F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 1/20/08
SPONSOR Komadina **LAST UPDATED** 1/31/08 **HB**

SHORT TITLE Employee Wellness Program Tax Credit **SB** 148/aSCORC

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	($175.0)	($1,225.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates HB148
Relates to SB225, HB62 and HB147

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY08	FY09	FY10	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$162.85	$162.85	$315.7	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Health (DOH)
Health Policy Commission (HPC)
Taxation and Revenue Department (TRD)
New Mexico First

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amended SB148 lowering the credits available from $200 for the first 200 employees and $100 per employee after that to $150 and $75 respectively.

Synopsis of Original Bill

Senate Bill 148 creates a new credit against personal and corporate income tax liability for employers who have a qualified "wellness" program in place. The credit cannot exceed the product of $200 and the number of up to 200 NM resident employees plus the product of $100 and the number of employees for over 200 NM resident employees. So a company with 100 employees would be eligible for a credit of $20,000 (100 employees x $200) while a company with 300 employees would be eligible for a credit of $50,000 (200 employees x $200 + 100 employees x $100).

DOH, in consultation with HPC, TRD and the Workforce Solutions Department, is charged with certifying a company's wellness program which must contain at least three of the following:

- Health awareness: dissemination of health information and screening for employees
- Employee engagement: a committee to engage employees and employee tracking
- Behavioral change: programs that provide counseling, seminars, on-line programs or self-help materials to address behavioral health issues such as smoking, obesity, stress, fitness, nutrition, substance abuse, depression and mental health promotion
- Supportive environment: policies and services that promote healthy lifestyles including tobacco use policies, availability of nutritious food, stress management and the encouragement of physical activity

The credit will be available for tax years 2008 to 2017 and will only apply to current tax year liability.

FISCAL IMPLICATIONS

The fiscal impact has been determined by using information from Indiana's experience with a similar wellness credit. Indiana saw that it took about six months to get the certification procedures and criteria up and running and then the take-up of employers was about twenty per month. Following the Indiana experience, the assumed take-up rate is 5 per month and it is also assumed that 75 percent of the companies that take advantage of the credit are companies with more than 100 employees and 25 percent are companies with 50 to 99 employees. **This is a revised impact from the previous FIR pursuant to more information about the ability of companies to retool existing wellness programs to become certified.** Wellness programs, particularly given the criteria laid out in SB148, are more attractive to larger employers due to the fixed costs associated with it. The average cost of the credit per employee is based on the attached document from the Texas Department of State Health Services.

The amendment is assumed to lower the average benefit from $100 to $80.

FISCAL IMPACT OF WELLNESS CREDIT

			Company Size				
		months	50-99 employees	Greater than 100 employees	Total Employees	Average Benefit = $80 per employee	Fiscal Year of Impact
Average Employment			68	269			
	2008	2	3	8	2,188	175,000	FY09
	2009	12	18	53	15,313	1,225,000	FY10
	2010	12	33	98	28,438	2,275,000	FY11
	2011	12	48	143	41,563	3,325,000	FY12

It should be noted that TRD has estimated a much higher impact based on a different methodology. The impact here shows a much slower rate of adoption than the TRD analysis and is largely based on the Indiana experience. However, the different estimates point to significant upside risk in this estimate and that if the credit is adopted much faster than shown here, the credit becomes significantly more expensive.

SIGNIFICANT ISSUES

DOH:

Nearly 890,000 cases of seven common chronic diseases — cancers, diabetes, heart disease, hypertension, stroke, mental disorders, and pulmonary conditions — were reported in New Mexico in 2003. (The Milken Institute. An Unhealthy America: The Economic Burden of Chronic Disease. October 2007. http://www.chronicdiseaseimpact.com/ebcd.taf?cat=state&state=NM)
These conditions shorten lives, reduce quality of life, and create considerable burden for caregivers. The Milken Institute has estimated that between 2003 and 2023, NM could potentially save $6.3 billion (or 26.4%) in direct medical expenditures and lost productivity due to chronic diseases if moderate changes were made toward prevention and screening. The leading causes of preventable disease and death are tobacco use, lack of adequate physical activity, and poor nutritional practices.

Lack of physical activity and poor nutritional habits are believed to be the biggest contributors to overweight and obesity. Overweight and obesity in adults increase the risk of diabetes, cardiovascular disease, asthma, and arthritis, some cancers, and poor functional health status. Chronic diseases such as these are responsible for six out of every ten deaths in New Mexico.

The worksite is an ideal setting for health education and disease prevention programs because employees spend significant hours at work.

Individuals with lower incomes and educational attainment tend to have poorer health status when compared to people earning more money and with higher education. By reaching New Mexico residents at their worksites, HB148 could positively impact non-professional populations that have been identified to have higher rates of obesity, tobacco use, substance abuse, depression, and poor nutrition and physical activity behaviors.

The February 2007 issue of *State Legislatures*, a National Conference of State Legislatures publication, reported on wellness programs and found at the time seven states had tax credits including Hawaii, Iowa, Mississippi, New Jersey, New York, Rhode Island and Wisconsin. "The idea is to provide employers—especially smaller businesses—with income, franchise or corporate tax credits for wellness programs such as nutrition, weight management, smoking cessation or substance abuse counseling, or purchasing or maintaining fitness equipment."

According to NCSL:

> Investing in employee health also pays off. Healthy workers are more productive. An analysis of 32 studies of workplace wellness initiatives found 28 with an average return on investment of $3.48 per $1 in program costs, as reported in 2001 in the American Journal of Public Health. Citibank saved $8.9 million over two years after investing $1.9 million for wellness initiatives, translating into a return of $4.70 for each dollar spent on the wellness program. Motorola saw a return of $3.93 for every dollar spent on its wellness program, and saved nearly $10.5 million annually in disability expenses for program participants compared to non-participants.

Corroborating NCSL, HPC cites research that indicates that workplaces with employee health programs demonstrate a 2% to 5% increase in productivity and that those with health promotion programs save an average of $3.50 for every dollar spent, as measured by reduced absenteeism and health care costs. Workplaces with wellness programs also report fewer work-related injuries and lower stress levels.

PERFORMANCE IMPLICATIONS

DOH reports that the certification of wellness programs may be better handled by TRD. However, TRD does not have the clinical experience to effectively evaluate a wellness program. HPC may be an alternative entity to certify wellness programs.

ADMINISTRATIVE IMPLICATIONS

According to DOH, the agency is identified as a lead agency to implement key components of HB148: reviewing, issuing, or declining certification of eligibility to all New Mexico employers that apply, and promoting the wellness tax credit program. These duties would require 2 new FTE, at an estimated recurring cost of $132,850.

According to TRD, one FTE would be needed by RPD, at a cost of $30,000, to manage a manual process of tracking and reviewing the credits. A claim form and instructions would be needed at a cost of approximately $1,000 to develop. Current publications would need to be changed. Coordination would be required between the various agencies to administer the credit and to establish the rules and guidelines.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB148 is a duplicate of HB148.

There are many health related bills this session. SB225, HB147 and HB62 have proposed creating a health coverage authority that would be charged with developing wellness programs and if created this authority may be a better entity to certify credits than DOH.

TECHNICAL ISSUES

There may be confusion about "NM resident" employees and border communities like Santa Teresa or Gallup where employees may come from other states.

NF/mt:nt

Attachment

What Will a Worksite Wellness Program Cost?

The Facts Speak for Themselves - Wellness Helps Reduce Costs

- A 2003 evaluation of one large U.S. employer found that simply helping employees control their blood pressure alone can save $547 per person per year.

- Johnson & Johnson claims to have saved $38 million in health-care costs for its employees between 1995 and 1999 by promoting healthy lifestyles. Medical expenses decreased $224 per employee per year (averaged over four years), and this rate improved over time. The company found most benefits in the third and fourth years after program initiation.

- A 2004 University of Michigan study of 23,500 General Motors employees showed that nonexercising workers claimed at least $100 more per year in health-care costs than exercisers. The study also reported that obese, sedentary employees who began exercising at least twice a week lowered their costs by an average of $500 a year.

- The Washoe County School District in Nevada estimated that, in a single year, it spent $300,000 on direct costs associated with obesity and $1 million for gastric-bypass surgeries. It instituted a weight-loss program that paid employees $10 per pound lost, up to 25 pounds. Program participants missed three fewer workdays per year, producing a cost savings of $15.60 per program dollar spent.

Source: Texas Department of Health Services

Staff Time

Building a successful worksite wellness program requires staff time as well as money. Some larger organizations may spend 20 hours per week for three to six months preparing all the steps prior to launching a worksite wellness program.

Business Costs

Monetary costs can fluctuate widely, depending on whether the employer pays all costs, the employees pay all costs, or the costs are shared.

A 1992 study indicated that 28 percent of companies spent $5 or less per employee, and 19 percent spent between $6-10 per employee.

The Wellness Council of America estimates the cost per employee to be between $100 and $150 per year for an effective wellness program that produces a return on investment of $300 to $450. A sample expenditure for various levels of programs include:

Program Type	Cost per employee
A minimal (largely paper) program	$1 - $7
A moderate program	$8 - $15
A medium program with several activities	$16 - $35
A fairly comprehensive program	$36 - $75
A very comprehensive, effective program	$76 - $112