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In the Spotlight: The ACA and Insurer Taxes

The Affordable Care Act (ACA) will transform America's health care system in many ways: it will dramatically expand health insurance access, alter the way providers are reimbursed, provide generous subsidies to help lower-income people afford coverage, enact numerous provisions that will make most benefits richer than today, and more. Many of these changes can be viewed as positives for consumers – ***but they will come at a cost***. One way the ACA finances that cost is through new fees on pharmaceutical manufacturers, medical equipment makers and other industries. This brief examines the impact of new fees on health insurers specifically.

Insurer Fees

Under the law, beginning in 2014 health insurers will be assessed new federal taxes in the form of an annual fee.[i] These aggregate fees were put in place to help subsidize the cost of the Affordable Care Act's many provisions. The ACA requires the health insurance industry to pay the amounts shown in the table below.

ACA Insurer Taxes

Year	Fee Paid by Insurers
2014	$8 billion
2015	$11.3 billion
2016	$11.3 billion
2017	$13.9 billion
2018*	$14.3 billion

**These aggregate insurer fees will increase by an indexed amount each year after 2018.*

The amount that each health insurer owes will be determined annually based on its "net premiums written" - its share of the U.S. insurance market. Put simply, as a given insurer's market-share rises, so too will its' portion of the new fee.

Insurance carriers will pass this additional cost through to customers, which will raise premiums. Importantly, these fees are not deductible for tax purposes, but the additional premiums needed to cover them *are* taxable. As a result, <u>health insurers will need to collect premiums greater than the fee in order to have sufficient funds to pay the taxes and the fee</u>. In May 2011, the Joint Committee on Taxation recognized this likely pass through effect, estimating that premiums would increase between 2.0 and 2.5 percent as a result of the insurer tax.[ii]

Impact on BCBSNC and our Customers

Due to its not-for-profit status, BCBSNC is often thought of as a non-taxable entity; however, we are a fully-taxed company, having incurred nearly $160 million in local, state and federal taxes in 2010 alone. New ACA insurer taxes will add considerably to that total. While it is impossible to perfectly predict BCBSNC's market-share years from now, we estimate that our share of the fee in 2014 will be approximately $68.5 million.

With a long-range profit margin of just 3.5 to 4.5 cents per dollar of revenue, which we depend on to fund investments necessary to improve our products and service, BCBSNC will have to pass along its share of the new ACA taxes in the form of higher premiums. Because the new fees are non-deductible, BCBSNC will have to use an estimated **$107.5 million of premiums in 2014** to cover the amount for which we are responsible. To generate that $107.5 million in new revenue, premiums for BCBSNC insured customers would increase by up to an additional 3.0 percent – or a few hundred dollars a year for a typical North Carolina family.[iii]

BCBSNC Views

No insurer gains when premiums must increase due to spiraling health care costs or administrative expenses, such as new taxes. Nor do North Carolina consumers gain. BCBSNC is dedicated to a comprehensive, three-year plan to reduce our own administrative costs by 20% or $200 million. The new tax would have the opposite effect. For these reasons, we support legislation to repeal the ACA's insurer tax. The small business community and others have expressed strong concern about the impact of the tax and also support its repeal.

[i] ACA fees will not be imposed on all insurance plans; exemptions exist for Medicare supplemental insurance, self-funded groups, long-term care insurance and others
[ii] Letter to Senator John Kyl from United States Congress, Joint Committee on Taxation, May 12, 2011
[iii] In this case, a "typical North Carolina family" consists of a husband, wife and 1.5 children