The $87 Billion Health Insurance Tax Will Increase Health Care Costs, Eliminate Nearly 250,000 Jobs, and Reduce Health Care Choices for Employers and Consumers

The Patient Protection and Affordable Care Act (PPACA) imposes an annual multi-billion dollar Health Insurance Tax that will negatively impact the entire health care system. Employers and Consumers will begin to see the impact of this $87 Billion tax in health care policies issued in 2013. This tax will have far-reaching effects that extend to employers, seniors, States, consumers and the overall economy, and will exacerbate existing cost challenges in the health care marketplace and significantly distort existing market dynamics.

The PPACA Health Insurance Tax Will Eliminate Up To 250,000 Jobs
The tax will burden employers, especially small employers purchasing fully-insured products, and will significantly stifle job creation.

- 59% of job losses directly associated with the tax will be incurred by small businesses.1
- The tax is estimated to reduce real GDP by up to $36 billion by 2021.2
- The increase in the cost of employer-sponsored health insurance stemming from the tax is estimated to reduce private sector employment by as much as 249,000 jobs by 2021, according to the National Federation of Independent Business. Estimates of state-specific job losses include:
  - California: 11,500 Jobs
  - Florida: 4,700 Jobs
  - Ohio: 2,500 Jobs
  - Wisconsin: 2,300 Jobs
  - Colorado: 2,500 Jobs
  - Illinois: 2,500 Jobs
  - Texas: 6,000 Jobs

The PPACA Health Insurance Tax Will Lead To Higher Premiums for Individuals and Families
According to the Joint Committee on Taxation, “a very large portion” of the tax will “be borne by consumers” in the form of a 2 to 2.5 percent increase in premium cost by 2016.3

- The tax will cause premiums to increase by as much as 3.7 percent by 2023.4
- The cost of individual premiums will increase by approximately $2,800 over 10 years.5
- The cost of family premiums will increase by as much as $5,000 over a decade.6

The PPACA Health Insurance Tax Will Result in Reduced Benefits and Increased Premiums for Medicare Beneficiaries
Medicare Advantage (MA) organizations and Part D plan sponsors will pay about $34 billion in tax – about 20 percent of the total tax collected between 2014 and 2023.7 Additionally:

- The tax will add $16 to $20 per member per month to the cost of Medicare Advantage coverage in 2014 – increasing to between $32 and $42 by 2023 – resulting in higher premiums and/or reduced benefits for beneficiaries.8
- On average, the tax will increase the per-beneficiary cost of MA coverage by $3,590 over a decade.9

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2 Ibid.
3 Joint Committee on Taxation, Letter to Senator Jon Kyl (June 30, 2011).
5 Ibid.
9 Ibid.
The PPACA Health Insurance Tax Will Increase Pressure on Already Constrained Federal and State Budgets and Incent States to Revert to Medicaid Fee-for-Service

The tax will contribute to an already-challenging Medicaid budget environment and will threaten access for approximately 30 million beneficiaries currently enrolled in Medicaid managed care.

- The tax will increase the costs of Medicaid managed care by approximately 1.5 percent on a nationwide average, with some States experiencing an increase of up to 2.5 percent.  
- Because Medicaid managed care rates are funded jointly by States and the Federal Government, higher rates will require additional State and Federal funding, resulting in an additional $23 - $27 billion from the Federal government by 2023.  
- As a result of the Federal matching formula process, States with Medicaid managed care plans will bear up to $14.9 billion in additional Medicaid program costs due to higher rates, requiring States to find additional revenue in their budgets.

- Pennsylvania: $1.1 Billion in Additional State Costs  
- Texas: $1 Billion in Additional State Costs  
- New Jersey: $509 Million in Additional State Costs

- Because the tax exempts non-profit insurance plans receiving most of their premium revenue from Medicaid or Dual Eligible plans, some Medicaid managed care organizations are at a competitive disadvantage as they will become comparatively more expensive. This will result in fewer plan choices for beneficiaries, less competition and reduced incentives for plans to bring innovative solutions to the marketplace.

- Because the tax only applies to Medicaid managed care plans, it incents States to reverse their progress in implementing innovative delivery reforms and improving beneficiaries’ quality of care and return to a Fee-For-Service Medicaid model in order to avoid costly budgetary impacts.

The PPACA Health Insurance Tax Will Increase the Costs of Health Care for Employers, Forcing Them to Find Alternative Coverage Options

Multiple tax experts, including the Joint Committee on Taxation, have warned that:

- Rising premiums, as a result of the tax, could prompt more young and healthy individuals to forgo coverage, which could lead to a less stable risk pool and further exacerbate pressure on health care costs.
- Employers may avoid the tax by moving from fully-insured products to self-insured products not subject to the tax.
- Having fewer employers with fully-insured products will shift the growing tax burden to small employers and individuals, resulting in an ever-increasing cost spiral and a potential destabilization of the risk pool.

The PPACA Health Insurance Tax Distorts the Competitive Marketplace Because:

- Unlike most other taxes, the tax is not deductible.
- The tax creates an uneven playing field as some insurance plans, such as non-profit carriers who receive most of their premium revenue from Medicare, Medicaid or Dual Eligible plans, are exempt. Additionally, some health insurance plans will receive a 50% credit on their obligation.
- Unlike most taxes, PPACA dictates an aggregate amount that must be collected each year as a result of this tax: $8 billion in 2014, growing to $14.3 billion by 2018 and indexed for inflation thereafter.
- The tax will result in many health insurance companies’ effective tax rates increasing from over 35 percent to over 45 percent – making the tax rates on health insurers among the highest in the Nation.

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11 Ibid.  
12 Ibid.  
13 Ibid.  
14 Joint Committee on Taxation, Letter to Senator Jon Kyl (June 30, 2011).  