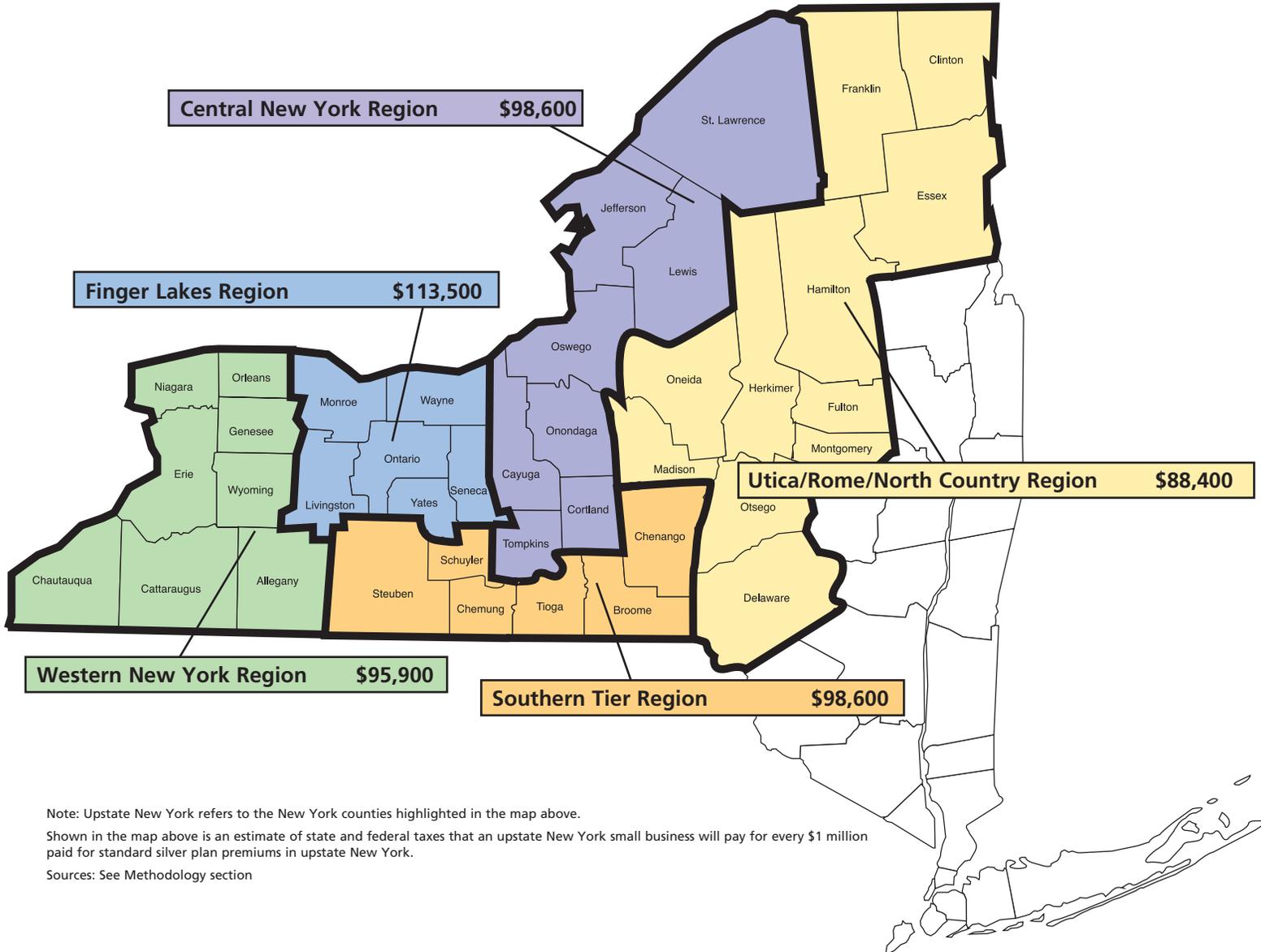


Taxes on New Yorkers who purchase private health insurance

Estimated annual state and federal taxes and fees to be paid in 2015 by an upstate New York small business with \$1 million in standard silver plan premiums



Note: Upstate New York refers to the New York counties highlighted in the map above.

Shown in the map above is an estimate of state and federal taxes that an upstate New York small business will pay for every \$1 million paid for standard silver plan premiums in upstate New York.

Sources: See Methodology section

State taxes on private health insurance coverage in New York state will total an estimated 4.6 billion dollars in 2015. New Yorkers with private health insurance typically obtain this coverage through their employers. For upstate New York's small businesses, 9 percent to 11 percent of the premiums they will pay for health insurance coverage under a standard silver plan in 2015 will go towards taxes.

In addition to state taxes, New Yorkers will pay \$1.8 billion dollars in federal taxes and fees for private health insurance in 2015, bringing the total tax to \$6.4 billion dollars.



About this report

This report reviews the state and federal taxes paid by the privately insured for the purchase of health insurance in upstate New York and the state as a whole.

New York state requires the payment of four taxes totaling \$4.6 billion:



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- covered lives assessment (\$1.1 billion)
- surcharge on health services (\$2.9 billion)
- assessment on insurers (\$240 million)
- premium tax (\$353 million)

Added together, the four assessed taxes will cost the privately insured across New York state \$4.6 billion. in 2015.

In fiscal year 2015-2016, New York state will cover the cost of the New York State of Health, the state's marketplace for health insurance.

Starting in 2014, the federal government's Affordable Care Act began to collect payments of four additional taxes or fees on private insurance:



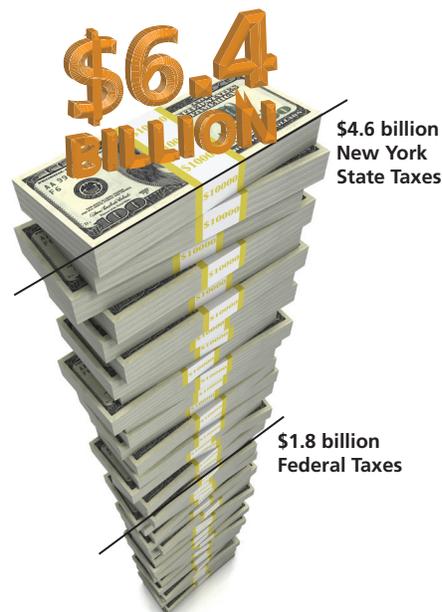
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- annual fee on health insurance providers (\$1.32 billion)
- transitional reinsurance tax for the individual market (\$413 million)
- Patient-Centered Outcomes Research Institute fee (\$20 million)
- risk adjustment user fee (\$1.4 million)

A federal excise tax for high-cost employer-sponsored health coverage begins in 2018.

Privately insured New Yorkers will pay an estimated \$1.8 billion for these federal taxes and fees in 2015, 4.3 percent of total premium. Upstate New Yorkers will pay an estimated \$601 million, 4.1 percent of their premiums to cover federal assessments under the health care reform law.

State and federal taxes and fees in 2015





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State taxes on New Yorkers who purchase private health insurance

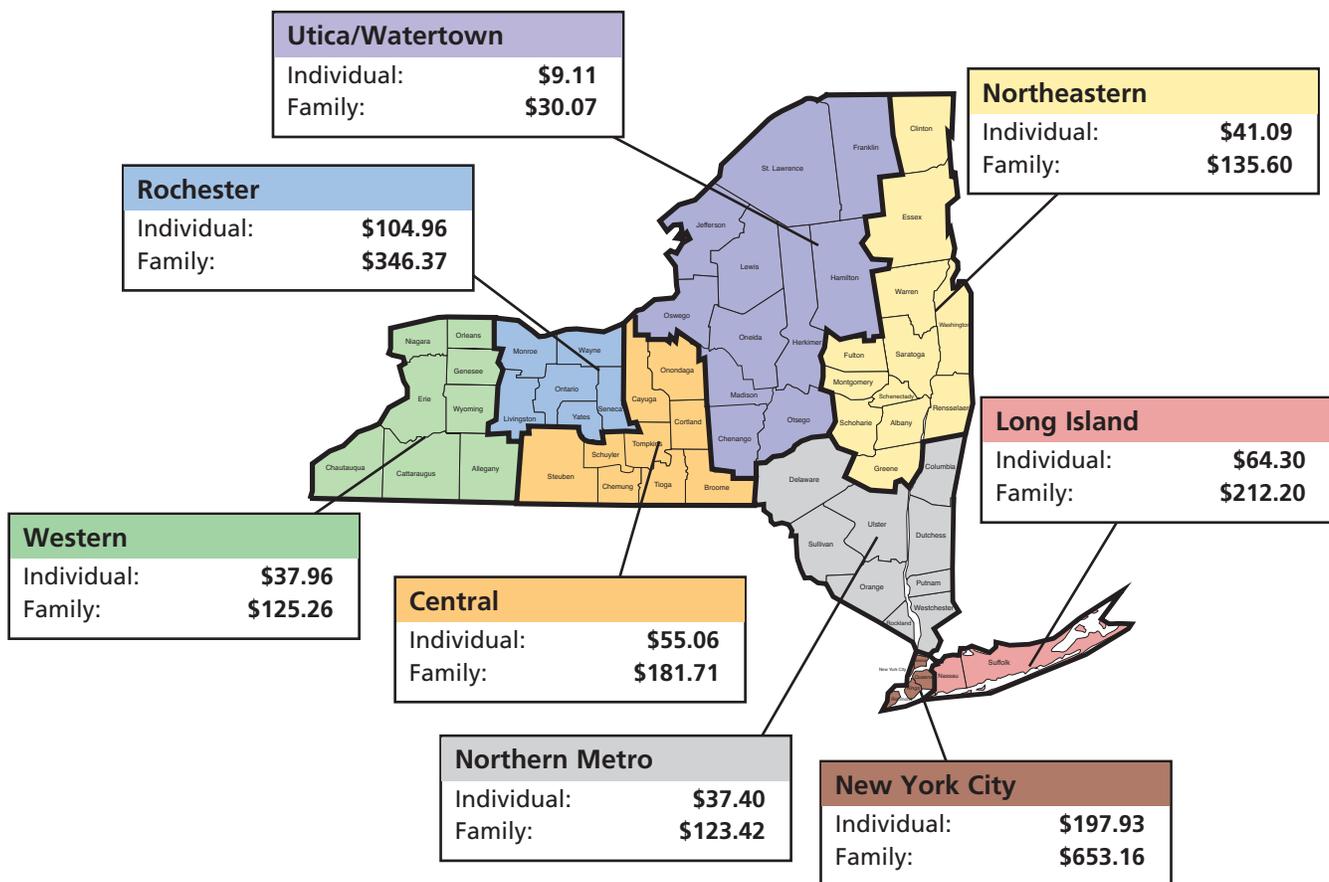
New York state imposes four taxes on employers and individuals who purchase health insurance including a covered lives assessment that varies by region, a surcharge (sales tax) on health services, the Section 206 assessment (formerly Section 332) on insurers and a premium tax.

1. Covered lives assessment

The covered lives assessment is an annual flat surcharge (or tax) on all privately insured in the state included in individual and family premiums. The amount varies according to the region of the state in which insured individuals reside. When it was initiated in 1996, the covered lives assessment was intended to pay for graduate medical school expenses. Over time, increasing sums generated by the tax have been diverted to the state's general fund.

In 2015, New Yorkers with private health insurance will pay \$1.1 billion to the state for the covered lives assessment.¹ The rates to be paid by an individual and family in each of the state's eight rating regions in 2015 are shown in the map below.

Regional covered lives assessments for individuals and families, 2015



Source: New York State Department of Health. "2015 Covered Lives/Assessments/Surcharges." http://www.health.ny.gov/regulations/hcra/gme/2015_surcharges_and_assessments.htm



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2. Surcharge on health services

A surcharge created by the state Health Care Reform Act of 1996 is collected from health plans in the form of a sales tax on certain hospital-based health services to help reimburse hospitals for losses incurred by bad debt and charity care. The surcharge applies to all members of self-insured and fully insured private commercial health insurance plans. The initial surcharge rate was 8.18 percent in 1997 and yielded \$517 million.

The rate is set at 9.63 percent, and will yield approximately \$2.9 billion in 2015.²

3. Assessment on insurers

The Section 206 assessment finances operations of the New York State Department of Financial Services. This assessment (.83 percent) is applied to all insurers licensed to operate in the state (i.e., life, property and casualty, and health) and is based on premiums paid in New York state. Section 206 assessments do not apply to third-party administrators, out-of-state insurers or self-funded health plans.

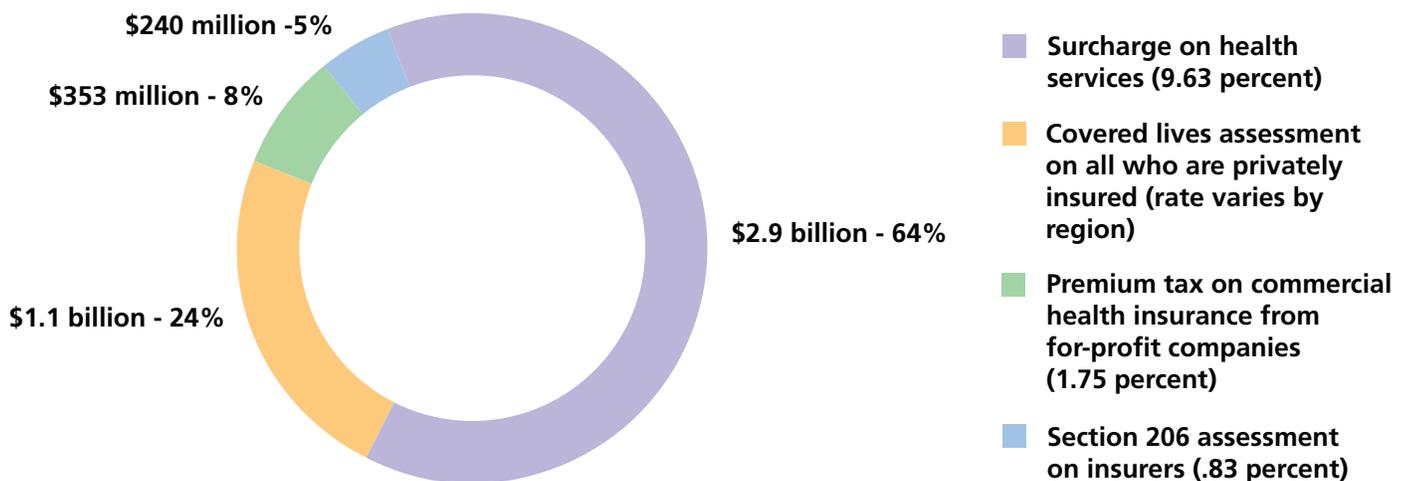
In 2015, New Yorkers with private health insurance will pay approximately \$240 million to finance the New York State Department of Financial Services.³

4. Premium tax

A 1.75 percent tax is applied to premiums paid by those who purchase commercial health insurance policies from for-profit health insurance companies. The revenue from these for-profit insurers goes to the state's general fund. Because the vast majority of upstate New York's privately insured are covered by nonprofit health plans, the premium tax was not included in the estimates shown with the map on page 1 of this fact sheet, or in the estimates of state taxes paid by upstate New York region on page 12.

In 2015, the premium tax is estimated to raise \$353 million.⁴

State taxes will cost the privately insured \$4.6 billion in New York state in 2015



Source: New York State Conference of Blue Cross and Blue Shield Plans based on data supplied by the New York State Department of Financial Services, New York State Department of Health, New York State Division of the Budget and the 2015-2016 Enacted Budget. <http://www.budget.ny.gov/>



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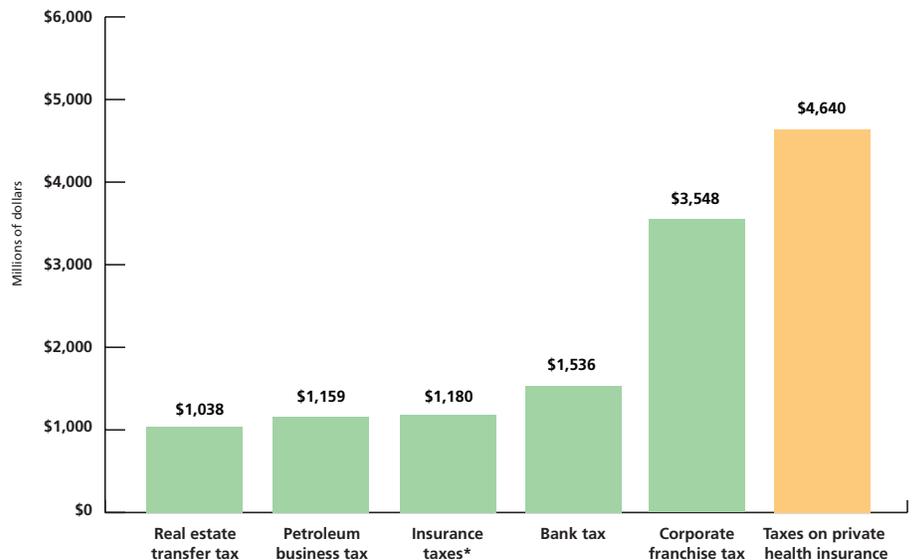
Taxes on private health insurance coverage are the largest business taxes that any New York state employer pays

Taxes on New York state employers that offer private health insurance coverage for their employees compared to New York state business taxes, fiscal year 2015-2016
(millions of dollars)

Among all business taxes levied by the state, the taxes imposed on the privately insured rank as the single largest business tax in New York state (\$4.6 billion).

In the state's 2015-2016 fiscal year, health insurance taxes are expected to contribute:

- \$1.1 billion more than the corporate franchise tax (\$3.5 billion), which is the second largest business tax.
- More than the next three highest-ranking business taxes (bank tax, insurance tax, and petroleum business tax) combined (\$3.9 billion).



Among all of the taxes collected by New York state, taxes on private health insurance (\$4.6 billion) rank third highest after personal income taxes (\$43.7 billion) and sales and use taxes (\$13.0 billion).

Revenue by type of tax New York state collects

FY 2015-2016	Total (in Millions)
Personal Income Tax	\$43,709
Sales and Use Tax	\$12,991
Taxes on Private Health Insurance Coverage	\$4,640
Corporation Franchise Tax	\$3,548
Bank Tax	\$1,536
Motor Vehicle Fees	\$1,319
Cigarette and Tobacco Taxes	\$1,314
Insurance Taxes*	\$1,180
Estate Taxes	\$1,109
Petroleum Business Tax	\$1,159
Real Estate Transfer Tax	\$1,038
Corporation and Utilities Tax	\$728
Motor Fuel Tax	\$487
Alcoholic Beverage Taxes	\$251
Highway Use Tax	\$140
Auto Rental Tax	\$119
Alcoholic Beverage Control License Fees	\$61
Pari-mutuel Taxes	\$18
Other Taxes	\$1

*Insurance taxes do not include an estimated \$353 million collected through a 1.75 percent premium tax on commercial health insurers.

Source: New York State Conference of Blue Cross and Blue Shield Plans based on data from the 2015-2016 Enacted Budget.

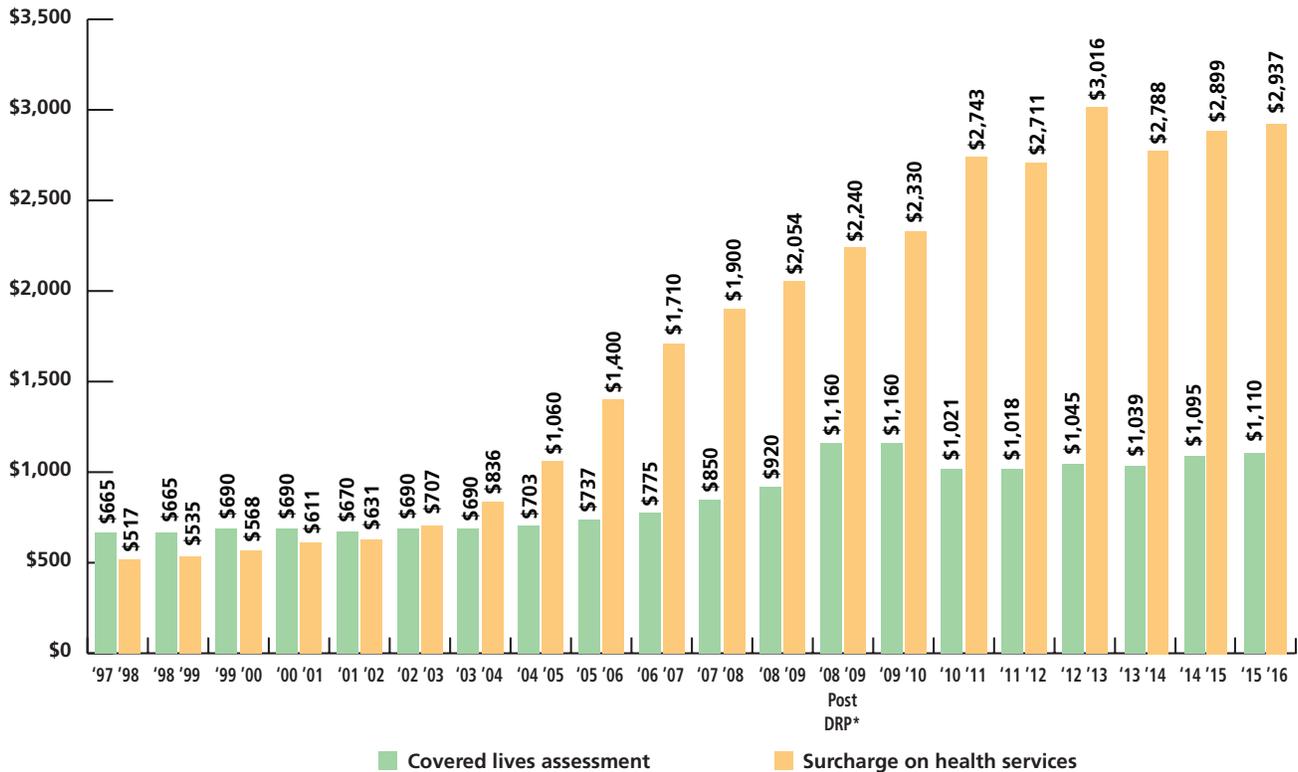
<http://www.budget.ny.gov/>



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Trends in New York state taxes on the privately insured

Trends in the covered lives assessment and surcharge on health services, 1997 through 2016
(millions of dollars)



Source: New York State Conference of Blue Cross and Blue Shield Plans based on data supplied by the New York State Enacted Budget, Financial Plans and fiscal year 2016 Executive Budget Five-Year Financial Plan. <http://www.budget.ny.gov/>

*In February 2009, New York state adopted the Deficit Reduction Plan to close the state's deficit of \$1.6 billion. More than \$400 million in added taxes to the privately insured was a part of the Deficit Reduction Plan, which included \$240 million in added covered lives assessments implemented in two phases: \$120 million went into effect retroactively to January 1, 2009, and \$120 million effective April 1, 2009.

Since 1997, the revenue collected from the HCRA surcharge on health services increased by 468 percent, and the covered lives assessment revenues increased by 67 percent. Combined revenues from the covered lives assessment and the surcharge on health services rose from \$1.2 billion to \$4.0 billion (from fiscal year 1997-1998 to fiscal year 2015-2016).



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Trends in the Section 206 insurance assessment, 1997 through 2014
(millions of dollars)



Source: New York State Conference of Blue Cross and Blue Shield Plans based on data supplied by the Department of Financial Services

Since inception of the New York State Department of Financial Services' Section 206 assessment (formerly Section 332) in 1997, the tax revenue from the imposed tax increased by 318 percent on insurers. The chart above includes the tax on all insurers.



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Federal taxes and fees on New Yorkers resulting from the federal health care law

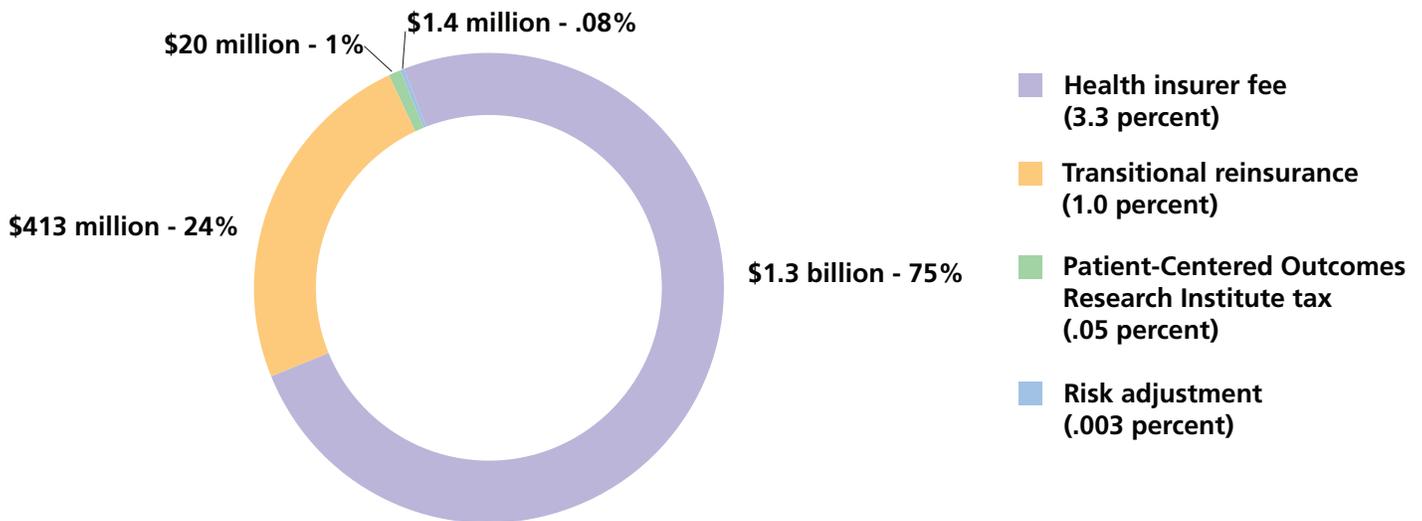
Upstate New York

In 2015, the Affordable Care Act is expected to increase health care premiums paid by upstate New York's privately insured by \$601 million. The estimated 4.1 percent tax burden on upstate New Yorkers is based on analysis of the impact of the federal health insurance fee (3.3 percent), the federal transitional reinsurance tax (1.0 percent), the federal Patient-Centered Outcomes Research Institute tax (.04 percent) and the risk adjustment user fee for individual and small group coverage (.003 percent).

New York state

Statewide, the privately insured will pay an estimated \$1.8 billion in federal taxes and fees in 2015. The federal assessment will be layered on top of the \$4.6 billion in state taxes that New Yorkers will also pay in 2015.

\$1.8 billion in federal taxes to be paid by New York state's privately insured in 2015



Source: See Methodology section
Note: Percentages differ due to rounding.

- The annual fee on health insurance providers will collect more than \$1.32 billion in 2015.
- The transitional reinsurance tax is based on a \$44 national per capita amount in 2015 amounting to nearly \$413 million in 2015.⁵
- To support the Patient-Centered Outcomes Research Institute, health plans will pay almost \$20 million in 2015.
- In 2015, more than \$1.4 million will be paid for the risk adjustment fee to cover Individuals and small groups.



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Federal taxes included in the 2010 health care reform law

Of the six federal taxes and fees included in the 2010 federal health care law, the first four below are currently in effect.

1. Fee on health insurance providers.⁶

Beginning in 2014, this fee was assessed on each health insurance company's market share of net premiums written, adjusted for size and corporate structure. The tax is assessed directly on all fully insured health plans and indirectly on their customer base.⁷

Nationally, the Affordable Care Act required payment of \$8 billion in 2014, and will require \$11.3 billion each in 2015 and 2016, \$13.9 billion in 2017 and \$14.3 billion in 2018. After 2018, the tax will be indexed to the rate of growth in premiums. Each year, the calculation will be based on the market share of each assessed plan and will change based on the number of companies in the insured market. Under this tax provision, a health plan could incur financial losses but would still be subject to the market share tax.

2. Transitional reinsurance program for the individual market.⁸

Federal law created a temporary reinsurance program that nationwide is expected to collect \$12 billion in 2014, \$8 billion in 2015 and \$5 billion in 2016 from health insurance carriers and self-funded plans, including up to \$2 billion, \$2 billion and \$1 billion to be contributed to the U.S. Treasury in those years.

All insurers and self-insured group health plans are required to contribute on behalf of all group health plans and health insurance coverage they provide. About 80 percent of the contributed fees will reinsure the allowed costs for high-risk individuals. The remaining funds will go into the general fund of the U.S. Treasury.

The uniform reinsurance contribution rate is set at \$44 per capita in 2015.

3. Risk adjustment user fee (for individual and small group coverage)⁹

The federal health care reform law established the program to maintain the stability of the consumer and small business health insurance markets. Unlike the reinsurance program, the risk adjustment program is permanent.

The fee will cover the program's administrative expenses, set at \$.96 per enrollee per year.¹⁰ The fee will increase to \$1.75 in 2016.¹¹ New York state will initially follow the federal risk adjustment program.

4. Patient-Centered Outcomes Research Institute fee¹²

The Patient-Centered Outcomes Research Institute fee, also known as the Comparative Effectiveness Research fee, is paid to the federal government to fund research that will drive improvements to health care delivery and decision-making.

The fee is assessed per covered life (subscribers and beneficiaries):

- \$2.08 for policy and plan years ending after Sept. 30, 2014, and before Oct. 1, 2015.
- For policy and plan years ending after Sept. 30, 2015, and before Oct. 1, 2019, the applicable dollar amount will be adjusted to reflect inflation in National Health Expenditures, as determined by the Secretary of Health and Human Services.¹³



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5. Excise tax on high-cost employer-sponsored health coverage in 2018.¹⁴

An additional tax known as the “Cadillac” tax is projected to be assessed in 2018. Insurers and administrators of employer-sponsored health insurance plans will pay a 40 percent excise tax on health coverage that is beyond certain levels. The tax is projected to increase federal revenues by \$149 billion over the period from 2016 to 2025. The estimated increase consists of about \$37 billion in excise tax receipts and about \$112 billion in higher net revenues from the associated effects of changes in employees’ taxable compensation.¹⁵

This tax will be paid on premiums that exceed the established dollar limits of \$10,200 for single coverage and \$27,500 for family coverage in 2018. The threshold amounts increase for retirees ages 55 to 64 and workers in high-risk professions to \$11,850 for singles and \$30,950 for families. Later years will be indexed to the cost of living plus 1 percent.

The effect of the excise tax is difficult to determine at this time, because it is dependent on the nature and cost of insurance offered by employers in 2018.

6. Exchange user fee (for individual and small group coverage only)¹⁶

The health care reform law requires exchanges to be self-sustaining beginning Jan. 1, 2015. The exchange may charge health plans a user fee or assessment or find another source of funding. New York state has not determined how it will fund the exchange beyond the current fiscal year, which included \$63 million in federal funding and approximately \$290 million in re-appropriated unspent funds from prior years.¹⁷



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Estimated annual tax rates per \$100 to be paid in 2015 in health insurance premiums in upstate New York for the standard silver plan



Region	NEW YORK STATE			FEDERAL				TOTAL
	Covered lives assessment	Surcharge on health services	Assessment on insurers	Health insurance provider fee	Reinsurance fee	Patient-Centered Outcomes Research Institute fee	Risk Adjustment	Total NYS and US
Finger Lakes	\$2.48	\$3.71	\$0.83	\$3.25	\$1.01	\$0.05	\$0.02	\$11.35
Central New York	\$1.13	\$3.71	\$0.83	\$3.25	\$0.88	\$0.04	\$0.02	\$9.86
Southern Tier	\$1.13	\$3.71	\$0.83	\$3.25	\$0.88	\$0.04	\$0.02	\$9.86
Utica/Rome/North Country	\$0.17	\$3.71	\$0.83	\$3.25	\$0.82	\$0.04	\$0.02	\$8.84
Western New York	\$0.82	\$3.71	\$0.83	\$3.25	\$0.92	\$0.04	\$0.02	\$9.59

Source: See methodology section

Note: Counties are assigned to upstate New York regions based on the New York state Covered Lives Assessment regions



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Worksheet for businesses to estimate state and federal taxes and fees in New York state

An upstate New York small business employer can use this tool to estimate the employer’s share of state and federal taxes and fees required to provide health insurance to employees for the standard silver plan. For every \$100 an employer pays in premium, the employer pays an amount for the state covered lives assessment, surcharge on health services, Section 206 assessment on insurers, the federal health insurance provider fee, reinsurance fee, Patient-Centered Outcomes Research Institute fee and risk adjustment fee as shown in the chart above. Starting in 2016, New York state will change the definition of a small business from 1-50 employees to 1–100 employees.

	2015 Sample for a Central New York business with a standard silver plan	Your estimate
Step 1 - Determine your premium for the year	\$1,000,000	
Step 2 - Divide step 1 by 100 (to use the chart above)	\$10,000	
Step 3 - Multiply step 2 by the covered lives assessment for your region	\$11,300	
Step 4 - Multiply step 2 by the surcharge on health services	\$37,100	
Step 5 - Multiply step 2 by the assessment on insurers	\$8,300	
Step 6 - Multiply step 2 by the tax on health insurance	\$32,500	
Step 7 - Multiply step 2 by the reinsurance fee	\$8,800	
Step 8 - Multiply step 2 by the Patient Centered Outcomes Research Institute fee	\$400	
Step 9 - Multiply step 2 by the Risk Adjustment fee	\$200	
Step 9 - Add steps 3 - 9 This is the total tax to be paid to the state and federal governments	\$98,600	

In this example, a Central New York business with yearly premiums of \$1 million for standard silver plan coverage for its employees, will have included in those premiums state and federal taxes and fees of approximately \$98,600 in 2015.

Methodology

Estimate of impact of state taxes on upstate New York small business premiums

Upstate New York premiums used to calculate the impact of state taxes on small businesses in the upstate regions were based on the average small group 2014 standard silver plan premiums approved by New York state. The Department of Financial Services determined the average premium across all carriers in all regions.¹⁸ Premiums were trended to 2015 using the 2015 Milliman Medical Index.¹⁹

Using the assumption that a group includes 54 percent single policies and 46 percent family policies, the impact of the 2015 covered lives tax was based on county of residence and state-set annual assessments for single policies and family policies.²⁰

The impact of the 9.63 percent surcharge on hospital-related services assumed a medical benefits loss ratio of 82 percent, of which 47 percent of medical benefits were for hospital-related services.

The estimate of the Section 206 assessment on insurers tax used an estimated .83 percent of premium assumption. It was applied to every \$100 in premiums paid for the average of small business standard silver health policies sold in upstate New York through the New York State of Health

Estimate of impact of state health taxes on statewide health insurance premiums for all lines of business
State tax assessments are determined by the New York state Department of Health and included in the New York state 2015 Executive Budget Financial Plan.²¹

Estimate of impact of federal health insurance fee on New York state premiums for all lines of business
Upstate New York premiums used to calculate the impact of federal health insurance taxes were based on regional upstate New York premium averages reported in the New York State 2014 Health Blank Annual Statements.

The estimate of federal taxes is based on an actuarial analysis of impact on the membership and premiums paid by commercial members of Excellus BlueCross BlueShield in 2014. As a large upstate New York health plan, Excellus BlueCross BlueShield is assumed to be representative of the impact on all New York state health plans. The impact was estimated to be 2.4 percent in 2014 and projected forward to 3.3 percent in 2015.

The resulting impact is slightly higher than the estimates derived by three national sources prior to implementation of the Affordable Care Act:

- The Oliver Wyman firm in Nov. 2012 estimated the impact in 2015 as ranging from a conservative 2.6 percent to an estimate considering greater self-funding in the market of 3.2 percent.²²
- The Joint Committee on Taxation, in 2011, estimated the impact in 2014 as ranging from 2.0 percent to 2.5 percent.²³
- A Milliman Research Report in April 2013 estimated the premium increase due to the health insurer fee as approximately 2.1 to 3.0 percent in 2015.²⁴

This analysis projects the impact of federal taxes on the privately insured, by applying it to the New York state insured premium of \$40.7 billion reported on the 2014 Health Blank Annual Statements submitted by health insurance providers to the New York State Department of Financial Services.²⁵

Estimate of impact of federal transitional reinsurance program on New York state premiums

The federal Department of Health and Human Services requires that all insurers and self-insured group health plans contribute \$44 yearly per enrolled member during 2015. This rate was applied to the total reported membership of 9.4 million obtained from the New York State 2014 Health Blank Annual Statements.

Estimate of impact of Patient-Centered Outcomes Research Institute fee on New York state premiums

The \$2.08 per member per year Patient-Centered Outcomes Research Institute fee in 2015 was applied to the total reported insured membership of 9.4 million obtained from the New York State 2014 Health Blank Annual Statements.

Endnotes

- ¹ New York State Conference of Blue Cross and Blue Shield Plans based on data from the 2015-2016 Enacted Budget.
<http://www.budget.ny.gov/>
- ² Ibid.
- ³ New York State Conference of Blue Cross and Blue Shield Plans based on data projected for 2014 from the New York state Department of Financial Services.
- ⁴ New York State Conference of Blue Cross and Blue Shield Plans based on 2010 estimate from the New York state Department of Financial Services.
- ⁵ Department of Health and Human Services. Federal Register. Patient Protection and Affordable Care Act; HHS Notice of Benefit and Payment Parameters for 2015. Vol. 78, No. 231. Dec. 2, 2013. P. 72324. Web 31 May 2015.
<http://www.gpo.gov/fdsys/pkg/FR-2013-12-02/pdf/2013-28610.pdf>
- ⁶ Grossman, E., et. al., Office of the Legislative Counsel. "Compilation of Patient Protection and Affordable Care Act." May 2010. Section 9010, page 811. Web 18 May 2015.
<http://housedocs.house.gov/energycommerce/ppacacon.pdf>
- ⁷ The tax is assessed on all fully insured health plans, individuals purchasing coverage on their own, Medicare beneficiaries enrolled in a Medicare Advantage plan or a prescription drug plan and on states that contract with health plans for Medicaid. The fee is not assessed on self-insured health plans or federal, state or other government plans. Tax-exempt insurance providers will pay the tax on 50 percent of their net premiums. Voluntary employee benefit associations and nonprofit plans that receive more than 80 percent of revenue from government programs such as Medicaid, Medicare or the Child Health Plus insurance plan are not subject to the fee.
- ⁸ Grossman, Section 1341, page 105.
- ⁹ Grossman, Section 1343, page 109.
- ¹⁰ Federal Register. Vol. 78 No. 231. Page 72329.
- ¹¹ Federal Register. Vol. 79 No. 228. Page 70683. Nov. 16, 2014. Web 25 June 2015.
<http://www.gpo.gov/fdsys/pkg/FR-2014-11-26/pdf/2014-27858.pdf>
- ¹² Grossman, Section 1183, page 679.
- ¹³ IRS. Patient-Centered Outcomes Research Trust Fund Fee (IRC 4375, 4376 and 4377): Questions and Answers.
<http://www.irs.gov/uac/Patient-Centered-Outcomes-Research-Trust-Fund-Fee-Questions-and-Answers>
- ¹⁴ Grossman, Section 9010, page 793.
- ¹⁵ Congressional Budget Office. "The Budget and Economic Outlook: 2015 - 2025. Jan. 2015. page 124. Web 12 August 2015.
<https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49892-Outlook2015.pdf>
- ¹⁶ Grossman, E. Section 1311. Page 69.
- ¹⁷ New York State Conference of Blue Cross and Blue Shield Plans based on data from the 2015-2016 Enacted Budget.
<http://www.budget.ny.gov/>
- ¹⁸ Approved monthly premium rates - small group standard plans. Web 16 August 2015.
<http://www.governor.ny.gov/sites/governor.ny.gov/files/archive/assets/documents/Approved2014HealthInsuranceRates.pdf>
- ¹⁹ Girod, CS, Weltz, SA, and Hart, S. "2015 Milliman Medical Index." May 19, 2015. Web 30 June 2015.
<http://www.milliman.com/mmi/> Archived at <http://www.webcitation.org/6c9iUbcup> Oct. 10, 2015.
- ²⁰ New York State Department of Health. "2015 Covered Lives/Assessments/Surcharges."
http://www.health.ny.gov/regulations/hcra/gme/2015_surcharges_and_assessments.htm
- ²¹ New York State Conference of Blue Cross and Blue Shield Plans based on data from the 2015 Executive Budget Financial Plan.
- ²² Carlson, C. "Annual Tax on Insurers Allocated by State." Nov. 2012, page 4. Web 7 March 2014.
<http://www.ahip.org/WymanState/> Archived at <http://www.webcitation.org/6c9igtPA1> Oct. 10, 2015.
- ²³ Barthold, T. Joint Committee on Taxation. Letter to Senator Jon Kyl. June 3, 2011. Web 7 March 2014.
<http://www.ahipcoverage.com/wp-content/uploads/2011/11/Premium-Tax-JCT-Letter-to-Kyl-060311-2.pdf> Archived at <http://www.webcitation.org/6c9ipBOfP> Oct. 10, 2015.
- ²⁴ Doucet, M and Yahnke, J. "ACA health insurer fee: Estimated impact on the U.S. health insurance industry." Milliman Research Report April 2013, page 3. Web 7 March 2014.
<http://us.milliman.com/uploadedFiles/insight/healthreform/pdfs/ACA-health-insurer-fee.pdf> Archived at <http://www.webcitation.org/6c9izhNnf> Oct. 10, 2015.
- ²⁵ The filings are assumed to be a reliable estimate of total New York state premiums. The amount is a slight undercount, as it does not include Health Republic and Fidelis that are not required to file a Health Blank Annual Statement with New York state. There is also a slight over count, as some coverage is split in New York City for municipal employees (one carrier has hospital coverage, one has medical, another has drug, etc.), therefore, the same member may be counted multiple times. It is not possible to adjust for this over-counting, although in the context of New York state enrollment, it should not have a great impact.