

Estimated Changes to Employer-Sponsored Health Insurance Premiums Due to the Drug Inflation Rebate Provision of the Build Back Better Act

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The Build Back Better Act (BBBA), as passed by the House of Representatives, has several provisions related to prescription drug pricing.¹ The provisions would allow Medicare negotiations over a selected number of high-cost prescription drugs, prohibit implementation of a Trump administration rule that would effectively end Medicare rebates, newly cap Medicare beneficiaries' out-of-pocket spending on prescription drugs, and introduce inflation rebates on most prescription drugs.² The inflation rebates would apply to all drug purchasers except Medicaid, including employer-sponsored insurance (ESI) plans, other commercial insurers, and Medicare. However, this provision has received relatively little attention. Here we estimate the impact of the BBBA's inflation rebate provision on employee wages and, assuming employers' savings on reduced premiums are passed on to workers via higher wages, ESI premiums.

We begin with estimates from the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) of the increased revenues resulting from taxes on the higher wages that accompany lower drug spending.³ Using the effective marginal tax rate for employers' contributions to health insurance premiums estimated by the Tax Policy Center (29 percent), we derive the increases in wages that would be consistent with CBO and JCT's estimates of revenue increases.⁴ For example, if annual tax receipts were increased by \$5 billion, the implied change in that year's taxable wages would be \$17 billion (\$5 billion / 0.29). Then, reversing our typical assumption that premium savings are fully converted into increased taxable wages, we estimate the decrease in premiums necessary for ESI plans to equal the increased wages. To the extent CBO and JCT's revenue estimate does not convert all lower premiums into higher taxable incomes, the estimates of premium savings presented here are low.

CBO and JCT estimate the total increase in tax revenues from the drug inflation rebate would be \$34 billion over 10 years, from 2022 to 2031 (table 1). We attribute a small share of this, about \$2 billion over 10 years, to smaller premium tax credits for people in the Affordable Care Act

¹ [Build Back Better Act](#), H.R. 5376, 117th Cong. (2021–22).

² Inflation rebates would affect drugs paid for by Medicare Parts B and D.

³ "Estimated Budgetary Effects of Title XIII, Committee on Ways and Means, H.R. 5376, the Build Back Better Act, as Posted on the Website of the House Committee on Rules on November 3, 2021 (Rules Committee Print 117-18), as Amended by Yarmuth Amendment 112," Congressional Budget Office, accessed December 7, 2021, https://www.cbo.gov/system/files/2021-11/hr5376_title_XIII_Ways_and_Means.xlsx.

⁴ Gordon Mermin, Matthew Buettgens, Clare Wang Pan, and Robin Wang, "Reforming Tax Expenditures for Health Care" (Washington, DC: Urban-Brookings Tax Policy Center, 2020).

Marketplaces, whose credits will shrink along with premiums as insurers spend less on drugs.⁵ Net of this adjustment, the increased revenue from higher taxes would be \$32 billion between 2022 and 2031. We estimate the wage increase consistent with this amount of tax revenue would be \$111 billion over the decade. The increase in wages would be \$3 billion in 2023 and \$21 billion in 2031.

TABLE 1

Wage and Premium Effects of the BBBA's Prescription Drug Inflation Rebates, by Fiscal Year

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022– 2026	2022– 2031
CBO and JCT– estimated change in revenue from prescription drug inflation rebates ^a (\$billions)	0	1	2	2	3	4	5	5	6	6	8	34
Estimated net revenue effect for ESI ^b (\$billions)	0	1	2	2	3	3	4	5	6	6	8	32
Wage change, assuming effective 29% marginal tax rate (\$billions)	0	3	6	8	10	12	15	18	19	21	26	111
ESI premium change, assuming 100% immediate passback (\$billions)	0	-3	-6	-8	-10	-12	-15	-18	-19	-21	-26	-111
Baseline employer premiums without drug inflation rebates ^c (\$billions)	800	840	882	926	972	1,021	1,072	1,125	1,181	1,240	4,418	10,057
% change in employer premiums	0.0	-0.4	-0.7	-0.8	-1.0	-1.2	-1.4	-1.6	-1.6	-1.7	-0.6	-1.1

Sources: CBO and JCT jointly estimated the changes in revenue from prescription drug inflation. The remaining estimates are the authors' calculations based on the CBO-JCT revenue estimate.

⁵ Only limited information is available on the effect of the proposed inflation rebates on Marketplace tax credits. We have made adjustments that assume (1) that revenue effects would be half the size of spending effects, and (2) that half of the estimate of spending on the Marketplaces, the Department of Defense, and Federal Employees Health Benefits (called "other" spending in the CBO-JCT cost estimates) is attributable to the Marketplace. These adjustments are a fraction of the total revenue effect, so changes to this estimate would have relatively small effects on overall results.

Notes: BBBA = Build Back Better Act. CBO = Congressional Budget Office. JCT = Joint Committee on Taxation. ESI = employer-sponsored insurance.

^a [Build Back Better Act](#), H.R. 5376, 117th Cong. (2021–22).

^b This column represents the net change in revenue after attributing a small share of the CBO-JCT estimate of the revenue increase to smaller Marketplace tax credits. However, only limited information is available on the effect of the proposed inflation rebates on Marketplace tax credits. We have made adjustments that assume (1) that revenue effects would be half the size of spending effects, and (2) that half of the estimate of spending on the Marketplaces, the Department of Defense, and Federal Employees Health Benefits (called “other” spending in the CBO-JCT cost estimates) is attributable to the Marketplace. These adjustments are a fraction of the total revenue effect, so changes to this estimate would have relatively small effects on overall results.

^c The Health Insurance Policy Simulation Model's 2022 estimates of employer spending on ESI premiums for nonelderly workers are adjusted by 5 percent annually to estimate annual premiums for 2023 through 2031.

Because we assume the change in premiums equals the change in wages, premium reductions would also be \$3 billion in 2023 and \$21 billion in 2031, and premiums would be \$111 billion lower in total over that period. Comparing this decrease with employer premiums for ESI from the Health Insurance Policy Simulation Model, we estimate premiums would fall by 1.0 percent in 2026 and by 1.7 percent in 2031.⁶ The average annual reduction in premiums relative to baseline premiums would be 1.1 percent between 2022 and 2031.

These estimates of premium savings are a small portion of employer spending on ESI premiums for two main reasons: prescription drugs account for about 22 percent of health spending, and the BBBA policy affecting employer drug spending is limited in scope. However, employer spending on ESI premiums is large, averaging \$1 trillion per year over the decade, so a small percent reduction could still amount to billions of dollars in savings.

Our estimates have several caveats. They assume both that all drug savings are reflected in premium savings and that employers fully pass premium savings onto employees as taxable compensation; the estimates assume both of these factors apply to both our estimates and CBO and JCT's underlying calculation of revenues. However, employers could instead choose to leave premiums unchanged and offer a more generous benefit package, or they could decrease cost sharing (e.g., deductibles and copayments). Economic theory suggests that in a competitive labor market, employer savings on ESI premiums should be passed back to employees, either as wages or benefits, to keep compensation constant. However, this might not happen immediately or completely, and if the savings are paid as benefits, some of the increased compensation may not be taxable. To the extent the CBO-JCT estimate does not convert lower premiums into higher wages, the estimates of premium savings presented here are low. For example, if 80 percent of premium savings are passed back (instead of 100 percent) our estimates of premium savings would be 25 percent larger. CBO and JCT's effective marginal tax rate may also differ from the rate used here.

⁶ The Health Insurance Policy Simulation Model's 2022 estimates of employer spending on ESI premiums for nonelderly workers are adjusted by 5 percent annually to estimate annual premiums for 2023 through 2031.

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