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FISCAL IMPACT REPORT

SPONSOR Jennings DATE TYPED 2/17/2004 HB _____

SHORT TITLE Health Insurance Coverage Requirements SB 502/aSFC

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	(7,100.0)		Non-Recurring	General Fund
	19,500.0	23,800.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to: HB 394, the Health Insurance Premium Tax

SOURCES OF INFORMATION

LFC Files

Public Regulation Commission (PRC)

SUMMARY

Synopsis of Senate Finance Committee Amendments

The Senate Finance Committee changes the bill as follows:

1. Health insurance is required to cover alpha-fetoprotein IV screening tests during a woman's pregnancy. The original bill required coverage for alpha-fetoprotein III screening tests.
2. Disability income contracts are excluded from the premium tax surcharge.
3. Language is added allowing tax overpayments from the insurance premium tax changes passed in the last session and paid between January 1, 2004 and March 20, 2003 to be credited against future payments.

FISCAL IMPLICATIONS OF THE SFC AMENDMENTS

Based on discussions with the Insurance Division of the PRC, the SFC amendment exempting disability income contracts is expected to reduce the additional income expected from the sur-

charge from \$20 million to \$19.5 million.

The new language allowing overpayments to be credited against future payments is expected to shift the \$7.5 million non-recurring impact from FY04 to FY05.

These changes are incorporated into the fiscal impact tables.

Synopsis of Original Bill

Senate Bill 502 imposes the health insurance premium surtax. All revenue raised from the surcharge would be directed to the general fund. The surtax would be equal to one percent of gross health insurance premiums and membership fees received from health insurance or contracts covering health risks within the state during the preceding calendar year less all return health insurance premiums.

The bill also makes a slight modification to the existing premium tax rate, which is raised from three percent to three and three-thousandths percent. This change was included to reconcile conflicting amendments to the Voters Action Tax enacted last session. It deleted sections providing exceptions to what constitute premiums subject to the tax as they were no longer applicable.

The bill also requires that health insurance cover circumcision for new born males and alpha-fetoprotein III screening tests for pregnant women. Such tests screen for genetic abnormalities in the fetus.

The bill amends the applicability sections to Laws 2003, Chapter 58, Section 1. This relates to the bill last session which eliminated the insurance premium tax exemption provided for all government contracts in 2003, and thereby applied the tax to premiums received by managed care organizations from the SALUD program. The proposed applicability excepts premiums received prior to March 20, 2003.

The provisions of the bill imposing the surtax are applicable on July 1, 2004 for contracts issued or renewed on or after July 1, 2004. For contracts issued or renewed before July 1, 2004, the applicability date is October 1, 2004.

The effective date of the bill is July 1, 2004.

FISCAL IMPLICATIONS

The provision changing the effective date for the premium tax owed on managed care contracts to March 20th has the effect of reducing FY04 general fund revenues from the insurance premium tax by \$7.1 million, according to the Insurance Division. The revenue decrease is non-recurring.

The health insurance premium surtax is estimated to raise \$24.3 million for the general fund in FY05. Subsequent year impacts are also shown to be \$24.3 million. However, since the value of health insurance premiums are likely to grow with prices and the number of premiums written, subsequent year revenues might be expected to grow by 5 to 10 percent.

The PRC reported to LFC staff that estimated premium insurance tax revenues attributable to health insurance premiums are \$66 million in FY04 and \$73 million in FY05. The FY04 estimate is consistent with year-to-date collections and the FY05 estimate assumes revenues from health insurance premiums will grow by 6 percent. The current tax rate is 3 percent, implying that \$24.3 million is attributable to each percent. Thus, increasing the rate by 1 percent is estimated to increase insurance premium tax revenues by \$24.3 million on a full-year basis. However since the bill will be applicable to some premiums for only the quarters of the year, the fiscal impact estimate needs to be reduced. Discussions with Insurance Division staff suggest that \$17 to \$20 million is likely to be realized in FY 05.

ADMINISTRATIVE IMPLICATIONS

The PRC currently collects and distributes this tax. They reported on a similar bill that the proposed changes have no administrative impact for them.

SUBSTANTIVE ISSUES

The provisions requiring coverage of male circumcision and alpha-fetoprotein screening may affect insurance prices, but impact is likely to be very small. These may be weighed against the procedures' benefits.

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