

State Health Insurer Tax

The recent repeal of the federal Health Insurer Tax creates an opportunity for states to secure substantial funding to support health coverage without increasing costs to health care patients or industry. Since 2014 the federal Health Insurer Tax had been collected annually based on the previous year’s premiums, raising nearly \$20 billion dollars. But as part of the federal government spending bill enacted in December 2019 the tax was abruptly repealed.

Two states – Maryland and Delaware – had already added state taxes or fees in response to prior suspensions of the federal Health Insurer Tax, and two more – Colorado and New Jersey – did so in 2020. The states have used this revenue to fund state wrap around subsidies, reinsurance programs, and subsidies for populations left out of federal assistance. Without a state Health Insurer Tax, revenue previously dedicated to health care affordability will be lost, along with an opportunity to support state innovation, and insurers may receive a windfall if they had factored the federal tax into 2018 and 2020 premiums.

The federal Health Insurer Tax had a complex structure: a fixed total tax amount was allocated among insurers by their share of aggregate premiums collected. Changing any one insurance issuer’s tax bill means every other issuer’s tax bill changed as well. Therefore, the tax was not collected until September of the following year to allow time for these calculations. States have not adopted this structure, instead increasing premium assessments/taxes to approximate the payments previously owed by state-taxable entities. The Minnesota proposal follows this trend and increases the state premium tax by 1.65%.

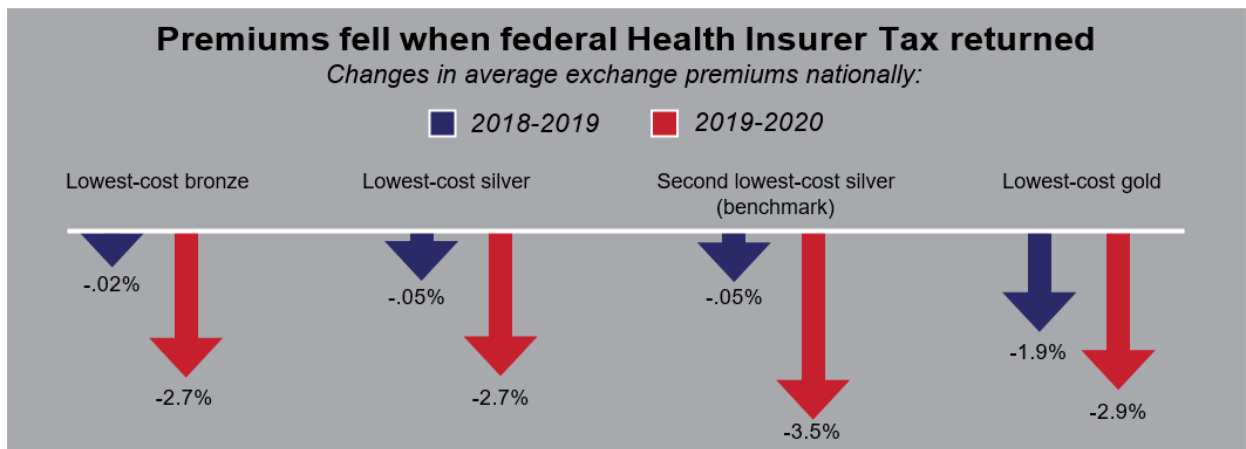
Health Insurer Tax Payment Year (Based on Prior-Year Premiums)

	2014-16	2017	2018	2019	2020	2021+
Federal Tax	✓	X	✓	X	✓	X
Maryland Tax	X	X	X	2.75%	1%	1%
Delaware Fee	X	X	X	X	1%	2.75%
Colorado Fee	X	X	X	X	X	1.15-2.1%
New Jersey Assessment	X	X	X	X	X	2.5%
Minnesota Tax	X	X	X	X	X	Proposed: 1.65%

Health Insurer Taxes Don't = Health Insurance Premiums Increases

Data shows that health insurer fees/taxes don't translate into increases in health insurance premiums. There is no single factor that determines whether premiums will rise, fall or stay stagnant. A good example is the federal health insurer tax which has been collected off and on for many years, but that fluctuation has not been tied to premium costs in the individual or small group market.

For example: The federal tax was not collected in 2019 (on 2018 premiums), but was collected in 2020 (on 2019 premiums). Also, the tax was in place when 2020 premiums were set. However, across the country premiums declined in 2020. The chart below, using data from the Kaiser Family Foundation State Health Facts, shows this trend.



In 2019, Maryland replaced the suspended federal tax with a state-level fee and still saw a significant drop in premiums in the individual market compared to national rates. The chart below using data from the Kaiser Family Foundation State Health Facts shows this trend. Further, data from the Centers for Medicare and Medicaid Services show that premiums in the small group market in Maryland rose by less than the national average when they implemented their state fee.

