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# MEMO

**TO:** America's Health Insurance Plans

**DATE:** December 16, 2015

**FROM:** Chris Carlson, FSA, MAAA

**SUBJECT:** Estimated Impact of Suspending the Health Insurance Tax from 2017-2020

Legislation is currently being considered in Congress that will, among other things, establish a one-year moratorium on the Health Insurance Providers Fee (also known as health insurance tax or HIT) for calendar years 2017. AHIP has asked that Oliver Wyman prepare this letter to address the implications of the elimination of the HIT for 2017-2020. Specifically, we estimate the impact of a suspension of the health insurance tax on premiums across all lines of business, as compared to a scenario where the tax remains in place. We find that suspending the HIT would significantly reduce premiums in the marketplace, reducing premiums by over 3 percent or by more than $200 per member per year in 2017 across all fully-insured major medical plans.

## Background

Section 9010 of the Affordable Care Act implemented the HIT which represents a tax to be charged to providers of health insurance. The tax to be paid was $8 billion in 2014 and increases annually (with the exception of 2016) to $14.3 million in 2018. After 2018, the increase in the HIT will reflect the rate of premium growth. Based on a report that Oliver Wyman issued in October 2011[1], this tax would increase premium rates in 2014 by between 1.9% and 2.3% and as the tax amount collected became larger would eventually increase premiums by between 2.8% and 3.7% in 2019 and later years.

While the actual treatment of the tax differed by health insurance provider, we can make some general comments about the effect of the tax on the health insurance premium rates. The fee to be charged to each insurer is based on the applicable premiums in the year prior to the year that the provider pays the tax. For example, the amount that an insurer pays in 2014 is dependent on the amount of premiums that an insurer collected in 2013. However, the actual collection of the additional premium required to pay the fees has been done in the year it was due. In other words, the premium rates charged by most insurers in 2014 were

[1] http:ahip.org/Issues/Documents/2011/Oliver-Wyman-Study--Estimated-Premium-Impacts-of-Annual-Fees-Assessed-on-Health-Insurance-Plans.aspx

increased by an amount that was necessary to collect their expected share of the fee to be paid in 2014.

In certain cases policies were either issued or renewed in 2013 that would continue into 2014. In these cases, most regulators allowed the insurers to charge a portion of the tax in the premium rates. For example, if a one-year policy was issued on July 1, 2013, the insurer would charge roughly ½ of the amount required to pay the tax.

## Impact on 2017 to 2020 Premiums

While the proposed legislation will waive the HIT in 2017, we have estimated the impact on 2017-2020 to illustrate the short- and medium-term impact of HIT suspension. As discussed above, the premium rates are generally increased during the payment year to reflect the amount of HIT paid in that year. Therefore, the initial impact of the elimination of the tax will be lower premiums in 2017. Furthermore, premium rates for 2016 have already been set for most policies and enrollment has been taking place.

Looking at our report from 2011, Table 1 below shows the range of premium rate increases that we anticipated as a result of the HIT.

**TABLE 1**
**ESTIMATED INCREASE IN AVERAGE PREMIUMS AS A RESULT OF HIT**
**FROM OCTOBER 2011 OLIVER WYMAN REPORT**

| Year | Low Estimate | Mid-Point | High Estimate |
|---|---|---|---|
| 2014 | 1.90% | 2.10% | 2.30% |
| 2015 | 2.60% | 2.90% | 3.20% |
| 2016 | 2.40% | 2.75% | 3.10% |
| 2017 | 2.90% | 3.30% | 3.70% |
| 2018 | 2.90% | 3.30% | 3.70% |
| 2019 | 2.80% | 3.25% | 3.70% |
| 2020 | 2.80% | 3.25% | 3.70% |

During 2014, the HIT payments were $8 billion. The total premiums that served as the denominator of the tax allocation after exclusions for tax exempt organizations and other insurers that qualified for full exemptions were about $550 billion. Therefore, the tax rate for 2014 payments was 1.46%. For 2015, the HIT payments increased to $11.3 billion and the premiums subject to the fee increased to about $600 billion, for a tax rate of 1.88%.

However, the impact on premiums must consider the non-deductibility provision of the HIT. Taking this into consideration, the amount premium rates would need to have been increased to fund the fees for those insurers that pay Federal income taxes is higher. In both 2014 and 2015, the amount of the fees paid by tax exempt organizations was about 9%. If we assume a 35% Federal income tax rate for all other organizations, the overall FIT rate is 32% on average. Therefore 2014 premiums would have needed to be increased by 2.15% to consider the non-deductibility of the HIT. For 2015, premium rates would need to have been increased by 2.76% after consideration of the non-deductibility. These rates fall within our ranges in both years. For the purposes of this letter, we assumed that the impact of the fees on premiums would fall at the mid-point of the results in Table 1.

Although we anticipate the premium rates will be higher in 2017 relative to 2016, they would be lower than they otherwise would have been if the HIT is delayed. Table 2 below shows the percentage reduction in premium rates and the overall savings for health insurance consumers and taxpayer funds (used to pay Medicare and Medicaid) by year for the years 2017 through 2020.

**TABLE 2**
**ESTIMATED REDUCTION IN PREMIUMS AS A RESULT OF ELIMINATION OF HIT**

| Year | Reduction in Premium Rates | Overall Savings (Millions) |
|---|---|---|
| 2017 | 3.19% | $ 20,441 |
| 2018 | 3.19% | 21,029 |
| 2019 | 3.15% | 22,186 |
| 2020 | 3.15% | 23,406 |
| Total | | $ 87,062 |

Overall, we anticipate a total savings of $87 billion over the four years that the HIT would be eliminated. Note that if the HIT were continued in 2021 and beyond, the premium rate increases between 2020 and 2021 would be 3.25% higher than they would have been if the HIT were eliminated on a permanent basis.

## Allocation of Savings Across Lines of Business

Oliver Wyman has analyzed the premiums to assess how much of the fees would be paid by each line of business. Using these results, we can determine the savings by line of business from the elimination of the HIT. We have assumed that the anticipated savings are consistent with the amount of fees paid by each line of business in 2014. Table 3 shows our allocation of the 2014 insurer fees by line of business and the expected savings for years 2017 through 2020.

**TABLE 3**
**TOTAL PREMIUM SAVINGS BY LINE OF BUSINESS**
**(MILLIONS)**

| Line of Business | Estimated Payment of 2014 Fees | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|
| Individual | $ 470 | $ 1,201 | $ 1,235 | $ 1,303 | $ 1,375 | $ 5,114 |
| Small Group | 1,251 | 3,196 | 3,288 | 3,469 | 3,660 | 13,613 |
| Large Group | 2,432 | 6,215 | 6,393 | 6,746 | 7,115 | 26,469 |
| FEHB | 472 | 1,206 | 1,241 | 1,309 | 1,381 | 5,137 |
| Medicare | 2,279 | 5,823 | 5,991 | 6,320 | 6,668 | 24,802 |
| Medicaid | 1,096 | 2,800 | 2,881 | 3,039 | 3,207 | 11,927 |
| Total | $ 8,000 | $ 20,441 | $ 21,029 | $ 22,186 | $ 23,406 | $ 87,062 |

## Savings at an Individual Level

Using the results of our report from October 2011, we can calculate what the savings would be for each group or individual health insurance policy. In addition, we can calculate the savings for each individual enrolled with a health insurer in a government-sponsored plan under Medicare and Medicaid. Table 4 shows the annual savings per enrollee for 2017 through 2020, and the amount in total.

**TABLE 4**
**AVERAGE ANNUAL PREMIUM SAVINGS PER ENROLLEE**

| Year | Individual | Small Group | Large Group | Medicare Part C | Medicare Part D | Medicaid |
|---|---|---|---|---|---|---|
| 2017 | $ 210 | $ 270 | $ 250 | $ 350 | $ 16 | $ 150 |
| 2018 | 220 | 280 | 270 | 370 | 17 | 160 |
| 2019 | 230 | 300 | 280 | 380 | 17 | 160 |
| 2020 | 240 | 310 | 290 | 390 | 18 | 170 |
| Total | $ 900 | $ 1,160 | $ 1,090 | $ 1,490 | $ 68 | $ 640 |

## Timing Considerations

As noted, the premium rates would be reduced beginning in 2017 as a result of the elimination of the HIT. The one exception would be for policies that were issued during 2016 with a renewal date other than January 1, that extend into 2017. These policies, generally limited to group policies could see some relief in their premiums due to the portion of their premiums that represented the 2017 time period.

Please let us know if you have any questions about the information provided in this memo, or any other issues.

Sincerely,

Chris Carlson, FSA, MAAA
Principal