

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0805-01
Bill No.: SB 203
Subject: Health Care; Insurance - General; Treasurer, State
Type: Original
Date: February 8, 2005

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2006 | FY 2007 | FY 2008 |
| General Revenue | Unknown less than \$20,536,831 | Unknown less than \$24,644,196 | Unknown less than \$24,644,196 |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | Unknown less than \$20,536,831 | Unknown less than \$24,644,196 | Unknown less than \$24,644,196 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2006 | FY 2007 | FY 2008 |
| County Foreign Insurance* | \$0 | \$0 | \$0 |
| Insurance Dedicated | (\$41,483) | \$0 | \$0 |
| All Other State | (Unknown exceeding \$7,245) | (Unknown exceeding \$14,490) | (Unknown exceeding \$14,490) |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | (Unknown exceeding \$34,238) | (Unknown exceeding \$14,490) | (Unknown exceeding \$14,490) |

***Income and transfers to school districts of \$37.78 million nets to \$0.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2006 | FY 2007 | FY 2008 |
| Federal | \$0 | \$0 | \$0 |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds** | \$0 | \$0 | \$0 |

**** Revenues and expenses unknown exceeding \$60,000 annually and net to \$0.**

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|---------------------|---------------------|---------------------|
| FUND AFFECTED | FY 2006 | FY 2007 | FY 2008 |
| Local Government | \$37,784,196 | \$37,784,196 | \$37,784,196 |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration (COA) - Division of Budget and Planning, COA - Division of Accounting, Missouri Department of Conservation and Department of Public Safety (DPS) - Missouri State Highway Patrol** assume the proposal will have no fiscal impact on their organizations.

Officials from the **DPS - Director's Office** defer any costs estimates to the COA and the Missouri Consolidated Health Care Plan since health care premiums are handled through those agencies.

Officials from the **Missouri Department of Transportation (DOT)** state the proposal does not restrict this coverage to only state employees or their legal dependents. As a result, if passed, the proposal would permit DOT and Missouri State Highway Patrol (MHP) employees to use the Consolidated Plan for medical coverage instead of via the Highway and Patrol Medical Plan. However, it does not mention that DOT or MHP would be contributing towards their coverage in this plan. Assuming DOT and MHP would not be making any contributions toward coverage for employees or dependents enrolled in the Consolidated Plan, these employees will remain in the Highway and Patrol Medical Plan and there will be no fiscal impact to the DOT/Missouri Highway Transportation Commission or the Highway and Patrol Medical Plan.

ASSUMPTION (continued)

Officials from the **Office of State Treasurer (STO)** state the proposal creates a new account at Missouri Consolidated Health Care Plan (HCP) called the Young Adult Benefit Trust Fund Account. This fund is outside the treasury and will be used to provide health insurance to young adults between the ages of 18-25 in Missouri at a group rate.

The Office of Administration (COA) shall calculate the monthly transfer to HCP. The STO assumes the COA will obtain the necessary appropriation to authorize the transfer of money from General Revenue to HCP and also that COA will calculate the monthly payment.

Therefore, the STO assumes the proposal will have no fiscal impact.

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state this proposal would provide coverage for medical expenses of young adult Missourians between the ages of 18 and 25 through HCP. A separate young adult benefit trust fund account would be set up, with payments made to the fund account to be used to offset premium costs for young adults enrolled in the young adults plan. It would allow any insurance agent or broker licensed to sell accident and health insurance in this state to sell coverage under the plan to young adults. Also, every health service corporation and health maintenance organization would be required to pay a tax on direct premiums received during the calendar year.

According to the Office of Administration's "Projections of the Population by Age and Sex," 583,779 Missourians are between the ages of 18 - 24. Currently, there are 12,169 members enrolled in the HCP within this age group. If the following assumptions are true based upon the intent of the proposal, there would ultimately be no fiscal impact to the HCP:

1. Individuals in this age group who are eligible for coverage in the HCP would remain in the state plan (NOTE: If these members must be part of a separate pool for young adults, HCP will lose a large low cost/low risk group and this would result in higher cost and premiums for the remaining members.);
2. An administrative charge could be added to the premium to offset the state's cost to operate the program; and
3. There would be start up cost in FY 06 that could only be recapped in later years when there was sufficient enrollment. (Placing the full responsibility on the few first enrollees would make the program unaffordable). Though the actual amount is very difficult to determine it would exceed \$100,000.

ASSUMPTION (continued)

Officials from the **Department of Social Services - Division of Medical Services (DMS)** state the proposal requires every health services corporation and health maintenance organization to quarterly taxes upon the direct premiums received during the calendar year on business done in this state at a rate of two percent (2%) per annum.

In section 148.320, the wording refers to every health services corporation and health maintenance organization organized under provisions of section 354.010 to 354.380. However, health maintenance organizations are covered under section 354.400. The fiscal note for the DMS assumes health maintenance organizations are meant to be included. The DMS contracts with managed care health plans to provide medical assistance to individuals eligible under Section 208.151. The DMS assumes that the managed care health plans are subject to the proposed legislation.

Taxes are included in the administrative costs for the managed care health plans. An increase in taxes would be considered by the actuarial consultant when developing the managed care capitated rates. Therefore, the estimated fiscal impact to the DMS is unknown but greater than \$100,000.

Officials from the **Department of Insurance (INS)** state the proposal requires health service corporations (HSCs) and health maintenance organizations (HMOs) to pay 2% premium tax. The total premium revenue for HMOs/HSCs in calendar year 2003 was \$3,778,419,596. Two percent of that amount is \$75,568,392. Tax revenue would be divided equally between General Revenue and the County Foreign School Fund. It is assumed that HMSs/HSCs would no longer pay income tax; the Department of Revenue would need to give an estimate of the loss to General Revenue.

The INS would incur one-time computer programming costs of \$41,483 (443 hours X \$93.64/hour) to modify the current premium tax system to allow for acceptance and reporting of premium tax returns of HMOs and HSCs.

Officials from the **Department of Revenue (DOR)** state the proposal adds young adult provisions to the Missouri Consolidated Health Care Plan and removes the exemption for health service corporations with respect to taxes due. It will not have an economic impact, other than generating revenue, to the Division of Taxation.

Section 148.320 - Adds "every health services corporation and health maintenance organization" to the list of companies required to make quarterly tax payments on premiums received during a calendar year.

ASSUMPTION (continued)

Section 354.130 - By deleting the language exempting health services corporation from income and franchise tax, DOR anticipates an increase in revenues. The Division of Taxation is unable to determine the amount of revenues it would be collecting.

Based on information obtained from the 2003 Health Maintenance Report, **Oversight** assumes HMOs and HSCs paid approximately \$13 million in income taxes on Missouri taxable income in 2003. **Oversight** further assumes the premium tax revenue to the General Revenue would exceed the corporate income tax lost as a result of HMOs and HSCs paying quarterly premium taxes versus income tax on Missouri taxable income.

| <u>FISCAL IMPACT - State Government</u> | FY 2006 (10 Mo.) | FY 2007 | FY 2008 |
|---|--|--|--|
| GENERAL REVENUE FUND | | | |
| <u>Income - Department of Revenue</u> | | | |
| Insurance premium taxes | \$31,486,830 | \$37,784,196 | \$37,784,196 |
| <u>Costs - Department of Social Services - Division of Medical Services</u> | | | |
| Increase in administrative costs for managed health care plans | (Unknown exceeding \$33,333) | (Unknown exceeding \$40,000) | (Unknown exceeding \$40,000) |
| <u>Costs - Missouri Consolidated Health Care Plan</u> | | | |
| Administrative costs for Young Adult Trust Fund Account | (Unknown exceeding \$83,333) | (Unknown exceeding \$100,000) | (Unknown exceeding \$100,000) |
| <u>Loss - Department of Revenue</u> | | | |
| Reduction in income taxes paid by HMOs and HSCs | (\$10,833,333) | (\$13,000,000) | (\$13,000,000) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u><u>Unknown less than \$20,536,831</u></u> | <u><u>Unknown less than \$24,644,196</u></u> | <u><u>Unknown less than \$24,644,196</u></u> |

| <u>FISCAL IMPACT - State Government</u> | FY 2006 (10 Mo.) | FY 2007 | FY 2008 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| COUNTY FOREIGN INSURANCE FUND | | | |
| <u>Income - Department of Insurance</u> | | | |
| Premium taxes from HMOs and HSCs | \$37,784,196 | \$37,784,196 | \$37,784,196 |
| <u>Transfer-Out - Local School Districts</u> | | | |
| Premium taxes from HMOs and HSCs | (\$37,784,196) | (\$37,784,196) | (\$37,784,196) |
| ESTIMATED NET EFFECT ON COUNTY FOREIGN INSURANCE FUND | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| INSURANCE DEDICATED FUND | | | |
| <u>Costs - Department of Insurance</u> | | | |
| Computer programming costs | (<u>\$41,483</u>) | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND | <u>(\$41,483)</u> | <u>\$0</u> | <u>\$0</u> |
| FEDERAL FUNDS | | | |
| <u>Income - Department of Social Services - Division of Medical Services</u> | | | |
| Increase in program reimbursements | Unknown exceeding \$50,000 | Unknown exceeding \$60,000 | Unknown exceeding \$60,000 |
| <u>Costs - Department of Social Services - Division of Medical Services</u> | | | |
| Increase in administrative costs for managed health care plans | (<u>Unknown exceeding \$50,000</u>) | (<u>Unknown exceeding \$60,000</u>) | (<u>Unknown exceeding \$60,000</u>) |
| ESTIMATED NET EFFECT ON FEDERAL FUNDS | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

**** Revenues and expenses unknown exceeding \$60,000 annually and net to \$0.**

| <u>FISCAL IMPACT - Local Government</u> | FY 2006 (10 Mo.) | FY 2007 | FY 2008 |
|---|----------------------------|----------------------------|----------------------------|
| LOCAL SCHOOL DISTRICTS | | | |
| <u>Transfer-In - Foreign County Insurance Fund</u> | | | |
| Increase in premium taxes paid by HMOs and HSCs | <u>\$37,784,196</u> | <u>\$37,784,196</u> | <u>\$37,784,196</u> |
| ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS | <u>\$37,784,196</u> | <u>\$37,784,196</u> | <u>\$37,784,196</u> |

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

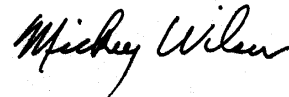
This proposal adds "young adults" to the Missouri Consolidated Health Care plan and provides guidelines for coverage. A young adult is defined as a person between the ages of 18 and 25. The medical expenses of young adults are covered by the plan. This proposal also establishes a separate young adult benefit trust fund account.

The trust fund account for young adults is administered by the same board as the Missouri Consolidated Health Care plan. Payments to the young adult trust fund shall be used to offset premium costs for young adults in the young adults plan. Insurance agents or brokers may be authorized to sell coverage to the young adults. The board may establish a schedule to pay for the services of insurance agents or brokers. It allows quarterly taxing on premiums for certain health services corporations and health maintenance organizations. This proposal expands the role of the commissioner of administration and the state treasurer with regard to the young adult benefit trust fund account.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -
 Division of Budget and Planning
 Division of Accounting
Department of Revenue
Department of Social Services -
 Division of Medical Services
Missouri Department of Transportation
Department of Public Safety -
 Director's Office
 Missouri State Highway Patrol
Missouri Consolidated Health Care Plan
Department of Insurance
Missouri Department of Conservation
Office of State Treasurer



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