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FISCAL IMPACT REPORT

SPONSOR: Snyder DATE TYPED: 3-15-03 HB

SHORT TITLE: Employee Health Insurance Premium Tax Credit SB 335/aSCORC

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(\$0.1) See Narrative	(\$0.1) See Narrative	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC files

Responses Received From:

Taxation and Revenue Department (TRD)

No Responses Received From:

Public Regulatory Commission (PRC)

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee's amendment limits the tax credits included in SB 335 to companies of 35 or fewer employees.

Synopsis of Original Bill

Senate Bill 335 amends statute to add sections to the income tax act allowing for both corporate and personal tax credits equal to 25 percent of the value for health insurance premiums paid by the taxpayer. SB 335 allows married couples filing separately to claim 50 percent of the credit and allows those included in partnerships to claim the tax credit equal to the percent equity in the business.

FISCAL IMPLICATIONS

TRD's original fiscal impact was \$100 million in FY04 and subsequent years. The impact will be significantly reduced based on the SCORC amendment.

OTHER SUBSTANTIVE ISSUES

Healthcare Trends. The healthcare trends in New Mexico are similar to those occurring nationwide. The increases can be attributed to public demands, industry standards, medical science and technology. About two-thirds of healthcare costs are driven by chronic diseases, such as asthma, diabetes, heart disease and arthritis. According to the August 19, 2002, *National Underwriter* trade journal, employers are expecting 2003 to bring the fifth straight year of double-digit group health cost increases. The California Public Employee Retirement Systems (CALPERS), the second largest purchasing group in the country, reported the 2003 rates for its preferred provider organization (PPO) and its health maintenance organization plans (HMO) will increase 20 percent and 26 percent, respectively.

A recent Deloitte & Touche L.L.P. (Los Angeles, California) survey indicated the current employer strategy is to increase deductibles, co-payments and coinsurance levels. Other cost controlling strategies include

- Promoting medical savings accounts;
- Changing plan designs;
- Stressing preventive care;
- Disease management programs;
- Helping employees adopt healthier life styles (smoking cessation, weight control);
- Identifying New Mexico-specific health conditions (diabetes, cardiovascular disease, obesity, substance abuse, etc.) and targeting resources to prevention programs;
- Restructuring employer and employee contribution schedules;
- Rethinking statutory provisions (regulations, taxes); and
- Curbing unfunded mandates.

In the early 1990s, escalating healthcare costs were temporarily slowed by restrictions imposed by health maintenance organizations. Solving the cost problem might be harder today:

- Doctors and hospitals are successfully challenging managed care controls that (1) slow hospital admissions (2) reduce contractual payments to medical providers, and (3) require patients to ask insurers for approval before certain expensive tests or procedures. Increased payments to doctors and hospitals result in higher costs and premiums.
- State and federal lawmakers forced insurers to relax some of their most restrictive cost controls (i.e., requiring patients to call ahead before going to emergency rooms, and sending women home within 24 hours of giving birth). Insurers voluntarily relaxed other rules, particularly those regarding specialist visits.
- Patients have an "entitlement mentality" after a decade of \$10 office visits and lower out-of-pocket costs.
- New prescription drugs and technologies entering the market contribute to increased costs. Spending on prescription drugs is increasing three times faster than the rate of inflation. The population is 10 years older. Hospital admissions are increasing after years of stability.