

THE HEALTH INSURANCE FEE: IMPACT ON SMALL BUSINESSES

HEARING BEFORE THE SUBCOMMITTEE ON HEALTH AND TECHNOLOGY OF THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED THIRTEENTH CONGRESS FIRST SESSION

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THE HEALTH INSURANCE FEE: IMPACT ON SMALL BUSINESSES

THURSDAY, MAY 9, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON HEALTH AND TECHNOLOGY,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Chris Collins [chairman of the subcommittee] presiding.

Present: Representatives Collins, Luetkemeyer, Huelskamp, Hahn, Schneider and Matheson.

Chairman COLLINS. Good morning. I call this meeting to order.

We are joined today by our colleague, Congressman Jim Matheson from Utah, who will introduce one of our witnesses. Mr. Matheson is a lead sponsor with Congressman Charles Boustany of Louisiana of the House bill to repeal the health insurance providers' fee. As of this week, I believe that bill has over 150 co-sponsors, and I am proud to be amongst them. Thank you for your leadership, Mr. Matheson.

I want to welcome all of our witnesses. We look forward to your testimony. Special thanks to Dean Norton, president of the New York Farm Bureau from Elba, New York, which I am honored to represent.

Today we meet to examine the Health Care Law's new annual fee on health insurance, which was included as a way to finance the health care Law. Beginning in 2014, the law assesses a fee on health insurance providers, which across the industry totals \$8 billion and increases to \$14.3 billion in 2018, and will continue to increase every year thereafter. The nonpartisan Joint Committee on Taxation estimates the fee will exceed \$100 billion over the next 10 years. Both the Joint Committee on Taxation and the Congressional Budget Office said they expect a very large portion of this fee to be passed through to the purchasers of insurance in the form of higher premiums, driving up the cost of insurance for families in all regions and small businesses in all sectors.

Why is this a problem for small business? The health care Law exempts self-funded plans from the fee, but it applies to fully-funded ones. Small business owners typically do not have a large enough pool to self-insure, so they face the higher premiums in a fully-funded group plan, precisely the plans to which this tax applies. Of course, small business owners with more than 50 full-time equivalent employees do have the choice not to offer coverage, but then they pay the \$2,000 per employee employer mandate penalty.

In fact, a March 2013 study released by the National Federation of Independent Business Research Foundation estimates the fee will raise the cost of employer-sponsored insurance by 2 to 3 percent in 2014, imposing a cost of nearly \$2,000 per family by 2020. The study also predicts that the price increases caused by the fee will reduce private sector employment by up to 262,000 jobs by 2020, with the majority of the losses falling in the small business sector.

We are pleased to have a witness from the NFIB here today to discuss the study's findings in greater detail. We will also hear from small business owners about the burden of the fee. The Joint Committee on Taxation has said this fee is essentially an excise tax based on the sale price of health insurance, so it will not be tax deductible. The Joint Committee estimated that repealing the fee would have the effect of stopping the 2 to 2-1/2 percent increase per year and eliminating the fee could reduce the average family premium in 2016 by \$350 to \$400, which represents the increase that would otherwise occur.

To put this issue in context, we note that according to the U.S. Chamber of Commerce Quarterly Small Business Survey, the numerous requirements of the Health Care Law are now the biggest concern for U.S. small businesses, bumping economic uncertainty from the top spot after two years. These are the small businesses, our nation's best job creators, that we are relying on to bring our still anemic economy back. They are the same small businesses whom we are asking to shoulder more and more mandates, taxes, regulations, and cost increases.

Again, I want to thank our witnesses for being here today. I now yield to Ranking Member Hahn for her opening statement.

Ms. HAHN. Thank you, Mr. Chairman.

So before we deep dive into examining the possible impacts of this one part of the Health Care Law, it is important that we step back and I think remember that the Affordable Care Act has done a lot to make health insurance more affordable, more dependable, and more meaningful for American families and businesses. Under the Affordable Care Act, children can no longer be denied coverage because of a preexisting condition. Parents can keep their son or daughter on their insurance until age 26. Insurance companies are forbidden from canceling a policy for someone who has gotten sick or been hurt just because they had a typo on a form a decade ago. If an insurance company spends too much of the money it is paid on things that are not about quality health care, it has to refund its customers. The ACA empowers small businesses in the health insurance market through the exchange and offers significant tax credits to support health insurance for some of the smaller small businesses. Millions of Americans are already feeling the positive benefits of the Affordable Care Act in their health and their pocket-books.

Now, of course, I think there are ways that we can improve this law. I, for one, think we might have to do something to bring these hospital chargemaster list prices into the light of day, but as we move towards the implementation of some of the biggest components of ACA next year, there may well be some things we need to do to adjust and correct issues that come along.

Today we are examining how one component of the law, the tax on health insurance companies, may have an undesirable impact on consumers, including small businesses, in the form of increased premiums. As we examine the problems this fixed fee could impose, it is important to understand the origins of the provision. It was meant to raise \$90 billion from insurance companies, not their customers. With the insurance mandate poised to deliver millions of new customers to insurance companies, it would seem fair to ask the insurance companies to pony up some of the cost of the law that was going to give them so many more millions in customers.

However, these companies threaten to recoup the fee from consumers through increased premiums rather than absorb the fee themselves. Because higher premiums present a real risk to small employers and their ability to invest and grow, I am glad we are investigating this issue. We are looking for feedback to see how likely increased premiums are due solely to this section in the Affordable Care Act and what they would mean for our businesses. But at the same time we must recognize the difficulty presented in our task due to the number of major insurance market reforms that also become effective next year. These consumer protections in conjunction with exchanges, are expected to alleviate the continued rise in premiums over time. Market forces will have a major impact on how insurance providers react to being assessed a premium tax, while also being tasked with implementing other insurance reforms. Accordingly, this hearing will not only explore the burdens of higher premiums but also how the Health Insurance Tax will interact with other provisions contained in the ACA like the medical loss ratio and rate review panels.

Just as with any other legislation that brings major changes, there has been much speculation about the positive and negative effects the ACA will have, particularly on our small businesses. For this reason it is important that we consider all aspects of the Health Insurance Tax before acting prematurely to eliminate it entirely. At a time when we are facing budgetary burdens, we must work to come up with a realistic remedy. The unintended consequences of a health insurance tax on small employers could affect their ability to provide affordable health insurance while also growing their business.

This hearing serves as a starting point to examine this issue and start a dialogue so we can address it immediately.

I want to thank all the witnesses for being here today. I look forward to your comments, and I yield back, Mr. Chairman.

Chairman COLLINS. Thank you Ranking Member Hahn.

We are going to have votes probably at 10:30, 10:35. I think we are going to have plenty of time to get through the opening statements of our four witnesses at which time we will have to adjourn until after votes and then we will come back at that point in time and continue. So I just wanted to make that clear.

Also, to explain the timing lights to our witnesses in front of you, you each have five minutes to deliver your testimony. The light will start out as a green light and with one minute remaining the light will turn yellow. And finally, it will turn red at the end of your five minutes. And if you could try to keep your time within that we

would appreciate that especially with our voting schedule coming up.

Our first witness is William Dennis, Jr., who is a senior research fellow with the NFIB Research Foundation in Washington, D.C. I referred to some of the studies and reports in my opening comments. Mr. Dennis has directed the NFIB Research Foundation since 1976. Welcome, Mr. Dennis. You have five minutes to present your opening testimony.

STATEMENTS OF WILLIAM DENNIS, JR., SENIOR RESEARCH FELLOW, NFIB RESEARCH FOUNDATION; RYAN P. THORN, RYAN P. THORN INSURANCE PLANNING; PAUL VAN DE WATER, SENIOR FELLOW, CENTER ON BUDGET AND POLICY PRIORITIES; DEAN NORTON, PRESIDENT, NEW YORK FARM BUREAU

STATEMENT OF WILLIAM DENNIS, JR.

Mr. DENNIS. Thank you very much, Mr. Chairman.

I am accompanied today by Michael Chow, who is a senior policy analyst with us who actually did the assimilation itself, so if we get too deep in the weeds I have my technical expert with me.

I also am going to strike some of my initial comments since you very well described what we are talking about here and that kind of thing. But let me just summarize what the health insurance premium tax is. It has four characteristics. It is large, it is highly inequitable, it is nontransparent, and it cascades. And so in effect what it does is raises the costs for smaller businesses, it worsens our competitive position, and ultimately it gives those small business owners without health insurance another reason for not providing it to their employees.

The simulation which we have attempts to determine the economic impact. We used a BSIM module of something called a REMI model. Now, the REMI model is a very standard common model used by many folks. To give an example, we not only use it but the AARP, NEA does. MIT has been a client for a while. University of Michigan. The Democratic Policy on the Senate side has been, so it is a generally well recognized model.

As we proceeded with it there are lots of moving parts when you try and estimate things like this, and what we attempted to do with these moving parts is to, as much as possible, be conservative in their use. By conservative in this case I simply mean that we try to minimize any potential extremities that would and use conservative assumptions. For example, we assume that there would be constant employer offerings, that they would not change. That is an arguable thing but that seems to be the most reasonable thing we have. And there are other similar types of things such as the constant distribution of insurance types—same number of family policies, same number of individual policies, plus one policies, and so forth.

An initial question was what will the tax rate actually be since it was not initially put into the law as any particular rate, and we did not feel we had the expertise so we relied on two sources to come up with our estimates. We used the Joint Tax Committee and we used Doug Holtz-Eakin's estimate. And, of course, he is the

former chairman of the Congressional Budget Office. I will get that right yet. And so we used 2.5 and 3 percent and simulated both of those. We also used different rates of premium inflation because that is a matter of dispute. No one knows quite what that is going to be as time goes on. Some are arguing it will be relatively low. Some are arguing it will be relatively high. So we use basically 5 percent annual increase to 10 percent annual increase with increments in between.

These results yielded a total estimate of 146,000 to 262,000 lost jobs, 59 percent of which would be in small business. It is also a cumulative loss of up to \$184 billion in lost output. So it is a significant impact. Some would argue it could be bigger but it certainly is bigger, and the number that I have just given you include all the feedback that comes from the reinvestment of the money. So in effect, we have also included not only the jobs lost but the jobs that would be gained through health and things of that nature.

So in sum, what we are doing is we are collecting and spending \$100 billion of a highly inequitable tax to yield essentially a quarter of a million lost jobs and, what, \$175 billion to \$200 billion in lost GDP over a decade.

Thank you, Mr. Chairman. I would be happy to answer any questions you may have.

Chairman COLLINS. Thank you, Mr. Dennis.

At this point I would like to yield to Representative Matheson, who will introduce our next witness.

Mr. MATHESON. Well, thank you, Chairman Collins. Thank you for holding this hearing. It is particularly important for small business because, as you know, this premium tax applies to fully-insured plans. It does not apply to self-insured, which are more large corporations. So I am glad I am holding this hearing, and you mentioned my role with Mr. Boustany on the legislation to repeal this particular tax. My purpose in being here today is to introduce a good friend and a constituent of mine, and someone whose family has known mine for a number of years. Ryan Thorn is a health underwriter from South Jordan, Utah. And there he has serviced Utah small employers for over 30 years, and he is a small business owner himself. He served in various capacities with the National Association of Health Underwriters and he is currently a vice president of that organization. It is fair to say that Ryan has a great understanding of the small business marketplace and the mechanisms at play that affect business costs, and I think his testimony and answers should be very important for this committee to hear as this is someone who is balancing the books for his own small business and he is also providing health insurance and consultation to other small businesses as well. I have always found him to be a very forthright individual who has provided me with good information over the years to help me understand the issues. I am pleased he is here today to testify before this Committee. And I will yield back my time.

Chairman COLLINS. Mr. Thorn, if you could deliver your opening remarks.

STATEMENT OF RYAN P. THORN

Mr. THORN. Thank you, and good morning.

My name is Ryan Thorn. As mentioned, I do own an insurance agency in South Jordan, Utah. I am self-employed with one part-time employee. I am here on behalf of the National Association of Health Underwriters or NAHU.

I have been involved with NAHU since 1993 and currently serve on the national board. I help my clients purchase health insurance coverage and service their benefits all year long. Almost all of my clients are self-employed or have less than 25 employees.

I would like to thank the House Small Business Committee for inviting me here today and for my congressman representative Jim Matheson, and also my senator, Orrin Hatch as they have both sponsored bills to repeal the annual fee on health insurance premiums included in this law which will have serious financial consequences for Utah businesses and consumers. While technically paid by the carriers that issue individual and fully-insured coverage from 2014 on, Utah insurers have confirmed back to me that the tax will be passed down to consumers. The direct impact on premiums will be staggering.

I have included Utah's data in my written testimony to each of you, but in short, it averages out to be about \$500 per year for families and \$200 a year for individuals. It disproportionately hits individuals and small business owners, the people who have been hurt most by these challenging times, and this tax never goes away.

Among my clients, the cost of health insurance is a huge concern. In preparation for today, I contacted several of them to share their thoughts. One longtime client wrote, "We have always tried to take care of our employees but it is becoming impossible at this rate." Another explained, "We currently pay 75 percent of insurance premiums for all of our employees and their families. We have historically provided this degree of benefits because of our strong commitment to our most valuable asset, our employees. Frankly, ObamaCare's multiple hidden taxes, such as the HIT, scares the daylights out of us and threatens not only our ability to provide adequate insurance coverage for our employees and families but also the very existence of our company."

The bottom line, the ACA and its national health insurance sales tax is causing tremendous anxiety for American employees. One of my clients said, "Freedom brings happiness. I just do not find happiness anymore from what the government is doing to me."

This tax has no purpose but to increase federal revenues. It does not make the markets work better or target poor behavior choice, such as smoking. It is a huge expense for individuals and small businesses, larger than the device and pharmaceutical taxes combined.

The members of NIHU and I believe it is inherently unfair to finance health care reform by taxing people who are doing the right thing by buying private coverage. I have made my living for nearly 30 years helping people buy private health insurance, so I know when prices go up people buy less or simply forego coverage altogether. I am afraid this tax and other cost drivers will incentivize the younger and healthier people not to buy coverage until they

need medical care. The resulting adverse selection will make the cost of health insurance even higher for everyone.

The impact of jobs will be huge. Another client said, "The activation of this law and tax will likely prevent me from hiring new employees." Besides not hiring, employers will change jobs from full-time to part-time status since most part-timers are not offered benefits. Of course, this is to the detriment of the employees whose hours will be cut. We are simply going in the wrong direction.

Finally, on a personal note, my wife Robin, and I spend just under \$500 a month on our \$4,000 deductible family HAS policy, which is a significant expense. Due to other ACA pricing changes, premiums will be going up an average of 28 percent next year for Utah families like mine. That is on top of the HIT tax and other fees. Factor in the law's MLR requirements, which by the way decreased my personal business income by 30 percent. It is hard to call this law the Affordable Care Act, at least in the Thorn family.

I consider it an honor to have been invited to share these thoughts with Congress today and the impact this HIT tax will have on small businesses and individuals. Thank you very much.

Chairman COLLINS. Thank you, Mr. Thorn.

I would now like to yield to Ranking Member Hahn for the introduction of our next witness.

Ms. HAHN. Thank you, Mr. Chairman.

It is my pleasure to now introduce Mr. Paul Van de Water. Mr. Van de Water is a senior fellow at the Center on Budget and Policy Priorities where he specializes in Medicare, Social Security, and health coverage issues. Previously, he worked at the Congressional Budget Office for over 18 years. Welcome, Mr. Van de Water.

STATEMENT OF PAUL VAN DE WATER

Mr. VAN DE WATER. Thank you, Ms. Hahn, for that kind introduction. And Mr. Chairman, I am pleased to be here with all of you this morning.

The Affordable Care Act will extend health insurance coverage to 27 million people and help ensure that Americans have access to affordable coverage. And it will do so in a fiscally responsible way. In fact, the congressional budget estimates that health reform will reduce the deficit modestly in its first 10 years but substantially in the following decade.

To pay for this expansion of health coverage, the ACA levies taxes on or reduces Medicare payments to businesses and industries that will directly benefit from health reform. The fee on health insurance providers, also known as the Health Insurance Tax falls into this category. The fee does not apply to large employers that self-insure, those that pay the cost of their own employees rather than purchase insurance in the commercial market. This is reasonable since most large employers already offer health insurance and will be largely unaffected by health reform.

As with any excise tax, supply and demand will determine how the tax's burden is ultimately split between providers and purchasers. Insurance companies have recently turned in very strong financial results and thus are well positioned to bear some of the tax, but a portion of the tax is likely to be passed on to consumers. The Joint Committee on Taxation, as I think another witness has

mentioned, estimates the premium subject to the fee will be 2 to 2-1/2 percent higher than they otherwise would be.

But that is only part of the story. As Congresswoman Hahn mentioned in her opening statement, health reform also contains many provisions that will slow the growth of premiums. The new health insurance exchanges will increase competition among plans and create economies of scale. Standardization of benefits and prohibition of medical underwriting will reduce administrative costs. The individual mandate will help bring more healthy young workers into the insurance pool. Premium increases of 10 percent or more are subject to state or federal review, and insurers must provide rebates to their customers if they spent less than 80 percent of premiums on medical care. The ACA also includes a large number of initiatives to identify and implement more efficient ways of delivering medical care services.

All things considered, the Congressional Budget Office estimates that health reform will slightly reduce premiums for employer sponsored health insurance in the near term. For employers with more than 5 workers, CBO estimates that the law will reduce average premiums by up to 3 percent in 2016 compared to what they otherwise would be. For small employers, the estimated change in premiums ranges from an increase of 1 percent to a reduction of 2 percent. And for workers and firms that can benefit from the ACA's tax credit for small employers the cost of insurance will drop by 8 to 11 percent.

Now, claims that the Health Insurance Tax in particular or health reform in general will kill jobs are unfounded. The Congressional Budget Office foresees only a small net reduction in labor supply, primarily because some people who now work mainly to obtain health insurance will choose to retire earlier or work somewhat less, not because employers will eliminate jobs. And if you would like in questioning I would be happy to indicate why I think the problems are with the study from the NFIB.

In conclusion, the Health Insurance Tax forms part of a carefully thought out structure to expand health insurance coverage and slow the growth of health care costs without adding to the budget deficit. Any effort to modify or repeal this tax must not undercut any of these three crucial objectives.

Thank you, Mr. Chairman.

Chairman COLLINS. Thank you, Dr. Van de Water.

Our final witness is Dean Norton, who is president of the New York Farm Bureau. Mr. Norton is a senior agricultural consultant with Freed Maxick and Battaglia, a local CPA firm in the Buffalo, New York-Western New York area. He is a constituent of New York's 27th Congressional District, which I am honored to represent, and his family owns a dairy farm in Elba, New York. He is testifying today on behalf of the New York Farm Bureau.

Welcome, Mr. Norton. You have five minutes to present your testimony.

STATEMENT OF DEAN NORTON

Mr. NORTON. Thank you, Mr. Chairman.

I appreciate the opportunity to appear before you today on what is a serious concern for my farm, my neighbors' farms, and those

all across this great country. The HIT tax ultimately will hit me and my employees and our wallets and shrink the health care coverage my family's farm is able to provide.

I am the fifth generation of Nortons to farm on the same plot of land in Elba, New York, dating back to 1906 and my Great Great Grandfather Bloon. Oak Orchard Dairy encompasses 1,000 acres of cropland and we milk about 900 cows a day. We also have a custom trucking operation for forage and commodity harvesting, and my wife Melanie and I operate DMCK Cattle Company, which leases cows back to neighboring dairies. In addition, it has been my privilege, as has been mentioned, to serve as the president of the New York Farm Bureau for the last four years, and I also serve on the American Farm Bureau Board of Directors.

A recent Congressional Budget Office report confirms that the HIT tax would be largely passed through to the consumers in the form of higher premiums for private coverage. My family's farm and countless other small businesses will bear the brunt as consumers. Small businesses are the backbone of the American economy. Farmers are small businesses, and many of us offer health care coverage for our employees. Most farmers and other small businesses do not self-insure because we do not have a large enough pool of employees. Instead, small family farms, like myself, purchase health insurance on the fully-insured market which the HIT tax is levied on. And that is why we are going to feel the full force of the HIT tax as the health insurers pass on the cost to family farms. It is expected to cost, as has been mentioned, \$100 billion over the next 10 years. That translates to \$400 more per family per year. That is a hit that many families cannot afford. You are talking about money that could buy a month's worth of groceries. And do not forget, those of us in rural areas already pay a disproportionate share of health care costs than those who live in urban areas.

Keep in mind these costs are only going to make it tougher for our farm to operate. Dairy farming by nature is highly unpredictable. We have no control over the price of milk, which varies greatly from year to year. Also, the price of feed for our cows and fuel has been rising rapidly, as have the farm's health costs. Health care costs for small businesses have doubled since 2000. Imagine trying to budget with all those uncertainties every year.

In order to keep up with the rising expenses of employer provided health insurance, we have been forced to trim costs. It was necessary for the farm to significantly change the cost structure of our insurance plan. We have turned to a highly deductible policy that only covers 50 percent of the insurance costs at this time. We used to cover 90 percent. In turn, our employees now have to contribute a larger portion of their income when they seek medical attention. I think we could all agree that this could be a disincentive for people to seek care in some instances. To compound the problem, we now only cover half of our employees than we once did, and keep in mind this was all before the HIT tax. Now we have to re-evaluate our health insurance coverage again.

Do we want to offer less health care coverage? Absolutely not. Health insurance is a benefit that we need to attract high quality, dependable workers. Milking cows is a 7 day a week business, 365

days a year. Without our hardworking employees we would have no family farm.

For our trucking business, it runs through our very short harvest season where missing out on a single day can be the difference between profit and loss. It is very important we are able to offer reasonable health insurance if we are to obtain the workers we need to stay in business. Just as important, it is good for our employees, their families, and our communities that we keep them healthy. The HIT tax will hurt the very people that it was intended to help. It means that it will be harder to afford health care for my family, my employees, and for farms across this country.

In conclusion, I would encourage all members of the House Small Business Committee to be sponsors of the bipartisan bill HR 763, introduced by Representative Boustany from Louisiana and Representative Matheson from Utah. This bill will repeal the annual fee on health insurance providers that was enacted by the Affordable Care Act.

I appreciate the opportunity to share my story, and I look forward to your questions.

Chairman COLLINS. Thank you, Mr. Norton.

We will start the questions as we watch the clock to see when we may be called out to vote. I think from hearing the opening testimony, a good opening debate comment might be concerning whether or not insurance companies will in fact attract so many more customers if their profits will skyrocket to the point they do not have to pass much of any of this tax onto the consumers. I understand and paraphrase Dr. Van de Water's comments that this was one of the reasons that this tax is levied on the product offerings that most small businesses offer because, in fact, they will get so many new customers, they will make money, and they will be able to absorb a large part of this.

So maybe I would ask each of you to comment, because I know my own observations are—especially concerning the young and the healthy now that the companies cannot charge more than 9-1/2 percent of their W-2 wages, and Mr. Thorn, you might comment on the fact there is no longer just a pure single policy. Those policies have to include the dependents of the families. We used to have single family; now we have got single plus dependents, which is a more costly policy, and then the spouse will come on board. So you might speak to that.

My concern is just the opposite. There will be fewer and fewer policies. The young and the healthy will, in fact, understand that they can drop health insurance all together because there is no penalty for preexisting conditions. Why would they have health insurance at all? And also, companies are likely, as I talk to them, take employees, drop them to part-time so they will not get insurance which certainly will mean fewer policies. Then lastly, the cost of a penalty at \$2,000 is less than most companies pay for insurance and you might see a significant number of companies dropping health insurance, which actually would reduce the number of customers, not increase them as Dr. Van de Water testified.

All four of you in good open debate, that is why we are here. If you can comment on some of those. Start with Mr. Dennis.

Mr. DENNIS. First of all, I think a lot of us are operating on a good deal of speculation quite frankly because what we have seen as time goes on is we keep asking small business people what they are going to do, so on and so forth. A lot of them really do not know what is going on. But those that we engage and talk to tell us indeed that of those that do not have it, they are less likely to have it. Those that do are casting about for ways to get out from underneath a lot of this. Most of them do not want to get rid of their health insurance, but I think over the longer period, come push to shove it is our judgment that in all probability will decline. How much? I do not know.

Chairman COLLINS. Thank you, Mr. Dennis.

Mr. Thorn, as someone who is selling these policies, we would be interested in your comments.

Mr. THORN. It is interesting as I meet with clients every day and the underlying concern is the uncertainty as was just mentioned. They are literally scared to death as to the unknown. They are trying to do the right thing for their employees but they are looking at this huge expense growing with margins are already so thin. Bring on another 500 bucks HIT tax. Sure, I would love to. It just is not going to happen. And I think part of the problem, and as I talk to the carriers in my state anyway, they did indicate it will be passed on to the consumer, to the small employer owner. And so I think we have a trickledown effect. So if that tax is passed down to the consumer and all of a sudden we have got more people opting out because I cannot afford this anymore; that 500 bucks just put me over the edge, you are going to have less revenues coming in to the insurance carriers. So that is going to be a trickle down problem.

I also see from my own experience you have got a lot of small businesses who are looking at cutting hours, the opposite of what they really want to do. And instead of being able to support a full-time family and give them a good, decent wage, in order to fit their own budgets they are going to have to cut their own hours down. So that is going in the wrong direction as well.

Chairman COLLINS. I share the concerns.

Dr. Van de water, if you could comment.

Mr. VAN DE WATER. Certainly. As I said, Mr. Chairman, I think there does seem to be a consensus among economic analysts that at least some of this tax will end up being passed forward to consumers. The Joint Committee on Taxation, whom I cited, which is Congress's nonpartisan staff agency, has estimated an increase of about 2 to 2-1/2 percent in premiums if one were to look at the effect of this tax by itself. So that I think we can take pretty much as a given. But the point is there is a whole heck of a lot of stuff going on as well.

I was really taken by Mr. Norton's comment that his insurance costs had doubled I think you said over the past 10 years or so. That is a huge increase. In relation to that, a 2 percent tax is pretty small and can easily be swamped by these other factors in the Affordable Care Act that I mentioned and that Ms. Hahn referred to.

As far as whether insurance companies are going to get more business, I think there is virtually no doubt that they are going to

get substantially more business, again relying on Congressional Budget Office estimates you see huge increases. And again, knowing I was going to have a fellow witness from New York. I just came across a study yesterday from the state of New York about the growth of the small group and the nongroup market in New York, and this was done by I think the consulting firm of Deloitte. They estimate a huge increase in nongroup insurance in New York of over tenfold and a modest increase, but an increase nonetheless, in small group coverage. So again, I think that the consensus there is overall there will be a very substantial increase in insurance coverage and in business for commercial insurers.

Chairman COLLINS. Thank you, Dr. Van de Water.

Mr. Norton.

Mr. NORTON. It has been my experience in the agriculture industry that any time a regulation or a mandate has been passed down to our suppliers or vendors that eventually I am the one paying for that tax or regulation, so I would say that there is probably a good chance that yes, we will be doing this.

We were all talking about the uncertainty. I would just mention that I know of at least two farmers—Mr. Chairman, your district, because of the uncertainty of immigration reform, because of the uncertainty of the Affordable Care Act, the HIT tax and what does it mean to their business—they have taken I would consider drastic steps, and they have moved away from being specialty crop growers—and by specialty crops I mean fruits and vegetables, like cabbage, cucumbers, apples, and whatnot, and they have made the decision that this year they are going to move away from growing those type of highly labor intensive crops because of the uncertainty with all these rules and regulations and immigration reform, and they are going to go to a mechanized type of agriculture or corn, soybeans, something that can be planted and harvested with machines. And to me that is a loss not only to that farm but you are talking 30 employees that will not be employed by a farm. You are talking about thousands and thousands of dollars that are not going to be in the community anymore. So to me this uncertainty is already having a drastic effect on what is happening in the agricultural community.

Chairman COLLINS. Thank you, Mr. Norton.

Again, one of the reasons for the hearing is to talk about what might happen. Again, none of us know for sure and that is why I think the public deserves and we are having this hearing today to hear various potential outcomes.

With that I would like to yield to Ranking Member Hahn for her opening questions.

Ms. HAHN. Thank you. Again, this is an important hearing so that we can really analyze what some of the impacts are of the Affordable Care Act.

I will say I have been having in my district workshops with my small businesses specifically on ACA because there is so much misunderstanding out there. And frankly, I would dare say there are outright lies being put out there in some of the media outlets about really what this means. So I have been holding workshops so that we can walk small businesses through what this means.

Now, in California, we are ahead of the game because we are ready for the exchanges. We are on top of it, and we think it is going to be valuable and beneficial to small businesses. And let us remember less than 1 percent of small businesses will be under the mandate of the Affordable Care Act to provide health insurance. But that does not change those of you who want to provide health insurance, which I applaud, and then what this new tax will mean in terms of higher premiums.

What I want to do, Mr. Van de Water, and Mr. Dennis, is maybe talk about that huge disparity that both of you talked about in terms of job losses as a result of this—I do not know if it was the result of ACA or result of just this tax. I want to hear that.

And by the way, when we are talking about job losses, we have been told that sequestration will result in 750,000 job losses. So around here there are some decisions that have been made that have resulted in job losses. So on top of that I am real interested to know what the big disparity is on the number of jobs you think will be lost as a result of this.

Mr. Van de Water, you kind of said you would be willing to explain it.

Mr. VAN DE WATER. Sure.

As I indicated, the Congressional Budget Office has taken a look at the overall effect of the Affordable Care Act and has concluded that the effect on employment overall would be negligible. And in fact, to the extent that there is any effect at all it will result from the fact that some people who are in effect hanging on to jobs in their older years simply to hang on to health insurance coverage would be able to retire earlier, spend more time with their grandchildren, whatever, because they would have alternative sources of health coverage available that were not tied to their employment.

Now, with regard to the NFIB study, the model that they use is very complicated and I cannot say that I can follow all of the moving parts, but I have a couple of suspicions of what is going on here.

First of all, although Mr. Dennis talks about the proceeds of the tax being reinvested, it is not entirely clear to me that the model is taking into account or the assumptions that were input into the model are taking into account all of the spending that results from the tax because of the extent that there is money that is being collected through the tax but being spent yet get ignored in the model. You could end up with job loss because of that.

I am also concerned about what the model may be assuming with respect to the effect of premiums on wages. Again, as an economist I would believe that to the extent that people get health insurance coverage, that is part of their compensation package. It is compensation just like wages. And to the extent that employers are paying more compensation in the form of health insurance over the not too many years that people end up with less cash compensation. So to the extent that compensation is unaffected by the cost of health insurance as I think it would be, it is very hard for me to see why this particular model should produce anything in the way of job loss.

Ms. HAHN. Thank you.

It is an interesting angle to talk about the people who really only have jobs for the health insurance as being one angle. I had one friend who got married to the wrong person just so she could have health insurance. We will also have a lot of less bad marriages as a result of this.

Mr. Dennis, explain——

Mr. DENNIS. We did not model the bad marriages. I am sorry.

The first thing on the spending item. Yes, it all is required by the way the thing is constructed that you have to put it all back in. You have to put it back in in the industries in which it is presumed it will go into. So we assumed that this would be spent for the most part on the health care with a little bit on insurance I believe was the way we put it together. So that answer is yeah, there is all spending.

The second thing is the idea of passers of these things in terms of lower compensation. And so in effect we get a net wash on that. And there is some truth in that. Again, I cannot do all the technical equations and all that sort of thing they got in there either, but I think there is an allowance for that. And some of it goes through and some of it does not.

Ms. HAHN. Thank you.

Chairman COLLINS. Thank you.

At this point, I yield to Representative Huelskamp for five minutes.

Mr. HUELSKAMP. Thank you, Mr. Chairman.

I did not know we would get to questions before we went to vote but I appreciate the opportunity.

Gentlemen, thank you for being here. I appreciate the opportunity to visit with you.

First, I want to read a constituent's e-mail I have received and ask you a few questions about that.

"Dear Tim or Dear Congressman, I appreciate all your efforts against the Health Care Plan and now more so than ever. I want to tell you my story in case any personal stories will help you in your fight against that horrible law."

And this is from Kathy.

"I was recently notified by my insurance company that they will be closing their doors, going out of business, on December 31st of this year due to the ObamaCare sledge hammer that will be coming down on everyone as of January 1, 2014. Not only am I losing my and my children's insurance coverage, I am losing people who have become my friends." And then she describes this insurance company was with the family throughout a loss of her husband through cancer, and this is not just one letter we received; this is something I received from many folks.

She was happy with her health insurance coverage and she has lost that. We talk about the facts and figures that are in here. One thing you cannot change are these stories of folks that like their health care plan. The Congressional Budget Office estimates that 7 million Americans will lose their employer-based health care coverage. Apparently, even if they liked it they do not get to keep it. Seven million. And that is the impact of what happens here.

One thing I want to ask a question is this \$100 billion tax increase which I am cited onto the bill to do away with that, I think

the doctor here is supportive of that. I would guess the other three are not, but Doctor, the question I have, the \$116 billion tax increase, you support that. Do you think that was not high enough or just about right? Because you are under the impression that this tax increase is good for the economy, good for the health care sector. I want you to describe the reasons for your support of that and what it means for Americans.

Mr. VAN DE WATER. The importance of the Health Insurance Tax is as one of the ways of paying for the expansion of coverage in health reform. I personally think that it is a very important benefit. It is a very exciting development that all Americans going forward will have access to health insurance coverage regardless of their health status, regardless of their employment status. I, for one, think that I want my children to have access to health insurance. I suspect that all of us want our children and friends to have access to health insurance, and I think the Affordable Care Act will do that. And that is why we have this tax along with the others in health reform, not because we like any one tax in particular. No one likes taxes per se. We raise taxes to raise revenues to pay for things that we want to pay for, and in this case we are paying for an expansion of health insurance coverage to 27 million Americans. Would there be alternative ways of raising that revenue? Of course there would. And if the Congress can come up with an alternative, so be it.

Mr. HUELSKAMP. But what do I tell Kathy who lost the plan she liked, Doctor? It was taken away from her. She had a decade long relationship with this company and it has worked well for her, and you have come in here with this law—not you—the Congress and the president—and said, “Sorry, that is no longer a choice you have any more.” And she is very upset about it. What do I tell her?

Mr. VAN DE WATER. Well, there is no evidence that what has happened to this company is as a result of this particular tax.

Mr. HUELSKAMP. The law is the impact that caused this. I mean, you can argue with Kathy and argue with her experience with her insurance company, but the impact of this law is the company she liked, as well as 7 million other Americans have health insurance and they are going to lose that and have to go into a plan they do not like. I mean, what am I supposed to tell those folks? Just say, “Hey, it is a great thing. Enjoy paying the tax but you do not get to keep the health insurance as promised.”

Mr. VAN DE WATER. I think the health reform law has become a convenient excuse for people to use. We do not know that this company is going out of business because of the health reform law. Companies of small businesses we know—

Mr. HUELSKAMP. Well, I am not going to argue with Kathy who lost her health insurance coverage in making this claim, her insurance. She was happy with it. This company is going out of business. Again, what is the statement to that?

Mr. VAN DE WATER. Not necessarily because of health reform. We do not know that.

Mr. HUELSKAMP. Well, one thing you do not know, Doctor, is the fact that I will note here you used data from 2009 to make your claims. CBO has updated much of this data in here. The 7 million—do you not agree with the CBO that 7 million Americans are

going to lose their employer-based health care coverage? Do you disagree with that?

Mr. VAN DE WATER. Some people will cease to have—

Mr. HUELSKAMP. Do you disagree with up to 7 million Americans? This is coming out of the CBO.

Mr. VAN DE WATER. I do not remember offhand if that is the right number.

Mr. HUELSKAMP. Well, you might look up the latest reports because one point in here—and I am sorry, Mr. Chairman, but when you come here and you use something from 2009 and say this is—the year before this passed, 2009—

Mr. VAN DE WATER. Which particular citation are you concerned about, sir?

Mr. HUELSKAMP. Well, you have the citation, sir. It is in your report. And you talk about the impact of the—

Mr. VAN DE WATER. The citation is still accurate.

Mr. HUELSKAMP.—impact of this health insurance—

Mr. VAN DE WATER. Nothing I have said is based on CBO 2009 has changed in CBO's view that I know of.

Mr. HUELSKAMP. I will be happy to share that with you, sir. The CBO has changed. They now estimate that the cost has doubled. That is the estimate of CBO. And the 7 million lost—7 million figure is not new. I mean, this was a few months out here.

So I just say there is some information out there. I would appreciate if you would share the most up-to-date information in the CBO.

Mr. VAN DE WATER. The 27 million figure I used is the most recent number.

Mr. HUELSKAMP. Well, how many will still be uninsured when this is fully implemented? About the same percentage that were uninsured before we started this.

I yield back my time.

Mr. VAN DE WATER. Absolutely not.

Chairman COLLINS. Thank you, Mr. Huelskamp.

Voting has been called but we do have a few more minutes. So in the interest of maybe cutting it a little close, I would like to yield to Mr. Schneider for his questions.

Mr. SCHNEIDER. And I will be brief.

I spent the bulk of my career working with small businesses. I owned businesses from 1997 to 2003. I owned a small insurance agency, and I know from my experience both personally and many of my clients, the bane of looking to the future is uncertainty. As you talked about the uncertainty, it makes it very difficult.

But I also know from my experience and the experience of my clients that we were seeing double digit increases in health insurance premiums going back, and as we were making choices that was one, in my own case with my partner, that was one of our greatest uncertainties every year is what was going to be the insurance in health insurance. And for a small business we had our peak 10 employees. That was a very difficult challenge.

So as you look at uncertainty as we go forward, what do you see? We need to get through to the other side of the complexity of health care but to provide a greater certainty once we get there, once people know what they are doing, do you think people will start hiring

again? Do you think we will start moving in the right direction again? What is the impact long term that concerns you?

Mr. DENNIS. Well, are you talking about uncertainty in the abstract or with regard to the particular thing we are talking about here, health care?

Mr. SCHNEIDER. Well, certainly, the abstract makes it harder for businesses to plan in general, but specifically with health care, once we get it set they will know what they have to do.

Mr. DENNIS. Well, clearly, uncertainty has been a major—what can I call it? Drawback or dampening. Had a dampening effect on small business employment. It probably also has had a dampening effect on entry, too, although we cannot prove that nearly as much.

Longer term one has to assume that if you reduce that uncertainty, and it will take a lot to do that, that indeed employment will be much more likely to stabilize in the sector. Small businesses still struggling and a good bit of it is that rather than hiring in anticipation, you know, expecting certain positive things to happen and therefore I am going to hire, it is almost the reverse happening. You have to force them to hire. In other words, things have to be so tight that that is the only way you are going to hire. And that is the feedback we have been getting for a long time now and it seems to continue. All survey stuff would also show that uncertainty is a huge factor.

Mr. SCHNEIDER. Do you get a sense—and I will close with this question—do you get any sense in your surveys that small business employers with access to exchanges, with access to a more stable market, will feel that they have the opportunity to hire more people down the road?

Mr. DENNIS. We do not have any survey data on that one way or another. We hope to begin to start collecting some of it soon. And to be able to give you a better answer on that. Let me put it that way.

Mr. SCHNEIDER. I yield my time.

Chairman COLLINS. Thank you. In the interest of continuing to cut it close, I yield to Mr. Luetkemeyer for his questions.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

With regards to the exchanges, Mr. Dennis, the president has already waived off the competitive part of that for another year or two; is that not correct?

Mr. DENNIS. Yes.

Mr. LUETKEMEYER. Can you explain a little about that?

Mr. DENNIS. You mean that there will only be one plan?

Mr. LUETKEMEYER. Right. Right.

Mr. DENNIS. There will be one rather than three.

Mr. LUETKEMEYER. So as a result of that where is the competition that is supposed to be driving down price?

Mr. DENNIS. Well, you would not necessarily have to get your insurance through the exchange. I mean, you could, but you do not necessarily have to. So presumably there will be other plans.

Mr. LUETKEMEYER. What kind of effect is that going to have on the small business folks trying to find insurance?

Mr. DENNIS. Well, it will be, I mean, they will have fewer opportunities than they would have in the past.

Mr. LUETKEMEYER. What does that usually mean you have fewer opportunities?

Mr. DENNIS. More expense and——

Mr. LUETKEMEYER. More expense.

Mr. DENNIS.—less quality. Let me put it that way.

Mr. LUETKEMEYER. One of the things that I have talked with my small business folks at home is that whenever they are looking in the 40 to 150 range about how—with employees, how they are going to be able to afford this, they are looking to going to part time with some of these, going temps with some of these, even dividing their companies in two, two have two separate companies to try to slip underneath this. When these people go down to 28 hours or 30 hours or whatever it is, those people are going to find insurance on their own; is that not correct?

Mr. DENNIS. Yeah.

Mr. LUETKEMEYER. Okay. If you are a young person that is being laid off and you are healthy, Mr. Thorn, what is your experience with young people who have to make a choice between paying rent, making a house payment, making car payments, paying the rest of their insurance, and now they have to figure out how they are going to afford health insurance on a reduced budget; what is your experience with that?

Mr. THORN. Or go on a date.

Mr. LUETKEMEYER. Or go on a date.

Mr. THORN. And the young, healthy immortals we call them——

Mr. LUETKEMEYER. Maybe they will get married like Ms. Hahn's friend.

Mr. THORN. Let us hook them up. There you go.

No, I think that is a very real concern. In our state of Utah we have had updates 26 for a long time, for a number of years. So part of the ACA, I think that is a good thing. I look at a lot of these young kids who are going to school. The last thing in the world they can afford is health insurance. To be able to stay on their mom and dad, that is a good thing. But for those young folks who——

Mr. LUETKEMEYER. Let us take a single parent with a child or two. You are 30, 30-some years old. You have got, you know, you are a wage earner. You can pick out whatever occupation you want to but you are a wage earner and so now you are a receptionist at your insurance agency, for instance, and suddenly you get your hours cut back and you have got two employees, let us say. And now you cut them both back to 28. You have part-time employees you do not have to supply their insurance for them.

What happens—what is the economic effect when people have less money to spend, Mr. Dennis?

Mr. DENNIS. Well, I mean, if you have less money to spend——

Mr. LUETKEMEYER. You do not purchase things; right?

Mr. DENNIS. Well, yeah. And you are going to prioritize them. Let us put it that way.

Mr. LUETKEMEYER. Okay. If you have less money—and if the insurance is taking more money out of your pocket and you have less money to spend, that is less money to spend on the rest of the economy; is it not?

Mr. DENNIS. Well, someone has got it somewhere. I mean——

Mr. LUETKEMEYER. Well, the insurance companies are going to take it out and send it to the government. So the government has got it; right?

Mr. DENNIS. Exactly.

Mr. LUETKEMEYER. Okay. So where is the economic benefit of this? Is it going to be a plus or a minus?

Mr. DENNIS. I am getting a little lost on some of this, I am sorry, sir.

Mr. LUETKEMEYER. My basic, where I am headed with this is the insurance costs are sucking more money out of the economy.

Mr. DENNIS. Right.

Mr. LUETKEMEYER. There is less money for the individuals and businesses to spend.

Mr. DENNIS. Right.

Mr. LUETKEMEYER. And therefore, there is going to be less money spent in the economy. So the effect would be—

Mr. DENNIS. No, there will not be any less money spent. It will be who is spending it and what is it being spent on?

Mr. LUETKEMEYER. Okay. Who can best spend a dollar—the government or private sector? Who can get a better return on it?

Mr. DENNIS. I am very much biased towards the private sector.

Mr. LUETKEMEYER. Thank you for your honesty, Mr. Dennis. I think that in the interest of time here I will stop there because we need to go vote, but again, I thank you each for being here today. I appreciate your willingness to spend some time with us and give us some real world examples of some of the effects of this tax on small business. Thank you.

Chairman COLLINS. In the interest of getting out to vote we will adjourn this briefly until we are back. It could be 30 to 45 minutes. There are a few more questions and I think to get those on the record we will reconvene after voting. I thank you for your understanding and we will be back as soon as we vote. This meeting is temporarily adjourned.

[Recess]

Chairman COLLINS. I call the hearing back to order. And in the interest of time, I will certainly defer to Ranking Member Hahn for a couple of questions so she might catch her flight.

Ms. HAHN. Thank you, Mr. Chairman.

Mr. Van de Water, the ACA included provisions including rate review panels and the medical loss ratio requirements, both intended to protect consumers. Can you please explain the interaction between the Health Insurance Tax and consumer protection provisions like these?

Mr. VAN DE WATER. Yes, thank you, Ms. Hahn.

As discussed before, the medical loss ratio provision is designed to make sure that consumers basically get good value for their insurance premium dollars and this other requirement is dependent upon the details of the policy that either 80 or 85 percent of the premium be paid out ultimately in benefits.

Now, my recollection is that this particular tax that we are discussing today, the Health Insurance Tax, is included for purposes of meeting the medical loss ratio so that to the extent that that is passed forward that the consumers still have to pay—can be forced to pay some of the Health Insurance Tax. That is that the medical

loss ratio provision does not protect them from having part of this tax passed forward, but it will provide a lot of help to consumers generally. In fact, there are a lot of consumers who already receive rebates on account of the medical loss ratio provisions so that even though it does not protect them from the Health Insurance Tax in particular, it is a good protection generally speaking.

Ms. HAHN. Thank you. Yeah, we actually had a witness here I think last month that actually talked about already having received \$1,500 in a rebate check that she was saying really was helping to keep afloat her expenses at that time. So she was very happy to get that.

Mr. VAN DE WATER. And, of course, there a lot of other provisions of health reform, which will be affecting premiums as well. During our intermission, Mr. Thorn and I were having a good chat and we were agreeing that in the long run the most important thing that needs to be done is to control the rate of growth of health care costs, and that is not something that is peculiar just to public programs like Medicare or Medicaid, but it applies obviously to private insurance, self-insured employers, small businesses that purchase commercial products, individuals, and of course, the ACA takes a number of steps that we hope are going to help slow the growth of health care costs in the long run, although we also know it is just the beginning and then more is going to have to be done.

Ms. HAHN. So one of the things we have not talked about is the premium tax credits that ACA has included, which will provide assistance in buying health coverage. And these subsidies can actually lower health insurance costs for many people, and despite insurance companies recouping the Health Insurance Tax through higher premiums. Do you think it is possible that these premium credits will help keep premiums affordable for most people?

Mr. VAN DE WATER. Well, for those companies, employees of those companies that can take advantage of them, yes. In my prepared statement I mentioned the CBO estimate that for employees of that sort and in terms that can take advantage of the credit, that the net reduction in premiums might be on the order—due to the affordable Care Act, overall might be on the order of 8 to 9 percent. Now, I think we all know, and I am sure your Committee is very well aware, that if cost considerations, the reach of those small employer credits is somewhat limited. They apply only to very small firms and to those with quite low wage levels. But for the firms that can take advantage of them they will be a big plus.

Chairman COLLINS. I just have a few questions to finish up. I, again, thought we were only talking about the Medical Device Tax, but in fairness to all here I do subscribe to the Max Baucus definition of ObamaCare, calling it a “train wreck.” We will not know until January 1, 2014, but I am of the opinion, frankly, \$100 billion here and \$100 billion there and \$40 billion here and \$40 billion there actually is real money, even for the federal government. So \$100 billion, the Health Insurance Tax. Another \$100 billion on employer mandates. Another \$40 billion. And we had testimony just a few weeks ago from Dr. Aiken who was saying if a small startup Medical Device Company is not profitable and they do not

make 2.3 percent of profit based on revenue they go out of business. All those jobs are lost.

Stryker. A \$100 million tax on medical device alone already has laid off 1,000 workers, cutting back on R&D. They are a public company. They need to protect their stock price and they cannot absorb or pass on a \$100 million charge. So again, I would say with some bias I agree with Max Baucus. It is a train wreck.

But a couple of questions maybe to finish up. Mr. Dennis, the NFIB is known for advocacy for small business. In fact, I am a member of the NFIB, in all fairness. Do you think—I think I know the answer—that the annual fee threatens small business expansion and job creation? Just interested in your opinion on that.

Mr. DENNIS. Yeah. Surely. Whenever you get something like this, it is always something that you have to pay. And the more that you have to do, the less you are able to put in an investment somewhere else. I mean, it is a matter of choices. You either pay what you have to pay or do not, or you invest or do not. That is pretty simple and the question is just how much.

Chairman COLLINS. Thank you.

One other question for Mr. Dennis, and something that I am very concerned about. I believe in competition. I think competition works. I do not think the government should pick winners and losers, and I do not think the federal government should put small businesses at a disadvantage, whether it is currently today a higher tax rate, marginal tax rate for pass-through entities, than we have for big corporations. 39.6 percent for small business, 35 percent for big corporations. The first time I know of in history that small businesses are taxed at a higher rate. But I am more concerned about the fact that a lot of big corporations—most—are self-insured.

So my worry is on the competitive impact. A lot of small businesses, certainly they compete product line by product line with big corporations. They see a niche and they want to step in, but since big corporations are not subject to this tax if they are self-insured—so you could argue, and I think Dr. Van de Water even said—it may not have a lot of impact on some of these big corporations but this tax is placed on those group plans that small businesses subscribe to. So now this Health Insurance Tax, there is unanimous agreement, will be passed on in the form of higher premiums. It seems to me it is just one more competitive cost disadvantage that the government is deliberately passing on to small business which will have a chilling effect on competitiveness. So again, that is a statement, and I just would like your comments, Mr. Dennis.

Mr. DENNIS. Well, no. I mean, I think that is one of the—if you look at the tax per se and forget the size of the tax and all this stuff, one of the most egregious things about this particular form of tax is that it is highly discriminatory. I cannot imagine being in similar context in this one because it is so egregious. And as a corollary, of course, it is a hidden tax. It is a nontransparent tax. And then thirdly, if you want to add that, it is a cascading tax. And that is it becomes a tax on a tax because it is rolled into the premiums.

So in terms of just tax policy, I cannot think of a tax that is probably much worse than this. If you give me some time I might be

able to, but this kind of does a pretty good job of violating a lot of important principles.

Chairman COLLINS. I think a prior witness would say that the Medical Device Tax is right up there with it.

Mr. Thorn, now this is a little bit technical but, you know, in peeling back the numbers I would like to ask you, as I understand it this is an excise tax, so it is not tax deductible. If the insurance company has to provide call it a \$1 fee to the government as an excise tax, that comes off of the bottom line of for-profit insurance companies. In order to get there it is not that they are going to be passing on a dollar; they have to pass on \$1.50. So they are going to have to actually pass on to the consumers and small businesses a \$1.50 increase in order to have a dollar left because the increase in the premiums is a taxable event. They are going to pay 50 cents in tax to the federal government, which is money going out. That then leaves them with a dollar. Then they send that dollar to the federal government as an after-tax excise tax.

As an insurance broker I would ask, am I reading this correctly that a one dollar increase—one dollar health insurance tax equals potentially, certainly for the for-profit insurance companies, \$1.50 being passed on, so it is even worse. I just would ask your comment on that.

Mr. THORN. Well, Mr. Chairman, you are absolutely right. The bigger issue, too, is the fact that you are going to see a lot of insurance companies who are creating or devising self-insured policies down to 5 to 10 lives, which is also a potential train wreck in and of itself to avoid this very tax. And I am hearing stories of that happening. So do we really want to go down that road as well? I think there are so many problems with this tax itself and it is disproportionately being affected by the small employer groups. If you are going to spread the tax it should be amongst everyone, not just a certain population.

Chairman COLLINS. That is a concern I have.

My last questions are for Mr. Norton. The Farm Bureau has a lot of issues. Just next week we are marking up the five-year Farm Bill that was deferred. It should have been done last Congress but that is another comment. You have a lot of issues—dairy issues, insurance issues, and so forth—and yet you are here today saying that one of the top issues for the Farm Bureau is, in fact, repealing the Health Insurance Tax. And I just would like your comment on how it is you have prioritized this given so many other issues.

Mr. NORTON. Well, as you mentioned, we have a lot of issues, but this is front and center one of them because honestly, without some of the employees that we have to help us on our family farms and our family businesses, we would not be in business, and it is imperative for us to be able to take care of them and provide them health insurance. So the HIT tax as it is very well named, is going to affect us whether we are able to have employees, whether we are able to provide the health insurance that we want to to them, and whether some of our members might actually take the drastic decision to either get out of farming all together because of it or change their model. So our members felt very strongly about the Affordable Care Act. We have been opposed to its mandates from the beginning and this is one of the issues that we are here to work on.

Chairman COLLINS. And I am sure you deal with the other farm presidents around the country. Certainly, New York is New York, but could I get your comments on whether your counterparts across the United States share this same view?

Mr. THORN. Well, I am one of 51, including Puerto Rico. And as you well know, we get together every year and have a meeting of delegates to decide our policy. And this was one of those issues that we discussed and decided in January and we all agreed that it is important that we take care of this issue and that we speak up about the cost that this mandate is having on us and what it is doing to our farms and possibly driving us off of our farms.

Chairman COLLINS. And certainly, the Farm Bureau is a non-partisan, bipartisan group.

Mr. THORN. Yes. Nonpartisan, bipartisan. We work with both sides of the aisle. Just last week I was having a conversation with Senator Schumer on immigration reform, and I am very well aware that you and Senator Schumer are not on the same side of the aisle.

Chairman COLLINS. Do you think?

Anyway, I want to thank the witnesses, and Ms. Hahn, I do not know if you have a couple of follow-up questions.

Ms. HAHN. Not so much follow-up but I just feel like I need to go on the record to say it is the insurance companies who, by the way, the last time I checked, were making huge profits. CEOs of insurance companies are making millions of dollars, and once again, we are letting the insurance companies run health care. I mean, that is why we have the Affordable Care Act because insurance companies in this country, instead of the doctors, were telling people what kind of procedures they could have. One of the reasons I ran for Congress was because one of my best friends died of breast cancer about 20 years ago because at that time bone marrow transplants were considered experimental and her HPO did not allow for a bone marrow transplant. And I thought you know what? I am going to run for Congress because I want to make sure that people do not go broke in this country because they have to decide between health care for their families or paying the bills. And the last time I checked, these medical device folks were also making huge profits. And by the way, this ACA is probably going to probably allow for more of these medical devices to be approved because of this insurance mandate.

And with all due respect to the member who had his constituent Kathy—and I am sorry for Kathy that she lost her insurance—what insurance company is closing their doors when we are mandating in this country that everybody buys insurance. They must have a pretty bad business model. There is hardly any other product that we are mandating that people buy. Why an insurance company would close their doors when more people in this country are going to have to buy insurance, I do not know.

I just feel like I need to go on the record to say once again we should be angry at insurance companies, not at this law. They are once again trying to hold people hostage and I just read where a CEO of one of these medical device companies was making \$25 million as a bonus at the end of the year. So I am not feeling too bad for insurance companies right now or medical device companies. I

do want to listen to our small businesses, and I am going to continue to listen. If there are places in this law that we need to tweak and we need to make better, I will. But let us direct our anger where it is appropriate, and that is with these big insurance companies who are still raking in a huge amount of profits and millions of dollars and leaving people like Kathy to fend for themselves. Thank you very much.

I yield back no time.

Chairman COLLINS. Thank you.

We all know we can agree to disagree, and in many cases we do, but in answer to a couple of things, I have a medical device company in my district, Curbell, and they happen to make that device that makes the bed go up and down and turns the television on and off and calls the nurse. Now, that is a medical device. And the medical device tax will impact their profits in a draconian way—2.3 percent of revenue. And as Dr. Aiken said a couple of weeks ago, a very successful company makes 5 percent of revenue on the bottom line. That is how a business works. A 2.3 percent tax is taking away half their profits. And as we know, a lot of startup medical device companies, that is where they come from. They do not make any money or they make a very small amount. So there are examples of very successful medical device companies that make 10 percent of revenue on profit. But 2.3 percent is still wiping out 25 percent of their profit.

Stock prices are based on a multiple of your profit. That means the Strykers and the Greatbatches and the other companies are either going to have to see their stock price plummet by 25 percent or they are going to have the cuts. We are already seeing the cuts, we are already seeing the layoffs, and wishing it so does not make it so. The idea that we have a mandate here, and what is a mandate? You must do something. Well, that is not what the ACA is because for \$95 an individual can beg off. And for \$2,000, a company subject to the ACA can simply deny coverage. The young and the healthy, if they do not subsidize the sick and the old, I think there is everyone that understands it is the young and the healthy paying into a system that subsidizes the old and the frail, all of a sudden the penalties for the young and the healthy not having insurance are gone. Because when you think about it, \$95 is their penalty? \$2,000 from the employer? There is no longer a penalty for preexisting conditions. So there were folks who got insurance because they were afraid if they came down with a condition they could lose their house, they could lose this or that. There is no longer a penalty for preexisting conditions. There is a \$95 cost to get out, and if the insurance is \$1,500, I am afraid—only time will tell, and Mr. Thorn hopes this will not be the case—you are going to see the young and the healthy dropping insurance like there is no tomorrow because there is no ROI (return on investment), so to speak.

I have met with the American Health Insurance Providers organization. They are already seeing the young and the healthy drop their insurance because the cost is very low, the risk is no longer there. I can tell you if I buy a new car, I get collision insurance in case I wreck the car. Now, if you told me after I wreck the car I can sign up for insurance, I am not going to get the insurance

until I wreck my car and I will not be buying collision insurance on my new vehicle, and there is a big correlation with that in the ACA. We will be seeing how this plays out, but it is not as easy to use the example of insurance companies making millions. I can assure you in western New York that is absolutely not the case, and I can absolutely tell you our CEOs do not make \$25 million. But again, we will set that aside.

I want to thank the witnesses for coming here today. This is certainly a controversial topic. We are going to see how this plays out. This is just one more step in getting four great witnesses to give us input. Some of it we agree on, some of it we will have to see how it plays out. The Subcommittee will continue to monitor the implementation of this health care law and the impact on small businesses. I am sure we will have some other hearings. And following this hearing, I do plan to send a comment letter to the Department of the Treasury on the proposed rule. They are in charge of implementing the fee.

With that, I ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record. So without objection, so ordered.

This hearing is now adjourned. Thank you.

[Whereupon, at 12:15 p.m., the Subcommittee was adjourned.]

A P P E N D I X



Testimony of

Mr. William Dennis, Jr.

before the

**The Committee on Small Business Subcommittee on
Health and Technology**

on the subject of

The Health Insurance Fee: Impact on Small Businesses

on the date of

May 9, 2013

Good morning Mr. Chairman, Representative Hahn, and other members of the subcommittee. My name is William Dennis. I am a Senior Research Fellow with the NFIB Research Foundation. Behind me is my colleague Michael Chow, a Senior Policy Analyst also with the Foundation who produced the simulation on which this testimony is based. Thank you for inviting us to discuss our recent research examining the economic effects of the health insurance premium tax contained in the Patient Protection and Affordable Care Act (PPACA) on the small business sector and the broader U.S. economy.

I ask that my testimony be submitted for the record along the results of our mid-March simulation.

The health insurance premium tax was one of the largest revenue components included in the original law to offset the budgetary costs posed by PPACA. Formally structured as a fee on health insurers, this tax was intended to raise more than \$100 billion over a decade beginning in 2014. However, both government and independent analysts believe that the tax will be passed on to consumers in the form of higher health insurance premiums.

The Congressional Budget Office (CBO) explicitly asserted that this tax/fee/surcharge “would be largely passed through to consumers in the form of higher premiums for private coverage.”¹ A March 2011 report by former Congressional Budget Office Director Douglas Holtz-Eakin concurred in that view² as did the Joint Committee on Taxation (JCT) in a letter to Senator Jon Kyl dated June 3, 2011.³

The tax has a number of oddities and one of them raises a major equity and competitive issue for smaller firms. The tax falls almost exclusively on small businesses. Their larger competitors have no equivalent obligation. Small-businesses, therefore, are asked to absorb a significant share of the financial load of the program while placing them in a less competitive position to do so.

The reason for these problems is that the tax is a premiums tax which targets the fully-insured market. The full-insured market is the small-business (and individual) market. Small businesses rarely have the economic resources to self-insure, which would allow them to escape the tax like large firms do. The Department of Health and Human Services’ (HHS) Medical Expenditure Panel Survey (MEPS) reports that among private sector establishments who offer health insurance 87 percent of those with fewer than 100 employees do not self-insure while nearly 75 percent of those with between 100 and 499 employees do not.⁴ The remainder purchase fully insured plans. For these small businesses who participate in the fully-insured market, the costs of higher premiums will be

¹An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act, Congressional Budget Office, November 30, 2009, pp. 15–16.

²Holtz-Eakin, Douglas, “Higher Costs and the Affordable Care Act: The Case of the Premium Tax,” American Action Forum, March 9, 2011.

³Barthold, Thomas A., letter to Senator Jon Kyl, Joint Committee on Taxation, Washington, DC, June 3, 2011.

⁴Medical Expenditure Survey, Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services, Table 1.A.2.a (2010), http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2010/tia2a.pdf.

borne jointly by both the employer and the employee in proportion to their share of premium.

To quantify the economic effects the health insurance tax would have on small businesses and the broader economy, the NFIB Research Foundation employed the Business Size Insight Module (BSIM), a dynamic economic forecasting tool produced by Regional Economic Models, Inc., or REMI.⁵ The REMI model is the leading forecasting and policy analysis model in use and is employed by hundreds of governmental agencies, universities, consulting firms, nonprofits, and other entities. In the past year, for example, the Senate employed the REMI model to estimate the economic impact that S.2237, the Small Business Jobs and Tax Relief Act, might have on the economy.⁶

The modeling process is reasonably straight-forward in the sense of employing publicly available data as inputs for the calculations. However, since the tax is fixed (through 2018), one must estimate the number of people who will be insured by small businesses in order to obtain the cost of the tax per insured. We relied on experts for that number. The JCT estimated the premium increase at between 2.0 and 2.5 percent;⁷ Holtz-Eakin estimated it at 3.0 percent.⁸ We arbitrarily selected 2.5 and 3.0 percent, and simulated both.

After accounting for a range of potential healthcare inflation rates in future years, the REMI model predicted a reduction in national private sector employment of 146,000 to 262,000 jobs in 2022. For perspective, that is the equivalent of wiping out all current payroll employment in Binghamton, Ithaca, and Elmira, New York, or Santa Barbara and El Centro, California or Sioux City and Cedar Rapids, Iowa.⁹ Fifty-nine percent of the job losses are forecast to be in the small business sector, a reflection of the health insurance tax's incidence on the sector. In addition, the cumulative reduction in real output over the ten-year forecast window is projected to be as high as \$185 billion. Earlier reports¹⁰ discussing initial findings along with the detailed methodology we employed are available on the NFIB website.¹¹

In conclusion, we hope the research foundation's analysis has been helpful to you in understanding the substantial costs this health insurance fee stands to pose to small businesses and the debilitating effects it will have on the sector's ability to create jobs and put our nation back to work. Thank you again for the invitation to address your subcommittee today. We look forward to any questions you may have.

⁵ The model does not allow us to assess the competitive impacts of the tax.

⁶ Treyz, Frederick, "Estimated Economic Impacts of the 'Small Business Jobs and Tax Relief Act'", Regional Economic Models, Inc., June 2012.

⁷ Joint Economic Committee, *op. cit.*

⁸ Holtz-Eakin, *op. cit.*

⁹ U.S. Bureau of Labor Statistics, U.S. Department of Labor, <http://www.bls.gov/news.release/metro.t03.htm>.

¹⁰ Chow, Michael J., "Effects of the PPACA Health Insurance Premium Tax on Small Businesses and Their Employees: An Update," NFIB Research Foundation, March 19, 2013.

¹¹ <http://www.nfib.com/research-foundation/studies/hit-cost>.



Effects of the PPACA Health Insurance Premium Tax on Small Businesses and Their Employees: An Update

Michael J. Chow
March 19, 2013

The 2010 healthcare law contains a tax on the health insurance policies that most small businesses purchase. Although the tax is formally structured as a fee on health insurers, analysis has determined that virtually all of the tax burden will be passed on to the purchasers of insurance: employers and employees. Estimates predict the tax will raise the cost of employer-sponsored insurance by 2% - 3%, imposing a cumulative cost of nearly \$5,000 per family by 2020. The NFIB Research Foundation's BSIM model suggests that such price increases will reduce private sector employment by 146,000 to 262,000 jobs in 2022, with 59 percent of those losses falling on small business.

Introduction

The Patient Protection and Affordable Care Act (PPACA) signed into law in 2010 included, as one of its revenue-raisers, a health insurance (HI) premium tax structured as an annual fee on insurers beginning in 2014. The tax applies to any U.S. health insurance provider and is intended to collect roughly \$90 billion in revenue through 2020. A predetermined amount of revenue is to be collected each year: \$8 billion in 2014, \$11.3 billion in 2015 and 2016, \$13.9 billion in 2017, and \$14.3 billion or more annually in years 2018 and beyond.¹ Targeted at the fully-insured market, this tax will ultimately be passed on to consumers, many of whom are small businesses.

Analysis has determined that the cost of what is ostensibly an industry fee targeted at health insurers will ultimately be shifted to purchasers of health insurance from these entities. A study by former Congressional Budget Office Director Douglas Holtz-Eakin found that the HI tax can be expected to raise premiums for employer-sponsored insurance by as much as 3 percent, a price increase that cumulatively amounts to nearly \$5,000 per family over the current decade.² Additionally, the Joint Committee on Taxation (JCT) estimated that repealing the tax would reduce premiums of insurance plans offered by covered entities by 2.0 percent to 2.5 percent.³

If the HI premium tax takes effect, the vast majority of small businesses currently providing insurance will see their premiums increase beyond what they would have without the tax. According to survey data from the Medical Expenditure Panel Survey (MEPS), among private sector establishments who offer health insurance, nearly 75 percent of those with between 100 and 499 employees and more than 85 percent of those with fewer than 100 employees do not self-insure.⁴ For a small business owner who does not self-insure, this increase in premiums will be borne by both the employer and the employee, each of whom contributes toward financing the insurance.

Since small businesses play a vital role in the economy, accounting for half of private sector employment and two-thirds of the net new private sector jobs created in the United States, public policies which impose meaningful costs on small businesses can be expected to have tangible negative effects on employment and job creation. This brief report attempts to quantify the economic impact the HI premium tax will have on private sector employers and employees by modeling the expected premium cost increases and simulating their effects using the NFIB Business Size Impact Module (BSIM).

The BSIM is a dynamic, multi-region model based on the Regional Economic Models, Inc. (REMI) structural economic forecasting and policy analysis model which integrates input-output, computable general equilibrium, econometric, and economic geography methodologies. It has the unique ability to forecast the economic impact of public policy and proposed legislation on different categories of U.S. businesses differentiated by size of firm. Forecast variables include levels of private sector employment and real output. By comparing simulation results for scenarios which include proposed or yet-to-be-implemented policy changes with the model's baseline forecast, the BSIM is able to obtain estimates of how these policy changes might impact employer firms and their workers.

Depending on the assumed rate of health insurance inflation, the HI premium tax is forecast by the BSIM to reduce private sector employment by between 146,000 and 262,000 jobs in 2022. Approximately fifty-nine percent of the jobs lost are jobs that would have been at small firms.

Modeling Assumptions and Methodology

This report represents an update of an earlier report⁵ focusing on the PPACA health insurance premium tax released a little over one year ago. The methodology and assumptions used to generate the estimates contained in this report are identical to those used for the previous report. Data sources for the two reports are also identical, with data pulled from the U.S. Census Bureau, the Medical Expenditure Panel Survey, the Kaiser Family Foundation's annual survey on employer benefits, and the IRS's Statistics of Income division.

In order to generate forecasts of employment and output effects of new policies by size of firm, estimates of new costs borne by employers due to policy changes must be inputted into the model in the same format. In practice, this means that costs must be calculated separately for firms with different numbers of employees. The firm-size categories for which the BSIM accepts cost inputs and generates forecasts are the same categories as those presented in the Census Bureau's Statistics of U.S. Businesses

dataset: 1 to 4 employees, 5 to 9 employees, 10 to 19 employees, 20 to 99 employees, 100 to 499 employees, and 500 or more employees.

Policies can be highly complex and nuanced, and different components contained within the same policy can have offsetting effects on growth, production, and employment. In the case of the HI premium tax, revenues collected from businesses can be recycled into the economy through new government spending. The recipients of these government monies, private sector providers of goods and services, will experience stimulative effects due to the increased demand for their products. In the aggregate, this additional demand will help offset the new costs the tax will impose on employers. A second consideration that should be accounted for are new costs incurred by the government that are generated by tax collection and enforcement.

Thus, in addition to new employer costs, changes in government expenses as well as the demand for goods and services of select industries must also be modeled and inputted into the BSIM. Details on how these various inputs were constructed for this analysis are provided below.

Modeling Employer Costs

The process of obtaining estimates of new costs per firm due to an effective increase in HI premiums can be broken down into five broad steps:

- (1) Estimate the number of firms hit by the HI tax.
- (2) Calculate the number of employees at these firms who would be affected by the tax.
- (3) Estimate the average dollar amount of these workers' HI premiums.
- (4) Using the results of steps (2) and (3), compute an estimate of the average total cost of employee HI premiums for firms of different sizes. The HI premium "tax" for different firm-size groups is assumed to equal either 3 percent or 2.5 percent of these figures.
- (5) Apply assumptions about employers' share of new costs, deductibility of health insurance for income tax purposes, the price elasticity of demand for health insurance (from the employer's perspective), and future rates of HI premium inflation to the results of step (4) to generate the inputs to the BSIM model.

Information on how steps (1) through (5) were executed follows.

Step (1). The number of firms hit by the HI tax depends on the percentage of fully-insured firms offering insurance to their employees. The full-insurance constraint is imposed on the modeling process in the next step. As an intermediate step, the number of firms offering insurance in each firm-size category was estimated using the equation:

$$\text{\# of Firms Offering Insurance}^6 = (\text{\# of firms}) \times (\% \text{ of firms offering insurance})$$

Step (2). The BSIM model generates employment and output effects associated with policy changes directed at employer firms. While the HI premium tax also affects millions of self-employed U.S. workers, the tax's impact on the self-employed sector is considered to be "outside the model" for this

analysis.⁷ To be hit by this tax in the model, an employee must be enrolled in (“take up”) a fully-insured plan offered by an employer firm. Estimates of the number of employees who are hit by the HI tax for each firm-size category were obtained using the equation:

$$\text{\# of Employees Hit by HI Tax}^8 = (\text{\# of firms offering insurance}) \times (\text{avg. \# of employees per firm}) \times (\% \text{ of employees who “take up” insurance when offered it}) \times (\% \text{ of enrollees not enrolled in self-insured plans})$$

Step (3). Consumers of health insurance have the option of purchasing individual coverage or plans covering both themselves and other members of their family. The premium attached to an insurance policy offering a defined set of benefits tends to differ substantially depending upon the number of individuals covered by the policy. One measure of the “typical” premium paid by a fully-insured employee is a weighted average of the premiums for the different plans available. For this analysis, such a “typical” premium was calculated using the equation:

$$\text{Wtd. Avg. HI Premium}^9 = (\text{share of employees with employer-sponsored insurance taking single coverage} \times \text{avg. single coverage premium}) + (\text{share of employees with employer-sponsored insurance taking family coverage} \times \text{avg. family coverage premium}) + (\text{share of employees with employer-sponsored insurance taking employee-plus-one coverage} \times \text{avg. employee-plus-one coverage premium})$$

Step (4). Multiplying the results of steps (2) and (3) for individual firm-size blocks generates estimates of the total cost of health insurance premiums differentiated by size of firm. These figures represent the total cost of insurance premiums borne by both employers and employees (before accounting for the income tax treatment of healthcare expenditures) for individual firm-size categories. Dividing by the total number of firms in each category yields average per-firm costs of insurance premiums. Using the conclusions from both Holtz-Eakin’s and the JCT’s analyses, two different scenarios involving different assumed tax “rates” were modeled and simulated.

- In the first case, which relies on Holtz-Eakin’s analysis, the actual “tax” imposed on employer firms is assumed to equal 3 percent of existing premiums.
- In the second case, which relies on the JCT’s analysis, the tax is assumed to equal 2.5 percent of existing premiums.

Step (5). A few additional complexities to the modeling project must be addressed (and changes made to the results of step (4)) before the cost inputs are complete.

- **Cost sharing** at firms means that employers will shoulder a fraction of these costs. For this analysis, employers were assumed to shoulder 75 percent of the cost of their employees’ insurance premiums.¹⁰
- The **tax deductibility of healthcare expenditures** means that the full amount of an employer’s share of its employees’ insurance premiums will not impact its bottom line. Profitable firms can reduce their income tax burden by deducting healthcare expenditures from gross income. For

this analysis, employers were assumed to pay a combined state and federal income tax rate of 30 percent.

- Typically, when the price of a good or service goes up, the demand for that good or service falls. The degree to which demand rises or falls due to a particular change in price is referred to as the **price elasticity of demand**. Business owners may react to an increase in the cost of their health insurance premiums by reducing costs elsewhere, “eating” the cost and suffering reduced profits (or bigger losses), or dropping coverage for their employees. From a modeling perspective, having multiple possible outcomes creates challenges since different outcomes will result in different initial financial costs to business owners, which are what drive the cost inputs for the BSIM. The modeling choice taken in this analysis was to assume that business owners “eat” the cost, a choice justified by data indicating that business owners view providing health insurance as an important recruitment/retention tool, as well as “the right thing to do.”¹¹
- **Inflation** is a phenomenon that can be difficult to predict accurately. PPACA was intended to moderate the relentless increase in healthcare costs and, prior to its passage, was advertised as a law that would do just that. However, recent pronouncements by the Congressional Budget Office and the Chief Actuary of Medicare and Medicaid assert that PPACA fails to contain costs in a meaningful way.¹² Given the uncertainty surrounding healthcare costs in a post-PPACA world, the BSIM was run for a range of assumed nominal premium inflation rates ranging from 5 percent to 10 percent (annually).¹³ These rates were applied to the 2011 weighted average premium (the year with the most recent data available) to obtain estimates of premium costs in future years for which simulations were run.

Modeling Government Costs and Private Sector Demand

- The collection and enforcement of tax laws requires government financing to pay for collection activities. This analysis assumes that **new government costs** resulting from the HI premium tax equal 0.5 percent of every dollar collected from employer firms, the percentage share of each dollar collected by the IRS that currently goes to fund operational costs.¹⁴
- Since the HI premium tax is intended to help pay for other provisions in a larger healthcare law that expands eligibility for insurance products and mandates their purchase, it is assumed in the model that the **increase in demand for private sector goods and services** occurs strictly among healthcare-related industries. Specifically, the difference between total employer costs and government costs (*i.e.*, all the tax revenue not spent on collection and enforcement activities) was assumed to be redistributed to the healthcare sector according to existing patterns of spending.¹⁵

Simulation Results: Employment and Output Forecasts

A ten-year forecast window starting from the current year was chosen for this analysis. Since the insurance fees are first imposed in 2014, forecast employment and output effects are only available from then onward. The results of BSIM simulations utilizing each of the Holtz-Eakin- and JCT-estimated tax rates (3 percent and 2.5 percent) are presented below.

Results Based on a 3 Percent Premium Increase (Tax)

The results in this section are from the simulation utilizing the assumption that the HI premium tax equals 3 percent of existing premiums. Based on the additional assumptions outlined in the previous report and depending on the assumed rate of health insurance inflation, the BSIM forecasts that there will be **between 175,000 and 262,000 fewer private sector jobs in 2022** as a result of the HI premium tax. Even in the best-case inflation scenario presented here, 175,000 jobs are forecast to be lost in the next decade due to the HI premium tax.

Fifty-nine percent, a sizeable majority, of the jobs lost by 2022 are jobs that would have been at small firms (firms with fewer than 500 employees, using the Small Business Administration's definition). Job losses at the smallest firms, those with fewer than 20 employees, account for 26 percent of all lost jobs. Despite the fact that large firms tend to self-insure, large firms will also experience considerable job loss as a result of the tax. The losses at large firms are primarily the residual effect of initial cutbacks made at small firms. Small firm owners responding to the new tax will not only reduce employment, but will also take other cost-cutting measures like reducing investment. Lower demand from small firms, which collectively account for roughly half of both real private GDP and private sector employment, can have a large impact on the sales of large firms.

In addition to the employment difference forecasts, real GDP is forecast to be \$23 billion to \$35 billion lower in 2022 than it would otherwise be without the tax.

EMPLOYMENT DIFFERENCE FROM BASELINE (ALL FIRMS), UNITS = THOUSANDS OF JOBS

Assumed rate of HI premium inflation	2014	2015	2016	2017	2018	2019	2020	2021	2022
5% inflation	-93	-112	-128	-140	-150	-155	-163	-169	-175
6% inflation	-96	-116	-134	-147	-159	-166	-176	-184	-185
7% inflation	-98	-120	-140	-155	-169	-179	-190	-200	-202
8% inflation	-101	-124	-146	-163	-179	-190	-205	-218	-220
9% inflation	-104	-129	-152	-172	-190	-204	-221	-237	-240
10% inflation	-107	-133	-159	-181	-201	-217	-238	-258	-262

REAL OUTPUT DIFFERENCE FROM BASELINE (ALL FIRMS), UNITS = \$BILLIONS

Assumed rate of HI premium inflation	2014	2015	2016	2017	2018	2019	2020	2021	2022
5% inflation	-11	-13	-16	-17	-19	-20	-21	-22	-23
6% inflation	-11	-14	-16	-18	-20	-21	-23	-24	-25
7% inflation	-11	-14	-17	-19	-21	-23	-25	-26	-27
8% inflation	-12	-15	-18	-20	-23	-24	-27	-29	-29
9% inflation	-13	-15	-19	-21	-24	-26	-29	-31	-32
10% inflation	-13	-16	-20	-23	-25	-28	-31	-34	-35

Results Based on a 2.5 Percent Premium Increase (Tax)

The results in this section are from the simulation utilizing the assumption that the HI premium tax equals 2.5 percent of existing premiums. Based on the additional assumptions outlined in the previous report and depending on the assumed rate of health insurance inflation, the BSIM forecasts that there will be **between 146,000 and 219,000 fewer private sector jobs in 2022** as a result of the HI premium tax. Even in the best-case inflation scenario presented here, 146,000 jobs are forecast to be lost in the next decade due to the HI premium tax. Approximately fifty-nine percent, a sizeable majority, of the jobs lost by 2022 are jobs that would have been at small firms (<500 employees). Job losses at firms with fewer than 20 employees account for roughly 26 percent of all lost jobs. Real GDP is forecast to be \$19 billion to \$29 billion lower in 2022 than it would otherwise be without the tax.

EMPLOYMENT DIFFERENCE FROM BASELINE (ALL FIRMS), UNITS = THOUSANDS OF JOBS

Assumed rate of HI premium inflation	2014	2015	2016	2017	2018	2019	2020	2021	2022
5% inflation	-78	-93	-107	-117	-125	-130	-136	-141	-146
6% inflation	-80	-96	-112	-123	-132	-139	-147	-153	-154
7% inflation	-82	-100	-116	-129	-141	-148	-158	-167	-168
8% inflation	-84	-104	-122	-136	-149	-159	-171	-182	-184
9% inflation	-87	-107	-127	-143	-158	-170	-184	-198	-201
10% inflation	-89	-111	-132	-151	-168	-181	-198	-215	-219

REAL OUTPUT DIFFERENCE FROM BASELINE (ALL FIRMS), UNITS = \$BILLIONS

Assumed rate of HI premium inflation	2014	2015	2016	2017	2018	2019	2020	2021	2022
5% inflation	-9	-11	-13	-15	-16	-17	-18	-18	-19
6% inflation	-9	-12	-14	-15	-17	-18	-19	-20	-21
7% inflation	-10	-12	-14	-16	-18	-19	-21	-22	-22
8% inflation	-10	-12	-15	-17	-19	-20	-22	-24	-25
9% inflation	-10	-13	-16	-18	-20	-22	-24	-26	-27
10% inflation	-10	-13	-16	-19	-21	-23	-26	-28	-29

NOTES

¹ After 2018, the insurance fee in any particular year will equal the fee levied during the previous year increased by the rate of premium growth for the preceding calendar year.

² Holtz-Eakin estimates the premium increase will range from between 2.4 percent to over 3 percent between 2014 and 2019. To simplify matters, an increase of 3 percent was assumed for all forecast years. See: Douglas Holtz-Eakin, "Higher Costs and the Affordable Care Act: The Case of the Premium Tax", American Action Forum, March 9, 2011.

³ Thomas A. Barthold, letter to Senator Jon Kyl, Joint Committee on Taxation, Washington, DC, 3 June 2011.

⁴ Estimates of the number of establishments who provide employer-sponsored insurance but do not self-insure were taken from the Department of Health and Human Services' 2009 Medical Expenditure Panel Survey (MEPS) (Table I.A.2.a). These estimates are likely high and suggest more firms self-insure than actually do, because the data are reported in establishments rather than enterprises. An establishment is a business location; an enterprise is a business.

⁵ Chow, Michael J., "Effects of the PPACA Health Insurance Premium Tax on Small Businesses and Their Employees," NFIB Research Foundation, November 9, 2011.

⁶ Data for the number of firms were drawn from the Census Bureau's 2008 Statistics of U.S. Businesses (SUSB) dataset. Estimates of offer rates for employer-sponsored insurance were taken from MEPS (Table II.A.2).

⁷ The HI premium tax will also raise premiums for insurance plans purchased by self-employed individuals. In the face of rising premium costs, some self-employed workers may elect to drop their insurance coverage (from a financial perspective, it will certainly be cheaper for many self-employed individuals to pay the penalty required by the individual mandate for health insurance than to actually buy health insurance). Since the aggregate insurance fee amount for a given year is preset, dropped coverage among the self-employed will simply shift costs to fully-insured workers at employer firms, further raising the premiums they pay.

⁸ Estimates of the number of employees per firm were calculated using SUSB data. Estimates of insurance "take up" rates were drawn from the Kaiser Family Foundation's 2010 Employer Health Benefits Survey (Exhibit 3.2). Estimates of the percentage of fully-insured employees were taken from MEPS (Table I.B.2.b.(1)).

⁹ All data for this calculation was taken from MEPS. Using the most recent data available, a weighted average premium in 2009 would cost $(0.500) \times (\$4,669) + (0.305) \times (\$9,053) + (0.195) \times (\$13,027) = \$7,636$.

¹⁰ MEPS data (Table II.C/D/E.3) indicate that the employer share of insurance premiums in 2009 was approximately 70 percent to 80 percent for both small and large firms. Data from the Kaiser Family Foundation indicate that covered workers contribute 19 percent toward single coverage and 30 percent toward family coverage (Exhibit 6.1 of the 2010 survey).

¹¹ According to a NFIB National Small Business Poll on health insurance, 80.6 percent of small businesses say one reason they provide health insurance to their employees is because it helps with employee recruitment. Sixty-seven percent say a reason they provide insurance is because their employees expect or demand employer-sponsored insurance. Seventy-five percent say a reason they provide health insurance is because it decreases turnover. And 94.9 percent said a reason they provide health insurance is because doing so is the "right thing to do." See: Michael A. Morrissey, "Health Insurance", ed. William J. Dennis, Jr., NFIB National Small Business Poll, Vol. 3, Issue 4, 2003.

A brief word about the modeling choice taken (that employers "eat" the cost of higher health insurance premiums) is merited. By default, when simulating an increase in non-wage labor compensation, such as a tax on health insurance plans, the BSIM does not offset any of these higher costs with a reduction in the wages and salaries of employees. In other words, the model assumes that an increase in non-wage compensation costs will lead to higher costs of production for the business, making it less competitive and eventually leading to a decrease in market share. The BSIM's default handling of non-wage labor compensation costs was used for this analysis to simulate the additional costs posed by the HI premium tax. Its use is justified by the relatively brief forecast window of five years. Although employers are likely to eventually pass on (cost shift) some of the burden of higher premiums to their employees in the form of lower wages and salaries, this shift is likely to be gradual. Initially, most if not all of the new costs are likely to be absorbed directly by the business.

Some analysts may argue that rather than absorbing the increase in premium costs, business owners would instead generally favor one of the other two options: making compensatory cost reductions elsewhere in the business or dropping coverage. It should be noted that cost reductions made out of necessity will have a growth-limiting impact on private enterprise and the economy, thereby also decreasing future employment levels from what they would otherwise be. The data argue against a spike in business owners dropping their employees' insurance coverage, but if this were to occur, it would (a) present a major inconvenience to workers who must shop for new coverage and (b) violate promises made by policy makers that the healthcare law would allow insurance consumers to keep their coverage if they liked it. A recent analysis by the Joint Committee on Taxation also points out that while "consumers (or employers) may respond [to a *de facto* excise tax] by changing their health insurance coverage from more expensive plans to less expensive plans to offset any potential price increase, this behavior is properly characterized as the consumers bearing the burden of the excise tax by accepting lower

quality . . . for the same price rather than paying a higher price for the same quality of insurance that they would prefer if there were no tax.” See: Thomas A. Barthold, letter to Senator Jon Kyl, 12 May 2011, Joint Committee on Taxation.

¹² According to a presentation by CBO Director Douglas Elmendorf given after PPACA became law, “[r]ising health costs will put tremendous pressure on the federal budget during the next few decades and beyond. In CBO’s judgment, the health legislation enacted earlier this year does not substantially diminish that pressure.” See: Douglas W. Elmendorf, “Health Costs and the Federal Budget”, Presentation to the Institute of Medicine, Congressional Budget Office, May 26, 2010.

Additionally, in testimony before the House Budget Committee on January 26, 2011, in response to a question by Representative Tom McClintock of California about whether the healthcare law “would hold costs down,” Rick Foster, Medicare’s Chief Actuary, responded by saying, “I would say false, more so than true.” See: Budget Committee Hearing Highlights from “The Fiscal Consequences of the New Health Care Law”, House of Representatives Committee on the Budget, January 26, 2011, <<http://budget.house.gov/healthcare/hearing1262011.htm>>.

¹³ Since 2001, annual premium inflation has usually fallen within the 5 percent to 10 percent band for single, family, and employee-plus-one coverage. The 2009 weighted average premium of \$7,636 would increase to \$13,713 in 2021 if HI inflation were held constant at 5 percent. Assuming a 10 percent rate of inflation, the weighted average premium would rise to \$23,965 in 2021.

¹⁴ According to the IRS’s Statistics of Income division, the cost of collecting \$100 in 2010 was approximately 50 cents. On average then, 0.5 percent of each dollar collected helped fund operational costs. See Table 29 of the IRS Data Book, “Collections, Costs, Personnel, and U.S. Population.”

¹⁵ Thirty-four percent of total employer costs less government costs is assumed to go toward purchases of hospital-provided goods and services, 8.2 percent is assumed to go toward nurses, ambulatory healthcare services receive 31.9 percent, insurers receive 16.4 percent, and makers of prescription drugs receive 10.0 percent. This distribution of spending is based on 2009 patterns of U.S. healthcare spending presented in the Department for Health and Human Services’ National Health Expenditure Accounts.



**Testimony of Ryan Thorn on Behalf of the National Association of Health Underwriters before the
U. S. House of Representatives Small Business Committee
Health and Technology Subcommittee
Hearing on "The Health Insurance Fee: Impact on Small Businesses"
May 9, 2013**

Good Morning. My name is Ryan Thorn and I am a small-business owner from a suburb of Salt Lake City, Utah, called South Jordan. I own an insurance agency called Ryan P. Thorn Insurance Planning and, like more than 20 million other Americans, I am self-employed and have just one part-time employee. I am here on behalf of my professional association, the National Association of Health Underwriters (NAHU), which represents approximately 100,000 health insurance agents, brokers, general agents, consultants and other employee benefit specialists from all over the United States. I have been involved with NAHU and its Utah affiliate since 1993, and I am honored to currently serve as the vice president of NAHU's Board of Trustees.

First of all, I would like to thank the House Small Business Committee and, in particular, Chairman Graves, Ranking Member Velazquez, Subcommittee Chairman Collins and Ranking Member Hahn for inviting me here today and for electing to hold this public hearing. The impact of the Patient Protection and Affordable Care Act (PPACA) and the new fees it will impose on small-business owners like me will be profound. I appreciate your committee's recognition of the issue and bipartisan willingness to bring it to the public's attention.

I would also like to thank my congressman, Representative Jim Matheson, for reaching across the aisle and working with his colleague Representative Charles Boustany to be the two original co-authors of H.R. 763. This measure would repeal the annual fee on health insurance providers enacted by PPACA. I am also proud to say that my senator, Orrin Hatch, is an original co-sponsor of S. 603, the companion legislation currently pending in the U.S. Senate. Both of these great men know the serious financial consequences this tax will have on Utah businesses and the people who work for them.

As I mentioned, I am the owner of a small family business, but I also have a client base composed of many other small-business owners. I serve the health coverage needs of my clients by helping them purchase, administer, service and utilize health insurance policies and other related benefits. Almost all of my clients are either self-employed or have businesses with under 25 employees, which, as you know, is representative of the vast majority of American employers.

The new national health insurance fee that will be imposed on all individual and fully insured group health insurance policies sold in this country from 2014 and forward will impact about 45% of all insured residents of Utah. These are the people who are covered by individual, private Medicare and group policies that are fully insured. This means that all risk for the policies is borne by the insurance company. These are the only type of policies that are impacted by the new tax, which means that the Americans who work for and own small businesses around the country are disproportionately affected. While the tax technically falls on insurers, the Congressional Budget Office has confirmed that the tax "would be largely passed through to consumers [small-business owners and their employees] in the form of higher premiums for private coverage." That the tax will be passed on directly to purchasers has also been confirmed to me by local insurance companies in Utah.



A recent study about the impact of the tax shows that it will cost Utah residents who buy individual coverage on average \$1,802 more for single and \$4,305 more for family coverage over the next 10 years. For those with small-employer coverage, the average single person will pay \$2,173 more over the next 10 years just from this tax, and a family in Utah will pay \$5,365 extra.¹ There are similar projected cost increases for people in fully insured large employer plans, those with private Medicare plans and those in Medicaid managed care arrangements. Due to the way the tax is assessed, the amounts will vary somewhat by state and by insurance carrier, and I only cited the numbers for my particular state. But I have looked at the data, and these projected numbers are pretty typical for fully insured consumers in all states.

Among my client base, the cost of health insurance coverage is a huge concern. In preparation for the honor of testifying before this committee today, I contacted all of my clients to make sure that they were aware of the new health insurance tax, or the HIT, as many business owners are calling it. I also asked if they had any thoughts they would like me to share with all of you today about how the tax and the overall implementation of the health reform law will impact them and their employees. This reaction from a long-time client was the most succinct. He wrote: "We have always tried to take care of our employees but it is becoming impossible at this rate."

Another client asked me to share this with you. He said:

"I run a small accounting business that has four employees. It is very difficult to keep providing benefits and this new HIT tax will make it very difficult to continue as I have. If I could say anything it would be this: Freedom brings happiness. I just don't find happiness any more from what the government is doing to me."

Two other small-business clients I have shared more detail about how the new tax will impact their businesses and specifically their benefit decisions. One wrote:

"We currently pay 75% of the insurance premiums for all of our employees and their families while many of our peer companies elect to pay 50%, or less, of the premiums for employee coverage only. We have historically provided this degree of benefit because of our strong commitment to our most valuable asset, our employees. Frankly, ObamaCare's 21 new direct taxes and multiple hidden taxes, such as the 'HIT,' scare the daylights out of us and threaten not only our ability to provide adequate insurance coverage for our employees and their families, but also the very existence of our companies, which have performed marginally since the housing bubble burst in early 2006. Washington needs to understand that more money taken away from our companies and our employees, in the form of taxes, fees, penalties, etc., means less money available to pay our employees so that they can provide for their families."

The other said:

"Our board has had lengthy discussions regarding the rising cost of health insurance. Even in the current climate, we are forced to look at either reducing benefits or having employees purchase their own insurance. The so-called 'HIT' will hasten the decision to move away from providing group coverage for our employees. At the very least, it will mean increased out-of-pocket expenses for employees."

¹ http://www.ahipcoverage.com/wp-content/uploads/2013/04/HIT_Utah_4_1_13.jpg



A final client wanted me to tell you:

"Simply put: The activation of this law is likely to prevent me from hiring a staff member in the future due to my obligations and this tax imposed from hiring a worker. Put another way: New hires will be affected in a negative way."

The bottom line is: The new law, which includes this new national health insurance sales tax, has great potential to add cost and complication to employee benefit plans. Its compliance and cost burden is causing a great deal of anxiety on the part of most American employers. It is making employers large and small change their hiring practices, begin investigating other new means of providing coverage to their employees that the private market may offer, and consider dropping coverage altogether.

Unlike some of the other cost drivers in the health reform law, this new health insurance fee has no purpose but to increase federal revenues. It doesn't make the markets work better or attempt to disincent a poor behavior choice like smoking. Instead, it is just a direct fee that increases every year and will be passed on to the companies that offer health insurance to individuals and small businesses. It is a huge new tax -- larger than the medical device tax and the prescription drug tax combined. And it will make health insurance coverage for people like me and my clients cost much more, which raises a larger concern—that businesses will possibly drop their coverage altogether.

All of the members of NAHU and I believe there is an inherent unfairness in the concept of financing health reform on the backs of people who are doing the right thing by buying private coverage. I also have to say that it is nonsensical to raise taxes on individual and small-group health insurance products to pay for the law's new coverage subsidies and Medicaid expansion, when the subsidized products and Medicaid managed care plans will be amongst the ones being taxed. In essence, the federal government is heavily taxing itself, which, to me, is not good business.

Since I've made my living helping people buy private health insurance coverage for nearly 30 years, I can tell you with absolute certainty that when prices go up, people buy less health insurance coverage or simply forgo it altogether. Since the financial impact of the new health insurance tax alone will be much greater than the minimum penalty for those who choose not to buy health insurance, I am very worried that that it will tip people over the edge and they will decide to go bare. Given that the law's new guaranteed-issue requirements mean that people will be able to pop back into the coverage system without regard to any preexisting condition, there is a real concern that this tax and other cost-drivers will incentivize younger and healthier people to forgo purchasing insurance until they need medical care. In the insurance industry, that phenomenon is called adverse selection, and it will make the cost of health insurance even higher for everyone.

Another consequence I see from this tax and the other provisions of the law that may make health insurance premiums more expensive for businesses owner is the impact on jobs. Here's another direct quote from one of my clients: "The activation of this law will likely prevent me from hiring new employees." When the cost of coverage goes up, it impacts hiring, particularly in a small business. The tax and other cost increases may very well incent more employers to change positions from full-time to part-time, since most part-time employees aren't offered health insurance coverage. Employers will consider making this change not only because of health insurance premium costs, but also because it



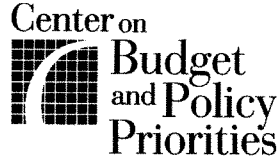
could help them with participation requirements. Of course, all this would be at the detriment of the employee who now moves from full-time working hours to part-time hours.

Another unintended consequence of the health reform that few people are talking about, but is something that I think this tax and the other cost-drivers in the law will impact directly, is group insurance participation. The reason that many small (and even some large) employers do not offer coverage today, or only offer it to full-time employees or certain classes of employees, is not just price. It's also the difficulty of ensuring that the group will be able to continually meet participation requirements. Participation requirements across the United States vary but, in general, you must have at least two-thirds of your employees accept coverage or document that they have other employer coverage (like through a spouse) in place. If the cost of this new tax and other factors in the law make health insurance coverage a lot more expensive for some employees in the next year or two, and those employees decide to drop their group coverage, either to go to the exchange and try and get subsidized coverage or just drop coverage altogether, it could make it impossible for business owners to offer coverage to any of their employees.

Here's an example of how this problem could play out in real life: A woman owns a small company and she offers coverage to her nine full-time employees, none of whom make more than the average annual wage of about \$43,000 per year. She pays what she can toward her employees' coverage costs, but premiums are still expensive and a \$500-per-year increase just for this new tax isn't helping matters. If four of her employees say "no thank you" to the group health plan she's offered, she may not be able to offer her group health coverage to any of her employees anymore. My example is for a very small business, but the example has applicability for businesses of all sizes.

To end on a personal note, my wife, Robin, and I have four children, two of whom are still at home and covered by our individual family health insurance policy. The cost of our \$4,000 deductible HSA coverage is just under \$500 a month, which is a significant expense for us. The prospect of adding approximately \$500 to our annual premium next year to pay for this new national premium tax, in addition to the new national reinsurance fee that will add about \$240 a year to our coverage, is daunting. Plus, as a health insurance agent, I know that changes to the way individual and small-group health insurance policies will be priced in Utah in 2014 and beyond is expected to raise the cost of health insurance premiums for families like mine in our state by up to 28% next year. That expected 28% increase is on top of the new taxes and fees. As far as my family and I are concerned, the looming fees and pricing changes to pay for health reform that will impact us in the future amounts to a huge middle-class tax increase. When you also factor in the other tough financial consequences health reform has had and will continue to have on my business unless addressed by this Congress, such as the law's medical loss ratio requirements, which decreased my personal business income by 30%, it's hard to say this measure has been the Affordable Care Act, at least for the Thorn family.

I truly appreciate the opportunity to provide testimony to your committee today. I consider it a huge honor to be here and a privilege to be able to let you, our elected representatives, know about how the cost of health reform is impacting small-business owners like me. If you have any questions, or if I can be of additional assistance to you as you continue your important work representing American small-business owners, please do not hesitate to contact me. Thank you.



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May 9, 2013

Testimony of Paul N. Van de Water
Senior Fellow, Center on Budget and Policy Priorities

Before the
Subcommittee on Health and Technology
Committee on Small Business
U.S. House of Representatives
The Health Insurance Fee and Health Reform

Mr. Chairman, Ranking Member Hahn, and members of the subcommittee, I appreciate the invitation to appear before you today.

The Affordable Care Act (ACA) will extend health insurance coverage to 27 million people and help assure that Americans have access to affordable coverage. And it will do so in a fiscally responsible way. In fact, the Congressional Budget Office (CBO) estimates that health reform will *reduce* the deficit — modestly in its first ten years, but substantially in the following decade.¹

To pay for the expansion of health coverage, the ACA levies taxes on or reduces Medicare payments to businesses in industries that will directly benefit from health reform. The fee on health insurance providers — also known as the health insurance tax — falls into this category. The law specifies how much the fee is to raise each year; this total is apportioned among providers based on their share of the U.S. health insurance business.² Over the 2014-2023 period, the fee will raise about \$116 billion.³

The fee does not apply to large employers that self-insure — in other words, pay the health costs of their own employees rather than purchase coverage with commercial insurers. This is reasonable, since most large employers already offer health insurance and will be largely unaffected by health reform.

¹ Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Nancy Pelosi, March 20, 2010; Letter to the Honorable John Boehner, February 18, 2011; Letter to the Honorable John Boehner, July 24, 2012.

² The fee is imposed by section 9010 of the Patient Protection and Affordable Care Act. See also Department of the Treasury, Internal Revenue Service, "Health Insurance Providers Fee: Notice of Proposed Rulemaking," *Federal Register*, March 4, 2013, pp. 14034-46.

³ The Joint Committee on Taxation has estimated that the fee will raise \$101.7 billion through 2022. Memorandum from Thomas A. Barthold, Chief of Staff, Joint Committee on Taxation, June 15, 2012.

As with any excise tax, supply and demand will determine how the tax's burden is ultimately split between providers and purchasers. Insurers have recently turned in strong financial results and thus are well positioned to bear some of the tax.⁴ But a portion of the tax is likely to be passed on to consumers. The Joint Committee on Taxation estimates that premiums subject to the fee will be 2 to 2½ percent higher than they would otherwise be.⁵

That is only part of the story, however. Health reform also contains many provisions that will slow the growth of premiums. The new health insurance exchanges will increase competition among plans and create economies of scale. Standardization of benefits and the prohibition of medical underwriting will reduce administrative costs. The individual mandate, as well as the subsidies to help people purchase coverage, will bring more relatively healthy workers into the insurance pool. Premium increases of 10 percent or more are subject to state or federal review, and insurers must provide rebates to their customers if they spend less than 80 percent of premiums on medical care. The ACA also includes a large number of initiatives to identify and implement more efficient ways of delivering medical services.

All things considered, CBO estimates that health reform will slightly reduce premiums for employer-sponsored health insurance in the near term. For employers with more than 50 workers, CBO estimates that the law will reduce average premiums by up to 3 percent in 2016, compared to where they would otherwise be. For small employers, the estimated change in premiums ranges from an increase of 1 percent to a reduction of 2 percent. For workers in firms that can benefit from the ACA's tax credit for small employers, the cost of insurance will drop by 8 to 11 percent.⁶

Claims that the health insurance tax in particular, or health reform in general, will kill jobs are unfounded. CBO foresees a small net reduction in labor supply, primarily because some people who now work mainly to obtain health insurance will choose to retire earlier or work somewhat less, not because employers will eliminate jobs.⁷

In conclusion, the health insurance tax forms part of a carefully thought-out structure to expand health insurance coverage and slow the growth of health care costs without adding to the budget deficit. Any effort to modify or repeal this tax must not undercut any of these critical objectives.

⁴ Peter Gosselin, "Despite Predictions, Health Insurers Prosper Under Overhaul," Bloomberg Government, January 4, 2012; Alex Nussbaum, "Aetna Raises Profit Forecast as Insurer Grows Enrollment," Bloomberg.com, April 30, 2013.

⁵ Thomas A. Barthold, Letter to the Honorable Jon Kyl, May 12, 2011.

⁶ Douglas W. Elmendorf, Letter to the Honorable Evan Bayh, November 30, 2009.

⁷ Congressional Budget Office, "Box 2-1: Effects of Recent Health Care Legislation on Labor Markets," *The Budget and Economic Outlook: An Update*, August 2010, pp. 48-49.



Statement of the New York Farm Bureau

**To the House Committee on Small Business
Subcommittee on Health and Technology**

"The Health Insurance Fee: Impact on Small Businesses"

**Presented by Dean E. Norton
President, New York Farm Bureau**

Thursday, May 9, 2013

The New York Farm Bureau commends the Subcommittee on Health and Technology of the House Committee on Small Business for holding this hearing on the impact of the Health Insurance Tax (HIT) on farms and small businesses. I'd like to thank Chairman Graves and Ranking Member Velazquez, and also thank Subcommittee Chairman Collins, who is my own Representative. I appreciate you inviting me to testify today.

My name is Dean Norton. I am president of New York Farm Bureau, which represents 25,000 members, and I also serve on the Board of Directors of the American Farm Bureau Foundation, representing the Northeast. My family owns and operates Oak Orchard dairy farm in Elba, N.Y., and I am part of the fifth generation on this land. We also have a custom trucking operation for forage and commodity harvesting. The dairy encompasses more than 1,000 acres of farmland and currently has 900 milking cows. In addition, my wife, Melanie, and I also operate DMCK Cattle Company.

The HIT Tax was passed as part of the Patient Protection and Affordable Care Act (ACA). It has nothing to do with reforming the health care insurance system but was included in the ACA as a way to raise revenue to offset the cost of the legislation. The HIT Tax, which will be levied on a health insurance company's net premiums, is expected to raise \$102 billion over the first 10 years. During 2014, the first year that the HIT Tax takes effect, \$8 billion will be collected. A recent Congressional Budget Office report confirms that the HIT Tax "would be largely passed through to consumers in the form of higher premiums for private coverage."

Most farmers and other small businesses do not self-insure because they do not have a large enough pool of employees. Instead, small employers like my family purchase health insurance on the fully insured market. According to the Kaiser Family Foundation's 2012 Survey of Employer Health Benefits, 15 percent of the smallest employers self-insure, roughly half of employers with 200-999 workers self-insure, and 93 percent of firms with more than 5,000 workers do so. Because the smallest employers almost never self-insure, we will end up bearing the brunt of the HIT tax.

But health insurance costs for small businesses are already rapidly trending higher, increasing 103 percent since 2000. According to the Joint Committee on Taxation, the HIT tax will further increase family premiums by \$400 or 2.5 percent in the year 2016, making it even harder for farmers to purchase coverage for themselves, their families and their employees.

In my family's business, the dairy industry provides a highly unpredictable income—the price of milk and the price of our inputs can vary greatly. But health insurance costs have been increasing steadily over time. Our business has to plan to pay for health insurance costs no matter how the business is doing month to month. Because of the cost of insurance we have had to turn to a high deductible policy and we are now covering about half the number of employees we once did.

In order to keep up with the expenses of employer-provided health insurance, it was necessary for the farm to significantly

changed the cost structure from covering about 90 percent of the insurance cost to approximately 50 percent at this time through the high deductible plan. Unfortunately, the people who are really hurt by this change are the employees. They now have to contribute a larger portion of the expense when they seek medical attention and I think we all know that this can be a disincentive for workers to seek care in some instances.

Being able to offer health insurance is important to us we strive to offer benefits that attract high quality workers and to keep them healthy and productive once they are on the payroll. A dependable workforce is especially important in our dairy business which operates 7 days a week, 365 days a year and in our trucking business in which harvest seasons are short and a down day could make the difference between turning a profit or not.

Escalating health insurance costs not only impact farm employers, but also those who purchase health insurance coverage for themselves and their families. The rise in health care costs in recent years has disproportionately impacts rural America where, according to the Council of Economic Advisors, 24.2 percent of families spend more than 10 percent of their income on health insurance coverage, compared with 18.1 percent of families in urban areas.

In conclusion, I would like to encourage all members of the House Small Business Committee to become cosponsors of H.R. 763, introduced by Reps. Charles Boustany (R-La.) and Jim Matheson (D-Utah), to repeal the annual fee on health insurance providers that was enacted by the ACA. Repealing this counterproductive tax will certainly prevent premium increases for individuals and small businesses in the fully insured health insurance marketplace.

Thank you again for the opportunity to share my story. I would be glad to take your questions.

Statement of Rep. Charles Boustany (LA-03)
House Small Business Committee
Subcommittee on Health and Technology
“The Health Insurance Fee: Impact on Small Businesses”
Hearing
May 9, 2013

Enabling all Americans to have access to quality and affordable healthcare was, and remains, a laudable goal. Unfortunately, actual public policies passed by Congress, too often come with unintended consequences and unexpected price tags. The President’s health care law is a prime example of this.

For instance, take small businesses and the health insurance coverage countless enterprises provide for their workers and families. Recently, Gallup’s national poll reported that health care costs and taxes served as the two greatest challenges already facing small businesses. Now, by way of the President’s health care law, millions of American Main Street enterprises and the even more millions of workers they employ will be subjected to a new health insurance tax (HIT) at a price tag over \$100 billion. Increased premiums will not only impact small businesses’ bottom lines and family budgets, they will also lead to negative economic consequences.

Promoted as a “health insurance fee” on insurers, the HIT is unavoidably a tax on small enterprises and the self-employed. Even the Congressional Budget Office (CBO) noted the costs will simply be passed on to policyholders. The HIT will cost each affected family about an average of \$5,000 in higher premiums over the next decade.

American small businesses and workers aren’t asking for a bailout or a handout, they just want a level playing field. Instead they received a tax increase for an expensive health care program they did not ask for or could even afford, while corporate interests and unions were given a pass. It’s wrong and needs to be fixed before it goes into full effect in 2014.

There is hope, however. Congress has the ability to enact what many call the “small business fix” to the President’s health care plan through legislation I introduced named the, “The Jobs and Premium Protection Act.” H.R. 763 prevents premium increases for small businesses and families and protects employees’ jobs by repealing this unfair tax. The bill is a measured reform ensuring America’s small businesses and workers are not targeted with billions of dollars in new taxes or forced to join the ranks of the unemployed. The legislation has overwhelming bipartisan support that continues to grow each day.

Last year, similar legislation was cosponsored by 226 members of Congress. I am hopeful my colleagues in the House and the Senate recognize the potentially disastrous economic effects this tax will have and will join in honoring our commitments to protect small businesses and the millions of workers and families depending on them.

As small businesses inch toward 2014, when major provisions of the Affordable Care Act (ACA) will be implemented, the small business health insurance tax (HIT) will become an expensive reality. This tax may make the ability to offer health insurance coverage even more cost-prohibitive for employers and the ability to purchase health insurance coverage out of reach for many self-employed individuals. According to the National Federation of Independent Business Research Foundation, the small business health insurance tax may cause up to 249,000 lost jobs and up to \$30 billion in lost sales over the next decade. In this economy, American families and small businesses should not have to face a forced tax increase. It's bad policy.

Statement for the Record

**Hearing on the “The Health Insurance Fee: Impact on Small
Business”**

May 9, 2013

Subcommittee on Health and Technology

House Committee on Small Business

Joe Moser

Interim Executive Director

Medicaid Health Plans of America

Chairman Collins, Ranking Member Hahn, and other distinguished members of the Subcommittee on Health and Technology of the House Committee on Small Business, I am submitting this Statement for the Record on behalf of Medicaid Health Plans of America (MHPA) for the hearing titled, “The Health Insurance Fee: Impact on Small Business,” conducted by the Subcommittee on May 9, 2013. My comments are regarding the insurer fee’s impact on the Medicaid program.

MHPA is the leading national association solely focused on representing the interests of Medicaid health plans. MHPA’s 117 member plans serve more than 15 million beneficiaries in 34 states and the District of Columbia. As you may know, over half (51%) of all Medicaid beneficiaries now receive their Medicaid benefits through full-risk, capitated Medicaid health plans.

MHPA appreciates the Subcommittee’s attention to the impact that the insurer fee, which is contained in Section 9010 of the Patient Protection and Affordable Care Act (PPACA), Public Law 111–148, will have on consumers and small businesses. This tax would result in higher health insurance premiums in the commercial market and will be burdensome for small businesses that do not self-insure, as was discussed during the hearing.

However, states’ Medicaid programs and Medicaid beneficiaries will also be heavily impacted by the insurer fee. The insurer fee applies to most health insurance companies in the market and this includes nearly all of MHPA’s membership, Medicaid health plans that contract with states to serve as the payment and delivery system for states’ Medicaid beneficiaries.

The negative impact of this fee is especially apparent when analyzing its effect on state Medicaid programs. The Medicaid program serves our nation’s neediest population, including low-income pregnant women, children and individuals with disabilities. Each state’s Medicaid program is funded by the federal government and states. Most states contract with managed care organizations to deliver Medicaid benefits and services to beneficiaries. The states are required by the federal government to pay Medicaid health plans actuarially sound rates to ensure that plans have enough resources to cover the care needed by enrollees as well as common costs of doing business, which include taxes and fees. This means that Medicaid health plans will be paid with state and federal dollars to cover this fee owed as a result of the PPACA. Further, this fee is nondeductible and counts as taxable income, which only exacerbates the cost.

MHPA commissioned Milliman, a leading actuarial firm, to analyze the impact of the fee on Medicaid health plans and to quantify the resulting cost to states and the federal government. The Milliman report found that over ten years, the fee would cost the government \$38.4 billion. The state portion of this estimate is \$13.6 billion and \$24.8 billion would be the federal portion.

The loss of state and federal Medicaid funding that would result from this fee being placed on Medicaid health plans will strain states and the Medicaid programs, as well as reduce funding and access to services available for Medicaid beneficiaries. As states

face financial pressure to implement the PPACA and expand the Medicaid program, the insurer fee will drain states of valuable and limited health care dollars.

In closing, MHPA supports full repeal of the insurer fee. We applaud Congressman Boustany's legislation, H.R. 763, to fully repeal the fee in order to avoid the negative impact that it will have on state Medicaid programs and beneficiaries, as well as companion legislation, S. 603, introduced by Senator Barrasso. We urge Committee members to continue to recognize the negative impact that this fee will have on the Medicaid program as one very important component to the overall concerns regarding this tax contained in the ACA.

Thank you for the opportunity to submit a Statement for the Record on behalf of MHPA.

