



## **The Health Insurance Fee** **A Tax on Small Business Health Insurance**

*The Patient Protection and Affordable Care Act (H.R. 3590), which proponents say will reduce the cost of health insurance for small businesses, includes a new tax that will be passed on almost exclusively to the small businesses that desperately need relief from high health care costs.*

### **Overview**

Franchised small businesses have consistently stated that controlling the increasing costs of health insurance premiums is their number one concern and needs to be the focus of health care reform legislation. The health insurance tax included in the Patient Protection and Affordable Care Act would raise the cost of small business health insurance premiums. The health insurance fee, which is levied on the health insurance companies, would be almost entirely passed on to the consumers in the fully-insured marketplace, where nearly all small business and self-employed purchase their coverage.

This new tax on small business insurance plans will raise costs for already struggling small businesses and is contrary to the goal of reducing health insurance costs.

### **How does the tax work?**

H.R. 3590 assesses a tax on all health insurance companies based on their "net premiums" written. The amount of the \$6.7 billion annually that the insurance company would be responsible for is equal to the percent of the market that the insurance company covers. The larger the insurance companies market-share, the higher their annual health insurance tax would be.

### **How does this new tax increase the cost for small business?**

First, a health insurance company is defined to exclude employers that self-insure. Most small business owners do not self-insure because they do not have a large enough pool of employees. Instead, small employers purchase health insurance in the fully-insured market. Because self-insured plans are excluded from the direct assessment proposed under H.R. 3590, the **only** insurance plans that factor into the equation are fully-insured plans – **87% of all plans purchased by small business owners are fully-insured plans.**

Second, while the fees are assessed on the insurance company, those companies have two choices: either eat the costs or pass the costs on to their customers. Because this fee will eat into the bottom line of the company, they will certainly pass these costs along to their customers. *A recent CBO report confirms the small business insurance tax "would be largely passed through to consumers in the form of higher premiums for private coverage."* This means that customers that will pay for these increased costs are the same small business owners who have been asking for health insurance reform that reduces their costs.