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In the Spotlight: ACA Taxes and Fees

The Congressional Budget Office estimates that by the year 2025, 36 million more people will have access to health insurance coverage in the United States. The estimate is based on expanded access to Medicaid and a subsidization of coverage for low- and middle-income individuals and families through Health Insurance Marketplaces (Marketplaces). While promoting better access to health care is something everyone can support, someone has to pay the tab. With this in mind, the Patient Protection and Affordable Care Act (ACA) contains several new taxes and fees – many that directly impact insurers. While a previous Spotlight addressed the insurer tax (commonly known as the Health Insurance Tax, or "HIT"), this Spotlight will give an overview of the other taxes and fees throughout the law.

Insurance Taxes and Fees

Health Insurer Tax Fee

Beginning in 2014, health insurers are assessed new federal taxes in the form of an annual fee. The ACA requires insurers to collectively 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.*

Each insurer's portion of the fee is determined annually based on its "net premiums written", or its share of the U.S. insurance market. Put simply, as an insurer's market-share rises, so too does its portion of the new fee. These fees are not deductible for tax purposes, but the additional premiums needed to cover them are taxable. As a result, health insurers will need to collect premiums greater than the fee in order to have sufficient funds to pay the taxes and the fee.

Reinsurance Fee

The reinsurance fee is a part of a complex risk assessment system put in place by the ACA. It is a temporary program (2014-2016) intended to help stabilize the premiums in the individual market. However, the majority of health plans, not just individual but also fully insured and self-insured plans, are responsible for funding the program through an assessment via their health insurer or third party administrator. The fees are collected based on a national uniform contribution rate (a flat fee per member for fully-insured and self-insured plans). The ACA dictates the aggregate amount of the assessment as $25 billion over the three years ($12b in 2014; $8b in 2015; and $5b in 2016). The annual fee per plan enrollee for 2014 was $63.00. The fee drops to $44.00 in 2015 and $27 in 2016.

Comparative Effectiveness Research Fee (PCORI)

The ACA established the Patient-Centered Outcomes Research Institute (PCORI), a nonprofit corporation charged with determining the effectiveness of various forms of medical treatment. The Comparative Effectiveness Research Fee (PCORI Fee) is another temporary fee (2012-2019) imposed on insurers and self-insured employers. PCORI fees are used to fund research on the effectiveness of medical treatments and prescription drugs. For fiscal year 2014, the PCORI fee was $2 per covered life and for fiscal year 2015 through 2019 the fee will be indexed to national health expenditures.

Individual Coverage Requirement

The ACA requires that most individuals have a comprehensive health insurance policy or pay a penalty. In 2014, the individual shared responsibility penalty was the greater of $95 or 1% of income annually. The penalty rises to the greater of $695 or 2.5% of income in 2016. For many, the penalty does not pose an issue because many individuals receive insurance through an employer or government programs like Medicare or Medicaid. Millions more benefit from generous federal subsidies to help pay for insurance. Exemptions to the penalty exist for financial hardship, for those with certain gaps in coverage, and for individuals who live in a state that did not expand Medicaid, among other reasons. Except for individuals who qualify for an exemption, those who are uninsured face a choice: carry health insurance or pay a penalty levied by the federal government.

Employer Shared Responsibility Requirement

To encourage employers to offer health insurance coverage, the ACA requires that applicable large employers offer employees coverage that meets certain affordability and minimum value requirements or pay a penalty. Large employers with 50 or more "full-time equivalent" employees may be eligible for this requirement. Full-time equivalents include all full-time employees (who work 30+ hours per week) and hours worked by part-time employees. Applicable employers must offer "affordable" coverage that meets minimum benefit and value requirements to most of their employees. Coverage is considered affordable if it consumes no more than 9.5% of an employees' income.

If applicable employers do not offer coverage to most of their employees, and at least one full-time employee receives a tax credit by enrolling in coverage through a Marketplace, the employer must pay a penalty of $2,000 per full-time employee (less a 30 or 80 employee reduction). If the employer offers coverage but at least one employee receives a tax credit in a Marketplace, that employer must also pay a penalty. Their penalty is the lesser of $2,000 times the total number of employees minus 30 (or 80 in 2015) or $3,000 times the number of employees receiving a credit. The penalty provisions apply to applicable employers beginning in 2015. Certain employers with fewer than 100 full-time equivalent employees are eligible for an extended delay of the penalty requirements until 2016.

High Cost Employer-Sponsored Coverage Excise Tax

Looking down the road in 2018, employers who offer health insurance coverage whose plan cost exceeds $10,200 for individuals and $27,500 for families will be taxed 40% on the value of their coverage above the defined dollar thresholds. For retirees and employees with high-risk jobs, the minimum threshold is increased to $11,850 for individuals and $30,950 for families. An employer will be responsible to pay the tax if they offer self-insured coverage, whereas the health insurer must pay for their fully-insured groups. The dollar limit for 2018 and annually thereafter will be adjusted for cost-of-living and other adjustments.

Marketplace User Fee

Although Marketplaces initially received federal grant support for planning and implementation, all Marketplaces must become financially self-sustaining. In federally-facilitated (or supported) Marketplaces, the federal government implemented a user fee, which is paid by insurers who sell plans on the federally-facilitated Marketplaces. The user fee was set at 3.5% of premium in 2014, and remains unchanged in 2015. The fee helps to fund the federal Marketplaces' operations. Currently 34 states are subject to the federal user fee and many other state-based Marketplaces have chosen to implement their own user fees.

Device Tax

Beginning January 1, 2013, a 2.3% excise tax on the sale of certain medical devices is imposed on medical device manufacturers or importers. The Congressional Budget Office has estimated that, over 10 years, the tax would amount to roughly $29.1 billion in revenue.

Pharmaceuticals

The ACA gradually closes the coverage gap in Medicare Part D plans – the gap in drug coverage during which Medicare beneficiaries must pay the full cost of their prescription drugs. Pharmaceutical industry impacts include:

- Pharmaceutical companies pay an annual fee based on their previous year's sales to government programs (such as Medicare, Medicaid, CHIP, and TRICARE). The fee totals $2.5 billion in 2011 and increases each year until 2018 when it will begin to decrease annually.
- Pharmaceutical companies subsidize 55% of brand name drugs in 2015 and Medicare beneficiaries are responsible for the remaining 45% for drugs in the coverage gap. The percentage covered by pharmaceutical companies will continue to increase until 2020 when companies will cover 75% of drug costs in the coverage gap and beneficiaries pay 25%. Similarly, Medicare beneficiaries pay 65% on generics in 2015, but the percentage will drop annually until costs drop to 25% in 2020.

BCBSNC Views

Blue Cross and Blue Shield of North Carolina continues to support access to quality health care for all North Carolinians. However, we recognize that increased coverage comes at a price. The taxes and fees required of insurers, individuals and employers from the ACA have begun to add up. Insurers try to limit exposure to individuals and employer groups to the extent possible, but must face hard decisions as they try to maintain a robust offer of benefits with provider networks that consumers want.