

Will the Affordable Care Act Live Up to Its Name?

By Janet Trautwein

Insurance plans won't go on sale in the new insurance exchanges established by the federal healthcare reform law for several more months. But some major health insurers are already forecasting substantially higher premiums.

Some individuals could see their premiums more than double, according to a private briefing conducted earlier this year by one of the nation's largest insurers. Small businesses could face increases of 25 to 50 percent.¹

One big reason for the premium hikes is a new tax on health insurers that takes effect next year. If the federal health reform law is to live up to its official name -- the Patient Protection and Affordable Care Act -- the health insurance tax will have to go.

Starting next year, health insurers must pay \$8 billion in "fees." Their annual tax bill rises to \$11.3 billion in 2015 and 2016, to \$13.9 billion in 2017, and then to \$14.3 billion in 2018. Thereafter, it tracks the growth of premiums. Over the course of a decade, the tax take will total about \$100 billion, according to the Joint Committee on Taxation.²

Federal officials plan to use that revenue to expand access to and subsidize coverage. But the tax won't improve the functionality of the insurance marketplace -- or discourage costly, unhealthy behavior like smoking. Rather, the tax will simply exacerbate the upward swing of premiums that has been going on for years.

Over the last five years, plan prices have risen between 7 and 8 percent annually. Between 2002 and 2012, the average cost of a family plan rose from about \$9,200 to about \$20,000.³

The new health insurance tax -- all by itself -- will increase premiums an additional 1.9 to 2.3 percent next year, according to a recent study from Oliver Wyman, a consultancy firm. By 2023, the tax will have increased premiums by 2.8 to 3.7 percent.

That translates to thousands of dollars' worth of premium hikes.

In the individual market, premiums for individual coverage are projected to rise by \$2,150 on average. Family policies in this market will rise by more than \$5,000.⁴

Small businesses will have it even worse. Over a 10-year period, the tax will raise the cost of insuring an individual in the small group market by \$2,800. The additional cost to insure a family will be about \$6,800.⁵

¹ <http://online.wsj.com/article/SB10001424127887324557804578374761054496682.html>

² <http://ahip.org/Issues/Premium-Tax.aspx>

³ <http://money.cnn.com/2012/03/29/pf/healthcare-costs/index.htm>

⁴ <http://ahip.org/Issues/Premium-Tax.aspx>

⁵ <http://ahip.org/Issues/Premium-Tax.aspx>

Those tax-fueled premium hikes may force some small businesses to quit offering health insurance to their employees simply because they can't afford it.

The health insurance tax will even affect seniors. Medicare Advantage premiums are set to go up by \$20 next year, and by \$32 to \$42 a month in 2023.⁶

These premium hikes shouldn't be surprising. The Congressional Budget Office predicted back in 2009 that the cost of the health insurance tax "would be largely passed through to consumers in the form of higher premiums for private coverage."⁷

Some states will bear the burden of the tax more than others. New York's individual market will be hit hardest. Oliver Wyman estimates the ten-year impact per family in the Empire State at \$9,942.⁸

Small employers in West Virginia will see hikes bigger than their peers elsewhere -- more than \$9,200 through 2023.⁹

Seniors covered by Medicare Advantage in New Jersey will face the steepest cost increases -- \$4,182 over the decade. Florida's Medicare Advantage population is right behind, with a ten-year cost impact that's just one dollar less.¹⁰

And by making insurance more expensive, the tax actually increases the cost of health reform to the federal government. After all, the feds will subsidize the purchase of insurance by anyone who makes less than four times the federal poverty level -- up to \$94,200 for a family of four. The higher the cost of coverage, the more the government will have to spend on subsidies.

The health insurance tax undermines the federal government's quest to make healthcare more affordable. If lawmakers hope to achieve their goal of 14 million newly covered individuals in 2014, they must make bring the cost of coverage down.¹¹ Repealing the health insurance tax would represent a good start.

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⁶ <http://ahip.org/Issues/Premium-Tax.aspx>

⁷ <http://www.ahipcoverage.com/2011/11/02/new-technical-analysis-of-impact-of-premium-tax/>

⁸ <http://www.ahipcoverage.com/wp-content/uploads/2012/12/charts.jpg>

⁹ <http://www.ahipcoverage.com/wp-content/uploads/2012/12/charts.jpg>

¹⁰ <http://www.ahipcoverage.com/wp-content/uploads/2012/12/charts.jpg>

¹¹ <http://www.cbo.gov/sites/default/files/cbofiles/attachments/43472-07-24-2012-CoverageEstimates.pdf>