$238 thousand from the prior month. The Agency's restricted fund equity, consisting of capital, self-insurance, building maintenance and reserves, is \$610 thousand. Total fund equity of \$1.48 million is \$547 thousand less than the year prior. Much of this loss may be expected to be offset by increased grant staffing and greater overhead recovery during the remainder of the fiscal year. Increased benefit accruals during the latter part of the fiscal year (implemented in February) should also serve to significantly reduce the year-to-date losses in the payroll clearing account (the difference between billed labor rates and actual payroll/benefit costs incurred).

Indirect Cost (Figure 6)
The Agency's actual indirect cost (overhead) rate was 43.90 percent, or 0.95 percent above target. The decrease in March continues the continued decline in the rate since January. It is anticipated that the last three months of the fiscal year will see a continuing increase in billable grant hours that will result in a further reduction of overhead as a percent of labor costs and bring the year-end indirect overhead rate closer to the budgeted rate of 42.95 percent.

ABAG Financial Indices

Figure 1--*Cash on Hand--FY 12 and FY 13 ($'000)*

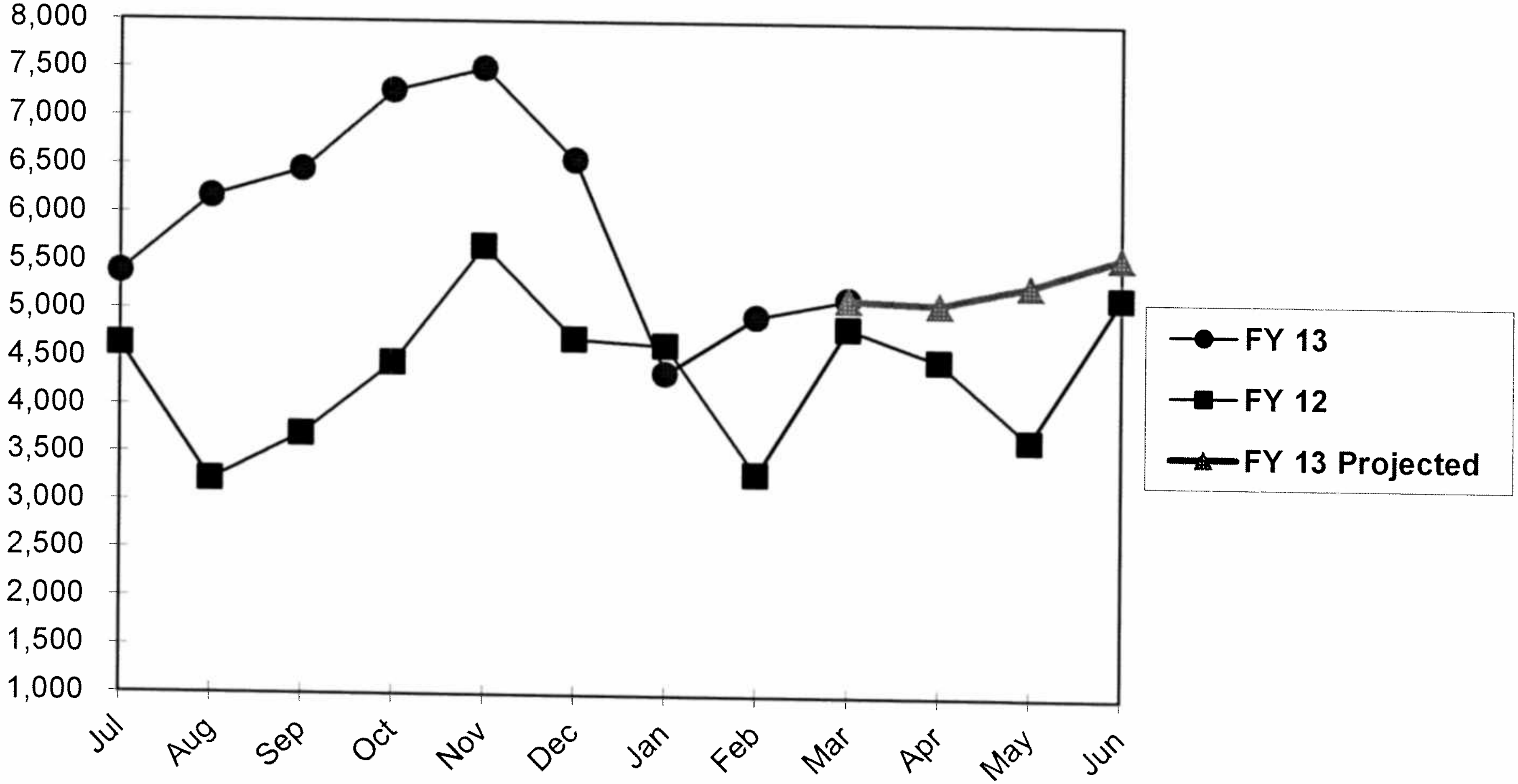


Represents the sum total of cash deposited at our bank and the Local Agency Investment Fund. This chart shows fluctuation patterns of cash on hand for the current and prior fiscal years.

Source: ABAG -INDICES 2013-03.xls

ABAG Financial Indices

Figure 2--*Accounts Receivable--FY 12 and FY 13 ($'000)*



Accounts receivable include receivables generated by grants and service programs over two fiscal years. Reflects the reasonableness of our receivable levels; usually have about six weeks' worth of annual revenues in receivables.

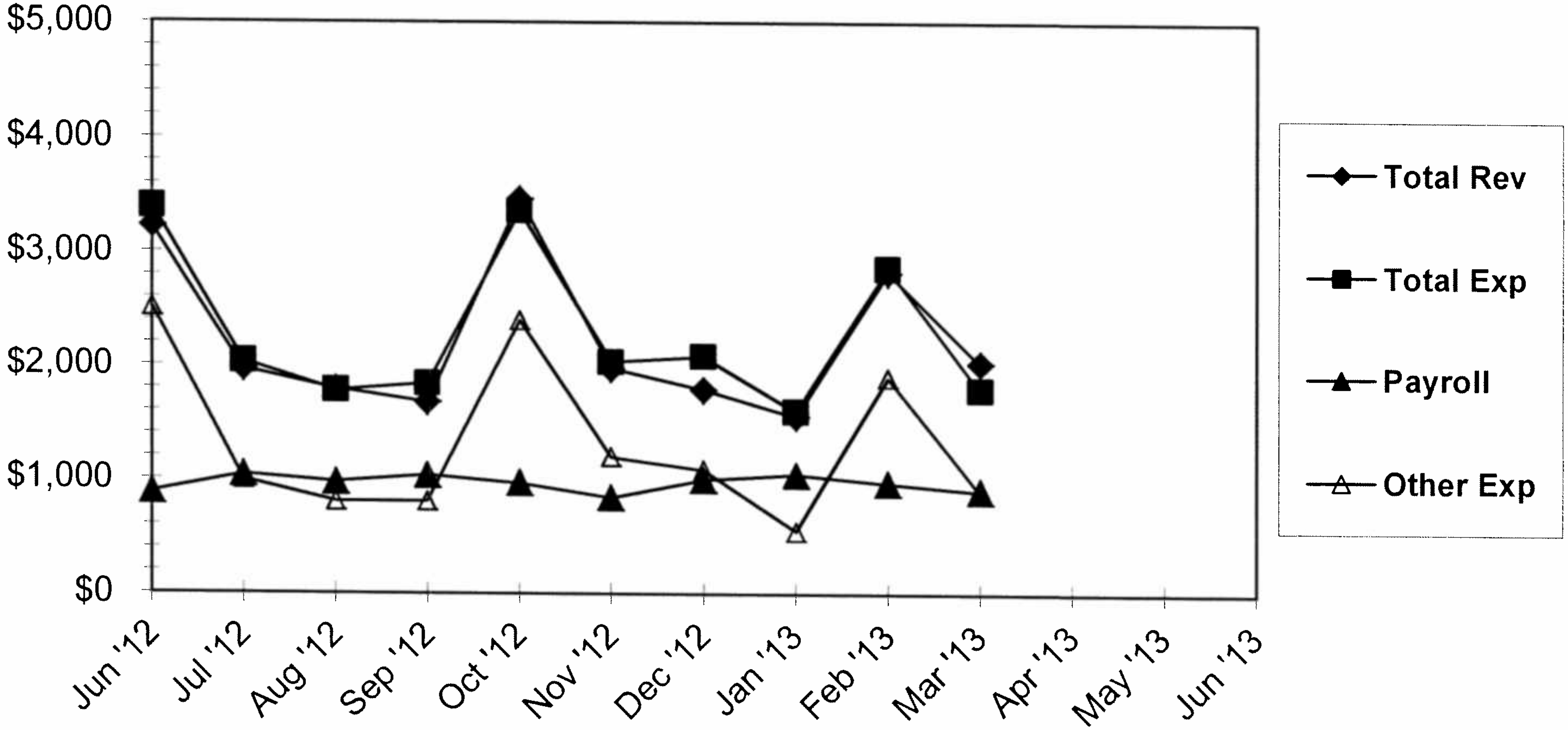
Source: ABAG - INDICES 2013-03.xls

Figure 2

ABAG Financial Indices

Figure 3--*Current Month Revenues & Expenses*

FY 12-13 ($'000)

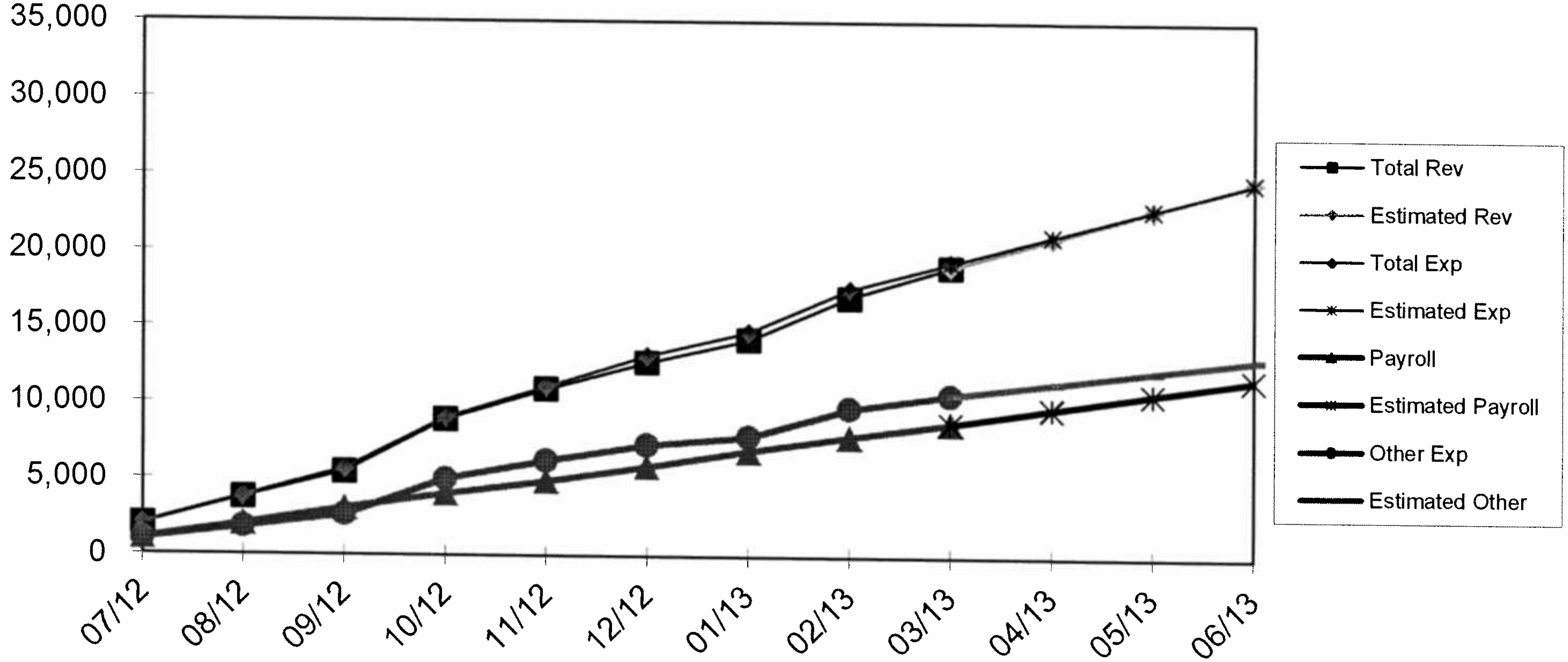


Presents month by month total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall current month net surplus (or deficit) for the Association.

Source: ABAG - INDICES 2013-03.xls

ABAG Financial Indices

Figure 4--Year-to-date Revenues & Expenses
FY 12-13 ($'000)



Presents year-to-date total revenues, total expenses, payroll and other expenses for the current fiscal year. The difference between total revenues and total expenses lines represents the overall year-to-date net surplus (or deficit) for the Association.

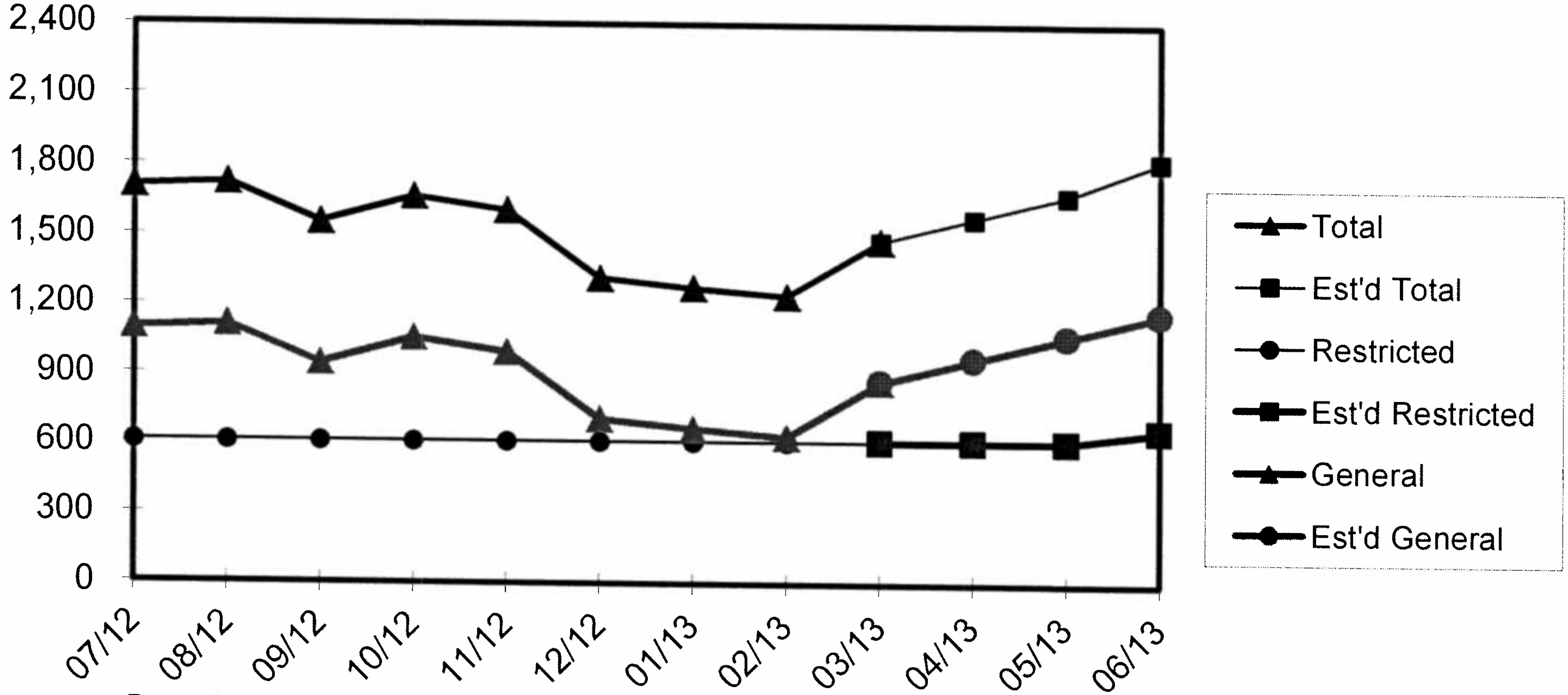
Source: ABAG - INDICES 2013-03.xls

Figure 4

ABAG Financial Indices

Figure 5--*Fund Equity*

FY 12-13 ($'000)



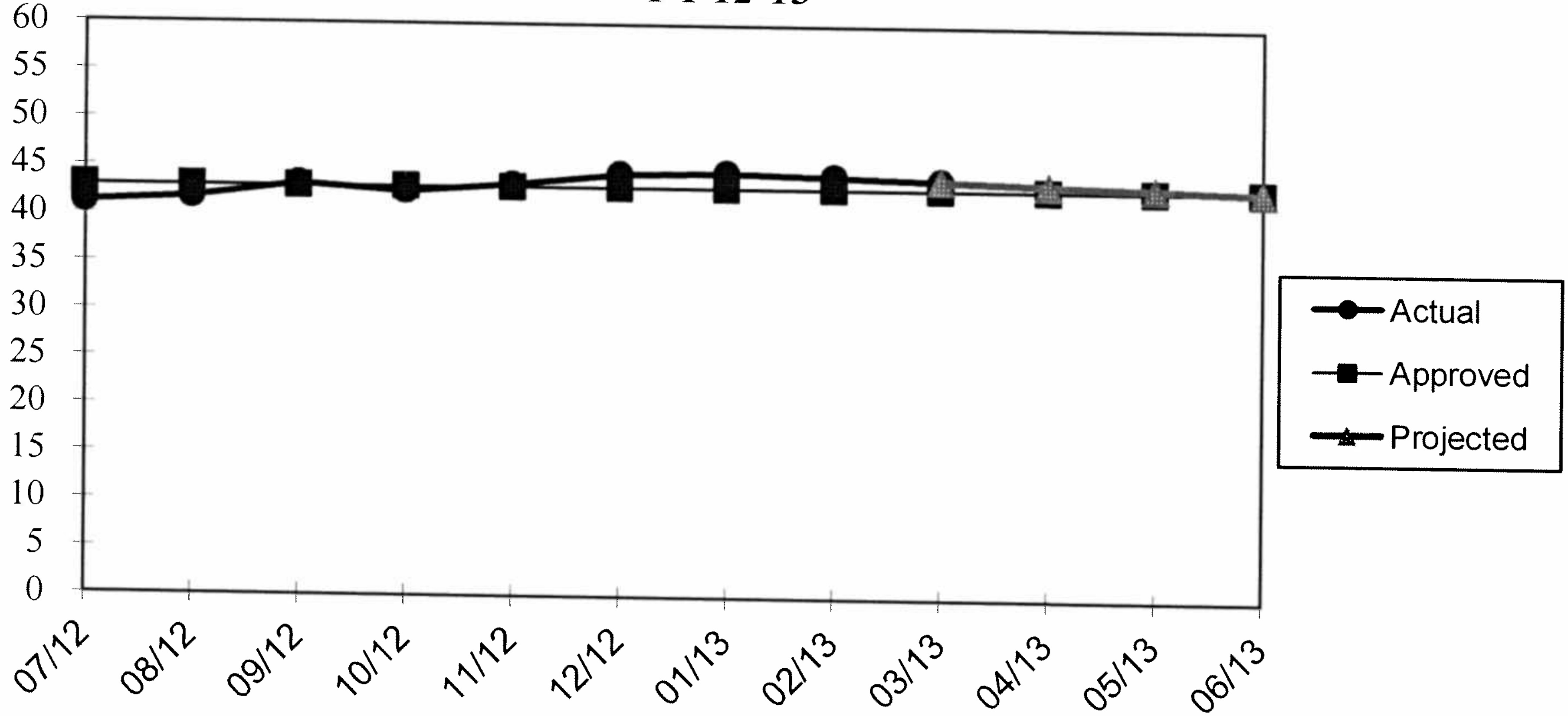
Presents general, restricted and total fund equities for the current fiscal year. General fund equity represents unrestricted equity. Restricted equities include building improvement interest, building maintenance, self-insurance, capital and contingency reserve. These restricted equities represent the Association's equities set aside for specific purposes. Total equity is the sum total of general and restricted equities.

Source: ABAG - INDICES 2013-03.xls

ABAG Financial Indices

Figure 6--*Indirect Cost Rate (% of Direct Labor Cost)*

FY 12-13

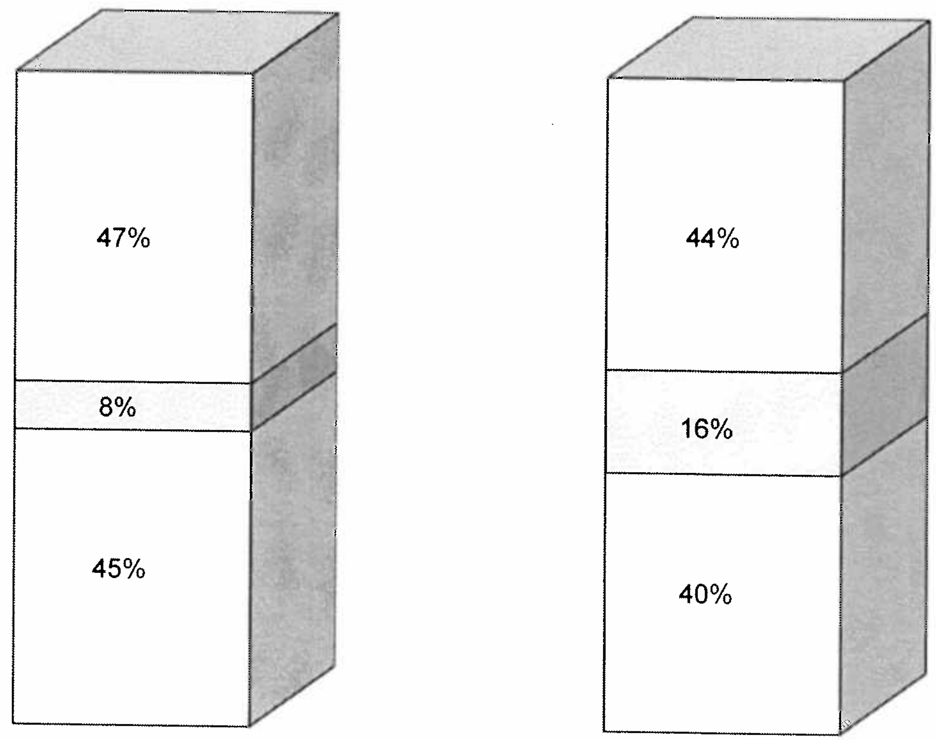


Shows a comparison between the actual indirect cost rate and the approved rate. The approved indirect cost rate is computed by dividing total estimated overhead expenses by total projected direct labor cost for a fiscal year. This rate is used as a standard overhead cost rate to allocate indirect costs to all projects. This process is performed in accordance with an indirect cost plan, which is prepared annually in accordance with OMB Circular A-87.

Source: ABAG - INDICES 2013-03.xls

ABAG Financial Indices

Figure 7-- Composition of Expenses FY 12--FY 13
Year to Date
($'000)



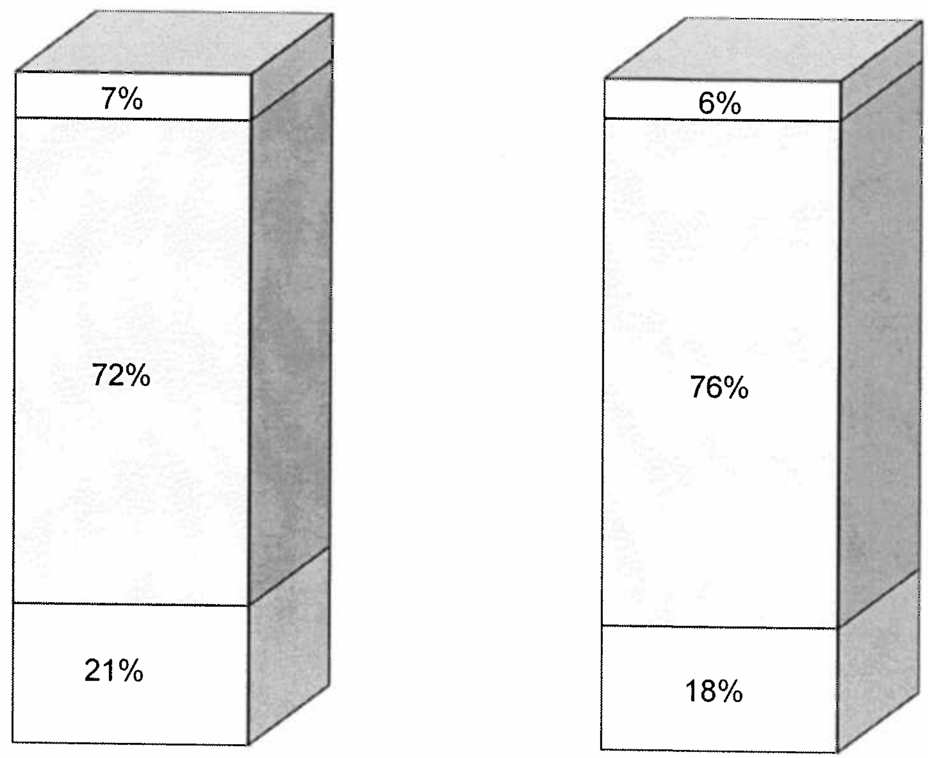
	FY12-13 Expenses (Total $19,308)	FY11-12 Expenses (Total $21,733)
Consultants	$9,140	$9,679
Others	$1,433	$3,456
Payroll	$8,735	$8,598

This chart compares expenses for current and prior fiscal year. It groups expenses into three broad categories–payroll costs, consultants and other expenses.

Source: ABAG - INDICES 2013-03.xls

ABAG Financial Indices

Figure 8-- Composition of Revenues FY 12--FY 13
Year to Date
($'000)



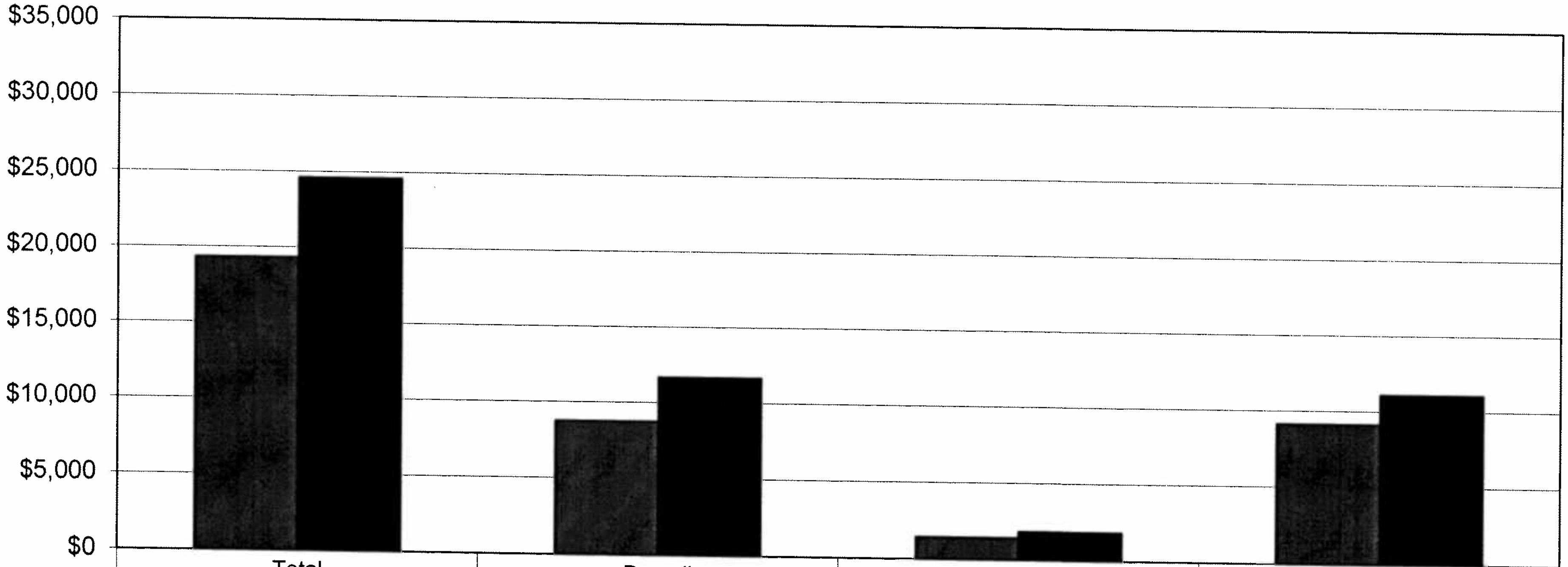
	FY 12-13 Revenue (Total $19,015)	FY 11-12 Revenue (Total $22,118)
☐ Membership	$1,293	$1,299
☐ Grants	$13,788	$16,755
☐ Services & Others	$3,934	$4,064

Presents a breakdown of total revenues into four main sources--membership, grants, services and others. This chart compares revenue sources between current and prior fiscal year.

Source: ABAG - INDICES 2013-03.xls

ABAG Financial Indices

Figure 9--*Actual vs Projected Expenses--FY 12-13*
Year to Date ($'000)



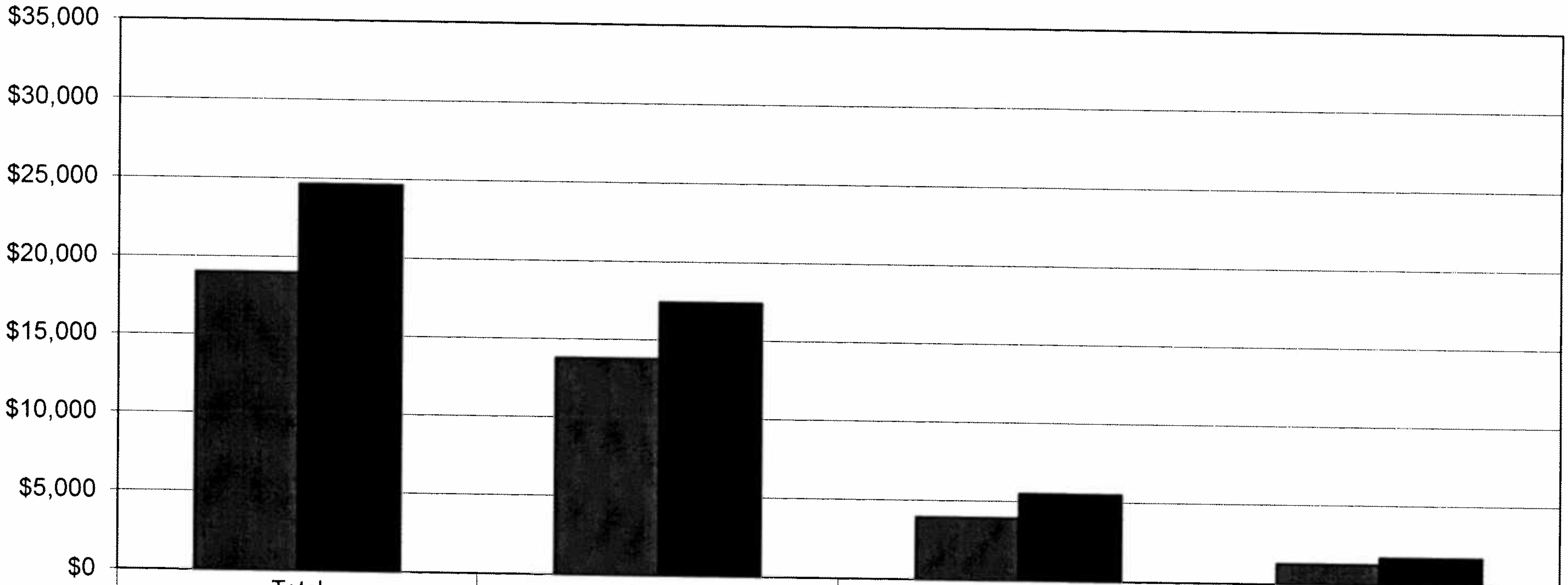
	Total	Payroll	Other	Consultants
■ Actual	$19,308	$8,735	$1,433	$9,140
■ Projected	$24,600	$11,650	$1,850	$11,100

Presents a comparison of actual and budgeted/projected total expenses as well as component categories: payroll costs, consultants and other expenses.

Source: ABAG - INDICES 2013-03.xls

ABAG Financial Indices

Figure 10--*Actual vs Projected Revenues--FY 12-13*
Year to Date ($'000)



	Total	Grants	Services & Other	Membership
■ Actual	$19,015	$13,788	$3,934	$1,293
■ Projected	$24,650	$17,424	$5,500	$1,726

Presents a comparison of actual and budgeted/projected total revenues as well as component categories: membership dues, grants, services and other.

Source: ABAG - INDICES 2013-03.xls

ASSOCIATION OF BAY AREA GOVERNMENTS
FINANCE & PERSONNEL COMMITTEE

TABLE OF FINANCIAL REPORT DATA ELEMENTS
(thousands of dollars)

FOR THE MONTH ENDED MARCH 31, 2013

Description	Year-To-Date Actual	Year-End Estimate
ASSETS		
Cash	4,055	3,300
Receivables	5,141	5,600
REVENUES		
Membership Dues	1,293	1,726
Grants	13,788	17,424
Charges for Services	3,934	5,500
Total Revenues	**19,015**	**24,650**
EXPENSES		
Salaries and Related Benefits	8,735	11,650
Consultant Services	9,140	11,100
Other Expenses	1,433	1,850
Total Expenses	**19,308**	**24,600**
Change in Net Assets	(293)	50
Beginning Net Assets	1,772	1,772
Ending Net Assets	1,479	1,822
NET ASSET BREAKDOWNS		
Unrestricted	869	1,162
Restricted	610	660
Total Net Assets	1,479	1,822
INDIRECT OVERHEAD		
Approved Overhead	42.95%	42.95%
Overhead Rate %	43.90%	42.95%

ASSOCIATION OF BAY AREA GOVERNMENTS
FINANCE & PERSONNEL COMMITTEE

TABLE OF FINANCIAL REPORT DATA ELEMENTS
(thousands of dollars)

Index Description	Mar-13	Feb-13	Jan-13	Mar-12	Feb-12
Cash	4,055	3,782	3,959	2,320	3,519
Receivables	5,141	4,952	4,356	4,843	3,302
Payroll Cost-YTD	8,735	7,841	6,875	8,598	7,603
-Month	894	966	1,041	995	793
Total Other Expense-YTD	10,573	9,690	7,802	13,135	9,879
-Month	883	1,888	545	3,256	1,216
Total Expenses-YTD	19,308	17,531	14,677	21,733	17,482
-Month	1,777	2,854	1,586	4,251	2,009
Total Revenues-YTD	19,015	17,000	14,180	22,118	17,762
-Month	2,015	2,820	1,545	4,356	2,187
Fund Equity-General	868	630	665	1,465	1,360
Total Restricted	610	610	610	560	560
Total Fund Equity	1,478	1,240	1,275	2,025	1,920
Approved Overhead	42.95%	42.95%	42.95%	42.95%	42.95%
Overhead Rate %	43.90%	44.29%	44.57%	37.87%	37.42%

F&PC AGENDA ITEM 4-D

To:	**ABAG Finance & Personnel Committee**
From:	**Herbert Pike**
CC:	**Ezra Rapport, Executive Director**
Date:	**3/21/2013**
Re:	**Update on the Implementation of the Cadillac Tax as Mandated in the Affordable Care Act**

The 'Cadillac Tax' excise tax plan as mandated by the Affordable Care Act is scheduled to commence on January 1, 2018. What the Tax plan will do is impose a 40 percent tax on amount that health benefit plans exceed a fixed cap. As an example, if the cap for a family plan was $25,000 per year, but the proposed plan was priced at $27,000, the IRS would impose a tax of $800—40 percent of the difference between $27,000 and the cap of $25,000. The tax is collected from the insurance provider, so the tax would presumably be included in the price of the 'Cadillac' plan offered to the insurance offered to employees. One would assume that insurers would try to avoid the tax, reducing the cost of coverage by increasing co-pays and deductibles paid by the insured.

The proposed caps will be more problematic in areas with high health care costs, e.g. the Bay Area. It is stated that normal health insurance costs in Alaska normally run far in excess of the cap proposed for 2018. The Federal government is also presuming that some of the costs attributed to implementation of the Affordable Care Act in the first year, 2014, will have moderated by the time the caps are imposed in 2018.

The most recent caps suggested for 2018 are:

Individual Plans	$10,200/year
Family Plans	$27,500/year

ABAG's current Kaiser North rates paid through CalPERS are $8,024 for single coverage and $20,861 for family coverage. That appears well within the limits, but given that increases for January 2014 are estimated to be 12-15 percent, including Affordable Care Act implementation, and with an average increase of 5.0-7.5 percent per year for January of 2015, 2016, 2017 and 2018, the cost for 2018 could range from $10,924-$11,464 for single coverage and $28,399-$29,803 for family coverage in 2018. For perspective, the average increase in January 2013 was 10 percent. Incorporating the 'Cadillac Tax' would push our rates even higher in 2018.

While CalPERS health care rates still appear to be rising rapidly, health care costs across the country are noted for being unexpectedly moderated over the last couple of years. This diminishes the potential for the Federal government to adjust the caps upward.

Unless some accommodation is made to adjust the caps based on local cost of living costs, the pressure will be for CalPERS to negotiate rates within the proposed caps which would strongly indicate negotiated increases in deductibles and co-pays. Increasing employee co-pay of their insurance does not appear to have any impact upon the 'Cadillac Tax' in that it is imposed at the insurance plan level based on the premium, not with who is paying for it.

Some articles from a brief internet search are attached for your review. Staff is prepared to further research any questions pertaining to the Affordable Care Act and the 'Cadillac Tax' that may arise from discussions at the Committee meeting.

LEGISLATIVE BRIEF:
NEWS RELATED TO THE AFFORDABLE CARE ACT

CONSIDERATIONS FOR THE "CADILLAC PLAN" EXCISE TAX

The Affordable Care Act's "health benefits excise tax" will impose a 40% nondeductible tax on the annual value of health plan costs for employees that exceed $10,200 for single coverage or $27,500 for family coverage starting in 2018. Dubbed the "Cadillac plan tax," the levy is intended to fund health care initiatives by penalizing high cost health plans that presumably offer generous benefits, incentivizing them to offer less substantial plans below the threshold.

The Alliance has concerns about the excise tax for several reasons, and will advocate for change as new legislation and regulations are considered in Congress:

- The level of the tax once a plan is hit is extremely high at 40 percent. If a plan with 1,000 enrollees exceeds the threshold by $1,000, its tax liability would equal $1 million.
- Plan costs could be high for reasons other than offering "gold-plated" benefits. For example, plans may cover an unusual number of employees that are sick and/or live in a region with expensive health costs. There are some considerations offered in the statutes for plans that cover high-risk workers, but not enough to cover all situations.
- The tax is indexed by the overall rate of inflation and not medical inflation. Therefore, we expect that all employer plans will eventually fall under the tax, some as soon as 2018.
- The value of prescription drug and certain dental plans are currently included in the calculation of plan costs.
- The tax is likely to create administrative issues as they apply to both employer and employee contributions and salary reductions to FSAs and HSAs. When different coverage providers issue coverage, the onus will presumably be on the employer to calculate the tax and determine responsibility for payment.

Even though the Cadillac plan tax doesn't take effect for a few years, The Alliance recommends plans start planning for it now for the reasons stated above and because other ACA provisions may impact employers' desires to make significant plan changes. The Alliance has created an "Excise Tax Calculator" that helps members project when their plan will hit the threshold. There may be modifications plans may consider now that could help them avoid the tax for additional years.

Updated: December 5, 2012

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'Cadillac' Insurance Plans Explained

TOPICS: INSURANCE, HEALTH REFORM

By Jenny Gold
KHN Staff Writer
MAR 18, 2010

This story was done in collaboration with our partner npr

This is an updated version of a story that was last updated on Jan. 15, 2010.

The Democrats final health bill negotiated by the House, Senate and White House released Thursday contains a scaled-back tax on high-cost insurance policies. Here is a brief guide to these types of insurance plans.

What is it, and what does it offer the consumer?

Sometimes referred to as a "Cadillac" or "gold-plated" insurance plan, a high-cost policy is usually defined by the total cost of premiums, rather than what the insurance plan covers or how much the patient has to pay for a doctor or hospital visit.

People who have Cadillac plans often have low deductibles and excellent benefits that cover even the most expensive treatments, but this is not always the case. Premium costs can be high for reasons other than generous benefits, including the age, gender and health status of the customer. In an employer-based plan, premiums are based on the pooled risk of employees and may be higher if many of the employees are sick, older, female or live in a region with expensive health costs.

Who has high-premium plans?

More on "Gold-plated" Insurance

Getting Health Insurance That Pays For It All

Video Profile: The Stabbe Family

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KHN npr "Are You Covered?"

Although news accounts have frequently described Cadillac coverage as plans catering to Wall Street titans, with annual premiums of $40,000, not everyone with high-cost coverage is wealthy or even especially well-off. Some union workers and employees of businesses with a preponderance of older or sicker workers may also have premiums in the Cadillac range.

In the Democrats' reconciliation bill - actually an amendment to the Senate-passed health bill - a high-cost health plan is defined as costing more than $10,200 for an individual or $27,500 for a family, including worker and employer contributions to flexible spending or health savings accounts. The cost does not include stand-alone vision or dental benefits. The tax would not be imposed until 2018, giving health plans more time to benefit from possible cost savings from other reform measures. Employers with a preponderance of older or female workers who have higher-than-average health costs would receive a break in the form of higher thresholds.

The "Cadillac" tax has been reduced significantly since it first appeared in the Senate-passed health bill, which defined a high-cost health plan as costing more than $8,500 for an individual or $23,000 for a family, including vision and dental benefits. The tax was set to go into effect in 2013. In an analysis released Nov. 30, the Congressional Budget Office predicted that in 2016, 19 percent of workers who have insurance through the workplace would have fallen under that category. The number of people affected under the latest bill is significantly lower, although exact figures are not yet available.

In 2009, the total cost of the average family policy offered by employers was $13,375, according to the Kaiser Family Foundation. (KHN is a program of the foundation.)

What effect would the Cadillac provisions in the health overhaul

proposals have?

The health bill would tax insurers 40 percent on the amount of premiums above the thresholds. The goal is twofold: to generate revenue to help pay for covering the uninsured; and to make the most expensive plans — which some argue encourage overuse of medical care — less attractive.

In their analysis of the new bill, the House Rules Committee estimates that the amount of revenue that the tax would collect is 80 percent less than the under the Senate-passed bill. The Congressional Budget Office estimates the tax would raise about $12 billion in 2018, the first year of implementation, and $20 billion in 2019. (Under the Senate-passed health bill, the CBO estimated that the tax would have raised about $149 billion over the first 10 years.)

The thresholds would increase as the nation's overall rate of inflation goes up.

Although the tax is to be imposed on insurers, the effects are likely to trickle down to consumers. Insurers or employers might tinker with benefits, for example, by increasing deductibles to reduce premium costs to below the threshold. In addition, more than half of employees with insurance work for companies that "self-insure," meaning the firms pay for their workers' health bills on their own. These employers would be required to pay the excise tax themselves and most analysts, including the CBO, estimate that businesses will respond by changing their benefits to have lower premiums, higher deductibles and copayments and terminating employer contributions to health and flexible spending accounts. Economists say employers may pass the savings to workers in the form of higher wages.

For retirees and workers in high-risk professions, such as firefighters and longshoremen, the bill would set higher thresholds -- $11,850 for an individual plan and $30,950 for a family plan.

Some employers whose coverage is expensive because they have a sicker workforce may see their premiums decrease if other proposed reforms take effect because other features of the bill would prohibit insurers from charging higher rates based on health status.

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