PENNSYLVANIA CHAMBER OF BUSINESS AND INDUSTRY
Setting THE record straight

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Taxing health insurance takes PA in the wrong direction

At a time when Pennsylvania residents and employers are looking to lawmakers to reduce costs that are negatively impacting health-care affordability and accessibility, the Rendell administration is advancing a proposal that would actually increase the costs of health care for business and consumers.

Included in the governor's 2009-10 General Fund budget is a proposed 2 percent tax on virtually all health insurance plans in the Commonwealth. This broad-based tax on health care would replace the existing federal Medicaid-only health-care tax, which the federal government will discontinue on Oct. 1, 2009.

In a dramatic switch from last session, when the administration proposed taxing employers that did not offer health insurance, the governor now wants to tax almost all Pennsylvanians' health insurance. The Commonwealth should be looking at ways to reduce the costs of health care rather than considering plans to tax it.

Virtually every health insurance plan could be impacted, resulting in double taxation since most insurers in Pennsylvania already pay taxes depending on the structure of their business. Commercial policies pay the 2 percent premium tax; HMOs pay the corporate tax, and the not-for-profit business of the Blues is subject to the Community Health Reinvestment (CHR) agreement. These taxes may already be reflected in premium rates, as would the new health-care tax.

Tax will target low-income individuals and businesses

As drafted, the tax may be assessed on self-funded plans. This means that small and large businesses (many already struggling to cover the cost of employee benefits) could bear the weight of this new tax. In many cases, employees would end up bearing the burden in some manner.

According to the Lincoln Institute's *2009 Spring Business Climate Survey*, 39 percent of respondents that indicated they would be impacted by the tax said they would implement or raise employee co-payments if it were enacted. Another 16 percent said they would stop providing employer-paid health benefits, and 7 percent said they would lay off employees to make up for the added cost.

Enrollees in the state's Children's Health Insurance Program and AdultBasic – children and low-income individuals – could also be assessed the tax if those plans pass the cost directly to their participants.

Finally, it is also unclear what impact the new tax would have on the existing CHR agreement. CHR committed the four nonprofit Blue Cross and Blue Shield plans to annually contributing 1.6 percent of their annual health-care premiums, plus 1 percent of their Medicare and Medicaid premiums, to support community health programs. Sixty percent of the funds were allocated to provide health insurance to low-income people through state approved programs, such as Pennsylvania's AdultBasic program for low-income adults. Serious questions exist as to the effect of this tax on the CHR agreement.

As lawmakers prepare to make tough choices in this year's budget debate, they must avoid making things worse for Pennsylvanians who are already struggling in the current economy – in this case, employers and consumers who are experiencing difficulty affording ever-rising health-care costs. Doing so could leave many employers with no other option but to drop coverage that has become increasingly unaffordable. Lawmakers must take steps to effectively address those factors that are driving costs rather than placing a direct tax on Pennsylvania's access to health care.

Contact: Lesley Smith, director of communications, 717 720-5446.

The Pennsylvania Chamber of Business and Industry is the state's largest broad-based business association, with its membership representing nearly 50 percent of the private workforce. More information is available on the Chamber's website at www.pachamber.org