Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio
REVISED

BILL: **Sub. H.B. 698 (LSC 122 1709-3)** DATE: **November 17, 1998**

STATUS: **In Senate Insurance, Commerce & Labor** SPONSOR: **Rep. Van Vyven**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Make corrections and clarifications to provisions of the Health Insuring Corporation Law and the Sickness and Accident Law enacted by Sub H.B. 374 and Sub S.B. 67 and other recently enacted legislation**

State Fiscal Highlights

- This bill clarifies that a HIC line of business of a "regular" indemnity insurer is to be taxed at a 1.0% of premium (phased in from 1999 to 2003) rather than 1.4%. This difference could result in a loss of tax revenue in FY 2003 of at least $5 million and possibly as much as $16 million per year. Annual losses would be smaller during the phase-in period.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The bill makes clarifications and technical changes to recently enacted laws (Sub H.B. 374, effective 6/30/97 and Sub. S.B. 67, effective 6/4/97). In general the bill conforms provisions in the Health Insuring Corporation Law and the Sickness and Accident Insurance Law with the Federal Health Insurance Portability and Accountability Act of 1996; clarifies other provisions in these laws; and specifies how health insuring corporations are to bring their net worth into compliance with the Health Insuring Corporation Law.

The bill also makes changes to HIC/Physician/Consumer/Utilization Review relationships created by recently enacted (12/16/97) Am. Sub. H.B. 361(effective 10/1/98), by removing the requirement of a written confirmation of the outcome of a utilization review to the enrollee and the provider. Another provision of the bill expands the membership of the Continuing Education Committee of insurance agents created by Am. Sub S.B. 154, effective June 30th 1998 (certain sections effective October 1, 1998)

According to a spokesperson for the Department of Insurance, the provisions of the bill are technical in nature and have no fiscal effect on the Department.

HIC Premium Taxes

This bill also clarifies the tax treatment of premium income received by HICs that are operated as lines of business by indemnity insurers. H.B. 215 established a new insurance tax structure where HICs would have to pay premium taxes – in their prior incarnation as HMOs, they were untaxed – but would pay at a lower rate than regular insurance companies. Domestic and foreign insurers take a phased-in path to paying a tax of 1.4% of premium income by tax year 2003 (FY 2003). HICs only pay a tax of 1.0% of premium income by the time the new tax is fully phased in. Furthermore, the tax is phased in as follows:

Tax Year 1999 – 0.21%
Tax Year 2000 – 0.42%
Tax Year 2001 – 0.60%
Tax Year 2002 – 0.80%
Tax Year 2008 – 1.00%

H.B. 215 was not explicit about what to do about HICs that are operated as lines of business by "regular" indemnity insurers. There are at least two insurers in Ohio that already operate a "HIC line of business." This bill states that the HIC line of business is to be treated just as a separate company HIC would be. The HIC line of business will pay a 1.0% tax and follow the HIC phase-in schedule, while the rest of the indemnity insurer's business will be subjected to the 1.4% tax rate by 2003 and follow a different phase-in schedule.

One of the HICs operated as a line of business is owned by the Anthem Insurance Company Group. When LBO estimated the revenue impact of changing the insurance tax structure under H.B. 215, we assumed that the companies in the Anthem group would all be taxed as domestic insurers and would pay the 1.4% tax and follow the domestic insurer phase-in schedule. Based on the information that we had at the time of the passage of HB 215, taxing Anthem's HIC business at 1.0% rather than at 1.4% could reduce state insurance tax collections by as much as $5.0 million in FY 2003 (full phase-in).

H.B. 215 created an incentive to write health insurance through a HIC, rather than through a traditional indemnity insurer, because the HIC tax rate is only 1.0%. This bill exacerbates the rate differential by making HIC lines of business eligible for the 1.0% rate: one need not even form a separate company. If all health insurance ended up being taxed at 1.0% rather than 1.4%, the revenue loss would be $16.1 million by FY 2003: that is, insurance tax revenues would be $16.1 million less than LBO estimated at the time of the passage of H.B. 215.

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