

The Impact of the Health Insurance Tax on Medicare Advantage

FACT SHEET AUGUST 2018

Key Facts

- The ACA imposed a multi-billion-dollar annual tax on health insurance that is likely to increase premiums or cost-sharing for Medicare Advantage beneficiaries.
- Over 25% of the HIT falls on Medicare Advantage and Part D plans.
- Congress suspended the tax for 2019.
- The HIT is scheduled to be reinstated for 2020.
- As a result, premiums could increase by \$241 for the typical Medicare Advantage beneficiary in 2020.
- Better Medicare Alliance urges Congress to suspend the tax for 2020 and to repeal the HIT in future years to protect Medicare Advantage beneficiaries.

Policy Recommendation

Better Medicare Alliance urges Congress to act as soon as possible to suspend the health insurance tax for 2020 to protect Medicare Advantage beneficiaries from increased health care costs and provide stability for providers. Repeal of the HIT would prevent the increase in the cost of health coverage and preserve access to valued care for seniors, the disabled, and low-income beneficiaries in Medicare Advantage.

The Health Insurance Tax (HIT) and Medicare Advantage

The Patient Protection and Affordable Care Act (ACA) imposed an annual tax on health insurance premiums. The tax applies to individual policies, small groups, employers that are not self-insured, Medicaid managed care, Medicare Part D, and Medicare Advantage. The \$8 billion tax was first levied in 2014, and grows every year by the rate of growth in premiums. To prevent premium increases, Congress suspended the HIT in 2017 and 2019. The HIT is scheduled to be reinstated in 2020 and is expected to have a total premium impact of as much as \$20.3 billion, negatively impacting over 20 million seniors and disabled individuals enrolled in Medicare Advantage.

The HIT is estimated to increase premiums by 2.2% in 2020 and beyond. Over 25% of the tax falls on Medicare Advantage and Part D plans, likely resulting in an increase in premiums and/or cost sharing paid by seniors and other beneficiaries with Medicare Advantage and Part D prescription drug coverage.

The tax will increase costs for Medicare Advantage, which is highly valued by beneficiaries for its affordability, simplicity, supplemental benefits and care management. Medicare Advantage now covers over one-third of Medicare beneficiaries and has been shown to increase preventive care, reduce hospitalizations, improve outcomes, and achieve high patient satisfaction.

The Impact of the HIT on Medicare Advantage Beneficiaries

According to an updated August 2018 analysis by Oliver Wyman, the return of the HIT in 2020 could equate to \$241 in additional annual premiums for the typical Medicare Advantage beneficiary, or \$3,052 over the next ten years. More than half of Medicare Advantage enrollees live on less than \$30,000 annually. According to a Federal Reserve report, when faced with an unexpected expense of \$400, four in 10 adults would either not be able to cover it, or cover it by selling something or borrowing money. As the tax increases in future years, beneficiaries could experience higher premiums and out of pocket costs or reduced benefits.

Support for Delaying the HIT

Recognizing the negative impact of the HIT on families, small businesses, and seniors, nearly 350 Democrats and Republicans in Congress voted to suspend the HIT for 2019. The moratorium prevented the scheduled multi-billion tax from being collected for one year, and saved beneficiaries an estimated over 2% in premium increases. Suspending the HIT for 2020 is one of the most direct ways for Congress to provide financial relief for seniors and Medicare beneficiaries and maintain access to quality affordable prescription drug coverage and health care they have chosen.