Health Insurance Provider Fees: Understanding the Health Insurance Tax

Center Forward Basics
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Overview

For decades, leaders in the United States have struggled to find a solution to the exploding costs of medical care and high rates of uninsured Americans. When Congress passed the Affordable Care Act in 2010, it was the first major piece of healthcare legislation in nearly a decade. But the law was highly controversial and its fate has been a defining issue in every election since. One component of the law that has stirred debate was the establishment of Health Insurance Provider Fees - more commonly referred to as the Health Insurance Tax (HIT). Opponents of HIT argue that it costs consumers billions annually in higher premiums and that it should be repealed immediately. The HIT is currently not in effect, but absent Congressional action is scheduled to return on January 1, 2018. This Basic provides context around the debate over HIT and the fate of the tax moving forward in the current Congress.

What is the Health Insurance Tax?

The "Health Insurance Tax" is an annual fee charged to insurance companies on health policy premiums. Section 9010 of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, which collectively form The Patient Protection and Affordable Care Act of 2010, imposes fees on insurance companies that offer fully-insured health insurance coverage. The IRS recognizes these fees as taxes and treats the fees as such; taxing insurance companies on earned health insurance premiums.

While some exclusions exist as it relates to the Health Insurance Tax being assessed to health insurance companies, the taxes on health insurance are non-deductible for federal tax purposes. This means that health insurers generally pass these costs on to consumers to make up for the cost of the tax. One recent study found that for each dollar assessed and paid in taxes, more than a dollar in additional premium must be collected. For example, for every $1.00 in taxes, $1.54 must be collected in premium, assuming a provider is being assessed a 35% federal corporate income tax rate.

Current Law

As previously mentioned, Section 9010 of the ACA imposes an annual fee on certain health insurers that began in 2014. In the year before payments are due, the IRS will assess health care premiums written by covered issuers to determine what the ACA fee will be, therefore if a payment were to be due in 2018, the fee assessment would take place in 2017. Each year, the IRS determines which insurers will be subject to the health insurance tax by assessing two criteria. A study by Oliver Wyman states these criteria as, “an insurer's’ net premiums written in the previous calendar year as a share of total net premiums written by all covered insurers and their dollar value of business. Covered insurers are not

Health Insurance Provider Fee Data, 2014-2018

- **Aggregate ACA Set Fee Totals:**
  - 2014: **$8 Billion**
  - 2015: **$11.3 Billion**
  - 2016: **$11.3 Billion**
  - 2017: **$13.9 Billion**
  - 2018: **$14.3 Billion**

Premium Impact, ‘18: $22 Billion

*After 2018, the fee is indexed to the annual rate of U.S. health insurance premium growth.

One study estimates that the HIT will increase premiums by 2.6% in 2018, and between 2.5% and 2.7% in subsequent years. If that's true, in 2018, this equates to:

- **Non-Group Market:**
  - **$158** per individual
- **Small Group Market:**
  - **$185** per single contract
  - **$500** per family contract
- **Large Group Market:**
  - **$188** per single contract
  - **$540** per family contract
- **Medicare:**
  - **$245** per Medicare Advantage member (including Special Needs Plans and Employer Group Waiver Plans)
- **Medicaid:**
  - **$181** per Medicaid managed care enrollee

subject to the fee on their first $25 million of net premiums written. The fee is imposed on 50% of net premiums above $25 million and up to $50 million, and it is imposed on 100% of net premiums in excess of $50 million."[5]

Insurers or insurance arrangements that include self-insured plans; voluntary employees' beneficiary associations; and federal, state, or other governmental entities, including Indian tribal governments and nonprofit entities incorporated under state law that receive more than 80% of their gross revenues from government programs that target low-income, elderly, or disabled populations are not subject to these annual fees.

In December 2015, Congress passed H.R. 2029, also known as the Consolidated Appropriations Act, which imposed a one-year moratorium on collecting the health insurance taxes for CY2017. The IRS would have collected nearly $13.9 billion in 2017 but because Congress put a hold on collecting HIT this year, they will not be collected. Because of this, some estimates suggest that normally-affected policyholders are projected to save approximately 3% of premiums. Under current law, however, the moratorium on collecting this tax will expire at the end of 2017 and resume in 2018. Projected tax collections from the health insurance tax for 2018 will be set at a higher annual level than 2017 at a total of $14.3 billion. However, because the tax is not deductible, estimates indicate that the return of the tax in 2018 will result in premium increases of more than $22 billion. Of the $22 billion in additional premiums, $5.5 billion of the increase is attributable to Medicaid in 2018, which is a tax on a government program. This annual increase would be permanent with the IRS collecting more each successive year as the rate would be tied to the annual U.S. health insurance premium growth.

Efforts to Address the Health Insurance Tax

Several efforts are currently underway in Congress to address the Health Insurance Tax. Members of Congress have introduced a number of measures in both the House and the Senate to either eliminate or provide relief from the tax and it's annual effects on premium rates for consumers. If comprehensive tax reform is pursued in Congress over the coming weeks or a repeal of the Affordable Care Act is revived, look for the Health Insurance Tax to be addressed. As part of any marketplace stabilization package, there may be efforts to delay the Health Insurance Tax as part of that package. The National Association of Insurance Commissioners (NAIC) included a continued delay of the HIT as a recommendation in a July 2017 letter to Congress on how to stabilize the health insurance marketplace. There are likely to be efforts to continue the suspension of the tax for 2018 in any government funding measure, health market stabilization packages, the reauthorization of the Children's Health Insurance Program (CHIP), or other must-pass vehicles.

Over the next ten years, these amounts equate to:

- **Non-Group Market:**
  - **$2,276** per individual
- **Small Group Market:**
  - **$2,282** per single contract
  - **$6,190** per family contract
- **Large Group Market:**
  - **$2,326** per single contract
  - **$6,675** per family contract
- **Medicare:**
  - **$3,030** per Medicare Advantage member
- **Medicaid:**
  - **$2,370** per Medicaid managed care enrollee

Definitions

Health Insurance Provider Fees: A fee imposed "on each covered entity engaged in the business of providing health insurance for United States health risks." Read more HERE.

Other Resources

- Congressional Research Service
  - The American Health Care Act (AHCA)
- Internal Revenue Service
  - Affordable Care Act Provision 9010 - Health Insurance Providers Fee
  - Affordable Care Act Tax Provisions
- Oliver Wyman
  - Analysis Of The Impacts Of The Aca's Tax On Health Insurance In 2018 And Beyond
- Tax Policy Center
  - What tax changes did the Affordable Care Act make