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

ISSUE BRIEF

MAY 2017

KEY TAKEAWAYS

impacts nearly everyone

The health insurance tax hits nearly everyone, increasing the cost of health coverage for individuals, small businesses, and beneficiaries in public programs.

Congress SUSPENDED the tax in 2017

Recognizing the tax's impact on consumers' health care costs, Congress acted to suspend the tax for one year, 2017.

REPAL THE TAX for 2018 and beyond

To ensure continued access to affordable health insurance coverage, it is important for Congress to take additional action to repeal the tax in 2018 and beyond.

BIPARTISAN legislation fully repeal

Bipartisan legislation would fully repeal the health insurance tax, providing immediate financial relief to those impacted.

Executive Summary

Beginning in 2014, the Affordable Care Act (ACA) imposed a tax that will exceed $156 billion over the next 10 years (2017-2026) on families, small businesses, seniors, states, and taxpayers, in what is essentially a sales tax on health insurance coverage.[1] The tax started at $8 billion in 2014, increased 41 percent to $11.3 billion in 2015, and rises to $14.3 billion in 2018. In 2019 and beyond, the tax will increase annually based on premium growth.

Consistent with most forms of excise taxes, the Congressional Budget Office (CBO) wrote in 2010 that this tax will be "largely passed through to consumers in the form of higher premiums." Actuarial analyses have found it negatively impacts 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 like Medicaid and Medicare.[2]

In December of 2015, recognizing the growing impact of the tax, Congress provided a one-year suspension of the tax in 2017.[3] Suspension of the tax improved affordability for consumers who faced higher health care costs in 2017. Consumer savings will increase in 2018 if Congress provides further relief from this burdensome tax. However, under current law, the tax is slated to go back into effect next year.

Right now, health plans are finalizing their products for 2018 ahead of state and federal filing deadlines. If repeal or suspension of the tax for 2018 is not included in a legislative package before those filing deadlines, these 2018 products will have to factor in the cost of the health insurance tax. Actuarial analyses on the impact of the tax estimate that reinstatement in 2018 will raise premiums by an average of three percent. CBO has estimated the total dollar amount of the health insurance tax is $13 billion in 2018.[4]

It is important for Congress to take swift action to suspend the health insurance tax into 2018 and beyond to continue to improve the affordability of health insurance coverage for millions of consumers. Allowing the tax to resume in 2018 would saddle consumers, small businesses, state Medicaid programs, and Medicare Advantage enrollees with higher health care costs.

What Is the Impact of the Tax?

One of the goals of health reform is to make health care, and therefore health insurance coverage, more affordable. However, the $156 billion health insurance tax has the opposite effect, increasing costs for families, small businesses, seniors, states, and taxpayers. Several experts have quantified the degree to which this tax is driving premiums higher and reducing private sector employment:

- A 2015 actuarial study by the firm Oliver Wyman examined the premium implications for suspending the health insurance tax for 2017-2020 across all lines of insurance (e.g., individual market, small-group market, etc.). The study found that suspending the tax "would significantly reduce premiums in the marketplace, reducing premiums by more than $200 per member per year in 2017 across all fully-insured major medical plans."

- Overall, the 2015 Oliver Wyman analysis found total savings of $87 billion to health insurance consumers in reduced premium rates if the tax were eliminated over 2017-2020.

- A 2014 analysis by the National Federation of Independent Business (NFIB) estimates the tax will result in reduced private sector employment by 152,000 to 286,000 jobs by 2023, with 57 percent of job losses coming from small businesses. This could amount to a reduction of U.S. real output (sales) in the range of $20 billion to $33 billion during the same time frame.[5]

- A 2011 actuarial study conducted by Oliver Wyman estimated the tax, if not suspended or repealed, will add $6,830 over 10 years to the cost of a family's premium in the small employer market. As the tax grows, the premium impact grows as well. Oliver Wyman estimated the tax would increase premiums by between 2.8 percent and 3.7 percent in 2019 and the later years of implementation.[6]

- The report also documents several unintended consequences of the tax, including exacerbating 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.

- The 2011 Oliver Wyman analysis assessed the tax's impact on private plans that participate in public programs and found the tax will increase costs for beneficiaries – through higher premiums and/or higher cost sharing – enrolled in Medicare Advantage and Medicare Part D prescription drug plans. Additionally, 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 Tax's Impact on Premiums Be Larger Than the Tax Itself?

Several economists note this tax will increase premiums by an amount that exceeds the level of the tax specified in the ACA. The reason is the tax was structured to be non-deductible, meaning 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 dollar 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 the health insurance tax is broad. Employers purchasing fully insured coverage, which mostly consists of small businesses, 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 Medicare prescription drug plan will face higher costs, as will states that include managed care organizations in their Medicaid programs. The 2015 Oliver Wyman analysis quantified the impact on several markets:

- Businesses that purchase insurance in the fully insured market pay a portion of the tax in increased premiums. These fully insured products are predominantly purchased by small businesses, as self-insured products purchased by large businesses are not included in the tax calculation. If the tax is not suspended for 2018, the estimated impact of the tax is $280 per enrollee in small-group coverage. Those costs are projected to increase for 2019 and 2020 to $300 and $310, respectively.

- Large businesses are also impacted by the tax. The estimated per-enrollee cost in 2018 is $270 for large group coverage, increasing to $290 in 2020.

- All individuals and families who purchase coverage in the individual market or through the exchanges feel the brunt of the tax through higher premiums. If the tax is not suspended or repealed by 2018, individuals purchasing coverage in the individual market will face an estimated $220 in higher premiums. These costs increase to $240 for individual market enrollees in 2019.

- Medicare beneficiaries who enroll in Medicare Advantage plans are also impacted by the health insurance tax. Premium costs for Medicare Advantage enrollees will increase by $370 in 2018 if the tax is not delayed or repealed, and this increase rises to $390 per enrollee in 2019.

- The health insurance tax also falls on Medicare Part D prescription drug plans, causing an average increase in premiums of $17 in 2018 if the tax is not suspended.

- States that contract with managed care organizations under Medicaid are also impacted by the tax. Medicaid managed care plans are limited in their ability to establish beneficiary premiums to raise additional revenues to cover the cost of the tax. Thus, this tax increases state contracting costs for already strapped state budgets. The average cost to Medicaid coverage is estimated to increase by $160 per enrollee if the health insurance tax is not suspended in 2018. Since the federal government shares in the financing of the Medicaid program, an increase in Medicaid costs due to the additional federally mandated tax will be partially paid through the federal share of Medicaid.

How Can Congress Alleviate this Tax Burden?

Reinstatement of the health insurance tax sends the wrong message to consumers about improving health care affordability. Allowing a $14.3 billion tax to resume in 2018 would saddle consumers, small businesses, state Medicaid programs, and Medicare Advantage enrollees with higher health care costs. It is important for Congress to take immediate action to repeal the tax, or at the very least, continue the suspension of the health insurance tax into 2018.

The timing of an additional suspension or full repeal is very important. Right now, health plans are finalizing their products for 2018 ahead of state and federal filing deadlines. If suspension of the tax for 2018 is not included in a legislative package this spring, these products will have to factor in the cost of the health insurance tax for 2018.

In the 115th Congress, Rep. Kristi Noem (R-SD) and Rep. Kyrsten Sinema (D-AZ) introduced H.R. 246, bipartisan legislation to permanently repeal the health insurance tax. This bill has garnered over 150 cosponsors in the House. In the Senate, legislation in the 114th Congress sponsored by Sen. John Barrasso (R-WY) and Sen. Orrin Hatch (R-UT) to repeal the health insurance tax was sponsored by over 35 senators.

Recommendations

Consumers will be hit with higher costs if the health insurance tax is not repealed or suspended for 2018. Given the current regulatory filing deadlines for 2018 health plans, it is important for Congress to take immediate action to repeal the tax, or at the very least, continue the suspension of the tax into 2018.

Related Topic

[1] Congressional Budget Office. The Budget and Economic Outlook: 2016 to 2026. January 2016.
[2] Carlson, Chris. "Estimated Impact of Suspending the Health Insurance Tax from 2017-2020." Oliver Wyman. December 16, 2015.
[3] Consolidated Appropriations Act. Public Law No: 114-113.
[4] Ibid.
[5] Chow, Michael. "Effects of the PPACA Health Insurance Premium Tax on Small Businesses and Their Employees." NFIB Research Foundation. May 5, 2014.
[6] Carlson, Chris. "Estimated Premium Impacts on Annual Fees Assessed on Health Insurance Plans." Oliver Wyman. October 31, 2011.