

Health Care Reform

New Insurer Fees Will Increase the Cost of Health Insurance

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The stated goal of health reform is to lower runaway medical costs so every American can afford quality health care. Unfortunately, some proposals before Congress will not lower the cost of health insurance. Instead, these proposals will have just the opposite effect — rapidly and permanently escalating the cost of health insurance for all Americans.

Senate Bill H.R. 3590, “Patient Protection and Affordable Care Act,” currently includes a \$6.7 billion annual health insurance provider tax beginning in 2010. Several filed amendments propose to further increase these fees.

Won’t insurance companies be able to absorb the new fees?

While some policymakers believe that insurance companies can absorb these fees, health insurers will have no choice but to pass them along to customers. The new fees will increase the effective tax rates on insurers to significantly higher than the current top 35 percent marginal corporate tax rate.

Increasing effective tax rates for health insurers, which in some cases could exceed 100 percent, would result in diminishing reserves that would fall below state solvency requirements. To ensure solvency, insurance companies have no choice but to pass these new fees along to consumers in the form of higher premiums.

How much more premium will average Americans pay?

These new fees are estimated to increase premiums as much as \$500 per year for an average family, beginning in 2010. The fees would go into effect immediately, before other aspects of health care reform are implemented.

According to the Joint Tax Committee staff, premium increases for individuals and small employers are likely to continue growing as an increasing number of large employers resort to self-funding to avoid paying higher premiums associated with the new insurer fees. As large employers leave the insurance market, there will be fewer and fewer policyholders to shoulder the burden. Individuals and small businesses will feel the greatest impact because they do not have an option to self-fund.

The goal of health reform is to lower the cost of health care and health insurance for all Americans. Congress should avoid imposing any new fees on health insurance companies that will only increase the cost of health insurance for all.