Forbes.com

Health By the Numbers

What's Really In A 'Cadillac' Plan

Rebecca Ruiz, 09.25.09, 5:30 PM ET

"Generous"; "unlimited"; "gold-plated": Each has been used to describe so-called "Cadillac" health plans. To some, such programs conjure images of deluxe checkups and endless prescriptions for Viagra, and for some well-compensated professionals, that's exactly what's covered. Yet for many Americans, the benefits offered by Cadillac plans come in the form of very low deductibles and co-pays.

But to congressional leaders working on health care reform, the perks are not as important as cost, and legislators have defined Cadillac plans by their price tags. The goal is to fund reform and curb runaway spending by imposing an excise tax--35% or more--on total coverage worth $8,000 for an individual and $21,000 for a family (in 2013 dollars). This year, the average cost for insuring an individual and family was $4,824 and $13,375, respectively.

The proposal, sponsored by Sen. Max Baucus, D-Mont., would generate more than one-fourth of the funding for health care reform legislation that is expected to cost $774 billion over the next decade. The Center for Budget and Policy Priorities, a think tank in Washington, estimates that by 2013, 90% of families will have coverage valued at less than $21,000.

Prodding Employers

Baucus' proposal seems to target only extravagant plans, such as the oft-cited example of the Goldman Sachs package, which according to the latest proxy was worth $40,543 each for four of the investment bank's top managers.

David McSweeney, chief operating officer of King-of-Prussia, Pa.-based Healthcare Data Management, a firm that audits health benefits, characterized the tax as a way of prodding employers to redesign high-cost packages and therefore drive down the overall cost of health care.

"This is the government saying 'Feel free to keep it, but it will be taxed,'" he says.

If the proposal is part of the final legislation, McSweeney says companies might tamp down on which procedures are considered medically necessary. This may be particularly true for firms that consider generous health benefits as a retention tool and are less likely to closely manage procedures and treatments.

For example, a physician might classify a tummy tuck as a ventral hernia or cosmetic tightening of the eye area as a treatment for dropping eyelids in order to get reimbursement for the procedure. Employees may also find that prescription drugs like Viagra are covered without limit by their insurance. By taxing these high-cost plans, the government is treating such coverage as additional income, says McSweeney.

Insulating Employees From Cost

But wide-ranging benefits play only one part in increasing the value of a plan.

Take the 1.6 million members of the American Federation of State, County and Municipal Employees (AFSCME). They enjoy not unlimited benefits, but low deductibles and co-pays, says Steven Kreisberg, director of collective bargaining and health care policy for the union.

Typical coverage for an AFSCME employee costs between $6,000 and $7,000, while a family policy is $15,000. The average deductible, however, is between $250 and $400. By comparison, the average U.S. employee paid between $600 and $1,800 in deductibles this year, according to the Kaiser Family Foundation. AFSCME employees also don't pay much for hospital stays and in-network doctor's visits.

"The term 'Cadillac' is in the eye of the beholder," says Kreisberg. "I would call our benefits 'comprehensive.'"

As an example, he says an AFSCME employee undergoing open-heart surgery that costs $25,000 might only pay a $1,000 deductible, while those with a less expensive plan would be responsible for three times that amount.

Expensive Demographics

Beyond generous benefits and low deductibles and co-pays, age and geography also play a significant role in determining the value of a health plan, says David Ermer.

Ermer, a health benefits lawyer who blogs about the Federal Employees Health Benefits Program, says older workers with chronic diseases and employees who live in more expensive states like Florida and California are more likely to have coverage that reaches the threshold set by Sen. Baucus.

Legislators tried to compensate for that imbalance earlier this week by proposing to increase the excise tax to 40% for those under 45 and decreasing it for those over 55 and by adjusting the baseline value of coverage in the 17 least-affordable states.

Despite all the tweaks, McSweeney says the excise tax will, in a few years' time, collide with the "law of unintended consequences."

It has the potential to become a surcharge unfairly weighted toward sick people, he says, but inevitable loopholes will allow firms to continue compensating their employees with generous benefits.

"A creative insurance broker will come up with a plan," McSweeney predicts. "But meanwhile, the 55-year-old is going to wind up with a tax on them, and that's the person who can least afford it."