GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2013 Biennium

Bill #	HB0183		**Title:**	Provide for high deductible health insurance thru reimbursements and tax credits
Primary Sponsor:	Smith, Cary		**Status:**	As Amended in House Committee

☐ Significant Local Gov Impact	☑ Needs to be included in HB 2	☑ Technical Concerns
☐ Included in the Executive Budget	☐ Significant Long-Term Impacts	☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2012 Difference	FY 2013 Difference	FY 2014 Difference	FY 2015 Difference
Expenditures:				
General Fund	$39,955	$33,352	$34,020	$34,020
State Special Revenue	$100,000	$0	$0	$0
Revenue:				
General Fund	($2,711,985)	($2,879,629)	($2,665,784)	($2,777,588)
State Special Revenue	($327,128)	($344,304)	($704,501)	($723,523)
Net Impact-General Fund Balance:	($2,751,940)	($2,912,981)	($2,699,804)	($2,811,608)

Description of fiscal impact: The bill proposes the creation of tax exempt high-deductable health insurance plans and health cost reimbursement arrangements for Montana residents. The bill would provide an income tax or corporate tax credit for employers who provide high deductible health insurance for Montana employees or contractors. The premiums collected by insurance companies' issuing these plans would not be subject to insurance premiums tax (33-3-705, MCA). Tax credits would reduce general fund revenue by about $1.1 million in FY 2012 with the reduction growing over time. The insurance premium tax exemption would reduce general fund revenue by $ 2.4 million and state special revenue by $0.5 million in the 2013 biennium. The State Auditor's Office would be authorized to conduct a study of high-deductable health plans in other states; this would increase expenditures in FY 2012 by $100,000.

FISCAL ANALYSIS

Assumptions:

State Auditor's Office

1. The bill requires the Insurance Commissioner to establish guidelines for high-deductible health plans.

2. The bill proposes to exempt insurers from paying the tax on net premiums for insurance premiums paid by Montana residents for high-deductible health plans (HDHP).
3. Premiums for qualifying HDHPs were estimated from payments for Montana private-sector employee, single, and family coverage health plans in 2009 based upon the U.S. Department of Health and Human Service's Medical Expenditure Panel Survey. The median annual cost of each type of coverage is used. Single coverage plans cost $4,400, and family plans cost $11,000. These costs represent the combined employee and employer payments on all insurance coverage.
4. HDHPs are used in conjunction with health savings accounts (HSAs). The number of tax filers claiming HSA deductions on Montana individual income tax forms in 2009 was used to estimate the policies issued and the distribution of single and family plans. For this fiscal note it is assumed that all employer contributions are from eligible employers. Combining assumptions 3 and 4 provides an estimate of the total value of premiums written that would have been exempted under this bill if it were in effect in TY 2009.The calculation is presented in the following table:

Estimate of High-deductible Health Plan Premiums Paid in 2009

Returns Claiming HSA Deductions		Percent	Type of Coverage	Median Premiums	Premiums Paid
Single filers (no dependants)	1,324	19%	Single	$4,400	$5,825,600
Dual filers (no dependents)	2,579	37%	Family	$11,000	$28,369,000
Filers with dependants	3,067	44%	Family	$11,000	$33,737,000
Tax returns with HSA deductions	6,970	100%			$67,931,600

5. Insurance companies report total insurance premium tax due in March following the calendar year on insurance premium tax returns and these are reconciled late in the fiscal year, this note assumes that TY 2009 HDHP premium taxes were paid in FY 2010. It is assumed that tax year 2011 HDHP insurance premium taxes would have been paid in FY 2012.
6. The insurance premium tax rate is 2.75%. HB0183 proposes to exempt the premiums paid for HDHP coverage. Current law premium taxes and their distribution to the general fund and the state special revenue fund for the Healthy Montana Kids' fund (HMK) is presented below. HJR 2 estimates of premium insurance tax growth are used to project FY 2012 and FY 2013 estimates. OBPP revenue estimate growth rates are used to extend the estimates to FY 2014 and FY 2015. The share of premium taxes direct to the HMTK fund changes from 16.67% to 33% in FY 2014.

Estimated Insurance Premium Tax Revenue from High-Deductable Health Plan Premiums under Current law and HB 183 as Introduced

	Tax Rate	Estimated FY 2010	Forecast FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
HJR 2/OBPP Insurance Premium Tax Growth			0.20%	4.90%	5.25%	3.30%	2.70%
High-deductable Health Plan Premiums		$67,931,600	$68,067,000	$71,402,000	$75,151,000	$77,631,000	$79,727,000
Premium Tax at Current Law Rate	2.75%	$1,868,119	$1,871,843	$1,963,555	$2,066,653	$2,134,853	$2,192,493
Premium Tax at HB 183 Tax Rate	0.0%	$0	$0	$0	$0	$0	$0
Change in Insurance Premium Tax Revenue Distribution							
General Fund (83.34% /67%)		*($1,556,890)*		($1,636,427)	($1,722,348)	($1,430,351)	($1,468,970)
Healthy MT Kids' Fund 16.66% / 33%		*($311,229)*		($327,128)	($344,304)	($704,501)	($723,523)
Total		***($1,868,119)***		***($1,963,555)***	***($2,066,653)***	***($2,134,853)***	***($2,192,493)***

7. If passed the bill requires the Commissioner of Insurance to develop flexible guidelines for coverage and approval of HDHPs. The State Auditor's Office could develop these guidelines within current budget.
8. HB 186 would also authorize the commissioner to conduct a study of high-deductible health plans available in other states and determine if and how these products serve the uninsured. The estimated cost of the study is $100,000.

Department of Revenue

9. Sections 10 and 11 of this bill would allow employers to take a credit against income tax or corporation license tax for providing high-deductible health insurance or health reimbursement arrangements to employees and contractors. The credit would equal premiums paid, with a limit of $250 per employee or contractor. The credit would not be allowed for employers subsidized by the Insure Montana program. The credit would not be refundable but could be carried forward for up to five years.
10. Premiums generally are more than $250 per year, so employers would claim the full credit for each covered employee. Health reimbursement arrangements are assumed to work like employer "cafeteria" or "flex" plans and represent a shift in deductions, the principal tax impact is assumed to be through the change in HDHPs as limited by assumption 11.
11. It is unknown how many employees and contractors the credit would be claimed for. Most individuals with a HDHP also have a Health Savings Account (HSA). There were 6,970 returns that claimed the HSA deduction for 2009. Assuming that half of these taxpayers had premiums paid by their employers, credits would have been $871,250 if this bill had been in effect in 2009. Assuming that credits would grow at the rate assumed for growth of HSA deductions in the HJR 2 income tax forecast, the following table shows credits for 2011 through 2014.

Year	HSA Deduction Growth Since 2009	Credits
2011	23.45%	$1,075,558
2012	32.83%	$1,157,281
2013	41.80%	$1,235,433
2014	50.20%	$1,308,618

12. Credits would be claimed on returns filed in the spring after each tax year. The revenue reduction from the credits for tax years 2011 through 2014 would occur in fiscal years 2012 through 2015.
13. Section 12 of this bill would amend section 15-30-2110, MCA, to allow individuals to deduct the cost of premiums for a high deductible health insurance policy in calculating adjusted gross income. Section 15-30-2131, MCA already allows an itemized deduction for health insurance premiums. This amendment would allow taxpayers who do not itemize deductions to deduct premiums for a high deductible policy. Taxpayers who buy their own health insurance are very likely to have enough deductible expenses to make it worth their while to itemize deductions, so the revenue impact of this provision would be minimal.
14. The department would need to add a line for this credit to both the income and corporate license tax returns and add a line to the income tax return for the new above-the-line deduction. The department also would need to develop new forms for taxpayers to calculate their credits. Changes to forms would be done as part of the annual update process. Development of the new credit form would cost $3,318 in FY 2012. Changes to the department's data processing system would require 528 hours of programming and 80 hours of testing. There would be no additional costs, but resources would be diverted from other uses, delaying other projects.
15. Processing the credit claim forms would require an additional 0.50 FTE data control technician. Costs to set up a new employee would be $3,585 in FY 2012. Personnel costs would be $25,972 per year in FY 2012 and FY 2013, $26,492 in FY 2014 and $27,021 in FY 2015. Operating costs would be $7,080 in FY 2012, $7,380 in FY 2013, $7,528 in FY 2014 and $7,679 in FY 2015.

Fiscal Impact:	FY 2012 Difference	FY 2013 Difference	FY 2014 Difference	FY 2015 Difference
State Auditors Office (SAO)				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Operating Expenses	$100,000	$0	$0	$0
SAO Expenditures	$100,000	$0	$0	$0
Revenues:				
General Fund (01)	($1,636,427)	($1,722,348)	($1,430,351)	($1,468,970)
State Special Revenue (02)	($327,128)	($344,304)	($704,501)	($723,523)
SAO Revenues	($1,963,555)	($2,066,652)	($2,134,852)	($2,192,493)
Department of Revenue (DOR)				
FTE	0.50	0.50	0.50	0.50
Expenditures:				
Personal Services	$25,972	$25,972	$26,492	$26,492
Operating Expenses	$10,398	$7,380	$7,528	$7,528
Equipment	$3,585	$0	$0	$0
DOR Expenditures	$39,955	$33,352	$34,020	$34,020
Revenues:				
General Fund (01)	($1,075,558)	($1,157,281)	($1,235,433)	($1,308,618)
DOR Revenues	($1,075,558)	($1,157,281)	($1,235,433)	($1,308,618)
Summary				
Funding of Expenditures:				
General Fund (01)	$39,955	$33,352	$34,020	$34,020
State Special Revenue (02)	$100,000	$0	$0	$0
TOTAL Funding of Exp.	$139,955	$33,352	$34,020	$34,020
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($2,751,940)	($2,912,981)	($2,699,804)	($2,811,608)
State Special Revenue (02)	($427,128)	($344,304)	($704,501)	($723,523)

Technical Notes:

Department of Revenue

1. New Section 11(1)(b) requires that a HDHP used as the basis for the credit must be offered to all qualifying employees "pursuant to the applicable provisions of section 125 of the Internal Revenue Code." Section 125 deals with cafeteria plans. It is not clear whether the intent is to limit the credit to high-deductible health plans that meet the non-discrimination requirements for cafeteria plans or to limit the credit to high-deductible health plans offered through a cafeteria plan. The reference to the IRS code should be more specific.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*