

How is the Patient Protection and Affordable Care Act (ACA) Funded?

According to the Congressional Budget Office (CBO), the ACA's coverage expansion is estimated to cost roughly \$1.363 billion over the period of 2014-2023 in mandatory expenditures. This estimate, released in May 2013, reflects the Supreme Court's decision that allows states to choose whether to expand Medicaid and other responses to the law, such as lower revenue derived from the excise tax on high-cost employer-based health insurance plans. The cost of the law may fluctuate depending on the amount of funding Congress appropriates to health-related discretionary programs and other factors, such as how many persons enroll in the new coverage options created by the ACA, changes in health care spending, growth in the overall economy, and other variables. Discretionary funding means that Congress must decide, usually on an annual basis through the "appropriations" process, how much money it will put into funding each "discretionary" program authorized by the ACA. "Mandatory" funding means that the federal government automatically is required to spend the amount of money required to support a particular program created by the ACA, such as benefits paid out under Medicare and Medicaid.

The ACA and its companion reconciliation legislation contain a number of provisions designed to raise revenue to offset the cost of the health reform law. After the revenue raisers are initiated, the law is estimated to reduce the federal deficit by \$109 billion over the 2013-2022 period according to CBO and the Joint Economic Committee.¹ The CBO/JCT has not updated its estimate on the ACA's effect on the federal deficit, although in the May 2013 estimate they reaffirm that "(t)aking the coverage provisions and other provisions together, CBO and JCT have estimated that the ACA will reduce deficits over the next 10 years and in the subsequent decade."ⁱⁱ

Annual Fee on Health Insurance Providers:

Starting in 2014, health insurers will have to pay a fee to the federal government. The amount of the fee depends on the amount of "net premiums written" by the insurer during the year. Net premiums written is the amount of premiums paid to the insurer by plan enrollees and adjusted for the cost of any reinsurance (which guards the insurer from major financial loss) held by the insurer.

Will all insurers have to pay the fee?

Some insurers with relatively low net premiums written amounts will be exempt from the assessment. Insurers with at least \$50 million in net premiums written for the year will have to pay the full fee. Non-profit insurers will only have 50 percent of their net premiums written accounted for when the fee is being determined.

The following insurers are exempt from the fee:

- Self-insured plans (typically large employers who fund the insurance of their employees)
- Any government entity

How much revenue will this raise?

The CBO/Joint Committee on Taxation predicts the fee will raise \$102 billion over the period of 2013-2022.¹

Excise Tax on Indoor Tanning Services

Among the smaller revenue provisions in the ACA is a 10 percent excise tax on indoor tanning services.

Why is this necessary?

Some proponents of the provision, such as the American Academy of Dermatology, believe the tax will discourage the use of tanning beds which may be connected to skin cancer. The provision went into effect on July 1, 2010 and is estimated to increase revenue by \$2.7 billion.

Excise Tax on Medical Devices:

Effective on January 1, 2013, the ACA implemented a 2.3 percent tax on the sale of medical devices by a manufacturer, producer or importer.

Are any products exempt from the tax?

The tax does not apply to eyeglasses, contact lenses, hearing aids or other devices determined by the federal government to be purchased for individual use by the public.

How much revenue will the tax raise?

The Joint Committee on Taxation predicts that the excise tax on medical devices will increase revenues by \$29 billion over the period of 2013-2022.¹

Annual Fee on Manufacturers and Importers of Branded Prescription Drugs:

In 2011, prescription drug manufacturers and importers began paying an annual fee to the federal government based on the company's branded drug sales for the year.

How much will drug companies have to pay?

It depends on the combined dollar amount of brand name prescription drugs (including biologic drugs) they have sold during the previous year, including sales to federal health programs such as Medicare, Medicaid and the Veterans Health Administration. The fee gradually increases as the company's drug sales rise; companies with more than \$400 million in annual drug sales will have to pay a higher fee than those with relatively modest annual sales. The amount of the fee will be determined by the federal government.

Are any branded drugs exempt?

Sales of orphan drugs – those used to treat rare diseases and conditions – are not considered in the payment formula.

By how much will the provision increase revenue?

The total revenue collected is capped each year, so in 2011 the revenue raised equaled \$2.5 billion, \$2.8 billion in 2012, and so on. The CBO/Joint Committee on Taxation projects the annual fee will increase revenues by \$34 billion over the period of 2013-2022.¹ The ACA requires that revenue raised through the assessment be directed to the Medicare Part B Trust Fund.

Excise Tax on High-Cost Health Insurance Plans:

To help offset the cost of the law, the ACA contains a revenue-raising provision that would place an excise tax on high-cost insurance plans, beginning in 2018. Most Americans receive health insurance through their employer and the cost of employer-sponsored health insurance is currently excluded from taxation. This means that employer-sponsored insurance is essentially subsidized through the tax system. The tax exclusion yields significant savings for some people, particularly high-income earners. For instance, if an employer provides \$5,000 towards the cost of health insurance for an employee in the 28 percent tax bracket, the employee benefits from a \$1,400 tax break.

Where does the excise tax idea come from?

The ACA does not cap or phase-out the tax exclusion on employer-sponsored health insurance. Instead it places a tax on health insurance companies who offer insurance plans with annual premiums that exceed a certain threshold.

While the health insurance tax exclusion has helped encourage the proliferation of employer-sponsored health insurance, the loss of revenue to the federal government is significant. In 2007, the exclusion amounted to \$246 billion in foregone income and payroll tax revenue. Some critics of the tax exclusion argue that it pushes employers to make imprudent decisions regarding health care, encouraging them to purchase expensive and overly-generous health insurance. Others criticize the regressive nature of the tax, arguing that it disproportionately benefits high-income earners rather than those with modest incomes. Criticism of the tax exclusion is found across the ideological spectrum and interest groups as diverse as AARP and the American Medical Association have expressed support for capping or terminating the tax exclusion altogether. The excise tax on insurers may achieve the same goal of health insurance tax exclusion reform since it might lead employers to offer more focused benefits to workers.

How does the excise tax work?

In 2018, health insurers and health plan administrators will be subject to a 40 percent excise tax on coverage that exceeds a certain threshold. For single coverage, that threshold is \$10,200 and for family coverage the threshold is \$27,500. The thresholds will be adjusted for inflation beginning in 2020.

There are some alternate thresholds for certain groups of people:

- Early retirees aged 55-64 the threshold is \$11,850 for single coverage and \$30,950 for family coverage.
- Health plans for workers in high-risk professions (such as police officers; firefighters; paramedics; those in the construction, mining and fishing industries; etc.) are also subject to the above thresholds.
- Union health plans will only be subject to the family plan threshold.

Will other types of coverage or tax-advantaged accounts be affected by the provision?

Yes, the following tax-advantaged accounts will be added to the cost of the health plan in determining whether or not they meet the threshold:

- Dental and vision coverage included in the health plan (that is not a stand-alone benefit).
- Flexible spending accounts.
- Health savings accounts.
- Health reimbursement accounts.

- Medical savings accounts.

By how much will this provision increase revenue to the federal government?

The excise tax on high cost health plans is one of the health care law's most effective revenue provisions. The CBO predicts that the excise tax will increase revenues by \$111 billion in 2012-2022. Since the provision is put into effect in 2018, the revenue amount will likely increase in subsequent years as health care premiums rise and more plans exceed the threshold.ⁱⁱⁱ

Additional Resources

- *Congressional Research Service: Health-Related Revenue Provisions in the Patient Protection and Affordable Care Act (P.L. 111-148), April 8, 2010; Comprehensive guide to the various revenue provisions of the health reform law.*
http://www.coburn.senate.gov/public//index.cfm?a=Files.Serve&File_id=9e7f8345-d811-4ccc-87c1-52d6b477d193
- *NY Times: Senate Plan Shifts Tax to Tanning Bed from Botox; Article about the excise tax on tanning services.*
http://www.nytimes.com/2009/12/24/fashion/24Skin.html?_r=1&scp=1&sq=tanning%20tax&st=cse
- *American College of Physicians: Reforming the Tax Exclusions for Health Insurance. The College's position paper on reforming the health insurance tax exclusion.*
http://www.acponline.org/advocacy/where_we_stand/policy/health_reform_tax_ex.pdf
- *CBO's Estimate of the Net Budgetary Impact of the Affordable Care Act's Health Insurance Coverage Provisions Has Not Changed Much Over Time.*
<http://www.cbo.gov/publication/44176>
- *CBO: Letter to the Honorable John Boehner providing an estimate for H.R. 6079, the Repeal of the Obamacare Act. The estimate gives a sense of the revenue-raisers and spending offsets established by the ACA.*
<http://www.cbo.gov/sites/default/files/cbofiles/attachments/43471-hr6079.pdf>

ⁱ This figure is based on CBO and JCT's cost estimate of H.R. 6079, the Repeal of Obamacare Act, which sought to repeal the Affordable Care Act. Figures are based on the assumption that if passed, the law would take effect at the beginning of fiscal year 2013. CBO notes that "the estimated effects of *repealing* the coverage provisions of the ACA differ slightly from CBO and JCT's current projections of the budgetary effects of those provisions." <http://cbo.gov/sites/default/files/cbofiles/attachments/43472-07-24-2012-CoverageEstimates.pdf>

ⁱⁱ Banthin J and Masi S. CBO's Estimate of the Net Budgetary Impact of the Affordable Care Act's Health Insurance Coverage Provisions Has Not Changed Much Over Time. CBO. May 14, 2013. Accessed at: <http://www.cbo.gov/publication/44176> on October 7, 2013.

ⁱⁱⁱ CBO. Updated Estimates for the Insurance Coverage Provisions of the Affordable Care Act. March 13, 2012. Accessed at: <http://cbo.gov/sites/default/files/cbofiles/attachments/03-13-Coverage%20Estimates.pdf> on January 29, 2013.