

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1261-04
Bill No.: HB 818
Subject: Health Care; Insurance - Medical; Insurance Dept.
Type: Original
Date: March 6, 2007

Bill Summary: Modifies the Missouri health insurance pool and establishes the Missouri Health Insurance Portability and Accessibility Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$0	(Unknown could exceed \$126,320,093)	(Unknown could exceed \$485,312,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(Unknown could exceed \$126,320,093)	(Unknown could exceed \$485,312,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Road	\$0	(Unknown greater than \$50,000)	(Unknown greater than \$100,000)
Conservation	\$0	(Unknown greater than \$50,000)	(Unknown greater than \$100,000)
Other	\$0	Less than \$53,906,648	Less than \$61,984,000
Total Estimated Net Effect on Other State Funds	\$0	Unknown less than \$53,806,648	Unknown less than \$61,784,000

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Federal	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds*	\$0	\$0*	\$0*

* Savings and losses of less than \$100 million net to \$0.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Administrative Hearing Commission, Department of Revenue, Department of Social Services, Office of the Governor, Office of State Public Defender, and Missouri Senate** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Missouri House of Representatives (House)** state the fiscal impact for this legislation is minimal and can be absorbed with existing resources. However, if similar bills with minimal fiscal impact also pass, collectively the costs may be in excess of what the House can sustain within the existing budget and would require additional funding.

Officials from the **Department of Public Safety (DPS) - Director's Office** defer to the Missouri Consolidated Health Care Plan for response regarding the impact of this proposal on their organization.

Officials from the **Missouri Department of Conservation (MDC)** state this proposal would require all state government health insurance programs to enroll in the new "Missouri Health Insurance Exchange". Missouri Department of Conservation employees are currently able to participate in the Conservation Employees' Benefits Plan Trust Fund, a self-insured health insurance program. It appears that this plan would be dissolved and replaced by the Missouri Health Insurance Exchange, a conglomerate of fully-insured health insurance programs.

Historically, fully-insured programs are significantly higher in cost than self-insured programs, as commercial insurers include their profit for services in the premiums charged to participants. This proposal would result in higher health insurance expenses for the Missouri Department of Conservation, with added costs estimated to be significantly more than \$100,000 per year.

Officials from the **DPS - Missouri State Highway Patrol** defer to the Missouri Department of Transportation for response regarding the fiscal impact of this proposal on their organization.

Officials from the **Missouri Department of Transportation (DOT)** state if participation in the exchange is mandated for the DOT/Missouri State Highway Patrol (MHP) medical plan members, the legislation would more than likely cause the medical plan to no longer be sustainable. The legislation also does not stipulate the amount, if any, of state monies that would be contributed to the exchange. Therefore, the fiscal impact to DOT and MHP cannot be

ASSUMPTION (continued)

determined, but could be substantial, i.e. greater than \$100,000. The fiscal impact to the medical plan and the plan members could also be substantial (greater than \$100,000) dependent on plan rates and state contributions, if applicable.

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state that less than 10% of HCP members are currently enrolled in an insured health plan. The proposed legislation would create an "exchange" which would provide only insured products. The majority of HCP members are currently covered by self-insured HCP plans. Self-insured plans have lower overhead/administrative costs associated with them and from experience the HCP estimates its self-insured product is approximately 6% less than the insured product.

HCP projections for health care costs for FY 09, using a 12% actuarial trend are \$424,018,424 for the state's share and \$98,083,256 for employees. If HCP members were required to purchase health insurance through the "exchange", additional administrative costs alone would cost the state \$27,556,314 and \$6,408,901 for the employees' share. This totals an FY 09 increase of \$33,965,214.

Insurance through the exchange would be essentially individually underwritten based on the four designated criteria: age, geography, health status, and family composition. The projected fiscal impact may be understated since it is based on the experience of HCP as a large group purchaser of fully insured coverage. Individual coverage typically comes with higher administrative fees, and, therefore, the cost to the state and members could be higher. Additional savings are currently available through the active management of the pharmacy program and the wellness and disease management programs, which are based on the specific needs of HCP's group.

Since each members plan is individually underwritten, some members will pay higher premiums for the same plan design, which could make coverage less affordable.

The HCP would no longer be able to spread risk across a large group and would no longer be able to use the full advantage of group coverage. This aspect has allowed HCP's cost trend to be considerably less than that which has been experience nationally. Typical HCP increases in recent years have been between 5% and 6%.

It would appear that the only remaining responsibility for HCP would be to contract for administrative services (enrollment, billing, etc.) and/or to provide ancillary benefits such as vision or dental if so desired by the exchange. This would essentially terminate the need for most of HCP.

ASSUMPTION (continued)

Oversight obtained information from the HCP. The HCP projects an FY 09 budget of approximately \$414,666,525 and estimates an FY 10 budget of over \$476.8 million. **Oversight** assumes, if this proposal passes, there would be a savings of less than \$414,666,525 in FY 09 and a savings of less than \$476.8 million in FY 10 since the HCP may provide some administrative services and ancillary benefits.

Officials from the **Department of Insurance, Financial and Professional Regulation (DIFP)** state in 2005, HMOs and the top major medical carriers reported covering approximately 1.7 million people and incurring \$3.8 billion claims. Assuming carriers cede 20% of these covered people to the pool, 348,000 people representing approximately \$800,000,000 in claims is estimated. The first 20% of these claims would be covered by insurers, the remaining 80% covered by the pool less any premiums received by the pool. These ceded individuals will likely have higher claim costs so the DIFP estimates at least \$800,000,000 in cost to the pool. If claims are higher, this cost would increase.

This cost (deficit) would be assessed to members of the pool, who then could take a credit against premium tax for the assessed amount (per section 376.975). This credit is taken from the General Revenue (GR) portion of premium tax only. The impact to GR is unknown as the credit would be limited to members premium tax liability each year. Any excess credit not used can be carried forward against premium tax due in succeeding years until the excess is exhausted.

The proposal also establishes a private not-for-profit corporation name, the "Missouri Health Insurance Exchange", to carry out the provisions of sections 376.1800 to 376.1839. The department has made no assumptions regarding this exchange and does not anticipate any costs to the department.

The revised plan of pool operation shall begin on January 1, 2009.

Oversight notes the proposal establishes the Missouri Health Insurance Exchange (Exchange), a non-state insurance exchange that acts as a mechanism through which carriers and insurers offer insurance policies to eligible Missouri residents. All operating expenses of the Exchange are to be paid from funds collected by and on behalf of the Exchange. **Oversight**, for fiscal note purposes, assumes unknown funds collected and paid out on behalf of the Exchange will net to zero.

Oversight assumes the proposal would have a negative unknown fiscal impact on all local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Savings - HCP</u>			
Appropriations	\$0	<u>Less than</u> \$273,679,907	<u>Less than</u> \$314,688,000
<u>Loss - DIFP</u>			
Increase in premium tax credits	\$0	<u>(Unknown</u> <u>could exceed</u> \$400,000,000)	<u>(Unknown</u> <u>could exceed</u> \$800,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(Unknown</u> <u>could exceed</u> <u>\$126,320,093)</u>	<u>(Unknown</u> <u>could exceed</u> <u>\$485,312,000)</u>
ROAD FUND			
<u>Costs - DOT</u>			
Increases in cost of medical plan premiums	\$0	<u>(Unknown</u> <u>greater than</u> \$50,000)	<u>(Unknown</u> <u>greater than</u> \$100,000)
ESTIMATED NET EFFECT ON ROAD FUND	<u>\$0</u>	<u>(Unknown</u> <u>greater than</u> <u>\$50,000)</u>	<u>(Unknown</u> <u>greater than</u> <u>\$100,000)</u>
CONSERVATION FUND			
<u>Costs - MDC</u>			
Increases in cost of medical plan premiums	\$0	<u>(Unknown</u> <u>greater than</u> \$50,000)	<u>(Unknown</u> <u>greater than</u> \$100,000)
ESTIMATED NET EFFECT ON CONSERVATION FUND	<u>\$0</u>	<u>(Unknown</u> <u>greater than</u> <u>\$50,000)</u>	<u>(Unknown</u> <u>greater than</u> <u>\$100,000)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2008	FY 2009	FY 2010
	(10 Mo.)		
OTHER STATE FUNDS			
<u>Savings - HCP</u>			
Appropriations	<u>\$0</u>	<u>Less than</u> <u>\$53,906,648</u>	<u>Less than</u> <u>\$61,984,000</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
	<u>\$0</u>	<u>Less than</u> <u>\$53,906,648</u>	<u>Less than</u> <u>\$61,984,000</u>
FEDERAL FUNDS			
<u>Savings - HCP</u>			
Appropriations	<u>\$0</u>	<u>Less than</u> <u>\$87,079,970</u>	<u>Less than</u> <u>\$100,128,000</u>
<u>Loss - HCP</u>			
Loss in Federal match due to decreased expenditures		<u>(Less than</u> <u>\$87,079,970)</u>	<u>(Less than</u> <u>\$100,128,000</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS*			
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
* Savings and losses of less than \$100 million net to \$0.			
NON-STATE - MISSOURI INSURANCE EXCHANGE			
<u>Income - Insurance Exchange</u>			
Insurance premiums and other funds	\$0	Unknown	Unknown
<u>Costs - Insurance Exchange</u>			
Administrative expenses and claims payments	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON NON-STATE - MISSOURI INSURANCE EXCHANGE			
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
ALL LOCAL GOVERNMENTS			
<u>Costs - All Local Governments</u>			
Increase in costs of medical plan premiums	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON ALL LOCAL GOVERNMENTS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

This proposal may directly impact small businesses that provide health insurance coverage for employees.

FISCAL DESCRIPTION

This proposal changes the laws regarding the Missouri Health Insurance Pool and establishes the Missouri Health Insurance Portability and Accessibility Act.

MISSOURI HEALTH INSURANCE POOL

In its main provisions, the proposal: (1) Requires, effective January 1, 2009, or the date established by the board of the pool, all insurers and insurance arrangements who provide health plans to be members of the pool; (2) Allows pool members to decide which individuals or groups may be ceded into the pool; (3) Requires pool members ceding a risk to the pool to retain at least 20% of the risk and to pay a premium as determined by the rules governing the pool. The premium must be at least the amount charged to the insured. Risks may be ceded to the pool for as long as the insured is covered; (4) Does not require pool members to provide coverage to any person or group; and (6) Allows pool members to request verification of employment or residence for eligibility determination.

HEALTH INSURANCE PORTABILITY AND ACCESSIBILITY ACT

In its main provisions, the proposal: (1) Allows the Governor to establish the Missouri Health Insurance Exchange, a private, nonprofit corporation to implement the provisions of the proposal by providing individuals with greater access, choice, and portability of health insurance products; (2) Establishes a board of directors of the exchange to be composed of nine members including the Director of the Department of Insurance, Financial Institutions, and Professional Registration;

FISCAL DESCRIPTION (continued)

the Director of the Department of Social Services; the administrator of the Missouri High Risk Pool; the Director of the Missouri Consolidated Health Care Plan; a member of the Senate; a member of the House of Representatives; and three private sector individuals appointed by the Governor; (3) Authorizes the exchange to enter into contracts for the operation of the exchange; (4) Requires the exchange to establish and administer procedures to enroll, elect, and manage coverages; (5) Requires the exchange to hold open enrollment for eligible individuals in November of each year. Eligible individuals cannot be denied coverage during open enrollment with some exceptions; (6) Requires certified health carriers offering insurance through the exchange to be licensed in Missouri; (7) Requires carriers offering plans at standard rates based on age, geography, lifestyle, and family composition to be actuarially sound. Rates may be adjusted because of experience and modifications to plan benefits; (8) Establishes rules governing pre-existing conditions for current and new plan participants as follows: (a) Participants who choose a different plan or option for the next year are not subject to the pre-existing condition provisions; (b) New participants with 18 or more months of credible coverage are not subject to the pre-existing condition provisions; (c) New participants with partial credible coverage of two to 17 months may enroll subject to the pre-existing condition provisions for up to 12 months or be charged a premium of up to 125% of the standard rate for up to three years; (d) New participants with less than two months of credible coverage will be subject to the pre-existing condition provisions for up to 12 months or be charged a premium of up to 150% of the standard rate for up to three years; (e) New eligible dependents are not subject to the pre-existing condition provisions unless previously specified in the insured's plan; and (f) Carriers may elect to waive the pre-existing condition provisions and instead extend the rate surcharge for one additional year; (9) Establishes rules for eligible individuals to retain coverage and procedures for resolving disputes about the operations of the exchange; (10) Allows employers to contract with the exchange to provide health insurance benefits to plan enrollees if: (a) The sponsoring employer plan is administered by the exchange director; (b) The participating employer plan is restricted to the coverage and benefits offered by the participating insurance plan; (c) Any individual who is eligible for coverage under the employer's participating plan can elect coverage under any participating insurance plan; (d) The employer offers supplemental benefits to those offered through the exchange; (e) The employer agrees not to offer individuals eligible to participate in the exchange because of their eligibility under the employer's participating employer plan any separate or competing health plan offering similar benefits as those provided by other insurance plans in the exchange; (f) The employer reserves the right to determine the terms and contribution amount for participating employer plans; and (g) Participating employer plans do not provide additional or different services or benefits not provided or offered to all other participating employer plans; (11) Allows Missouri-licensed producers to enroll eligible individuals in the exchange for a commission; and (12) Prohibits a carrier from issuing or renewing an individual health plan benefit or a group health plan to

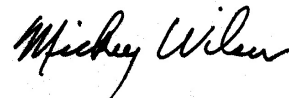
FISCAL DESCRIPTION (continued)

employers with less than 51 employees after the first day of the plan year following open enrollment.

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 -
 Administrative Hearing Commission
Missouri Department of Transportation
Department of Insurance, Financial and Professional Regulation
Department of Revenue
Department of Social Services
Department of Public Safety -
 Director's Office
 Missouri State Highway Patrol
Office of the Governor
Missouri Consolidated Health Care Plan
Missouri House of Representatives
Missouri Department of Conservation
Missouri Senate



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Director
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