



Insight

Recycling the Health Insurance Tax

ROBERT BOOK | JULY 25, 2014

In their most recent report, the Congressional Budget Office (CBO) estimates that the effects of an aging population, increasing health care costs, and the federal subsidies issued under the Affordable Care Act (ACA) will contribute to increasing the deficit to \$7.6 trillion in the 2015-2024 timeframe. This increase is indication of the need for updated analysis of federal revenue streams, including some of the newly imposed taxes levied under the Affordable Care Act (ACA).

Section 9010 of the ACA imposes a tax on health insurance, assessing a fixed amount each year on the entire health insurance industry. This year, that amount is \$8 billion and will rise to \$14.3 billion by 2018 – is to be allocated across insurers roughly proportional to their share of total premiums, and passed on in the form of higher premiums. According to the Congressional Budget Office estimates, these increases may be experienced by health insurance consumers in the form of higher premiums. Ironically, because of the government's increased role in providing health insurance, the federal government will be paying a significant share of this tax to itself, using insurance companies and state governments as intermediaries.

Increases (due to the tax) in exchange premiums for subsidy-eligible patients are passed along dollar-for-dollar to the federal government. Increases in Medicaid managed care premiums are shared by the federal government and state governments, which combine to cover the entire tax on that sector. The federal government will pay itself almost three-fourths of the tax for Medicare Part D plans. In addition, the tax will increase premiums for employer-sponsored non-self-insured coverage, decreasing employees' taxable income and offsetting part of the health insurance tax through a reduction in income tax, Social Security tax, and Medicare tax collected. Despite the fact that the dollar amount of the tax is set by statute, we estimate that the net budgetary effect will be less than two-thirds of that amount.

Category of Insurance	Calculation of the Percentage of Tax that is "Recycled"	Percentage "Recycled"	Estimated Share of Tax (2014)	Estimated Tax "Recycled"
Fully-insured ESI	Average Marginal Tax Rate	31.5%	\$4,928 million	\$1,552 million
Exchange Coverage	Percent of insured with subsidies (100% of the tax for those with subsidies is recycled)	87%	\$324 million	\$282 million
Medicaid MCOs	Weighted Average of FMAP	73.7%	\$1,300 million	\$958 million

Medicare Part D	Federal Share of Medicare Part D Average Bid	74.5%	\$317 million	\$236 million
Medicare Advantage	None, since MA Benchmarks are calculated independently.	0%	\$1,130 million	\$0
Total		37.9%	\$8,000 million	\$3,029 million

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