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## Testimony of Paul N. Van de Water Senior Fellow, Center on Budget and Policy Priorities

### Before the Subcommittee on Health and Technology Committee on Small Business U.S. House of Representatives The Health Insurance Fee and Health Reform

Mr. Chairman, Ranking Member Hahn, and members of the subcommittee, I appreciate the invitation to appear before you today.

The Affordable Care Act (ACA) will extend health insurance coverage to 27 million people and help assure that Americans have access to affordable coverage. And it will do so in a fiscally responsible way. In fact, the Congressional Budget Office (CBO) estimates that health reform will *reduce* the deficit — modestly in its first ten years, but substantially in the following decade.<sup>1</sup>

To pay for the expansion of health coverage, the ACA levies taxes on or reduces Medicare payments to businesses in industries that will directly benefit from health reform. The fee on health insurance providers — also known as the health insurance tax — falls into this category. The law specifies how much the fee is to raise each year; this total is apportioned among providers based on their share of the U.S. health insurance business.<sup>2</sup> Over the 2014-2023 period, the fee will raise about \$116 billion.<sup>3</sup>

The fee does not apply to large employers that self-insure — in other words, pay the health costs of their own employees rather than purchase coverage with commercial insurers. This is reasonable, since most large employers already offer health insurance and will be largely unaffected by health reform.

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<sup>1</sup> Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Nancy Pelosi, March 20, 2010; Letter to the Honorable John Boehner, February 18, 2011; Letter to the Honorable John Boehner, July 24, 2012.

<sup>2</sup> The fee is imposed by section 9010 of the Patient Protection and Affordable Care Act. See also Department of the Treasury, Internal Revenue Service, “Health Insurance Providers Fee: Notice of Proposed Rulemaking,” *Federal Register*, March 4, 2013, pp. 14034-46.

<sup>3</sup> The Joint Committee on Taxation has estimated that the fee will raise \$101.7 billion through 2022. Memorandum from Thomas A. Barthold, Chief of Staff, Joint Committee on Taxation, June 15, 2012.

As with any excise tax, supply and demand will determine how the tax's burden is ultimately split between providers and purchasers. Insurers have recently turned in strong financial results and thus are well positioned to bear some of the tax.<sup>4</sup> But a portion of the tax is likely to be passed on to consumers. The Joint Committee on Taxation estimates that premiums subject to the fee will be 2 to 2½ percent higher than they would otherwise be.<sup>5</sup>

That is only part of the story, however. Health reform also contains many provisions that will slow the growth of premiums. The new health insurance exchanges will increase competition among plans and create economies of scale. Standardization of benefits and the prohibition of medical underwriting will reduce administrative costs. The individual mandate, as well as the subsidies to help people purchase coverage, will bring more relatively healthy workers into the insurance pool. Premium increases of 10 percent or more are subject to state or federal review, and insurers must provide rebates to their customers if they spend less than 80 percent of premiums on medical care. The ACA also includes a large number of initiatives to identify and implement more efficient ways of delivering medical services.

All things considered, CBO estimates that health reform will slightly reduce premiums for employer-sponsored health insurance in the near term. For employers with more than 50 workers, CBO estimates that the law will reduce average premiums by up to 3 percent in 2016, compared to where they would otherwise be. For small employers, the estimated change in premiums ranges from an increase of 1 percent to a reduction of 2 percent. For workers in firms that can benefit from the ACA's tax credit for small employers, the cost of insurance will drop by 8 to 11 percent.<sup>6</sup>

Claims that the health insurance tax in particular, or health reform in general, will kill jobs are unfounded. CBO foresees a small net reduction in labor supply, primarily because some people who now work mainly to obtain health insurance will choose to retire earlier or work somewhat less, not because employers will eliminate jobs.<sup>7</sup>

In conclusion, the health insurance tax forms part of a carefully thought-out structure to expand health insurance coverage and slow the growth of health care costs without adding to the budget deficit. Any effort to modify or repeal this tax must not undercut any of these critical objectives.

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<sup>4</sup> Peter Gosselin, "Despite Predictions, Health Insurers Prosper Under Overhaul," Bloomberg Government, January 4, 2012; Alex Nussbaum, "Aetna Raises Profit Forecast as Insurer Grows Enrollment," Bloomberg.com, April 30, 2013.

<sup>5</sup> Thomas A. Barthold, Letter to the Honorable Jon Kyl, May 12, 2011.

<sup>6</sup> Douglas W. Elmendorf, Letter to the Honorable Evan Bayh, November 30, 2009.

<sup>7</sup> Congressional Budget Office, "Box 2-1: Effects of Recent Health Care Legislation on Labor Markets," *The Budget and Economic Outlook: An Update*, August 2010, pp. 48-49.