Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Sub. S.B. 115** DATE: **November 19, 2008**

STATUS: **As Reported by Senate Insurance, Commerce and Labor** SPONSOR: **Sen. Stivers**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Requires health insurers that provide coverage for dependent children to do so until the age of thirty if the child meets specified conditions, and authorizes an income tax deduction for associated premiums**

State Fiscal Highlights

STATE FUND	FY 2009	FY 2010	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase, potentially in the millions	Increase up to $4.5 million or more	Increase up to $4.5 million or more
Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase, potentially in the millions	Increase up to $4.5 million or more	Increase up to $4.5 million or more

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- Costs to the state of providing health benefits to employees would increase, as dependents of some state workers are made newly eligible for coverage. The increase in costs may be up to $9.0 million per year or more. The cost would be split approximately equally between the GRF and other state funds.

- The bill allows Ohio income tax deductions for coverage of dependents that fall under the bill's expanded dependent coverage requirements and also allows taxpayers to claim the medical care insurance deduction for such coverage. There is no direct fiscal effect from these provisions, because they offset the tax effects of the above-described provision.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Counties, municipalities, and townships			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase, potentially in the millions	Increase up to $31.5 million or more	Increase up to $31.5 million or more
School districts			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase, potentially in the millions	Increase up to $36.7 million or more	Increase up to $36.7 million or more

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Costs to counties, municipalities, townships, and school districts of providing health benefits to employees would increase, as dependents of some employees are made newly eligible for coverage. The increase in costs may be up to $31.5 million or more per year for counties, municipalities, and townships, and up to $36.7 million or more per year for school districts.

- The bill allows Ohio income tax deductions for coverage of dependents that fall under the bill's expanded dependent coverage requirements and also allows taxpayers to claim the medical care insurance deduction for such coverage. There is no direct fiscal effect from these provisions, because they offset the tax effects of the above-described provision.

Detailed Fiscal Analysis

S.B. 115 generally would require health insuring corporation (HIC) contracts, group sickness and accident insurance policies, and public employee benefit plans that provide health insurance coverage for unmarried dependent children to provide such coverage up to the age of 30. The coverage would not be required if the child is (1) not either a resident of Ohio or a full-time college student, (2) employed by an employer that offers health benefits to employees, or (3) eligible for Medicaid or Medicare. The bill would not change existing law that prohibits HIC contracts and group sickness and accident policies from dropping coverage after a dependent child attains a maximum age in cases where the child is either incapable of self-sustaining employment due to mental retardation or primarily dependent on the parent for support, and would extend this prohibition to public employee benefit plans. The bill also allows Ohio income tax deductions for health insurance premiums attributable to the expanded dependent coverage requirement.

Background

The Kaiser Commission on Medicaid and the Uninsured has issued estimates of the number of uninsured in the U.S. by age group in 2007.[1] According to their estimates, 30.3% of adults aged 19 to 24 were uninsured that year and 26.0% of those aged 25 to 34 were uninsured. The percentage of nonelderly adults who are uninsured is higher for the U.S. as a whole than it is for Ohio. An affiliate of the Kaiser Family Foundation estimates that 12% of nonelderly Ohioans were uninsured during 2006-2007, and that 17% of all Americans were uninsured in 2007.

Also, the Kaiser Family Foundation conducts an annual survey of employers, the results of which are published under the title *Employer Health Benefits*. The survey found that the average cost to employers of providing health benefits to employees increased by 6.1% from spring 2006 to spring 2007, and by 5.0% from spring 2007 to spring 2008.

Fiscal effects

The bill is likely to increase the costs to the state, to political subdivisions, and to school districts of providing health benefits to employees. By increasing the pool of covered individuals, the bill would increase the cost of claims. In the case of self-insured plans, the increased cost of claims would directly increase state and local government expenditures; in the case of HIC contracts and traditional insurance policies, it would increase costs of the insurer, which are assumed to be passed through to the insured employer.

Based on the estimated statistics described above, LSC fiscal staff estimate that up to 330,320 Ohio young adults would potentially be made newly eligible for insurance due to the bill's provisions.[2] Assuming these individuals would be covered by government employers in

[1] These estimates were published in *The Uninsured: A Primer*, published during October 2008. This publication can be downloaded from their web site.

[2] This estimate includes an adjustment for the fact that a lower proportion of Ohioans are uninsured than are uninsured nationally.

the proportions that government employers make up of overall Ohio employment, then up to 4,509 might be newly covered under a state plan, up to 5,727 might be covered by a public university plan, up to 15,745 might be covered by a plan provided by a county, township, or municipality, and up to 18,345 might be covered by a plan provided by a school district. These enrollment increases would be experienced gradually, likely over a period of years.

The Medical Expenditure Panel Survey found that the average total single premium for employer-provided health insurance in Ohio in 2006 was $4,054. If this premium grew at the national growth rates for employer-provided health benefits found by Kaiser Family Foundation in its annual survey, this would correspond to a premium of $4,516 in 2008.

The population that would receive insurance coverage due to the bill, consisting of individuals no older than 30, would be in relatively good health compared with the overall population below the age of 65. Therefore, health insurers' costs would certainly increase by less than $4,516 for each individual newly enrolled in a plan. As of this writing, LSC staff are not aware of any research that provides the ratio of average health care costs for individuals in their twenties to costs for all individuals up to age 65. For illustrative purposes, a cost of $2,000 per year for each additional individual enrolled is assumed in the cost estimates below. The cost increase estimates in the table below assume that no potentially eligible individuals are employed by an employer that offers health benefits to employees. In actuality, many of the potentially eligible individuals would be so employed, which means that actual enrollment is likely to be less than the enrollment assumed for the table.

Governmental unit	Estimated increase in number of enrollees	Estimated increase in costs
State	4,509	$9.0 million
Public universities	5,727	$11.5 million
Counties, municipalities, and townships	15,745	$31.5 million
School districts	18,345	$36.7 million

The bill allows Ohio income tax deductions for coverage of dependents that fall under the bill's expanded dependent coverage requirements. Under current federal income tax law if a child is covered by an employer-paid plan but does not qualify as a dependent under federal income tax law, the value of the policy to the extent of that coverage is not excluded from taxable income; the coverage of the nondependent is imputed to the taxpayer as taxable income. The bill permits taxpayers to deduct the income imputed to a taxpayer on the basis of an employer-paid plan covering a child who, although not a "dependent" for tax purposes, nevertheless is covered under the bill's proposed extension of coverage to older children. The bill also allows taxpayers to claim the medical care insurance deduction for coverage of dependents who satisfy the bill's expanded requirements for dependent coverage. The tax deduction provisions of the bill offset the effects on taxable income of the bill's insurance provisions, with the combined result being that there is no direct fiscal effect of the tax provisions on state or local revenues. There is likely to be an indirect effect, which has been estimated by the Department of Taxation to be approximately $10.3 million per year, with 94.1% of that amount representing a reduction in revenue to the GRF and the remainder being a reduction in revenue to the local government funds.

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