COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 3379-03
BILL NO.: SB 820
SUBJECT: Insurance - Medical; Health Care; Employees - Employers
TYPE: Original
DATE: February 10, 2000

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## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| General Revenue | ($1,012,064 to $4,217,273) | ($1,221,952 to $7,205,822) | ($1,235,897 to $8,631,772) |
| County Foreign Insurance | ($623,233 to $3,828,442) | ($124,647 to $2,903,308) | $0 to ($664,125) |
| **Total Estimated Net Effect on All State Funds** | **($1,635,297 TO $8,045,715)** | **($1,346,599 TO $10,109,130)** | **($1,235,897 TO $9,295,897)** |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| None | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| **Local Government** | **$0** | **($623,233 TO $3,828,442)** | **($747,880 TO $6,731,750)** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety - Missouri State Highway Patrol**, the **Department of Conservation**, the **Missouri Consolidated Health Care Plan**, and the **Department of Transportation** assume this proposal would not fiscally impact their agencies.

**Missouri Consolidate Health Care Plan** (**HCP**) officials did not respond to our fiscal impact request. However, in responding to a similar proposal from last session, HCP assumed there would be no fiscal impact.

The **Department of Insurance (INS)** states this proposal lowers the premium cap for the insureds in the Missouri Health Insurance Pool (MHIP) from 200% to 135% of rates applicable to individual standard risks. The differences between the premiums paid by the insureds in the MO Health Insurance Pool (MHIP) and the claims paid out to the insureds in the pool are assessed to insurers. These assessments are taken as credits against the insurers premium tax liability. Increased assessments effectively reduce the amount of revenue collected under premium tax, and this revenue is divided evenly between General Revenue and the County Foreign Insurance fund. Officials from MHIP estimate that replacing the 200% premium cap with a 135% cap would require an approximate 56% increase in assessments to insurers if the population of insureds in the pool remains constant. MHIP reported 1,032 insureds in the pool during 1997. The 1997 assessment charged was $2,671,000. Reducing the premium cap to 135% of the standard rate would require an approximate 56% increase in assessments, or $1,495,760.

In addition, INS states it is reasonable to assume that the MHIP population could grow to 10,000 or more insureds based on Minnesota's experience which has a similar program. INS assumes for the purposes of calculating fiscal impact that 50% of the new members would be at the 135% rate due to HIPAA eligibility or because of the open enrollment, and the remaining 50% would join the pool at the 200% rate. INS has phased in enrollment and estimates that 25% of the 10,000 members will join each year. INS also assumes a 50% turnover rate each year of members leaving the high-risk pool to go to the individual market because of individual market reforms and rate controls also included in the proposal.

INS notes that up to 10% of the HIPAA eligibles may never go into the high-risk pool and go directly to the individual market. Typically, pool membership consists of individuals with medical conditions and very high costs of care. Increased pool membership will likely reduce the costs per member as "less sick" individuals will share the costs of coverage for the more expensive members. For fiscal note purposes, it is assumed that claims would be reduced by

ASSUMPTION (continued)

10% in FY01, and by 15% for FY02 and FY02, to reflect the impact of healthier pool members.

Fiscal impact is calculated as follows:

| | |
|---|---|
| FY 2001 | |
| Additional cost for existing 1,000 pool members | $1,495,760 |
| Cost for 1,250 new members at 200% cap ($2,404 each) | $3,005,000 |
| Cost for 1,250 new members at 135% cap ($3,750 each) | $4,687,500 |
| Total (3,500 pool members) | $9,188,260 |
| FY 2002 | |
| First year reduced by 50% at 135% cap (1,750 members @ $3,542 each) | $6,198,500 |
| Cost for 1,250 new members at 200% cap ($2,270 each) | $2,837,500 |
| Cost for 1,250 new members at 135% cap ($3,542 each) | $4,427,500 |
| Total (4,250 pool members) | $13,463,500 |
| FY 2003 | |
| Second year reduced by 50% at 135% (2,125 members @ $3,542 each) | $8,854,875 |
| Cost for 1,250 new members at 200% cap ($2270 each) | $2,837,500 |
| Cost for 1,250 new members at 135% cap ($4,167 each) | $4,427,500 |
| Total (4,625 pool members) | $14,791,750 |

A range of costs is reflected with the minimum based on the current MHIP insured population of approximately 1,000 and the maximum as shown above for each fiscal year. This fiscal impact, representing increased assessments to insurers and the resulting increase in premium tax credits, will be split evenly between General Revenue and the County Foreign Insurance fund.

INS assumes this proposal would also require one additional Insurance Health Care Specialist ($40,536) for the Advisory Committee to administer the Health Insurance Purchasing Cooperative grant program. INS estimates Advisory Committee expenses to be $100 per member for 10 members for 2 meetings per year. In addition, grants of up to $400,000 per year can be awarded from General Revenue.

**Oversight** also assumes that there could be a decrease in uncompensated care cases since more previously uninsured persons would enroll in the MHIP. According to the **Department of Social Services**, the state reimburses hospitals in such instances a portion of the unpaid costs, with the hospitals incurring the remainder of the costs. Funds paid by the state to hospitals are federal funds. Therefore, there could be some cost savings to federal funds as well as to some
ASSUMPTION (continued)

county hospitals (local governments) due to anticipated decreases in uncompensated care cases.

The **Department of Social Services, Division of Medical Services (DMS)** states this proposal revises Section 376.966.2 (2) in such a way that it appears to eliminate the conflict with federal law. However, the language in the existing statute at Section 376.966.3 (2) still states that individuals who are receiving health care benefits pursuant to Section 208.151 (Medicaid) are ineligible for pool coverage. Section 1902(a)(25)(G) of the Social Security Act requires that a state plan for medical assistance must provide that the state prohibits any health insurer, when enrolling an individual, from taking into account that the individual is eligible for or receiving Medicaid. Therefore, DMS believes that if passed, the state would still be out of compliance with federal law and would be at risk of losing over $2 billion in federal matching funds for being considered non-compliant with federal law.

| FISCAL IMPACT - State Government | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|---|---|---|
| **GENERAL REVENUE FUND** | | | |
| Loss - Department of Insurance | | | |
| Reduced premium taxes | ($623,233 to $3,828,442) | ($747,880 to $6,731,750) | ($747,880 to $7,395,875) |
| Costs - Department of Insurance | | | |
| Personal service | ($34,611) | ($425,880) | ($43,653) |
| Fringe benefits | $103,450 | ($12,730) | ($13,048) |
| Expense and equipment | ($343,875) | ($418,754) | ($431,316) |
| Total Costs - Department of Insurance | ($388,831) | ($474,072) | ($488,017) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE FUND** | **($1,012,064 TO $4,217,273)** | **($1,221,952 TO $7,205,822)** | **($1,235,897 TO $8,631,772)** |

**COUNTY FOREIGN INSURANCE FUND**

Savings

| FISCAL IMPACT - State Government | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|---|---|---|
| Reduced distributions | $0 | $623,233 to $3,828,442 | $747,880 to $6,731,750 |
| Loss of revenue | | | |
| Reduced premium taxes | ($623,233 to $3,828,442) | ($747,880 to $6,731,750) | ($747,880 to $7,395,875) |
| **ESTIMATED NET EFFECT ON COUNTY FOREIGN INSURANCE FUND** | **($623,233 TO $3,828,442)** | **($124,647 TO $2,903,308)** | **$0 TO $664,125)** |

| FISCAL IMPACT - Local Government | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|---|---|---|
| **POLITICAL SUBDIVISIONS** | | | |
| Loss of revenue | | | |
| Reduced distributions from County Foreign Insurance Fund | $0 | ($623,233 to $3,828,442) | ($747,880 to $6,731,750) |
| **ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS** | **$0** | **($623,233 TO $3,828,4420** | **($747,880 TO $6,731,750)** |

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would establish an advisory committee on health insurance mandates; would expand eligibility into the Missouri Health Insurance Pool for high-risk enrollees; would modify the small employer health insurance provisions; would establish rating restrictions on individual

health insurance policies; and would establish an individual health benefit reinsurance association. The proposal would establish the Advisory Commission on Health Insurance Mandates. The commission would be charged with studying the costs and benefits of each health insurance benefit or offer mandated by Missouri law. The commission would report by January 1, 2001, the results of its study to the Governor, the Speaker of the House of Representatives, and the President Pro Tem of the Senate.

The proposal would allow individuals to be eligible for coverage through the Missouri Health Insurance Pool (also referred to as the "high risk pool") if they have been refused coverage, offered coverage at a rate exceeding 135% of the standard rate, or their period of creditable coverage is not less than 12 months. The rate for coverage under the pool would be 135% of the standard rate for individuals who had continuous coverage through a date not less than 63 days prior to the effective date of pool coverage or who enroll during the open enrollment period. The rate for other eligible individuals would be 200% of the standard rate. The proposal would also change the makeup of the board of directors which governs the health insurance pool.

The proposal would also modify the Small Employer Health Insurance Availability Act so that it would comply with the federal Health Insurance Portability and Accountability Act of 1996. Under this proposal, a small employer employs 2 to 50 employees. Current law defines a small employer as any association which employs 3 to 25 employees. This proposal would also remove language that requires a husband and wife working for the same small employer to be considered one eligible employee. A small employer health benefit plan would be renewable except when: 1) the plan sponsor fails to pay a premium or contribution in accordance with the terms of the plan; 2) the plan sponsor commits an act of fraud; 3) the small employer carrier decides to discontinue offering a particular type of group health benefit plan in the small employer market; or 4) when the small employer's membership in a professional association, in which the employer obtains the insurance, ends. A small employer carrier offering coverage through a network plan would not be required to offer coverage to persons or small employers who no longer reside or work in the service area for which the carrier is authorized to do business. Small employer plans would be allowed to apply preexisting condition exclusions during the first 12 months of coverage but would be required to waive the exclusions for the period of time that an individual had creditable coverage continuous to a date not less than 63 days prior to obtaining the new coverage. The exclusion would also be waived if the individual's prior coverage is for a period of 12 of the most recent 18 months. Insurers may discontinue offering a plan under certain conditions. No preexisting condition exclusions would be allowed

DESCRIPTION (continued)

relating to pregnancy or a condition for which medical advice was received during a period when the person had qualifying coverage.

This proposal would prohibit insurance companies from requiring the purchase of life insurance

policies or annuities as a condition of purchasing health insurance.

This proposal would also establish rating restrictions for individual health insurance policies. An insurer may refuse to issue an individual policy of accident and health insurance based upon the insurer's underwriting standards. An insurer, however, could not refuse to issue the individual policy if the applicant had prior creditable coverage which was terminated within 63 days prior to the application, the period of creditable coverage is not less than 12 months, and the individual has exhausted any COBRA coverage. An insurer would not be required to issue individual health benefit coverage without medical underwriting when such plans constitute 2% or more of that insurer's earned premium on an annual basis from individual health plans. An individual policy of accident and sickness insurance would be renewable except for the following reasons: 1) nonpayment of premiums; 2) fraud or misrepresentation; 3) attainment of eligibility for Medicare due to age; 4) the insurer decides not to renew all policies within the state; and 5) the director of insurance finds that continuance of the policy would not be in the best interests of other enrollees or would impair the carrier's ability to meet its contractual obligations.

The proposal would also include several rating restrictions for individual health insurance premiums. An insurance carrier would base its rates on "allowed rating characteristics" which are family composition, geographic area, age and use of tobacco. After establishing a premium rate based on the allowed rating characteristics and benefits for a block of business, the premium rate for one block of business of individual policies may not exceed certain percentages for another block of business.

This proposal would allow insurance companies issuing individual health insurance policies to apply preexisting condition exclusions during the first 12 months of coverage but would be required to waive the exclusions for the period of time that an individual has coverage continuous to a date not less than 63 days prior to obtaining new coverage. Genetic information could not be treated as a condition for which a preexisting exclusion may be imposed in the absence of a diagnosis of the condition related to the information.

This proposal would require the Department of Insurance to administer a grant program to assist in the establishment of health insurance purchasing cooperatives. Each individual grant would be limited to $25,000. Funds for the grants would be appropriated from general revenue and the total amount of grants may not exceed $400,000. This proposal would also establish the
DESCRIPTION (continued)

Advisory Joint Committee on Health Insurance Purchasing Cooperatives.

This proposal would establish an individual health benefit reinsurance association and would require all entities providing health insurance or health benefits subject to state insurance regulation to be members of the association. Those entities that provide plans only for Medicaid

recipients would be exempted from membership in the association. The association's board would be responsible for developing a plan to provide for the sharing of losses between the members of the association related to insuring individuals enrolled in health plans without the use of medical underwriting. Board members would be immune from civil liability for performing duties.

This proposal would require health insurers to follow certain procedures if they close a block of insurance business pertaining to individual health insurance policies. The insurer could not close a block of business unless the insurer allows the existing contract holders to purchase a policy from a similar block of business which provides similar benefits and the insurer pools the experience of the closed block of business with other similar blocks of business to determine the new premium rate. If the insurer could not offer a comparable block of insurance business, then the insurer would provide notice to the director of revenue that it is deciding to close a block of business. This proposal has an effective date for certain sections.

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

Department of Insurance
Department of Transportation
Department of Conservation
Department of Social Services
Department of Public Safety
  Missouri State Highway Patrol

MPW:LR:OD:005 (9-94)

Missouri Consolidated Health Care Plan

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Director
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