# Health Insurance Providers Fee: The Health Insurance Tax (HIT)

Center Forward Basics
March 2019

## Overview

The rate of uninsured in the United States was 13.7 percent in the fourth quarter of 2018, a decrease from pre-Affordable Care Act (ACA) days when roughly 18 percent of adults did not have health insurance. However, health insurance continues to be a defining issue for consumers because the cost of care continues to rise. One component of the ACA often debated as a way to lower premiums is the establishment of the Health Insurance Providers Fee - more commonly referred to as the Health Insurance Tax (HIT). The Affordable Care Act included a series of taxes to fund certain parts of the law, such as the federal and state marketplace exchanges; however, opponents of the HIT argue that it costs consumers billions of dollars annually in higher premiums and should be repealed immediately.

The HIT is currently not in effect; however, absent Congressional action, it is scheduled to return on January 1, 2020. This Basic provides context as Congress debates the fate of the Health Insurance Tax moving forward.

## What is the Health Insurance Tax (HIT)?

Established by Section 9010 of the Patient Protection and Affordable Care Act, the "Health Insurance Tax" is an annual fee charged to insurance companies providing health policy premiums. The fee applies to individual policies, small groups, non self-insured employers, Medicaid managed care, Medicare Part D, and Medicare Advantage.

Each year, the fee is divided among health insurers based on their market share and their dollar value of business. Covered insurers are not subject to the fee on the first $25 million in net premiums written for a given year; however, the fee is imposed on 50 percent of net premiums above $25 million and up to $50 million, and imposed on 100 percent of premiums in excess of $50 million.

The U.S. began collecting health insurance provider fees in 2014 totaling $8 billion. The IRS collected $11.3 billion in 2015 and 2016, would have collected $13.9 billion in 2017 if not for the moratorium, and collected $14.3 billion in 2018. After 2018, the aggregate fee is intended to be indexed to the overall rate of health insurance premium growth each year. Estimates suggest the fee will cost $16 billion in 2020 if the HIT returns.

Insurance arrangements that meet certain criteria are not subject to the fee, including: entities that fully self-insure, government-run insurance programs, or non-profit insurers incorporated under state law that receive more than 80 percent of their gross revenues from government programs targeting low-income, elderly, or disabled populations.

## Center Forward Basics

Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit www.center-forward.org

## Health Insurance Providers Fee

- Definition: A fee imposed "on each covered entity engaged in the business of providing health insurance for United States health risks."
- Aggregate ACA Fee Schedule
  - 2014: $8 billion
  - 2015: $11.3 billion
  - 2016: $11.3 billion
  - 2017: $13.9 billion
  - 2018: $14.3 billion

* After 2018, the fee is indexed to annual rate of U.S. health insurance premium growth and is expected to cost $16 billion in 2020.

## How does the HIT affect premiums?

While some exclusions exist as it relates to the Health Insurance Tax being assessed to health insurance providers, the "fee" is specified by the ACA to be handled as a tax. As a tax, the fees are non-deductible for federal income tax purposes, which means insurers typically pass these costs on to consumers to make up the difference in the form of premium increases.

One recent study found that for each dollar assessed and paid in taxes, more than a dollar in additional premiums must be collected. For example, for every $1.00 in taxes, $1.27 must be collected in premiums, assuming an insurance provider is being assessed a 21% federal corporate income tax rate.

Congress voted in a bipartisan fashion to enact a moratorium on the tax for 2017, but the tax returned for 2018. After premium increases struck consumers in 2018, Congress voted again to suspend the tax for the 2019 calendar year. Without Congressional action, the HIT will return in 2020 and cost insurers and consumers an estimated $16 billion in fees. In terms of premiums, that number translates to an estimated 2.2 percent increase in 2020 for consumers, or annual increases ranging from $154 to $479 depending on the enrollee and the type of insurance they have.

## Where does the HIT currently stand?

In December 2015, Congress passed H.R. 2029, also known as the Consolidated Appropriations Act, which included a one-year moratorium on collecting these fees from insurance providers for 2017. Were it not for the moratorium on the HIT, the IRS would have collected roughly $13.9 billion, or approximately three percent of premiums for policyholders.

Congress again acted to delay the HIT in 2018 for the 2019 calendar year after the IRS collected $14.3 billion and premiums increased for consumers across the U.S. Absent Congress stepping in, the HIT will return in 2020 to accommodate an estimated $16 billion in fees, or roughly 2.2 percent in premium increases. Over the next ten years, estimates suggest total premium increases from $2,473 per person in the individual market to $5,824 per family in the small group market; and $3,052 for Medicare Advantage members and $1,988 for Medicaid managed care enrollees. Premium effects will vary by state, but the insured in Alaska, West Virginia, North Carolina, Arizona, and Wyoming are expected to experience the largest increases in 2020.

## Will Congress address the HIT?

The CBO projects revenues from the tax to reach $25 billion by 2029, which is likely why an effort is currently underway in Congress to address the Health Insurance Tax. A bipartisan group of Senators; including Sens. Gardner, Shaheen, Barrasso, Jones, Scott, and Sinema, have introduced a measure to suspend the HIT for 2020 and 2021.

Now that Congress has funded the government for the remainder of 2019 and can move onto other business, look for the Health Insurance Tax to be addressed. It's possible a HIT measure will be included in any market stabilization package Congress brings forth, but it is more likely to be incorporated into a must-pass spending measure, as it has previously.

## HIT's Projected Premium Increases 2020

- Individual Market:
  - $196 per individual
- Small Group Market:
  - $154 per individual
  - $479 per family
- Large Group Market:
  - $158 per individual
  - $458 per family
- Medicare Advantage:
  - $241 per member
- Medicaid managed care:
  - $157 per enrollee

## Health Care Glossary

A full glossary of common health care terms can be found HERE.

## Additional Resources

BMA: Impact of the HIT on Medicare Advantage

CBO: Budget and Economic Outlook 2019-2029

Congress.gov: Health Insurance Tax Relief Act of 2019

Congress.gov: Patient Protection and Affordable Care Act

CRS: ACA Annual Fees on Health Insurers

Gallup: U.S. Uninsured Rate Rises to Four-Year High

IRS: ACA Provision 9010 - Health Insurance Providers Fee

Oliver Wyman Health: How ACA's HIT Will Impact 2020 Premiums