



Joint Economic Committee Republicans

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Unwinding Obamacare

Exploring the Democrats' 2,700-page, \$2.6 trillion takeover of health care

New Tax Could Boost Small Business Premiums an Extra \$1,000 a Year

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For decades, the small business community has been petitioning Congress for relief from the high and rising costs of the health benefits they provide to their workers. In 2008, presidential candidate Barack Obama promised that his health care reform plan would lower a typical family's health care premiums by \$2,500 a year.¹ But in November 2009, the Congressional Budget Office estimated that, if the Democrats' Patient Protection and Affordable Care Act (PPACA) were enacted, premiums in the group insurance market would keep rising by \$1,000 a year, as if the bill had not passed.² CBO's analysis, however, did not highlight the disproportionate upward pressure on premiums paid by workers in small businesses, thanks to a new and inequitable excise tax.

Higher Premiums

PPACA imposes a new tax on health insurers of \$8.1 billion annually beginning in 2014 and rising to \$14.3 billion by 2018 (and indexed for medical inflation thereafter).³ The Congressional Budget Office affirms the general consensus of economists that the new tax "would be largely passed through to consumers in the form of

higher premiums for private coverage."⁴

An October 2009 analysis, by the respected tax policy expert, Kenneth J. Kies, suggests the insurance tax could cost the typical family of four with employment-based coverage as much as \$1,000 a year in higher health premiums.⁵

Unfair Burden

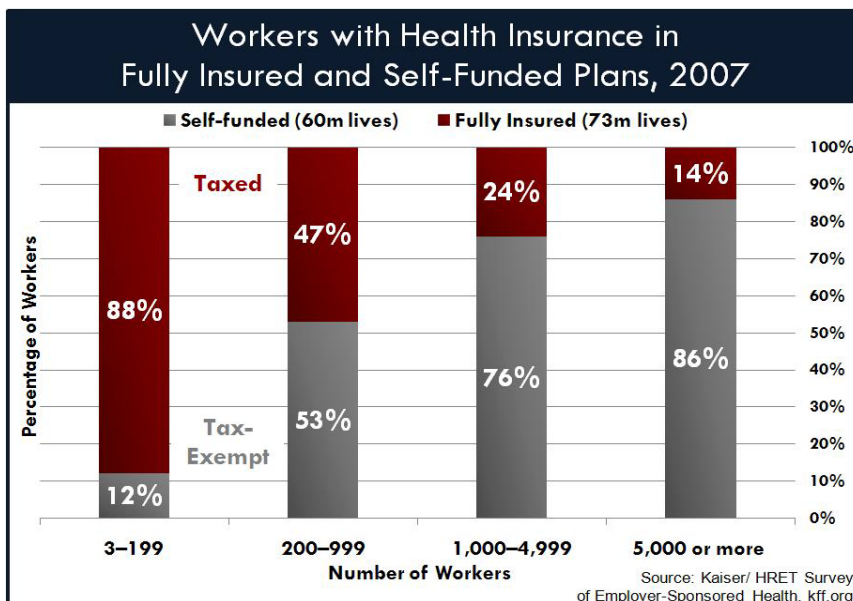
But the impact of the tax would not be equally shared across the board by those who ultimately pay it; rather, small businesses and their employees would bear a disproportionate burden. This is because the tax applies only to fully

Obamacare imposes a new \$14.3 billion a year tax on health insurers, effective in 2014, that:

- Will be mostly passed through to consumers in the form of higher premiums for private coverage.
- Could cost the typical family of four with job-based coverage an additional \$1,000 a year in higher premiums.
- Will fall largely, and inequitably, on small businesses and their employees.

"We have to pass the bill, so that you can find out what is in it."

—House Speaker Nancy Pelosi



insured health benefits coverage. Self-funded plans, which are the most common type of plan for employers with 200 or more employees, are exempt from the tax. Self-funded plans require the employer to retain the risk of insured employees, which is typically something small employers and the self-employed cannot afford to do because their risk pool is too small.⁶ As the chart on the reverse shows, 88% of workers in businesses with 3-199 employees are in fully insured plans and would be subject to the tax, while only 14% of workers in companies with 5,000 or more employees would be subject to it.⁷ Thus, the insurance tax is not only costly but also unfair to those workers who are employed disproportionately in small businesses.

What about Small Business Credits?

Some proponents of Obamacare may challenge the foregoing analysis on grounds that it does not take into account the new small employer health care tax credit that became available when the bill was enacted. This credit subsidizes a portion of the employer's premium contribution but is only available for a few years and only to very small firms with relatively low average wages.⁸ While the credit could potentially offset some of the ultimate premium burden placed on small businesses, its existence does not alter the economic effects of the insurance tax. That tax will tend to drive up overall premium costs, regardless of any government transfer payments attempting to make the burden less onerous.

Taxing Therapies

In addition to the new tax on insurers, PPACA also levies approximately \$5 billion a year in combined taxes and fees on manufacturers and importers of medical devices and brand-name prescription drugs. Since most such therapies are paid for through insurance, public as well as private, these new taxes too will ultimately be passed on to consumers in the form of higher medical costs and insurance premiums. They may also negatively affect medical research and innovation.

Conclusion

Far from reducing family health care premiums by \$2,500 a year, as promised by candidate Obama, the bill signed by President Obama contains a new tax that will paradoxically drive premiums upward—by as much as \$1,000 a year for a typical family of four with job-based coverage, separate and apart from the bill's other premium-increasing provisions. Unfairly, the costs of this new tax will be passed through to employees of small firms, the very firms that find it hardest to afford and offer coverage today.

¹ Sen. Barack Obama, "A Politics of Conscience," speech, Hartford, CT., 10/23/07.

² CBO found that premiums might drop slightly in the large group insurance market (50+ lives) by up to 3% and in the small group market (2-50 lives) by up to 2% in 2016, compared with where they might have been without PPACA. For the nongroup market, CBO found a 10-13% increase. CBO, letter to Sen. Evan Bayh, 11/30/09; attachment, p. 5, table 1.

³ § 9010 of PPACA. Tax is based on net premiums written. Each year, each health insurance company is to pay a share of a total amount specified in the law, equal to the company's share of the market. Tax is not deductible as a business expense. Joint Committee on Taxation, JCX-18-10, 3/21/10. The yearly amounts total \$73b over 2014-19, but JCT estimates only \$60.1b will actually be collected. JCT, JCX-17-10, 3/20/10.

⁴ CBO, op. cit., pp. 15-16.

⁵ Kenneth J. Kies, Federal Policy Group, "Study on \$6.7 billion Annual Insurer Fee," 10/15/09, www.fpgdc.com. See also *New York Post*, "Insure fee-hike alert: Tax will wallop families," by Carl Campanile, 10/16/09. Kies's actual figure was \$500 a year, but was based on an early version of the tax that raised only half the amount of the one enacted: \$6.1b a year (JCT, JCX-36-09, 9/22/09) versus \$12.1b (JCX-17-10, 3/20/10).

⁶ National Federation of Independent Business, "The 'Health Insurance Fee': A Tax on Small Business and the Self-Employed," www.nfib.com (accessed 4/9/10).

⁷ Employee Benefits Research Inst., EBRI Fast Facts 114, 2/11/09. Of the 132.8m persons covered in 2006 by employer health benefits under ERISA, 55% (73m) were in fully insured plans, 45% (60m) were in self-funded plans. EBRI Issue Brief 10/07.

⁸ § 1421 of PPACA establishes a small business tax credit. The full credit is available to firms with fewer than 10 employees and whose workers' average annual wages do not exceed \$25,000; partial credits are available on a sliding scale for firms up to 25 workers and wages up to \$50,000. The credit is not available to sole proprietorships. In 2010-13, the credit equals 35% of the employer's contribution toward the employee's health insurance premium, if the employer contributes at least 50% of the total premium cost or 50% of a benchmark premium. After 2013, the credit amount rises to 50%, but becomes available only for coverage purchased through a health benefits exchange and for no more than two consecutive years. JCT, JCX-18-10, 3/21/10.