

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1067-01
Bill No.: HB 994
Subject: Insurance - Health
Type: Original
Date: March 14, 2017

Bill Summary: This proposal would allow an employee to receive either health insurance benefits, or the amount the employer would have paid in the form of compensation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(More than \$10,225,000)	(More than \$12,270,000)	(More than \$12,270,000)
Total Estimated Net Effect on General Revenue	(More than \$10,225,000)	(More than \$12,270,000)	(More than \$12,270,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
State Road	(More than \$1,825,000)	(More than \$2,150,000)	(More than \$2,150,000)
Conservation Commission	(More than \$450,000)	(More than \$541,000)	(More than \$541,000)
Other State	(More than \$2,475,000)	(More than \$2,960,000)	(More than \$2,960,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(More than \$4,750,000)	(More than \$5,651,000)	(More than \$5,651,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Other Federal	(More than \$3,770,000)	(More than \$4,525,000)	(More than \$4,525,000)
Total Estimated Net Effect on <u>All</u> Federal Funds	(More than \$3,770,000)	(More than \$4,525,000)	(More than \$4,525,000)

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Local Government	(More than \$1,000,000)	(More than \$1,000,000)	(More than \$1,000,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Missouri Consolidated Health Care Plan (MCHCP)** assume this proposal would have a fiscal impact for calendar year 2018 that is unknown but greater than \$32 million. In developing this number, MCHCP used the following data and assumptions:

- * The approximately 3,600 employees who are currently opting out of coverage would continue to opt out and would receive a payment of \$6,000, equal to the expected 2018 MCHCP subsidy for single coverage in the Health Savings Account Plan (the lowest subsidy level). This represents a total payment of approximately \$21.6 million.
- * Approximately 10 percent of currently covered members incurred no claims during a recent 12-month period. If 50 percent of those employees opt-out of coverage and receive a cash payment of \$6,000 from MCHCP, net costs would increase by an additional \$11 million.
- * Those additional costs do not reflect additional administrative expenses, the tax impact if amounts are taken as taxable income (e.g. social security withholding), nor any potential impact of the reduction in covered lives on other vendor fees paid by MCHCP.

MCHCP officials stated they believe the estimate of the cost increase is conservative, since the cost estimate above does not reflect the net cost increase associated with other employees that would be likely to reconsider participation in the plan – those for whom the current cost is non-zero, but for whom the expected cost of coverage is less than the average subsidy provided by MCHCP. This would include employees who are younger and non-smokers who would likely be able to find lower cost coverage elsewhere.

ASSUMPTION (continued)

MCHCP officials also included a discussion of contingencies which could result from employee decisions regarding continued participation in the plan.

Oversight considers such contingencies to be indirect costs for fiscal note purposes and has not included them in this fiscal note.

Officials from the **Office of Administration - Division of Accounting (OA)** stated that if the state would be required to pay to the employee, the amount the employer would have paid for such employee's health insurance plan as ordinary income for federal income tax purposes, then there would be an additional cost to the State of the employer's share of Social Security and Medicare (FICA) taxes.

OA officials stated that in FY 2016, there were approximately 2,110 state employees that did not have a deduction for the employee portion of health insurance benefits. OA officials stated they do not know whether the employees would choose the option of having coverage under the health insurance plan offered or would choose to receive the amount as compensation for federal income tax purposes.

If all employees would choose to receive the amount as compensation, we would multiply 2,110 employees by \$724 which is the monthly rate the State pays for health insurance for each employee. The total is approximately \$18 million. The additional cost to the State would be the tax that we would be required to pay on the additional \$18 million. The tax rate is 7.65%, which would mean that the additional cost to the state would be approximately \$1.4 million.

In short, the additional cost for FICA taxes that would need to be paid by the State would be approximately \$1.4 million.

OA officials provided an estimated additional cost estimate for FICA taxes of \$0 to \$666,200 per year for the General Revenue Fund, \$0 to \$438,800 for other state funds, and \$0 to \$297,300 for Federal Funds.

ASSUMPTION (continued)

Oversight will use the OA estimate of state employees without health insurance coverage.

The cost for FY 2018 would be for 2,110 employees x \$724 per month x 10 months =
 $(2,110 \times \$724 \times 10) = \$15,276,400$, and FICA tax at 7.65% would be
 $(\$15,276,400 \times .0765) = \$1,168,645$.

The full year cost would be for 2,110 employees x \$724 per month x 12 months =
 $(2,110 \times \$724 \times 12) = \$18,331,680$, and FICA tax at 7.65% would be
 $(\$15,276,400 \times .0765) = \$1,42,374$.

The amounts calculated would be distributed by state fund as follows.

		FY 2018 (ten months)	FY 2019 and FY 2020
General Revenue 62%	Payments	\$9,471,368	\$11,365,642
	FICA	\$724,560	\$869,472
Federal Funds 23%	Payments	\$3,513,572	\$4,216,286
	FICA	\$268,788	\$322,546
Other Funds 15%	Payments	\$2,291,460	\$2,749,752
	FICA	\$175,297	\$210,356

Oversight assumes this estimate is a minimum and the actual cost could be significantly greater due to the potential for employees to select coverage under a spousal plan or to purchase a different form of health insurance at lower cost. The numbers calculated above will be rounded for convenience.

ASSUMPTION (continued)

Officials from the **Department of Transportation (MODOT)** assume this proposal would require the Department to pay out the employer contribution for health insurance coverage to individuals who have declined coverage. The equivalent of the state's share for subscriber only coverage would total \$1,967,940 for 2017 at \$4,524 per person. This amount would increase each year as health insurance premiums increase.

MODOT officials noted this is a significant enough amount that it would likely incentivize employees to not participate in the plan, which would compromise the long-term stability of the plan.

Oversight assumes implementing this proposal would result in additional cost for MODOT for the employer portion of federal FICA tax on any compensation paid to employees instead of health insurance coverage. Overall, the cost to MODOT would be greater than the cost of coverage for current nonparticipants due to the potential for current participants dropping coverage, and the required employer contribution for FICA taxes.

For fiscal note purposes, **Oversight** will include additional MODOT annual costs as follows.

- * Payments to current nonparticipants (rounded) - More than \$2 million
- * Employer share of FICA tax on payments to nonparticipants - ($\$2 \text{ million} \times .0765$) = More than \$150,000 (rounded)

For FY 2018, the amounts would be for 10 months.

- * Payments to current nonparticipants ($10/12 \times \$2 \text{ million}$) = More than \$1.7 million.
- * Employer share of FICA tax on payments to nonparticipants - ($10/12 \times \$150,000$) = More than \$125,000.

ASSUMPTION (continued)

Officials from the **Department of Conservation (MDC)** advised us that 175 employees have currently opted out of medical coverage, and the employee only contribution from the Commission for the lowest MDC cost plan (Limited High Deductible Plan) is \$239.

Oversight will assume the additional cost of this proposal to the Department of Conservation could be calculated as follows.

- * For FY 2018, 175 employees at \$239 per month for ten months.
Payment instead of insurance $(175 \times \$239 \times 10) = \$418,250$.
FICA cost $(\$418,250 \times .0765) = \$31,996$.
- * For FY 2019 and FY 2020
Payment instead of insurance $(175 \times \$239 \times 12) = \$501,900$
FICA cost $(\$501,900 \times .0765) = \$38,395$.

The numbers calculated above will be rounded for convenience, and Oversight assumes the cost of this proposal would be more than the amounts calculated due to additional employees opting out of coverage.

Officials from the **Department of Revenue** assume this proposal would have no direct fiscal impact on their organization but could result in an increase in revenues if the compensation is taxed as income.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume that if an employer provides health insurance benefits, this proposal would allow the employees to have the option to receive the amount the employer would have paid for the employee's health insurance plan in compensation, for purchasing a high-deductible health insurance plan, or deposited into a health savings account. Amounts taken as compensation would be treated as ordinary income and result in an increase in income taxes received by the state.

BAP officials assume this proposal could result in an unknown direct increase in general and total state revenues and could impact the constitutional revenue limit calculation.

ASSUMPTION (continued)

Officials from the **University of Missouri** stated they were unable to estimate any fiscal impact to their organization.

Oversight will, for fiscal note purposes only, assume that the University of Missouri would have unknown additional costs for payments to current non-participants in the University health insurance program and for FICA taxes on such payments. The University cost would be included in Other State Funds for fiscal note purposes.

Officials from **Callaway County** assume this proposal would have an unknown fiscal impact on their organization and overall it would possibly be negative.

Officials from the **Kirkville R-III School District** assume this proposal would have a negative fiscal impact on their organization.

Officials from the **Mexico School District** assume this proposal would add about \$35,000 per year to their budget at current insurance premium rates.

Officials from the **Orrick School District** provided an estimate of \$54,800 per year in additional cost for their organization to provide payment instead of health insurance benefits to employees who would elect to receive compensation instead of health insurance benefits.

Officials from the **Seymour School District** provided an estimate of \$74,400 per year in additional cost for their organization to provide payment instead of health insurance benefits to employees who would elect to receive compensation instead of health insurance benefits.

Officials from the **Special School District of St. Louis County** provided an estimated annual cost for this proposal of \$300,881 for their organization to provide employer match for retirement contributions, and Social Security and Medicare taxes on the additional compensation for employees who would elect to receive payment instead of insurance coverage.

Officials from the **West Plains School District** assume this proposal would result in additional cost of \$175,000 to \$350,000 per year for their organization to provide payment to employees who would opt out of insurance coverage for extra salary.

Oversight will assume for fiscal note purposes that local governments would have aggregate additional costs in excess of \$1 million per year if this proposal was implemented.

ASSUMPTION (continued)

According to officials from the **Office of the Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** stated this proposal is not anticipated to cause a fiscal impact to their organization beyond its current appropriation.

Officials from the **Office of Administration - Division of Personnel**, the **Department of Insurance, Financial Institutions, and Professional Registration**, the **Department of Labor and Industrial Relations**, the **Department of Social Services - Human Resource Center and Division of Legal Services**, the **Jackson County Election Board**, and the **Platte County Board of Elections** assume this proposal would have no fiscal impact on their organizations.

Oversight notes this proposal could have an impact on state revenues; however, that impact is indirect, complex, and can not be estimated with any degree of certainty. The proposal would also have significant tax consequences for employers and employees who choose to participate.

Any amounts which employers would pay to employees instead of health insurance coverage would be considered taxable income to the employee and subject to FICA tax, which the employer would withhold. Governmental and nonprofit employers would pay the employer's share of additional FICA tax. A for-profit employer would generally have the same tax deduction as before, and would pay the employer's share of FICA tax on the additional employee payment.

ASSUMPTION (continued)

To the extent that employees used the additional income to purchase qualifying health insurance or health savings account products, the employee would have an income tax deduction for those purchases but only if the employee itemized deductions and met federal requirements for the health insurance related deductions. The state would have additional income tax revenues to the extent additional employee payments from governmental and nonprofit employers were not used for qualifying health insurance and related products - or were paid to employees who do not itemize deductions. The impact on state income tax revenues from additional payments to employees of for-profit entities would depend on the respective income tax rate of the employer and the employee as well as the extent to which the employee used the additional payment for qualifying health insurance and related products.

Oversight has no information as to the extent to which employers currently allow employees to choose additional payment instead of health insurance coverage, nor the extent to which employees would choose to receive payment instead of insurance, and will not include an impact for potential additional revenues related to the implementation of this proposal.

	FY 2018 (10 Mo.)	FY 2019	FY 2020
<u>FISCAL IMPACT - State Government</u>			
GENERAL REVENUE FUND			
<u>Additional cost</u> - payment to employees who opt out of health insurance	(More than \$9,500,000)	(More than \$11,400,000)	(More than \$11,400,000)
<u>Additional cost</u> - FICA tax on payments to employees	(More than \$725,000)	(More than \$870,000)	(More than \$870,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(More than <u>\$10,225,000</u>)	(More than <u>\$12,270,000</u>)	(More than <u>\$12,270,000</u>)

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020
FEDERAL FUNDS			
<u>Additional cost</u> - payment to employees who opt out of health insurance	(More than \$3,500,000)	(More than \$4,200,000)	(More than \$4,200,000)
<u>Additional cost</u> - FICA tax on payments to employees	(More than <u>\$270,000</u>)	(More than <u>\$325,000</u>)	(More than <u>\$325,000</u>)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	(More than <u>\$3,770,000</u>)	(More than <u>\$4,525,000</u>)	(More than <u>\$4,525,000</u>)
STATE ROAD FUND			
<u>Additional cost</u> - payment to employees who opt out of health insurance	(More than \$1,700,000)	(More than \$2,000,000)	(More than \$2,000,000)
<u>Additional cost</u> - FICA tax on payments to employees	(More than <u>\$125,000</u>)	(More than <u>\$150,000</u>)	(More than <u>\$150,000</u>)
ESTIMATED NET EFFECT ON STATE ROAD FUND	(More than <u>\$1,825,000</u>)	(More than <u>\$2,150,000</u>)	(More than <u>\$2,150,000</u>)

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020
CONSERVATION COMMISSION FUND			
<u>Additional cost</u> - payment to employees who opt out of health insurance	(More than \$418,000)	(More than \$502,000)	(More than \$502,000)
<u>Additional cost</u> - FICA tax on payments to employees	(More than <u>\$32,000</u>)	(More than <u>\$39,000</u>)	(More than <u>\$39,000</u>)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(More than <u>\$450,000</u>)	(More than <u>\$541,000</u>)	(More than <u>\$541,000</u>)
OTHER STATE FUNDS			
<u>Additional cost</u> - payment to employees who opt out of health insurance	(More than \$2,300,000)	(More than \$2,750,000)	(More than \$2,750,000)
<u>Additional cost</u> - FICA tax on payments to employees	(More than <u>\$175,000</u>)	(More than <u>\$210,000</u>)	(More than <u>\$210,000</u>)
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	(More than <u>\$2,475,000</u>)	(More than <u>\$2,960,000</u>)	(More than <u>\$2,960,000</u>)

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
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LOCAL GOVERNMENTS

<u>Additional cost - payment and FICA tax for employees who opt out of health insurance</u>	(More than <u>\$1,000,000</u>)	(More than <u>\$1,000,000</u>)	(More than <u>\$1,000,000</u>)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	(More than <u>\$1,000,000</u>)	(More than <u>\$1,000,000</u>)	(More than <u>\$1,000,000</u>)

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which provide health insurance coverage for their employees.

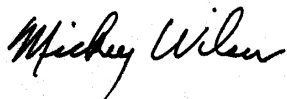
FISCAL DESCRIPTION

This proposal would allow employees who are offered health insurance from their employer, the option to decline to receive such health insurance coverage and instead to receive the amount the employer would have paid for the employee's insurance, as compensation. The employee would have the option to receive payment in the form of compensation or the purchase of a qualified individual or family high-deductible policy with any remaining funds in an eligible health savings account, or a combination of both.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Accounting
 Division of Budget and Planning
 Division of Personnel
Department of Conservation
Department of Insurance, Financial Institutions, and Professional Registration
Department of Labor and Industrial Relations
Department of Revenue
Department of Social Services
 Human Resource Center
 Division of Legal Services
Department of Transportation
Missouri Consolidated Health Care Plan
University of Missouri
Callaway County
Kirksville School District
Mexico School District
Orrick School District
Special School District of St. Louis County
Seymour School District
West Plains School District
Jackson County Election Board
Platte County Board of Elections



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