

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

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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 3rd, 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 fully-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 borne jointly by both the employer and the employee in proportion to their share of premium.

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

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

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

⁴ Medical 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.

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>.