IRS Announces 2020 Health Insurer Fee

How it Will Impact the Insurance Marketplace

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The IRS recently released Notice 2019-50, which outlines the health insurer fee for the 2020 tax year.

Background

To help fund the creation and ongoing operation of the federal and state marketplace exchanges, the Affordable Care Act (ACA) requires that all insurers offering fully-insured health insurance programs pay an annual tax. The tax is not applicable to self-funded group health plans sponsored by an employer, but does apply to a self-funded Multiple Employer Welfare Arrangement (MEWA).

The amount of this tax, often called the health insurance tax (HIT) or fee (HIF), paid by insurers, is calculated based on each insurer's proportionate share of the marketplace. Congress suspended this tax for 2019 due to concerns with the impact the tax was having on premiums, but without any legislative action the tax will resume next year. Although the tax was initially $8 billion (referred to as the applicable amount) in its first year (2014), the amount has increased each year, with the IRS expecting to collect a little over $15 billion dollars cumulatively from all carriers in 2020.

Impact on Plan Sponsors

The health insurance tax will impact all insurers offering medical, dental and vision insurance (called "covered entities"), through both off-exchange and on-exchange individual markets, the small and large group marketplace, and programs like Medicare Advantage and Medicare Part D. And although plan sponsors do not need to take any action pursuant to Notice 2019-50, they will not escape being impacted by the fee. Most carriers have indicated that they will set their premium levels for 2020 to incorporate these additional fees. If the IRS implements the tax as planned, the fee is expected to add an estimated 3-4% on medical plan renewals, with the biggest impact on Medicare Advantage and Part D premiums.