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West Coast Employer Agrees to Absorb Expected Cadillac Tax in Bargaining Agreement

As Reported recently in the *Wall Street Journal* and other publications, the International Longshore and Warehouse Union (ILWU) ratified a new 5-year contract with the Association of employers representing all West Coast US ports and shipping lines that will require the Association (employers) to pay an estimated \$60 million annually in ACA Cadillac taxes beginning in 2018 on behalf of the union plan. The benefit plan costs are reportedly an estimated \$35,000 per worker of which there are some 20,000 cargo handlers. According to reports, the plan provides extremely generous coverage to employees, retirees, and dependents, that is now locked in until July 2019 (the agreement is retroactive to August 2014). The plan calls for no premium sharing, no copayments, or deductibles for in-network coverage and \$1 copayments for prescriptions. The Association of employers insists that other contract improvements will reduce their gross liability by \$150 million per year since they allegedly received concessions in wage increases which have been held to 3% annually.

While the agreement maintains very substantial levels of health benefits for the employees and retirees it appears to do so at the expense of wages and potential job growth if it makes Mexican, Canadian, and East Coast ports more competitive. Ultimately, importers, exporters, and customers who buy products shipped through West Coast ports will pay for a large part of the tax through higher costs.

The Cadillac tax and its impact on benefits will continue to play a big part in contract negotiations for employers and unions. It is unlikely that other unions will be in such a strong position with respect to the Cadillac tax and the generous benefits that the ILWU achieved in its latest contract. However, this is the first "major" bargaining outcome that has publicly dealt with the Cadillac tax and employers agreeing to absorb all of the cost without passing any back to workers. There is little doubt that all sides of the bargaining process will be evaluating this deal and its implications since they may be wide spread.

We continue to monitor these developments and will share relevant news as it becomes available.



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