Research

How the ACA's Taxes Increase Premiums

ROBERT BOOK | APRIL 11, 2014

As Tax Day approaches it is worth looking at some of the new taxes being levied on Americans this year through their health insurance premiums as a result of the Affordable Care Act (ACA). 2014 is the first year that people will see their premium totals rise significantly due to the ACA's many taxes. People who enrolled on the exchanges will face seven new taxes in 2014 that on average total $354 per person annually. For others with an employer sponsored insurance (ESI) plan the charges will be less this year at $196, and for people that have self-insured ESI plans the additional charges will be a total of $94. A list and explanation for all of the ACA's new taxes can be found below. Figures in the table are on a per-person basis; for family coverage simply multiply by the number of covered family members.

Tax	Applies to:	2014	2015	2016
Health Insurance "Annual Fee" Tax[1]	All but ESI Self-insured	$101	$143	$143
Pharmaceutical "Annual Fee" Tax[2]	All	$16	$16	$16
Medical Device Tax[3]	All	$13	$14	$15
Transitional Reinsurance "Fee" [4]	All[4]	$63	$42	$26
Risk Adjustment "Fee"[5]	All but ESI Self-insured	$1	$1	$1
Patient-Centered Outcomes Research Institute (PCORI) "Fee"[6] (Doubled for those with HRA plans)	All	$2	$2	$2
Health Exchange User "Fee"[7]	Exchange plans only	$158	$158	$158
Total for Exchange Plans[8] [9]		**$354**	**$376**	**$361**
Total for Insured ESI Plans		**$196**	**$218**	**$203**

Total for Self-insured ESI Plans		**$94**	**$74**	**$59**

Taxes of the ACA:

1.**Health Insurance "Annual Fee" Tax**: This tax is a fixed amount, called an "annual fee", imposed each year on the entire health insurance industry, to be divided among insurers based on their market share of nationwide total premiums. The total tax is $8 billion for 2014, $11.3 billion in 2015 and 2016, $13.9 billion in 2017, and $14.3 billion in 2018. It does not apply to employer self-funded health plans.

2.**Pharmaceutical "Annual Fee" Tax**: This tax is a fixed amount, called an "annual fee", imposed each year on the entire prescription pharmaceutical industry, to be divided among drug manufactures based on their market share (sales). The total tax is $3 billion for 2014, 2015, and 2016, $4 billion in 2017, $4.1 billion in 2018, and $2.8 billion per year thereafter.

3.**Medical Device Tax**: A 2.3 percent excise tax on all medical devices sold in the U.S., except eyeglasses, contact lenses, hearing aids, and produced normally purchased at retail by the general public. Included in the tax are implanted devices like pacemakers and artificial joints, as well as hospital equipment and equipment used in medical and dental offices and clinics.

4.**Transitional Reinsurance "Fee"**: Intended to partially reimburse exchange plans that attract a disproportionate share of specified types of risky enrollees. Collected from both insured and employer self-funded plans, but benefits only insured plans. The total tax is $12 billion 2014, $8 billion for 2015, and $5 billion for 2016, and zero thereafter. The government retains $2 billion on 2014 and 2015, and $1 billion in 2016, and pays out amounts up to the remainder to eligible plans.

5.**Risk Adjustment "Fee"**: The ACA requires this fee to be calculated by HHS, collected by states from plans with "low" actuarial risk and paid to those with "high" actuarial risk; the amount listed is to pay HHS for the cost of this program.

6.**Patient-Centered Outcomes Research Institute (PCORI) "Fee"**: This tax is intended to fund research to evaluate health outcomes, effectiveness, risks and benefits of medical treatments and services. It is collected per insured person per month. It applies to fully-insured health plans and to HRA accounts (so HRA holders pay it twice).

7.**Health Exchange User "Fee":** The federal exchange charges insurers a "user fee" of 3.5 percent of premiums. State exchanges may have different fees. Does not apply to employer-sponsored, Medicare Advantage, or any non-exchange plans.

[1] Section 9010. Estimate from AAF paper. Does not apply to employer self-funded plans.