health reform

Frequently Asked Questions
Affordable Care Act (ACA) Taxes: Reinsurance Tax and Insurer Tax
May 16, 2013

Background:
One of the goals of the Affordable Care Act (ACA) is to ensure that everyone involved in providing health care coverage shares the responsibility in making sure that coverage is affordable and accessible. As a result, the ACA requires that certain taxes be collected to fund the healthcare marketplace also known as health insurance exchanges (Covered California in this state).

The ACA taxes primarily covered in this document are:

- The Health Insurer Tax
- The Transitional Reinsurance Tax

We are awaiting final regulatory rules and guidance on how these taxes will be calculated and paid, which may change the answers to some of the questions outlined below. Blue Shield will update this document as new information becomes available.

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HEALTH INSURER TAX

1. What is the Health Insurer Tax?
Health insurers will have to pay an annual tax, beginning in 2014 to help fund premium subsidies and tax credits to be made available to qualifying individuals purchasing health insurance coverage on the exchanges beginning in 2014.

2. Why is the Health Insurer Tax needed?
In 2014, an estimated 33 million people will enter the insurance market. Many of these new entrants are low income individuals who will receive subsidies toward the purchase of insurance. The Health Insurer Tax will offset at least a portion of the expenses related to premium subsidies and tax credits to individuals purchasing coverage on the exchanges.

3. When is the Health Insurer Tax effective?
The tax is effective January 1, 2014 and beyond. The tax has no set end date.

4. What plans are affected by the Health Insurer Tax?
The Health Insurer Tax is assessed only on fully insured large group, small group, and Individual and Family health plans. Self-funded (ASO) plans are not subject to this tax.

5. What is the amount to be collected from the Health Insurer Tax?
The ACA calls for the government to collect a set total from health insurers each year: $8 billion in 2014, growing to $14.3 billion in 2018 and increasing by the rate of premium growth after that. The United States Secretary of the Treasury, through the IRS, will determine the amount of the tax due by each health insurance issuer, based on net premiums for US-based lives, and bill each issuer annually.

6. Who is responsible for paying the Health Insurer Tax?
Health insurance issuers are responsible for remitting the tax to the federal government.

7. How will Blue Shield collect the Health Insurer Tax?
The Health Insurer Tax will be added to premiums for fully insured health plans. For more information on when this tax will affect premiums, please see General Question 1 below.

8. Does the Health Insurer Tax apply to Specialty Benefits?
Yes, the Health Insurer Tax applies to dental and vision plans, whether riders or stand-alone plans.

9. Are there any exclusions to the Health Insurer Tax?
Yes, premiums for long-term care, Medicare supplemental insurance, accident and disability, specific disease or illness, hospital indemnity or other fixed indemnity insurance are excluded from the Health Insurer Tax.

10. Are there any estimates of what impact the Health Insurer Tax might have on health insurance premiums?
Most research suggests that insurance premiums will increase 2% to 3% as a result of the Health Insurer Tax initially, and in ten years the increase may be between 3% and 4%. We expect the impact of the 2014 Health Insurer Tax to be 2.3%.

TRANSITIONAL REINSURANCE TAX

1. What is the Transitional Reinsurance Tax?
This tax will be in place for plan years 2014 through 2016, to fund state non-profit reinsurance entities for the purpose of establishing a fund for "high risk" individuals expected to enter the insurance market in 2014.

2. When is the Transitional Reinsurance Tax effective?
The Transitional Reinsurance Tax is imposed for a limited number of years, beginning January 1, 2014 and ending December 31, 2016.

3. What plans are affected by the Transitional Reinsurance Tax?
The Transitional Reinsurance Tax is assessed on fully insured **and** self-funded (ASO) large group and small group plans, as well as Individual and Family health plans.

4. Who pays the Transitional Reinsurance Tax?
Health insurance issuers and self-funded health plans (directly or via third party administrators) will pay the Transitional Reinsurance Tax to the federal government to fund state non-profit reinsurance entities.

5. Why is the Transitional Reinsurance Tax needed?
Beginning in 2014, no one will be denied coverage based on pre-existing health conditions. As a result, it is likely that many people who have serious (and expensive) health conditions will sign up for coverage through the state health insurance exchanges. Providing care for these individuals will place an increased financial burden on insurance companies that might be reflected in premium increases.

The purpose of the Transitional Reinsurance Tax is to provide funds to help stabilize those premiums for the first few years that high risk enrollees enter the market.

6. How much tax revenue will be collected from the Transitional Reinsurance Tax?

The ACA expresses the amount of the Transitional Reinsurance Tax in the aggregate. The amount of the tax is $25 billion and will be collected over the three-year period in the amounts of $12 billion in 2014, $8 billion in 2015 and $5 billion in 2016. Recent regulatory guidance changed the “percent of premium” tax formula to a national per capita tax rate, which HHS will announce later this year. States may assess supplemental transitional reinsurance taxes.

7. What is the estimated national per capita tax rate?

For 2014, the Department of Health and Human Services (HHS) has estimated that the national per capita tax rate for the Transitional Reinsurance Tax will be $63 for each enrolled member annually, or $5.25 each month; this will be reviewed and adjusted on an annual basis.

8. What will the increase be for Blue Shield fully insured customers, and how will Blue Shield collect the Transitional Reinsurance Tax for fully insured health plans?

Blue Shield estimates that the Transitional Reinsurance Tax will increase a customer’s premiums and/or dues by approximately 1.3%.

The Transitional Reinsurance Tax will be added to premiums and/or dues for all fully insured health plans, and will be collected monthly as part of a customer’s bill. For more information on when this tax will affect premiums, please see General Question 1 [link] below.

9. How will the Transitional Reinsurance Tax be assessed in light of the new small employer member-level rating rules that take effect in 2014?

Next year the small employer market (businesses with 50 or fewer employees) will feature age based member-level rating, which works like this: for families purchasing coverage, Blue Shield will add the rate of each family member to arrive at the family’s rate. In addition to the subscriber and spouse, the family rate will include rates for only the three oldest family members who are under age 21. This total family rate will be increased by approximately 1.3% to cover the cost of the Transitional Reinsurance Tax.

10. How will Blue Shield help self-funded (ASO) customers administer the Transitional Reinsurance Tax?

Blue Shield of California is offering an optional service to our self-funded (ASO) customers and direct contract Shared Advantage customers to administer the Transitional Reinsurance Tax on their behalf. The service is effective June 2013. Please contact your Blue Shield Representative for more information.

11. Does the Transitional Reinsurance Tax apply to dental and vision coverage?

The Transitional Reinsurance Tax applies to dental and vision coverage when offered as part of or as a rider to a medical plan, but not to stand-alone dental and vision plans. Since Blue Shield offers dental and vision coverage as stand-alone plans, our clients and members will not be taxed for their dental or vision coverage.

12. Are there any exclusions to the Transitional Reinsurance Tax?
The Transitional Reinsurance Tax does not apply to Medicare Advantage and Medicare Part D plans, Medicaid plans, excepted benefits as defined under the PHS Action, such as stand-alone vision and dental plans, and plans providing non-comprehensive coverage such as accident only and disability income plans.

GENERAL QUESTIONS & ANSWERS

1. When is Blue Shield implementing the Health Insurer Tax and the Transitional Reinsurance Tax?
For Individual and Family and small employer groups (50 or fewer employees), the Health Insurer Tax and the Transitional Reinsurance Tax will be implemented for all members on a monthly basis beginning on January 1, 2014. Small Groups will begin paying the taxes on January 1, 2014 regardless of their 2014 renewal date. For large employer groups (51 or more employees), the taxes are being implemented on a rolling basis, at the next contract renewal and for new business, beginning February 1, 2013; the amount owed for the taxes as of January 2014, will be prorated over a 12-month period in the renewal rate.

2. These taxes are also referred to as "fees" elsewhere. Why does Blue Shield call them "taxes"?
We believe that calling them "taxes" is more appropriate. In general terms, a tax benefits the general public and payment is mandatory. Whereas typically a fee is based on use of a service or choice to engage in the regulated activity.

3. Do the Health Insurer Tax and the Transitional Reinsurance Tax apply to grandfathered and non-grandfathered plans?
Yes, the Health Insurer Tax and the Transitional Reinsurance Tax apply to both grandfathered and non-grandfathered plans.

4. Does Blue Shield pay broker commissions on the Health Insurer Tax and the Transitional Reinsurance Tax?
We currently pay commissions based on the full premium/dues. Should this approach change, we will notify our brokers.

5. Will the Health Insurer Tax and the Transitional Reinsurance Tax be itemized on customer bills?
No, the Health Insurer Tax and the Transitional Reinsurance Tax will not be itemized at this time. Should this approach change, we will notify our brokers and customers.

Other Taxes

1. Are there other taxes in ACA that will impact Blue Shield health plans?
Yes, there are three other taxes that are expected to directly impact health plans: Patient-Centered Outcomes Research Institute tax (also known as the Comparative Effectiveness Tax or PCORI tax), the Exchange Tax, the Risk Adjustment User tax, and the High Cost Employer-Sponsored Health Coverage Excise Tax (often called the Cadillac Tax).

- **The PCORI tax** is an annual tax to fund the Patient-Centered Outcomes Research Institute, and is imposed for a limited number of years, beginning with renewals on or after October 2, 2011, and ending in 2019. The tax is based on a set amount ($1 per member, per year in 2012, $2 per member, per year in 2013, and increased amounts reflecting national health expenditures thereafter) multiplied by the average number of enrollees in a plan.

- **The Exchange Tax** will be assessed on issuers offering health plans in an Exchange to cover related operational and administrative costs. The ACA requires Exchanges to be self-sustaining as of 2015. Issuers offering health plans through a federally-facilitated exchange will be required to remit a monthly user fee that is proposed to be 3.5% of the monthly premiums for each policy, although the exact amount of the tax is still being determined. The tax is to start in 2014 and will continue after that.

- **The Risk Adjustment User Tax** will be collected by HHS from issuers when it operates a state risk adjustment program. For 2014, the federal user tax will be set at $0.96 per enrollee per year.

- **The Cadillac Tax** would be assessed on any benefits provided to employees that exceed a pre-determined threshold beginning in 2018; however the government has not issued any updates on this tax since the ACA was originally enacted in 2010.

2. What are the other ACA taxes and fees to be aware of?
There are additional taxes and fees under the ACA which may affect health plans indirectly. For example, the ACA imposed new annual taxes on large pharmaceutical companies beginning in 2011. Beginning in 2013, the ACA also imposes an excise tax of 2.3 percent on the sale of taxable medical devices. To the extent that these companies incorporate the taxes into the cost of drugs or medical devices, they may affect premiums and/or claim costs. Please see the chart in the appendix [link] for more information.

Appendix

ACA Tax and Fee Summary

The Affordable Care Act contains several different fees and taxes designed to fund the provisions of the legislation. Some of these are part of the tax laws, but others are embedded in other statutes or regulations.

Tax	Amount	Effective	Who Pays?
Health Insurance Tax Annual tax apportioned among health insurers based on relative market share:	2014: $8 billion 2015: $11.3 billion 2016: $11.3 billion 2017: $13.9 billion 2018: $14.3 billion After 2018: Increases based on premium growth	2014	Health insurers Tax will be added to Premiums.
Transitional Reinsurance Tax Per capita charge to fund the Transitional Reinsurance Program for a three-year period:	2014: $12 billion 2015: $8 billion 2016: $5 billion	2014 Fee scheduled to end in 2016	Health insurers and plan administrators on behalf of self-funded employer health plans Tax will be added to premiums.
Comparative Effectiveness (PCORI) Tax To fund the Patient Centered Outcome Research Institute	$1 per covered life for plan/policy years ending before October 1, 2013 $2 per covered life for plan/policy years ending before October 1, 2014	Plan/policy years that end after September 30, 2012 Fee scheduled to end in 2019	Health insurers and self-funded employer plans

Exchange Fees	3.5% of premium (subject to adjustment) (Proposed federally facilitated exchange fee for 2014; will vary annually; *see* 77 Fed. Reg. 73,201) (State exchange fees will vary among states)	2014	Health insurers pay to exchanges Expected to be added to premium
Branded Prescription Drugs Tax to help fund the ACA	Annual fee on manufacturers and importers of brand name prescription drugs based on relative market share:	2011	Manufacturers and importers of brand name prescription drugs Expected to be added to the cost of pharmaceuticals and thus premium
Medical Devices Tax to help fund the ACA	2.3% of the price of a medical device	2013	Medical device manufacturers, producers, or importers Expected to be added to the cost of medical devices and thus premium
Tax on High-Cost Insurance Plans Tax to help fund the ACA	40% of the value of employer-sponsored health coverage that exceeds per employee threshold amounts, $10,200 self only, $27,500 other than self only, will be subject to federal income tax (indexed for inflation)	2018	Health insurers and self-funded employer plans Expected to be added to premium
Increased Medicare Hospital Insurance Tax	Additional 0.9% Medicare Hospital Insurance tax	2013	Tax assessed on income above the following thresholds: $250,000 for married taxpayers who file jointly and for surviving spouses, $125,000 for married taxpayers who file separately, and $200,000 for single taxpayers.
Unearned Income Tax to help fund the ACA	3.8% tax on unearned income (*e.g.,* from interest, dividends, annuities, royalties and	2013	Individuals with income over $200,000, or $250,000 if filing a joint return

	rents)		
Indoor Tanning Tax to help fund the ACA	10% of the cost of indoor tanning services	2010	Providers of indoor tanning services should collect the tax at the time the purchaser pays for the indoor tanning services