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

**SPONSOR** HTRC **ORIGINAL DATE** 3/09/07 **LAST UPDATED** **HB** 1164/HTRCS

**SHORT TITLE** Tax Incentives for Certain Health Insurers **SB**

**ANALYST** Earnest

## REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| **FY07** | **FY08** | **FY09** | | |
| | ($7,700.0) | ($12,400.0) | Recurring | General Fund |
| | | | | |

(Parenthesis ( ) Indicate Revenue Decreases)

Related to Senate Bill 565

**SOURCES OF INFORMATION**
LFC Files
NM Medical Insurance Pool

Responses Received From
Public Regulation Commission (PRC)
Department of Finance and Administration (DFA)
Human Services Department (HSD)

**SUMMARY**

Synopsis of Bill

The House Taxation and Revenue Committee (HTRC) substitute for House Bill 1164 amends sections of the Insurance Code to provide an increased premium tax credit for health insurers who pay assessments to the New Mexico Medical Insurance Pool (NMMIP). Currently, health insurers who pay these assessments get a credit equal to 30% - 50% of the amount paid. The HTRC substitute for HB1164 increases those credits to 50% of the assessed amount for most members and 75% of the assessed amount attributable to Pool policy holders that receive premiums through the federal Ryan White CARE Act, the Ted R. Montoya hemophilia program at the University of New Mexico health sciences center, the Children's Medical Services bureau of the Public Health Division of the Department of Health or other programs receive state funding or assistance.

## FISCAL IMPLICATIONS

Insurance premium taxes are collected by the Public Regulation Commission for the benefit of the general fund. Thus, premium tax credits reduce the amount of premium tax revenue to the general fund. NMMIP has projected future assessments to grow from more than $20 million in 2006 to $50 million in 2009.

Under current law, the 30 and 50 percent tax credits result in a $14.6 million revenue loss for the general fund for FY08. Under projections provided by NMMIP, the 50 and 75 percent tax credits proposed in this bill result in a $22.3 million general fund revenue loss – a $7.7 million difference.

Under current law, and assuming the same rate of growth in the 2008 assessment, the revenue impact of the 30 and 50 percent credits for FY09 is $32.5 million. The 50 and 75 percent tax credits proposed in this bill result in a $44.9 million general fund revenue loss – a $12.4 million difference.

The projections assume the same in growth rate in the tax credit for the 2008 assessment as in the 2007 assessment. This near doubling rate of growth is not expected in future years as the Pool reaches its saturation point.

## SIGNIFICANT ISSUES

The Medical Insurance Pool, established by Chapter 54 of the Insurance Code, is a non-profit corporation operating a high-risk health insurance pool. The premiums charged to members are not sufficient to cover the costs, and this shortfall is assessed to health insurance industry. Assessed insurers then receive a 30 percent premium tax credit for full premium plan losses and a 50 percent premium tax credit for reduced premium plan losses.

The Pool is projecting increases in the assessments that are being levied on the health insurance industry. The growth in these assessments is primarily the result of increased membership in the pool and expansion of the reduced premium plan, which is available to persons with low incomes. The projected growth is also from the executive's Insure New Mexico initiatives. Since the growth in assessments is primarily coming from the low-income subsidy and Insure New Mexico, this bill proposes that the cost be shifted to government away from the commercial insurance industry who otherwise would bear the brunt of the increase in assessments.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The HTRC substitute for HB 1164 relates to Senate Bill 565.

## ALTERNATIVES

Several alternatives related to the administration of the Pool have been raised by board members and addressed by Pool staff. These include:

<u>1. Benefit changes</u>

- Changing the benefit design to increase cost controls—network restrictions
- Introduction of annual or lifetime benefit maximums

- Implementation of a formulary

2. Financial changes
- Reduce provider reimbursement from commercial to Medicare rates
- Increase member cost sharing
- Indexing of member premiums to program costs
- More aggressive screening for LIPP participation

3. Other changes
- Tightening eligibility requirements
- Enhancing medical/case/disease management
- Expanding the "carrier base" assessments to include self-insured payers—currently self-insured employers do not contribute toward assessment for covering pool losses.

The Executive Director of the Pool has responded to each of these suggestions. Several of these would require statutory changes or are already being addressed. According to Pool staff:

1. Benefit changes
- Network restrictions would reduce access to centers of excellence and may cause interruption for coverage as members have to change plans or providers.
- Introduction of annual or lifetime benefit maximums would require a change in statute, which requires the Pool mirror the small group market.
- The implementation of a formulary would cost 10 to 15 percent above what the Pool pays for drugs.

2. Financial changes
- The Pool is not a Medicare/Medicaid provider and cannot adopt those rates
- Statute requires the Pool to mirror small group market design, including 30 percent co-pay on drugs and 80-20 PPO plan.
- The Pool sets premium rates above the standard healthy rates, up to 50 percent
- The Pool is addressing the screening for LIPP participation

3. Other changes
- The Pool cannot tightening eligibility requirements because they are established by law
- The Pool continues to aggressively enhance medical/case/disease management
- Legislation has been addressed this session to Expand the "carrier base" assessments to include self-insured payers

This bill carries a significant general fund impact. Other alternatives for reducing the loss of general fund revenue include:

- Place a cap, for example $10 million, on the total premium tax credit allowable each year. This would require the Superintendent to pro-rate the credit submitted by insurance companies.
- Increase the premium tax credit to 50 percent for all programs, which would reduce revenue by about $5.4 million in FY08.

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