

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

**L.R. NO.:** 3235-01  
**BILL NO.:** HB 1392  
**SUBJECT:** Employees - Employers; Insurance - Medical; Revenue Department; Taxation and Revenue - General; Taxation and Revenue - Income  
**TYPE:** Original  
**DATE:** February 29, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue*	(\$6,007,480)	(\$11,165,845 to \$319,373,245)	(\$16,374,608 to \$324,582,008)
County Foreign Insurance	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$6,007,480)</b>	<b>(\$11,165,845 TO \$319,373,245)</b>	<b>(\$16,374,608 TO \$324,582,008)</b>

**\*Subject to appropriation.**

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>(\$5,956,630)</b>	<b>(\$11,165,380)</b>	<b>(\$16,374,130)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Department of Public Safety - Missouri State Highway Patrol**, the **Department of Transportation**, the **Department of Conservation**, the **Missouri Consolidated Health Care Plan**, and the **Department of Social Services** assume this proposal would not fiscally impact their agencies.

**Department of Insurance (INS)** officials state the 1997 calendar year assessment charged was \$2,671,000 for existing pool members (1,032). This would be for existing pool members at the 200% rate. Reducing the premium cap to 135% of the standard rate would require an increase in assessments. Based on 1997 assessments, INS estimates that at the 135% rate members would require an approximate fifty-six percent increase in assessments to insurers or \$1,495,760. INS states it is reasonable to assume that the Missouri Health Insurance Pool (MHIP) population could grow to 10,000 or more injured based on Minnesota's experience which has a program similar to this proposal. INS estimates that the number in the MHIP would not exceed 10,000 in any given year. INS has phased in enrollment and estimates that twenty-five percent of the 10,000 new members would join each year. INS states that increased assessments would be taken as credit against premium taxes which would be split 50/50 between the General Revenue Fund and the County Foreign Insurance fund.

Year 1

Additional cost for existing 1,000 members	\$ 1,495,760
Cost for 2,500 new members at 135% (\$4,167 each)	<u>\$10,417,500</u>
<b>Total Year 1</b>	<u><u>\$11,913,260</u></u>

Year 2

Year 1 costs (3,500 members)	\$11,913,260
Cost for 2,500 new members at 135% (\$4,167 each)	<u>\$10,417,500</u>
<b>Total Year 2 (6,000 pool members)</b>	<u><u>\$22,330,760</u></u>

Year 3

Year 2 costs (6,000 members)	\$22,330,760
cost for 2,500 new members at 135% (\$4,167 each)	<u>\$10,417,500</u>
<b>Total Year 3 (8,500 pool members)</b>	<u><u>\$32,748,260</u></u>

ASSUMPTION (continued)

INS states a range is being submitted for the estimate of fiscal impact with the minimum based on MHIP insured population of 1,032 at \$1,495,760 increase in assessments to \$32,748,260. INS states that typically pool membership consists of individuals with medical conditions and very high costs of care. Increased pool membership would likely reduce the cost per member as “less sick” individuals would share the cost of coverage for the more expensive members. INS could not estimate how much the cost per member may be reduced as a result of a “healthier” pool but the reduction in cost could be substantial.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** estimate that there are approximately 135,745 businesses in Missouri that would meet the definition of small business in this proposal. BAP estimates that these businesses have approximately 1,027,358 employees. BAP assumes that the maximum tax credit at \$50 per employee would be \$51,367,875 annually. BAP states that if only fifty percent of the businesses participate the tax credits would be \$25,683,938 annually.

**Oversight** assumes BAP estimates only reflect a \$50 per eligible employee for the calendar year. **Oversight** assumes the tax credits in the proposal would be on a monthly basis. **Oversight** assumes that ten percent of the largest small businesses (1,204) in Missouri are currently paying health insurance premiums for employees (41,538) and would be eligible to receive a \$25 per month per eligible employee or \$12,461,400 (41,538 employees x \$25 x 12 months). **Oversight** assumes of the small businesses not paying for employees health insurance (134,541), fifty percent (67,271 small businesses with 492,910 employees) would elect to participate in this new tax credit program and would be eligible to receive a \$50 per month per eligible employee or \$295,746,000 (492,910 employees x \$50 x 12 months). **Oversight** has ranged the fiscal impact from \$0 to (\$308,207,400) due to the provisions in the proposal that allows the tax credit only upon appropriation of moneys received from the master settlement tobacco agreement entered into on November 23, 1998.

**Department of Revenue (DOR)** officials state the number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation and Collection would need one (1) Tax Processing Technician I for every 1,000 new credits claimed per year processing and one (1) Tax Season Temporary for every 130,000 credits claimed per year for key entry. Also, one (1) Tax Processing Technician I would be needed for every 30,000 additional individual income tax errors and one (1) Tax Processing Technician I for every 2,000 pieces of correspondence received relating to this proposal.

DOR states the proposal would require modifications to the income tax system and credit application system. The Division of Taxation estimates the modifications, including  
ASSUMPTION (continued)

programming changes, would require 1,384 hours of contract labor at a cost of \$41,617. Modifications to the income tax return and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 would be requested for implementation costs and \$451 for ongoing costs per year.

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002	FY 2003
	(6 Mo.)		

**GENERAL REVENUE FUND**

Loss - Office of Administration

Employer health insurance tax credits	\$0	\$0 to	\$0 to
		(\$308,207,400)	(\$308,207,400)

Loss - Department of Insurance

Increased assessments claimed against premium taxes	(\$5,956,630)	(\$11,165,380)	(\$16,374,130)
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Costs - Department of Revenue

Reprogramming costs	<u>(\$50,850)</u>	<u>(\$465)</u>	<u>(\$478)</u>
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**ESTIMATED NET EFFECT ON  
GENERAL REVENUE FUND\***

<u>(\$6,007,480)</u>	<u>(\$11,165,845)</u>	<u>(\$16,374,608)</u>
	<u>TO</u>	<u>TO</u>
	<u>\$319,373,245)</u>	<u>\$324,582,008)</u>

**\*Subject to appropriation.**

**COUNTY FOREIGN INSURANCE  
FUND**

Savings - Department of Insurance

Less distributions	\$5,956,630	\$11,165,380	\$16,374,130
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Loss - Department of Insurance

Increased assessments claimed against premium taxes	<u>(\$5,956,630)</u>	<u>(\$11,165,380)</u>	<u>(\$16,374,130)</u>
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<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
<b>ESTIMATED NET EFFECT ON COUNTY FOREIGN INSURANCE FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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**LOCAL POLITICAL SUBDIVISIONS**

<u>Loss - Local Political Subdivisions</u>			
Decreased distributions	<u>(\$5,956,630)</u>	<u>(\$11,165,380)</u>	<u>(\$16,374,130)</u>

<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>(\$5,956,630)</u></b>	<b><u>(\$11,165,380)</u></b>	<b><u>(\$16,374,130)</u></b>
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FISCAL IMPACT - Small Business

Small businesses would expect to be fiscally impacted to the extent they incur increased health insurance costs and receive tax credits for a portion of the those costs as a result of the requirements of this proposal.

DESCRIPTION

This proposal would allow small employers a tax credit for costs associated with health insurance premiums paid on behalf of employees. Under the proposal's provisions, small employers would include those with 2 to 50 employees who work at least 30 hours per week. The proposal would also specify that a farmer's spouse may be considered a second eligible employee if the spouse would be hired by the farmer. All eligible small employers would receive a tax credit of \$25 per month for each employee for whom health insurance premiums are paid. A small employer would receive higher credits for up to 4 years if the employer does not pay its employees' health insurance premiums on January 1, 2001, and would begin to pay for its employees' premiums after that date. The tax credit would be conditioned upon receiving appropriations from the tobacco settlement to offset the costs of the tax credit to the state.

In addition, the proposal would limit the rates of the Missouri Health Insurance Pool (also

DESCRIPTION (continued)

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referred to as the "high risk" pool) to 135% of the standard rate. Currently, those rates may not exceed 200%.

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

Department of Insurance  
Missouri Consolidated Health Care Plan  
Department of Social Services  
Department of Conservation  
Office of Administration  
Division of Budget and Planning  
Department of Transportation  
Department of Public Safety  
Missouri State Highway Patrol  
Department of Corrections  
Department of Revenue



Jeanne Jarrett, CPA  
Director  
February 29, 2000