



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

Michael J. Chow  
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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.<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup>

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.<sup>4</sup> 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 report<sup>5</sup> 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. The methodological details appear in the earlier report available online.

## **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**

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

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<sup>1</sup> 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.

<sup>2</sup> 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.

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

<sup>4</sup> 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.

<sup>5</sup> Chow, Michael J., “[Effects of the PPACA Health Insurance Premium Tax on Small Businesses and Their Employees,](#)” NFIB Research Foundation, November 9, 2011.



## **Effects of the PPACA Health Insurance Premium Tax on Small Businesses and Their Employees: An Update (State-Level Results)**

Michael J. Chow  
March 26, 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.

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Background information regarding the tax and the methodology employed to obtain the above forecasts can be found in the [original report](#) released in 2011. Since the BSIM is a regional model, select state-specific forecasts are also available. Currently, the BSIM is capable of producing subnational results for ten states and a residual region representing the rest of the United States. The ten states are California, Colorado, Florida, Illinois, Massachusetts, New York, Ohio, Pennsylvania, Texas, and West Virginia. Long-run state-specific employment and output results for these ten states are provided in the tables below.

**EMPLOYMENT DIFFERENCE FROM BASELINE (ALL FIRMS) BY REGION, YEAR 2022**

Region	Tax = 2.5% of Premiums		Tax = 3.0% of Premiums	
	5% HI Inflation	10% HI Inflation	5% HI Inflation	10% HI Inflation
California	-14,322	-21,937	-17,161	-26,296
Colorado	-3,277	-4,871	-3,928	-5,844
Florida	-5,600	-8,486	-6,715	-10,155
Illinois	-2,810	-4,286	-3,366	-5,135
Massachusetts	-656	-995	-792	-1,194
New York	-1,743	-2,678	-2,088	-3,214
Ohio	-2,999	-4,459	-3,599	-5,345
Pennsylvania	-2,591	-3,839	-3,101	-4,601
Texas	-7,751	-11,788	-9,295	-14,135
West Virginia	-1,095	-1,587	-1,312	-1,902
Rest of U.S.	-102,732	-153,595	-123,253	-184,214

**REAL OUTPUT DIFFERENCE FROM BASELINE (ALL FIRMS) BY REGION, YEAR 2022**

Region	Tax = 2.5% of Premiums		Tax = 3.0% of Premiums	
	5% HI Inflation	10% HI Inflation	5% HI Inflation	10% HI Inflation
California	-\$2.339B	-\$3.576B	-\$2.803B	-\$4.289B
Colorado	-\$0.460B	-\$0.688B	-\$0.552B	-\$0.826B
Florida	-\$0.671B	-\$1.022B	-\$0.807B	-\$1.226B
Illinois	-\$0.492B	-\$0.753B	-\$0.590B	-\$0.902B
Massachusetts	-\$0.180B	-\$0.274B	-\$0.218B	-\$0.329B
New York	-\$0.347B	-\$0.540B	-\$0.417B	-\$0.646B
Ohio	-\$0.476B	-\$0.715B	-\$0.570B	-\$0.857B
Pennsylvania	-\$0.407B	-\$0.609B	-\$0.486B	-\$0.729B
Texas	-\$1.340B	-\$2.035B	-\$1.609B	-\$2.439B
West Virginia	-\$0.104B	-\$0.152B	-\$0.125B	-\$0.184B
Rest of U.S.	-\$12.517B	-\$18.839B	-\$15.019B	-\$22.596B