

**Testimony before Senate Public Health and Welfare
Economic Impact of Affordable Care Act
Presented by Eric Stafford, Senior Director of Government Affairs
Thursday, January 17, 2013**



Madam Chair and members of the committee, thank you for the opportunity to speak to you today about the status of the implementation of the Affordable Care Act (ACA) and the economic impact on businesses in our state. Today, I will address the status of the ACA, what's to come in 2014, and alternative health care reform options.

Each year the Kansas Chamber conducts a poll of 300 business owners selected from across the state, members and non-members. The sample is reflective of the business community in Kansas. This year when business owners were asked what issue is most important to profitability, health care and lower taxes were tied for the most responses.

Implementation of the Affordable Care Act is tiered, with 2014 being when the bulk of the bill take effect through employer penalties, tax increases and the individual mandate. Several provisions have already been implemented such as the 10% tax on tanning salons, insurance reforms such as lifetime limits, dependent to 26 years of age, and annual limit restrictions.

Starting in 2014, we could see a significant shift in health care delivery. In a survey of our membership on health care and the impact of the ACA, 40% of respondents said they will exit the health insurance world by ending their group plan and letting employees select their own policy, most likely through the insurance exchange. That's not to say employers won't provide financial assistance to their employees through a defined contribution model. To what extent this shift will affect the market will only be known down the road.

Also beginning in 2014, insurance companies will face annual taxes on the amount of insurance premiums collected. The estimated total next year is \$8 billion in revenue which is expected to increase to \$14.3 billion in 2018. This tax will be directly passed back to the consumer through higher insurance premiums.

Ultimately, the ACA does nothing to address rising health care costs and arguably little for the uninsured. We would encourage this legislature to consider free market reforms to make private insurance more accessible to Kansans. One change we would recommend would be to equalize tax treatment for those who purchase individual policies. Currently employers receive tax breaks for purchasing group plans, but no such benefit is available today.

Thank you for the opportunity to speak to you today on the implementation of the Affordable Care Act.



The Kansas Chamber, with headquarters in Topeka, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to do business. The Chamber represents small, medium and large employers all across Kansas.

The Health Care Law

Taxes, Elimination of Deductions, and New Fees

Provision	Year	10 Year Revenue Estimates 2013-2022 ¹ (\$ billions)
"Tanning Tax"—Imposes 10% excise tax for indoor tanning services	2010	1.5
"Black Liquor" (i.e. sludge/byproduct of the process that transforms wood into pulp)—Excludes unprocessed fuels from the cellulosic biofuel producer credit	2010	15.5
Codifies economic substance doctrine and imposes penalties for underpayments	2010	5.3
Restricts FSA, HSA, HRA definition of itemized deduction for medical expenses (tax-preferred account dollars can only purchase OTC items with prescription)	2011	4.0
Increases penalty to 20% for non-health withdrawals from HSAs/Archer MSAs	2011	4.5
Imposes annual fee on branded drug manufacturers and importers of branded drugs	2011	34.2
Imposes fee on health insurance & employer plans (including fully-insured and self-insured plans) to fund comparative effectiveness research	Plan years after 9/30/12	3.8
Increases Medicare payroll tax by 0.9% on earned income in excess of \$200,000/\$250,000 (not indexed)	2013	317.7
Imposes 3.8% tax on unearned investment income for taxpayers with adjusted gross income (AGI) in excess of \$200,000/\$250,000 (not indexed)	2013	
Limits FSA contributions to \$2,500, indexed to inflation after 2013	2013	24.0
"Medical Device Tax"—Imposes 2.3% excise tax on manufacturers and importers of certain medical devices	2013	29.1
Eliminates deduction for Medicare Part D employer subsidy for retiree prescription drug coverage	2013	3.1
Raises AGI floor on medical expense deduction to 10%; AGI floor for individuals age 65 and older (and their spouses) remain at 7.5% through 2016	2013	18.7
Limits deduction to \$500,000 on executive compensation paid by health insurance companies	2013	0.8
"Health Insurance Tax"—Imposes annual fee on health insurance companies	2014	101.7
"Individual Mandate" - Requires individuals to obtain health insurance	2014	55.0 ²
"Employer Mandate"/"Free Rider" Penalty—Fines employers with 50 or more full-time equivalent employees who do not provide prescribed coverage	2014	106.0 ²
"Cadillac Tax"—Imposes 40% excise tax on high-cost plans	2018	111.0
Totals		835.9*

*Does not include expected costs of \$245 billion for "Doc Fix" over 10 years, now due to expire December 31, 2012

¹ Joint Committee on Taxation (JCT) Preliminary Estimated Revenue Effects (2013-2022) June 15, 2012. #12-2 046

² CBO & JCT estimate to repeal provisions under H.R. 6079 for Speaker Boehner (2013-2022) July 24, 2012

Note: The law originally included a new 1099 reporting requirement, which was expected to raise \$17.1 billion over 10 years. Due to a Chamber-led effort, the 1099 reporting provision was repealed on 4/14/2011.

Red = Employer-related provisions

Black = Other provisions

Some may apply to self-employed individuals



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