Health Insurance Tax: Raising Costs for Families, Small Businesses, Seniors, Taxpayers, and States

KEY TAKEAWAYS

41% The amount of the ACA’s health insurance tax was $8 billion in 2014, increased 41 percent to $11 billion in 2015, and will continue to increase each year. The tax is expected to reach $145 billion over the next 10 years.

The tax hits nearly everyone, increasing the cost of health coverage for individuals, small businesses, and beneficiaries in public programs. As the tax increases over time, the financial burden on families and small businesses in the form of higher premiums will only get heavier.

Imposing the HIT even impacts already strapped state budgets: Money that could go toward covering more services for the more than 33 million people enrolled in Medicaid health plans is diverted to pay the tax.

This tax contradicts the goal of providing everyone affordable coverage. Bipartisan legislation would repeal the health insurance tax, providing immediate financial relief to those impacted.
Background

Beginning in 2014, the Affordable Care Act (ACA) imposed a tax that will exceed $145 billion over the next 10 years on families, small businesses, seniors, states, and taxpayers in the form of what is essentially a new sales tax on health insurance coverage. The tax starts at $8 billion in 2014, increases 41 percent to $11.3 billion in 2015, and rises to $14.3 billion in 2018. In 2019 and beyond, it increases annually based on premium growth. While the tax is collected by health plans, experts agree that it will impact consumers and employers that purchase coverage directly from a health insurance plan in the individual and employer markets as well as beneficiaries in public programs. The Congressional Budget Office (CBO) writes that this tax will be “largely passed through to consumers in the form of higher premiums.”

What Is the Impact of the Tax?

While one of the ACA’s goals to make coverage more affordable, the health insurance tax will have the opposite effect by increasing costs for families, small businesses, seniors, states, and taxpayers. Several experts have quantified the degree to which this tax will drive premiums higher:

- In a May 2011 letter, the Joint Committee on Taxation estimated that repealing the health insurance tax would reduce the premiums of plans by 2.0 to 2.5 percent, and that eliminating this tax could decrease the average family premium in 2016 by $350 to $400.3

- According to Doug Holtz-Eakin, former director of the Congressional Budget Office, the health insurance tax alone—once one factors in the non-deductible nature of the tax—will place an upward pressure of $135 billion on premiums over the next 10 years [through 2020]. This tax will add as much as 3 percent per year ($475) to the average family premium, or nearly $5,000 per family over a decade.3

- An actuarial study conducted by the firm Oliver Wyman examined the health insurance tax’s impact on employers and families purchasing coverage in different segments of the commercial market. Average premiums will increase by as much as 2.8 to 3.7 percent due to the new tax. This study estimates the $100 billion tax will add $6,830 over 10 years to the cost of a family’s premium in the small employer market.4

- The Oliver Wyman report also finds that the tax would create unintended consequences. The study concludes that the tax would likely exacerbate problems related to adverse selection in the individual and small-group markets—as younger, healthier individuals forego coverage, leading to a less stable risk pool and higher premiums.

- Finally, the report assessed the tax’s impact on private plans that participate in public programs and finds that the tax will likely increase costs for beneficiaries—through higher premiums and/or higher cost-sharing—enrolled in Medicare Advantage and Medicare Part D prescription drug plans. The tax will put pressure on already-strained state Medicaid budgets by increasing the costs of contracting with Medicaid managed care organizations.
How can the impact of the health insurance tax on premiums be larger than the tax itself?

Several economists note that this tax will increase premiums by an amount that exceeds the level of the tax specified in the ACA. The reason is that the tax was construed to be non-deductible, meaning that health plans must collect revenue (in the form of higher premiums) to pay the tax and then pay taxes on that additional revenue. For example, for every $1 in premiums that a health plan must collect to pay the tax, it must also collect another $0.54 to cover the tax on the higher premium – assuming a 35 percent federal income tax rate. Premiums may increase up to $1.54 for every dollar that must be paid under the health insurance tax scheme.

Who Pays the Tax?

The scope of this new tax is broad. Employers purchasing fully insured coverage, including most small businesses, will face higher premiums due to this tax as well as individuals who purchase coverage on their own. Medicare beneficiaries enrolled in a Medicare Advantage plan or a prescription drug plan will face higher costs, as will states that include managed care organizations in their Medicaid programs. The Oliver Wyman study examined the impact of this tax on:

- **Businesses that purchase insurance**—including all small businesses that fully insure their workforces. These businesses will pay a portion of the tax, which will increase premiums for employers struggling to maintain coverage for employees. Small businesses will face additional premiums over the 10 year period (2014-2023) of $2,760 for single coverage and $6,830 for family coverage. Larger businesses will pay an average additional premium of $2,610 (single coverage) and $7,130 (family coverage) due to this tax.

- **All individuals and families who purchase coverage in the individual market or through an Exchange.** These consumers feel the brunt of the tax through higher premiums. Individuals and families will confront premiums that are $2,150 (single coverage) and $5,080 (family coverage) higher over 10 years if this health insurance tax remains in place. In addition, individuals and families cannot deduct premium payments from federal income taxes and therefore already face the challenge of purchasing coverage with after-tax income, a disparity that is particularly harmful to individuals and families who do not qualify for exchange subsidies.

- **Medicare beneficiaries who enroll in Medicare Advantage health plans.** Medicare Advantage (MA) plans will pay between $16-$20 per member per month in 2014 and up to $32-$42 per member per month in 2023 as a result of this tax. Given the average annual MA premium is roughly $39 for beneficiaries, this represents a significant increase in MA beneficiary premiums. Medicare Advantage enrollees are already burdened with the expected impact of the ACA funding cuts: reductions in additional benefits and choices. This tax will likely exacerbate the reduction in additional benefits and access to health plans for Medicare Advantage enrollees.

- **The new tax also falls on Medicare Part D prescription drug plans, causing an average increase in premiums of $9 in 2014 and $20 in 2023 for a total increase of $161 over 10 years.**

- **States that contract with managed care organizations under Medicaid.** Medicaid health plans are limited in their ability to establish beneficiary premiums to raise additional revenues to cover the cost of the tax. This tax is likely to increase state contracting costs under state budgets, which are already experiencing fiscal crises that jeopardize the sustainability of Medicaid programs. The average cost of Medicaid coverage will increase by an estimated $1,530 per enrollee between 2014-2023 with a total increase in costs to Medicaid plans of over $20 billion. Since the federal government shares in the financing of the Medicaid plans, an increase in the Medicaid costs due to the additional federally mandated tax will partially be paid through the federal share of Medicaid.
How Will the Tax Impact Each State?

The projections above demonstrate the average impact across the country, but do not tell the story of the health insurance tax’s impact in each of the states. An updated report by Oliver Wyman, “Annual Tax on Insurers Allocated by State,” provides per-person and cumulative estimates of the impact this tax has on individual market consumers, employers, and Medicare Advantage beneficiaries in all 50 states, as well as the impact on state Medicaid managed care programs. Certain states – and the consumers and businesses in those states – will face a more marked impact from the health insurance tax over the next 10 years as illustrated below:

**Individual Market:** The highest impact on family coverage will be in New York, where premiums will rise by $9,942.

**Small Group Market:** The highest impact on family coverage will be in West Virginia, where family premiums will rise by $9,221.

**Medicare Advantage:** In New Jersey, the premium tax will raise costs by $4,182 for each senior enrolled in a Medicare Advantage plan.

**Medicaid Managed Care:** New York will face $2,466 higher costs per person enrolled in a Medicaid plan.

**Aggregate Cost:** The total average aggregate cost of this tax will fall hardest on California, where the 10-year impact will cost $22 billion.

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How Can Congress Alleviate this Tax Burden?

In the 114th Congress, Reps. Charles Boustany (R-LA) and Kyrsten Sinema (D-AZ) introduced H.R. 928, The Jobs and Premium Protection Act, bipartisan legislation to repeal the health insurance tax. The bill has over 220 cosponsors. In the Senate, Sens. John Barrasso (R-WY) and Orrin Hatch (R-UT) introduced companion legislation, S. 183, with over 25 Senate cosponsors.

Legislation to delay the health insurance tax was also introduced in the 113th Congress in order to provide temporary and immediate relief to small businesses, individuals, and families. Reps. Ami Bera (D-CA) and Charles Boustany (R-LA) introduced H.R. 3367, The Small Business and Family Relief Act, to delay the tax for two years. This bipartisan legislation garnered over 97 cosponsors.

Recommendation

Repealing the health insurance tax will reduce the financial burden on families, businesses, and seniors when they purchase coverage.

End Notes


2 See JCT Letter to Senator Jon Kyl (May 12, 2011).


Related Topic

AHIP Supports Bipartisan House Legislation to Repeal the ACA’s Health Insurance Tax

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$145 billion tax on health insurance

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