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

ORIGINAL DATE 2/16/09
SPONSOR Picraux **LAST UPDATED** **HB** 541

SHORT TITLE Employer Wellness Program Tax Credits **SB**

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	($437.5)	($3,062.5)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$149.0	$149.0	$297.9	Recurring	DOH

(Parenthesis ( ) Indicate Expenditure Decreases)

Numbers have been "Rounded"

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

House Bill 541 creates the "Wellness Program Tax Credit" in the Income Tax Act and the Corporate Income and Franchise Tax Act. A taxpayer that employs 200 or fewer employees can claim up to 50 percent of the cost of a qualified wellness program up to $150 per NM resident employee. The credit is only against the current tax year liability and is not refundable nor can it be carried forward.

DOH will certify an employer's wellness program and the employer can present the certificate to TRD for claiming the credit and will work with TRD and HPC to develop rules regarding qualifying for the credit. A qualified wellness program contains four components:

1. health awareness: dissemination of health information and opportunities for periodic screenings for employees
2. employee engagement: incentives for participation in programs, monitoring of participation and planning committee
3. behavioral: programs that promote healthy lifestyles and assist in addressing risky health behaviors
4. supportive environment: availability of policies and services that promote healthy lifestyle and benefits as incentives for employees who participate.

The credit is available for tax years 2009 through 2018.

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. Assuming a take-up rate for NM is lower than Indiana at 10 per month and 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. Wellness programs that match the scope of what is required by the proposal 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 information from the Texas Department of State Health Services.

FISCAL IMPACT OF WELLNESS CREDIT

		Company Size				
Calendar Year	Months Left	50-99 employees	Greater than 100 employees	Total Employees	Average Benefit = $100 per employee	Fiscal Year of Impact
2009	2	5	15	4,375	437,500	FY10
2010	12	35	105	30,625	3,062,500	FY11
2011	12	65	195	56,875	5,687,500	FY12
2012	12	95	285	83,125	8,312,500	FY13

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

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.

DOH:

> According to the Wisconsin Worksite Wellness Resource Kit, 2007, worksites are an important venue for health promotion and disease prevention programs because employees spend many of their waking hours at work. By creating work environments that support and encourage good health, businesses have the ability to reduce chronic disease risk factors, including poor nutrition, inactivity, and tobacco use. In addition to improving health, effective worksite wellness programs improve productivity and morale and lower healthcare costs.
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> Dozens of published scientific research articles have evaluated the cost-benefit of worksite health promotion programs and the majority shows a clear and positive return-on-investment. For every $1 spent on employee health programs, $3.50 were saved from lower healthcare costs, based on a summary of 32 published scientific articles (Aldana, American Journal of Public Health, 2001). Based on this evidence, implementation of business-based wellness programs could have a positive impact on the state's economy.

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** *revenue should be adequate to fund government services.*
2. ***Efficiency:*** *tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.*
3. ***Equity****: taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.*
4. ***Simplicity****: taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.*
5. ***Accountability/Transparency:*** *Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.*

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc

> Businesses in New Mexico are interested in developing worksite programs. In 2008, the Worksites Advisory Group of the New Mexico Healthier Weight Council conducted a survey to determine interest and technical assistance needs for employee wellness programs in New Mexico. Of the 109 large and small employers who responded, 68% responded they have no or very few resources available to assist employees in achieving and maintaining a healthier weight; 76% responded they are somewhat to very interested in developing a worksite wellness program; and 81% responded they are willing to support educational programs for employees.

HPC refers to specific NM experience though these companies would likely not be eligible for the credit:

> According to a January 11, 2008 article in New Mexico Business Weekly, New Mexico examples of wellness programs that have proven to lower costs include NM Mutual Casualty Co., Bell Group, Presbyterian Hospital, and Sandia National Laboratories:
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> - NM Mutual Casualty Co. reported a three-fold return on its wellness investment;
> - The Bell Group reduced health care claims from 6,165 to 5,591;
> - Presbyterian Hospital saved $906,000; and
> - Sandia National Laboratories saved $3.36 for every dollar it invested.

ADMINISTRATIVE IMPLICATIONS

DOH reports that certification may be better managed by TRD; however, TRD does not have the specialized resources to qualify a wellness program.

DOH reports an estimated operating impact:

> DOH is identified as a lead agency to implement key components of HB541: 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 $66,498 each and 12% administrative cost total an estimated recurring cost of $148,955.00.

TECHNICAL ISSUES

Employment often fluctuates for a company, particular large companies with 100 to 200 employees depending on economic conditions. HB541 does not clearly define when and how the 200 employee threshold should be measured.

TRD notes the following:

> On page 2, lines 20-23 and page 6, lines 17-20 the bill prohibits a “taxpayer” from claiming the credit pursuant to both the Income Tax Act and the Corporate Tax Act. While the intent is probably to keep the credit for a single employer from being claimed by both individual taxpayers and corporate taxpayers, a “taxpayer” will only be liable for either personal income tax or corporate income tax. It is not clear whether the credit may be claimed for programs provided to employees who have been with a firm less than 1 year or to part-time employees. It is not clear if the certificate is to be attached to the income tax return.

NF/mt