



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 159 of the 128th G.A.

Date: March 19, 2010

Status: As Introduced

Sponsors: Reps. Skindell and Hagan

Local Impact Statement Procedure Required: No — Offsetting Savings

Contents: To establish and operate the Ohio Health Care Plan to provide universal health care coverage to all Ohio residents

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund – Department of Job and Family Services (Medicaid)			
Revenues	- 0 -	- 0 -	Potential loss of approximately 60% of expenditure reduction amount, depending on federal decision regarding waiver
Expenditures	- 0 -	- 0 -	Potential decrease of \$9 billion to \$11 billion annually, depending on federal decision regarding waiver
General Revenue Fund – Department of Rehabilitation and Correction (DRC) and other			
Revenues	- 0 -	- 0 -	Loss of \$100 million to \$130 million per year, from reduced receipts from insurance taxes
Expenditures	- 0 -	- 0 -	Potential decrease of \$240 million per year for medical expenses for prisoners (DRC)
Department of Insurance Operating Fund (Fund 5540)			
Revenues	- 0 -	- 0 -	Potential loss
Expenditures	- 0 -	- 0 -	Potential decrease
Health Benefit Fund (Fund 8080) – Department of Administrative Services (DAS)			
Revenues	- 0 -	- 0 -	Loss in the hundreds of millions of dollars
Expenditures	- 0 -	- 0 -	Decrease in the hundreds of millions of dollars
Human Resources Division – Operating Fund (Fund 1250) – Department of Administrative Services (DAS)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Decrease in the millions of dollars

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
Ohio Health Care Fund (new fund)			
Revenues	- 0 -	Potential gain in the billions	Gain up to \$48 billion
Expenditures	- 0 -	- 0 -	Increase between \$62 billion and \$81 billion

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill creates a new health benefit plan, the Ohio Health Care Plan (hereinafter "the Plan"), which would provide a comprehensive health benefit package for all Ohioans and other eligible individuals specified under the bill.
- The bill creates a new agency, the Ohio Health Care Agency (hereinafter "the Agency") that is responsible for the administration of the Plan.
- The bill creates a new board, the Ohio Health Care Board ("the Board" hereinafter), to oversee the Agency and the Plan. The bill specifies that the 14 members of the Board who are elected by the newly created Regional Health Advisory Committees ("Regional Committees" hereinafter), would receive an annual salary and benefits. The fifteenth member of the Board, the Director of Health, would not be paid for service on the Board.
- The bill creates a new fund, the Ohio Health Care Fund ("the Fund" hereinafter), in the state treasury to pay all expenses related to the bill, including payments for benefit coverage under the Plan and compensation for workers displaced as a result of the implementation and operation of the Plan. Expenditures from the Fund to pay for the Plan are highly uncertain, but would be in the tens of billions of dollars per year when fully implemented.
- The bill establishes four new taxes as sources of revenue for the Fund. Revenue from these taxes to the Fund is highly uncertain, but would be up to approximately \$48 billion in FY 2012 and \$50 billion in FY 2013, and would grow in subsequent years.
- Both expenditures from and revenues to the Fund would depend on the outcome of applications for federal waivers from Medicare, Medicaid, and other federal health programs. Depending on the federal decisions made, expenditures from the Fund could be higher by up to an additional approximately \$42 billion per year by FY 2013, but this increment in expenditures would be paid with federal funds.
- Revenues to the Fund from the new taxes would be at least \$14 billion per year less than expenditures for a comprehensive health benefit plan. The shortfall could be met in part from reduced GRF spending for Medicaid (state match) and for providing medical care to prisoners. There may be additional savings to custodial funds used by the retirement systems and the Bureau of Workers' Compensation, for reduced medical care expenditures for retirees and for injured workers, respectively.
- The prohibition against health insurers offering plans that duplicate the benefits of the Plan would reduce health insurance premiums to private insurers, thereby

reducing GRF receipts from the domestic and foreign insurance taxes. The revenue loss is estimated to be between \$100 million and \$130 million per year. It would also decrease fee revenue related to insurance agent licensing and related requirements. Currently, such revenues are deposited in the GRF and the Department of Insurance Operating Fund (Fund 5540).

- The bill requires the Department of Job and Family Services (ODJFS) to determine lost monthly wages for any Ohio residents who have lost jobs in health care industries due to the implementation and operation of the Plan. ODJFS may experience an increase in costs to establish a method for identifying workers displaced due to the bill.
- The Agency is required to determine the amount of compensation and training for each displaced worker, up to \$60,000 per year for up to two years, and submit a claim to the Fund for the payment. Since there are thousands of Ohio residents who may be displaced, it is possible that costs for compensation and training could total in the hundreds of millions of dollars.
- The bill would eliminate the state's current health benefit plan for employees and their dependents, and significantly decrease the Department of Administrative Services' (DAS's) expenditures related to the management of the current health benefit plan. All state employees and dependents would be automatically covered under the Plan on the first day that benefits become available under the Plan.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Decrease in the hundreds of millions of dollars
Other Local Governments			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Decrease in the hundreds of millions of dollars

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

- The bill would require all counties, municipalities, townships, school districts, and other political subdivisions to participate in the Plan. This requirement would eliminate local governments' current health benefit plans and significantly decrease administrative and benefits costs related to their current plans to provide health benefits to employees and their dependents.
- Administrative and benefits cost savings would be partially offset by an increase in local government employers' expenditures arising from a new payroll tax on employers. The tax rate may be up to 3.85% of payroll.

- The bill sorts counties into one of seven regions, and establishes seven Regional Health Advisory Committees. Each Regional Committee would be made up of one resident of each county in the region, and would serve as an advisory body to the Board. Regional Committees would also oversee consumer complaints and disputes originating in their respective regions. These requirements would increase the Regional Committees' administrative expenses. The bill does not specify whether members of the Regional Committees are to be compensated or reimbursed for expenses.
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Detailed Fiscal Analysis

The bill proposes to establish a universal health care plan in Ohio, to be known as the Ohio Health Care Plan (hereinafter "the Plan"). The bill also creates a new board, the Ohio Health Care Board (hereinafter "the Board"), and a new agency, the Ohio Health Care Agency (hereinafter "the Agency"). The Agency will be held responsible for the administration of the Plan while the Board will be required to oversee the Plan and the Agency.

Ohio Health Care Plan

The bill specifies that the Plan must offer a comprehensive health benefit package to all Ohio residents, including other eligible individuals specified under the bill, regardless of any preexisting medical conditions. All participants under the Plan are allowed to utilize any providers that participate in the Plan. Ohio residents enrolled in the Plan are not subject to copayments, point-of-service charges, or any other fee or charge, and may not be directly billed by providers for covered health care services provided to them. Any necessary standards and procedures related to proof of residency, enrollment determination, and eligibility classification under the Plan will be established by the Board.

The bill specifies that a comprehensive package offered under the Plan would be determined by the Board and must include inpatient and outpatient provider care, both primary and secondary; emergency services; emergency and other transportation services to covered health care services; rehabilitation services, including speech, occupational, and physical therapy; inpatient and outpatient mental health services and substance abuse treatment; hospice care; prescription drugs and prescribed medical nutrition; vision care, aids, and equipment; hearing care, hearing aids, and equipment; diagnostic medical tests, including laboratory tests and imaging procedures; medical supplies and prescribed medical equipment, both durable and nondurable; immunizations, preventive care, health maintenance care, and screening; dental care; and home health care services.

The bill specifies that on the date that benefits are initially offered under the Plan, all public and private employers operating in Ohio and providing health benefit

coverage for employees may participate in the Plan or must provide additional benefits that match or exceed the coverage offered under the Plan. The bill requires any employers that choose to provide the additional benefits to include the employer's payment of any employee premium contributions, copayments, and deductible payments called for by the policy. The bill exempts such employers from all health taxes levied under this bill until the expiration of their policy or until they participate in the Plan. The bill also prohibits health insurers, including health insuring corporations (HICs), from offering health benefit coverage that duplicates the benefits provided by the Plan; they are permitted to offer health benefit packages that do not duplicate the health benefit package provided by the Plan.

In addition, the bill requires all individuals who are covered under any public employee health benefit plan of this state or its subdivisions or have premiums paid for in any part with public money to be automatically covered under the Plan, on the first day that benefits become available under the Plan. Essentially, the bill would eliminate all public health benefit plans in Ohio counties, municipalities, townships, school districts, and other political subdivisions. The bill may also abolish public retirees' health care plans offered by the five state retirement systems – Public Employees Retirement System (PERS), State Teachers Retirement System (STRS), Ohio Police and Fire Pension Fund (OP&F), School Employees Retirement System (SERS), and Highway Patrol Retirement System (HPRS).¹ In 2008, the five retirement systems' total retiree health care costs were over \$2.3 billion. The city of Cincinnati Retirement System (CRS) also provides healthcare coverage to its retirees. In addition, the bill may consolidate medical claims provided by the State Insurance Fund (SIF) that are administered by the Bureau of Workers' Compensation (BWC) into the Plan.

According to the bill, the state's Medicare, Medicaid, and other federal benefit programs would be incorporated into the Plan, if waivers for those programs are requested and approved. The bill specifies that the Medicaid and Medicare programs must serve as the primary insurance for the Plan participants if waivers for the programs were not obtained or not in effect and the Ohio Health Care Plan serves as the secondary plan.

Ohio Health Care Board

The bill provides that the Board would include 15 members, comprising the Director of Health and 14 members elected by seven newly created Regional Health Advisory Committees. The bill provides that the 14 members chosen by Regional Committees will receive an annual salary and benefits established by DAS. In addition, the bill specifies that the Director must not receive any salary or benefits for his or her service on the Board. The bill requires the Board to adopt necessary rules for the purposes of the provisions in this bill.

¹ Under the Ohio Revised Code, the retirement systems are not required to provide retirees health care coverage, health care costs are paid out of employer contributions to the systems.

The bill requires the Board to act as a single payer for all claims for health care services made under the Plan, either directly or through one or more contractors. The Board must also provide timely payments to providers. Annually, the Board must develop budgets for recommendations to the General Assembly, and determine the appropriate rates, fees, and prices for benefits offered under the Plan. In addition, on or before the first day of October of each year the Board must submit reports on the performance and fiscal condition of the Plan, including any recommendations for statutory changes and future priorities for the Plan, to the General Assembly and the Governor.

Regional Health Advisory Committees

The bill also would assign all counties in the state to one of seven regions and create seven Regional Health Advisory Committees for the purposes of representation on the Board. The bill requires the health commissioner of the most populous county in each of the seven regions to convene a meeting of all county and city health commissioners. At these meetings, the commissioners must elect one resident from each county in the region to represent the county on the Regional Committee established for that region. Such meetings must be held every two years to elect new representatives. The bill requires each Regional Committee to act as the advisory body to the Board and oversee complaints and disputes originated in its region. The bill also requires the Regional Committees to work closely with the administrator of consumer affairs of the Agency related to resolution of complaints. Each Regional Committee is required to elect two residents from its region to act as members of the Board. The bill specifies that one of the two residents elected to the Board must be a resident of the most populous county in the region and the other must be a resident of one of the remaining counties in the region. The bill specifies time frames for establishing the Regional Committees and the membership of the Board. The Board must be established and hold its initial meeting within 125 days of the bill's effective date.

Transition Advisory Group

The bill requires the Board to begin preparing for the delivery of universal, affordable health care coverage to all Ohio residents and eligible individuals in the first two years after the effective date of the bill. The bill requires the Board to appoint a Transition Advisory Group (hereinafter "the Advisory Group") to assist with the planning and implementation of the Plan. The bill specifies that the Advisory Group must include a broad selection of experts in health care finance and administration, providers from a variety of medical fields, representatives of Ohio's counties, employers and employees, representatives of hospitals and clinics, and representatives from Ohio's regulatory bodies. The bill specifies that the members of the Advisory Group will be reimbursed for necessary and actual expenses incurred in the performance of their duties as members.

Ohio Health Care Agency

The bill specifies that the Agency's staff appointments and standards and criteria for the allocation of operating funds of the Agency will be established by the Board. The bill also specifies duties and responsibilities of the administrators of the Agency. Some of the duties and responsibilities are to: establish standards and criteria for evaluating applications from health care facilities for capital improvements, establish policy on health issues, determine the scope of services under the Plan, expand participants' access to health care services, and evaluate the performance of the Plan. The bill requires the Agency to develop educational and informational guides for consumers and inform consumers of their rights to obtain health care services under the Plan. The bill requires the Agency to investigate and respond to all complaints pertaining to the Plan and provider or consumer fraud. The Agency must refer the results of all investigations to the appropriate provider, health care facility licensing board, or a law enforcement agency. The bill also requires the Agency to work closely with the seven Regional Committees on the resolution of any complaints.

Ohio Health Care Fund

The bill creates a new fund, the Ohio Health Care Fund, in the state treasury to pay for all expenses related to the bill, including payments for benefit coverage under the Plan and compensation for displaced workers as a result of the implementation and operation of the Plan. Revenues in the Fund will be administered by the Board.

The bill specifies that the administrator of finance of the Agency must notify the Board when the annual expenditures or anticipated future expenditures of the Plan appear to be in excess of revenues or anticipated revenues for the same period. The bill requires the Agency to establish a reserve account within the Fund when the revenue available to the Plan in any biennium exceeds the total amount expended or obligated during that biennium. The bill allows the Board to use the money in the reserve account of this Fund for the expenses of the Agency or the Plan. The bill authorizes the Agency to accept applicable grants-in-aid from Ohio and the federal government deposited into the Fund. In addition, the bill requires all moneys received from the following funding sources, established by the bill, to be deposited into the Fund:

1. funds made available to the Plan under Medicare, Medicaid, the Childrens Health Insurance Program (CHIP), and the Federal Employees Health Benefits (FEHB) Program;
2. funds obtained from other federal, state, and local governmental sources and programs;
3. receipts from taxes levied on employers' payrolls, paid by the employers, at a rate not to exceed 3.85% of payroll;
4. receipts from taxes levied on businesses' gross receipts, at a rate up to 3% of gross receipts;

5. receipts from additional income taxes, equal to 6.2% of an individual's compensation in excess of the amount subject to the Social Security payroll tax, currently \$106,800 per year; and

6. receipts from additional income taxes, equal to 5% of an individual's Ohio adjusted gross income in excess of \$200,000, less any allowable exemptions.

For the taxes specified in "3." and "4." above, the bill does not indicate rates to be charged after the first year.

Displaced workers

The bill requires the Ohio Department of Job and Family Services (ODJFS) to determine which residents of Ohio employed by a health care insurer, health insuring corporation, or other health care-related business, have lost employment as a result of the Plan and the amount of monthly wages that these residents lost. ODJFS is required to forward the information it obtains on the monthly wages lost to the Agency. The Agency must determine the amount of compensation and training that each displaced worker is entitled to receive and must submit a claim to the Fund for payment. A displaced worker may not receive compensation in excess of \$60,000 per year for two years. Compensation paid to the displaced worker under the bill serves as a supplement to any other compensation that the worker receives from ODJFS. In addition, ODJFS must attempt to position the displaced workers in comparable job roles within the Agency.

Fiscal effects

The bill would have a large fiscal impact on the state, increasing revenues and expenditures by several tens of billions of dollars, but the precise magnitudes are very uncertain. The fiscal effects on school districts and local governments are also large, but involve eliminating expenditures for health benefits for employees, substituting the new payroll tax at a rate of up to 3.85%. This would reduce costs for most, and probably all, school districts and local governments, since the U.S. Bureau of Labor Statistics reports the cost of health benefits for state and local governments averaged 11% of payroll nationally in the fourth quarter of 2009. This fiscal analysis begins with some important general information regarding assumptions and data limitations. The analysis proceeds from there to details regarding specific bill provisions, and descriptions of data and methods used to produce the estimates.

The fiscal effects on the state are very uncertain, as noted above, starting with the timing of the revenues and expenditures. The bill specifies that Ohio residents and others "are eligible" for coverage under the Plan (Section 3922.07), which seems to imply that the benefits, which would generate expenditures for the Plan, would begin to accrue once the bill became effective. However, the bill does not appropriate any money to pay for such benefits during FY 2010 or FY 2011, and Section 2 of the bill provides for a period of two years during which the Board is directed to "prepare for the delivery of universal, affordable health care coverage" to all eligible Ohioans. There

are practical limits on how quickly a new agency could implement systems capable of recording eligibility for roughly 11.5 million Ohioans and to pay claims on behalf of that many enrollees to tens of thousands of medical providers. Rather than attempt to discern the timing of these expenditures, LSC economists estimate the costs of the Plan in its first full year of implementation, which is assumed to be calendar year 2013.

Similarly, on the revenue side, the bill establishes four new taxes, but does not specify a date from which the taxes would be in force (for any of the taxes). For purposes of this fiscal note, LSC economists estimated revenues from the taxes assuming they were fully in force for FY 2012. Estimates are made based on data sources that may or may not correspond to the actual tax bases of the new taxes, due to data limitations, and due to some vagueness about the tax base intended by the bill in the case of three of the four taxes. The tax base is clear for one of the taxes, imposed on Ohio adjusted gross income, or OAGI, above a certain threshold; OAGI is defined in section 5747.01 of the Revised Code. A final note about the revenue uncertainty relates to the tax rates assumed. For two of the four new taxes, the bill specifies an upper limit on each tax rate in the first year, rather than specific tax rates. It is not clear from the bill who would have the authority to set the actual tax rates for these two taxes. LSC economists have assumed the maximum first-year rates in estimating revenues from the taxes.

Another specific source of uncertainty related to the Plan is that revenues and expenditures will depend on a federal decision whether to grant a waiver such that Ohio's Medicare and Medicaid patients may be included in the Plan. The bill provides that they are to be included in the Plan if such a waiver is granted, but if it is not granted, they would continue to be enrolled primarily in Medicare or Medicaid, as appropriate. This source of uncertainty should not affect the costs of the Plan to the state, since the federal government would be the source of payment whether the money flows through the Fund or not. It would make a large difference, roughly \$40 billion per year, in the scale of revenue to and spending from the Fund, however.

There are several data limitations involved in providing estimates for the bill's expenditures and revenues, but among the primary ones is a substantial time lag in the publication of comprehensive data on health care expenditures in the state. The most recent data published as of this writing are for 2004. There is considerable uncertainty too regarding possible administrative cost savings from streamlining the payments system, the effects of the Plan on utilization of medical services, and the responses of taxpayers under the new taxes, especially the gross receipts tax on businesses in Ohio. In order to reflect the resulting uncertainty, LSC economists present spending figures in terms of ranges. The ranges are intended only to reflect the underlying uncertainty; actual spending requirements may fall outside of these ranges (either higher or lower).

Besides those assumptions already described, there is one more worth noting. The proposed Plan may attract certain people to relocate to Ohio to take advantage of the benefits offered under the Plan. Individuals with medical conditions that are very expensive to treat would have a disproportionate incentive to relocate to Ohio, making likely a phenomenon economists call "adverse selection." Should adverse selection occur, the costs of the Plan could be perhaps billions of dollars higher than estimated here, with relatively small increases in revenues to pay for them. Adverse selection could also occur if relatively healthy, high-income Ohioans chose to move to another state to avoid the taxes imposed under the Plan. LSC staff have made no adjustment for adverse selection, because we are unaware of any research that would provide a reliable basis for making such an adjustment. Also, the bill does empower the Board to impose an eligibility waiting period if a substantial influx of people to Ohio, for purposes of obtaining health care through the Plan, were to occur.

Effect on current state health benefit plan

The bill would eliminate the state's current health benefit plan and consolidate it into the Plan, thereby decreasing state expenditures related to the current plan. Currently, administrative costs and benefits for the state's plan are paid out of the Health Benefit Fund (Fund 8080) while some of the personnel costs are paid out of the Human Resources Division – Operating Fund (Fund 1250). Revenue for the state plan is derived from state employees' and employers' contributions. In FY 2009, the state spent over \$506 million in administrative costs and claims, which were paid out of Fund 8080. The bill would decrease revenue to and expenditures from these funds by a comparable amount.

New administrative costs

The bill would increase state administrative expenditures for the following purposes:

1. Implementation costs associated with the Plan, Agency, and the Board. The bill requires the Board to develop a centralized electronic claims and payments system for the Plan. The Board must also establish an enrollment system that will ensure that all eligible Ohio residents are aware of their right to health care and enrolled in the Plan.
2. Reimbursements to members of the Technical and Medical Advisory Board.
3. Administrative expenses related to applications for federal "waivers." Some of these costs, such as expenditures for personnel, capital, and computer applications, would likely be needed prior to the establishment of the Plan. It is unclear when funding would be available from the Fund for such preliminary expenditures, which could require identifying funding from existing sources.

Services and benefits for displaced workers

Wage determination and repositioning

ODJFS would experience an increase in costs to implement provisions of the bill regarding determination of wages lost and placement of dislocated workers in the new agency. ODJFS is currently able to identify, by industry, employers, employees, and an employee's prior quarter's wages. However, ODJFS would need to establish a method for identifying workers displaced as a direct result of the bill, which according to ODJFS will create significant administrative costs.

According to ODJFS, the increase in costs to reposition displaced workers in the Agency would be minimal. Similar services are currently provided to dislocated workers through Rapid Response teams, which provide information and assistance to employees who have been affected by a mass lay-off (training in job search techniques, information on filing for unemployment compensation, and other assistance to help workers obtain new employment).

Compensation and training

The cost of providing compensation (up to \$60,000 per year per worker) and training is contingent upon the numbers of displaced workers and the amounts of compensation and training to be provided. In 2008, about 12,500 Ohio residents were working for 151 carriers of direct health and medical insurance.² This number does not include Ohio residents working for other health care-related businesses such as third-party administrators of health insurance or as medical billing professionals in hospitals or medical practices. Due to the limited data available, as well as the uncertainty of what business decisions employers may make as a result of this bill, it is not feasible to estimate the total number of workers that may be displaced. However, since there are thousands of Ohio residents who may be displaced, it is possible that costs for compensation and training could total in the hundreds of millions of dollars.

The bill does not preclude displaced workers eligible for compensation and training under the bill from receiving other compensation, in particular unemployment compensation. However, under the laws governing unemployment compensation, any amount received from the Fund may be considered compensation for lost wages and reduce the person's unemployment benefit. A displaced worker may receive unemployment compensation benefits if the compensation received from the Fund is less than half of that worker's previous weekly wage, up to a maximum weekly benefit defined in law.³ In such cases, a worker would be eligible for unemployment benefits equal to half of the worker's previous weekly wage less the compensation received

² Source: Quarterly Census of Employment and Wages, extracted from the Employment and Wages Industry Tool on the ODJFS Bureau of Labor Market Information web site.

³ The maximum levels are set based on the number of allowable dependents claimed. ODJFS categorizes a claimant into one of three dependency classifications. The three classifications and maximum weekly benefits are: Class A (no dependents) \$372, Class B (1 to 2 dependents) \$452, and Class C (3 or more dependents) \$503.

under the bill.⁴ If a displaced worker receives more than half of their former weekly wage, then the worker would not receive unemployment benefits.

The state is currently borrowing from the federal government to pay a portion of unemployment benefits. Any benefits paid as a result of the bill may increase the amount the state must borrow from the federal government. Additional borrowing increases the amount of future trust fund dollars needed to pay back the principle and state funds needed to pay interest on the borrowed moneys.

Ohio Health Care Board

The new responsibility for the Director of Health may increase DOH's administrative costs. If there is any such increase it would be paid out of DOH's GRF line item.

Restrictions on other health benefit providers

The provision prohibiting health insurers from offering health benefit packages that duplicate those offered by the Plan would reduce the number of health benefit plans sold in Ohio and would thereby reduce GRF receipts from the domestic and foreign insurance taxes. Insurance taxes are collected based on the gross amount of premiums for policies sold in Ohio. In FY 2009 insurance taxes raised over \$404 million for the GRF, but this amount includes revenue attributable to premiums paid to cover a number of risks (e.g., to life and property) other than health benefits. The reduction in GRF revenue would be between \$100 million and \$130 million per year. In addition, it would decrease fee revenue related to insurance agent licensing and related requirements. Currently, such revenues are deposited into the GRF and the Department of Insurance Operating Fund (Fund 5540).

Costs of the Ohio Health Care Plan

The bill provides that the Board would prepare annual recommended budgets to the General Assembly, and that the budget would establish a limit on spending. The Board is also required to implement cost control measures.⁵ Given the required benefit package, however, the estimated costs to provide such comprehensive health benefits under the Plan would be between \$62 billion and \$81 billion, if fully implemented in 2013. As noted above, there is some uncertainty regarding the date that benefits would begin to accrue to Ohioans enrolled in the Plan. These amounts are based on federal waivers not being granted, such that Ohioans enrolled in Medicare and Medicaid remain enrolled in those programs. If they were enrolled in the Plan, expenditures from

⁴ If a worker's previous weekly wage was \$300, that worker would be eligible for an unemployment benefit of \$150/week. If compensation received under the bill is less than this amount (e.g., \$100/week), the worker could receive the difference in unemployment benefits (\$50/week). If compensation is greater than \$150/week, the worker would not receive unemployment benefits.

⁵ The bill specifies that any cost control measure implemented by the Board must not limit access to emergency and medically necessary care. The bill also specifies various mandatory cost control measures, including an aggregate limit on the amount reimbursed to individual providers.

the Fund are estimated to be between \$106 billion and \$123 billion in 2013. These benefits costs would be paid from the Fund.

The estimates are calculated based on the state total health care expenditures data derived from the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (CMS). The latest data available for Ohio were for calendar year 2004. Total health care expenditures for Ohio were \$65.7 billion in 2004. To calculate the state's baseline health care expenditures in 2004, LSC staff excluded Medicaid and Medicare expenditures for the same period. Total health care expenditures, excluding Medicaid and Medicare, were \$41.9 billion in 2004. Medicaid and Medicare expenditures were \$11.1 billion and \$12.8 billion, respectively, that year. Total health care expenditures, excluding Medicaid and Medicare, were used because they represent spending for all types of medical care. If some medical benefits are excluded under the Plan, spending would be less.

Projecting the state's health expenditures forward to FY 2013 introduces considerable uncertainty, since changing the growth rate assumed by a single percentage point would change the estimate of health care expenditures in that year by billions of dollars. Due to the uncertainty, LSC staff prepared a high estimate and a low estimate based on two different assumed growth rates. For the high estimate, we assumed that the state's health spending would increase at the same rate as the estimated annual growth rates of actual and projected national health care expenditures (NHE), from 2003 through 2013.⁶ The estimated average annual growth rate for those ten years is 5.7%. Historically, though, health spending in Ohio has grown somewhat more slowly than in the U.S. as a whole. To estimate the lower end of the state's health care expenditures, a percentage point was deducted from the 5.7% growth rate assumed above, primarily to account for Ohio's slower historical spending growth.

Using the two growth rate assumptions, Ohio's estimated total health care expenditures for FY 2013 are between \$63 billion and \$68 billion, net of Medicare and Medicaid spending, or between \$5,407 and \$5,891 per capita.⁷ The estimated per capita cost is used below to estimate the costs of coverage for nonresidents and uninsured Ohioans who will participate in the Plan.

Some changes that would be induced by the Plan are relatively predictable, and adjustments are made to these baseline spending numbers for these changes. Actual spending under the Plan would, due to the bill's provisions, include some spending on nonresidents. Medical utilization by those currently uninsured would likely increase when they become insured. And with the Plan prohibiting copayments and deductibles, it is fairly predictable that utilization would go up also for those currently

⁶ Data for national health care expenditures are derived from the Centers for Medicare & Medicaid Services (CMS). Data after 2008 are projections from the Office of the Actuary in the CMS.

⁷ The estimated cost per capita is calculated based on an estimate that Ohio's total population in 2013 will be 11,589,414. The forecast is from Global Insight, an economic forecasting firm.

insured. These three considerations necessitate upward adjustments to the baseline numbers. Operating in the opposite direction is the consideration that a single payer plan would likely significantly reduce administrative costs throughout the medical system. For example, billing departments employed by medical providers of all sorts could be reduced as payment processing would involve just one claim form and no uncertainty about a patient being covered. Accordingly, the baseline estimates were adjusted to incorporate the following assumptions:

1. Approximately half of nonresidents who claimed residents/nonresidents tax credits on Ohio income tax returns are assumed to participate under the Plan. Based on data from the Department of Taxation, 208,431 residents/nonresidents tax credits were claimed on 2008 Ohio income tax returns. LSC staff assume approximately 110,000 nonresidents will be working in Ohio and participate under the Plan.
2. Based on 2007-2008 data derived from the Henry J. Kaiser Family Foundation, approximately 1,315,300 Ohioans were uninsured. These individuals are already receiving some medical care, included in the baseline numbers, but research published in the journal *Health Affairs* estimated that the uninsured nationally receive medical care worth about half of medical care received by the insured.⁸ LSC staff assume the estimated number of uninsured Ohioans in FY 2013 would be the same as the 2007-2008 data and add an increment to health care spending to account for the likely increase in utilization by those currently uninsured.
3. A comprehensive benefit package would increase utilization due to improvement and expansion of benefits, and elimination of copayments and deductibles. Economists studied the response of consumers to changes in the prices of various medical goods and services as part of the Rand Health Insurance Experiment, and found that a decrease in price of health services of 10% leads to an increase in utilization of 1.7%, on average. Extrapolation of this finding would imply that the elimination of any cost to access medical services under the Plan would lead to an increase in health services utilization of approximately 17%. This increase in utilization would not occur with nonresidents, because they may continue to pay copayments under the Plan.
4. Under a single payer health plan, all health care spending would be streamlined and administered by the Agency, as a result, it would be likely to reduce health care administrative costs. Deloitte Center for Health Solutions published a review of seven studies that attempted to estimate possible

⁸ This research by Jack Hadley and John Holahan was published online in February 2003 under the title "How Much Medical Care Do the Uninsured Use, and Who Pays for It?" It was reprinted in *Web Exclusives, A Supplement to Health Affairs* in the January – June 2003 edition. Articles published in *Health Affairs*, in print and online, are peer-reviewed.

administrative cost savings from a single payer plan in December 2009. The review was entitled *Administrative Costs in Health Plans: A Systematic Review of Current Studies*. Based on the studies reviewed, which found widely divergent estimates, LSC staff assume the Plan could generate savings between 5% of total benefits paid and 20%.

Table 1: Estimated Costs of the Ohio Health Care Plan (\$ in billions)	
Baseline estimates	Between \$62.7 and \$68.3
<i>Additional Costs:</i>	
Coverage for nonresidents employed in Ohio	Between \$0.6 and \$0.6
Coverage for uninsured Ohioans	Between \$3.6 and \$3.9
Increased Utilization	Between \$11.3 and \$12.4
<i>Possible Savings:</i>	
Reduced administrative costs	Between \$4.3 and \$15.6
Total costs	Between \$62.5 and \$80.9

Ohio Health Care Plan funding sources

The bill provides the Plan with revenues from new state taxes and federal sources (federal participation) that are deposited in the Fund. Section 3922.28 of the bill proposes four taxes: a tax on employers' payrolls, a tax on businesses' gross receipts, a tax on wages and salaries over the amount subject to the Social Security payroll tax, and a tax on Ohio adjusted gross income (after personal exemptions) that is in excess of \$200,000. The table below summarizes potential revenues that may be available to the Fund under the bill, by funding source. Revenues to the Fund may be up to \$47.85 billion in FY 2012, assuming federal waivers are not granted, or \$86.89 billion if they are; these estimates assume the taxes were in effect for the full FY 2012. For FY 2013, the revenue estimates are \$49.96 billion assuming no federal waivers, and \$92.20 billion if the waivers are approved.

Funding Source (\$ in billions)	FY 2012	FY 2013
Potential Federal Participation	\$39.04	\$42.24
3.85% tax on employers' payroll	\$9.07	\$9.59
3% tax on business gross receipts	\$35.40	\$36.80
6.2% tax on compensation in excess of Social Security maximum	\$1.32	\$1.37
5% tax on income over \$200,000	\$2.06	\$2.20
Potential Total Funding	\$86.89	\$92.20

Potential revenue from the federal government

Under the bill, the Ohio Health Care Fund would receive funds made available by the federal government (hereinafter "federal participation"). Federal participation in the Plan includes the federal share of funding for Medicare, Medicaid, the Children's

Health Insurance Program (CHIP), and the amount of premiums paid by federal employees enrolled in the Federal Employees Health Benefits Program. No other federal programs or sources are included. Estimates of funding from the federal government are derived from data from the National Health Expenditures by Type of Service and Sources of Fund published by CMS. Estimated Ohio expenditures were calculated based on recent numbers of Ohioans in the programs and on the share of federal spending for Ohio enrollees for CY 2004, the latest state data available from CMS. The bill allows the incorporation of the state's Medicare and Medicaid programs into the Plan, if waivers for those programs are requested from the federal government and if the waivers are approved. Alternatively, if federal participation is not available, i.e., the waivers are not approved, potential total funding available for the Plan would be reduced and funding would only be from state sources.

Potential state-source revenue from taxes

Section 3922.28 of the bill proposes four taxes to fund the state-source portion of revenues to the Plan: (1) a 3.85% tax on employers' payrolls, (2) a 3% tax on businesses' gross receipts, (3) a 6.2% tax on wages and salaries over the amount subject to the Social Security payroll tax, and (4) a 5% tax on Ohio adjusted gross income (after personal exemptions) that is in excess of \$200,000. As noted above, the bill does not contain detailed definitions of the tax bases for these taxes, though the last of the new taxes refers to a tax base currently defined in the Revised Code. LSC staff believe the tax bases for the payroll tax and the income taxes are sufficiently standardized, and likely to match the data sources used for producing the revenue estimates provided here. The tax base for the gross receipts tax used in this fiscal note is the definition of gross receipts of the U.S. Economic Census. The revenue estimates assume no response on the part of taxpayers to the taxes, which may not be likely in practice.⁹ Therefore, there is some uncertainty about this estimate and the actual revenue from these taxes could well vary from the estimate by billions of dollars. The following sections provide the breakdown of estimated revenue by tax source.

Tax on Employers Payrolls. The bill increases taxes levied on employer's payrolls, paid by employers. The tax rate in the first year may not exceed 3.85% of payroll. The tax is estimated to provide about \$9.07 billion in FY 2012, and \$9.59 billion in FY 2013.¹⁰ Estimates are based on payroll tax projections in the 2009 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. Those national payroll projections were adjusted to exclude payments (the federal self-employment tax) from self-employed individuals to

⁹ The gross receipts tax seems likely to have a significant effect on taxpayer behavior, and thus possibly on revenues, due to the size of the revenue involved.

¹⁰ An alternative estimation using the Bureau of Labor Statistics' Quarterly Census of Employment and Wages provides revenue estimates from the payroll tax of \$9.04 billion in FY 2012, and \$9.26 billion in FY 2013.

those payroll funds. Projections are based on estimated payroll taxes paid by Ohioans' employers.

Income Taxes. The bill increases income taxes, imposing additional taxes on compensation of individuals and on OAGI less personal exemptions. The tax on individual compensation is at a rate of 6.2%, on compensation in excess of the amount subject to the Social Security payroll tax. The tax on OAGI less personal exemptions (Ohio taxable income) is at a rate of 5%, on income in excess of \$200,000. Compensation is assumed to refer to income from wages and salaries. The amount subject to the Social Security payroll tax is indexed to changes in the national average wage, as tabulated by the Social Security Administration. In 2007, the maximum amount subject to the Social Security payroll tax was \$97,500. By 2010, this maximum amount had risen to \$106,800. Further increases can be expected in future years, in line with increases in average wages. In contrast, the 5% tax on Ohio taxable income is imposed on all such income in excess of \$200,000. This base is not indexed for changes in wages or prices. In FY 2012, these taxes would raise an estimated \$3.38 billion, including \$1.32 billion from the 6.2% tax on compensation and \$2.06 billion from the 5% tax on taxable income. By FY 2013, these taxes would raise an estimated \$3.57 billion, including \$1.37 billion from the 6.2% tax on compensation and \$2.20 billion from the 5% tax on taxable income. In analyzing revenues from these taxes, LSC adjusted potential tax revenues downward to exclude income estimated to have been earned out of state.

Tax on gross receipts of businesses. The bill levies a tax on gross receipts of businesses at 3% in the first year. By comparison, the existing commercial activity tax (CAT) is 0.26% of CAT taxable receipts. The bill does not define the gross receipts tax base for the Plan. Based on gross receipts of the U.S. Census Bureau's economic census, the bill may provide \$35.40 billion and \$36.80 billion in gross receipts taxes to the Plan in FY 2012 and FY 2013, respectively. To the extent that the bill's ultimate definition of gross receipts differs from that used in this fiscal note, the estimated revenue to be collected from the tax will differ from this estimate. Total gross receipts (including receipts from small operations with no employees) were estimated at \$924.3 billion in 2002. No more recent estimate of gross receipts for all industries is available from the U.S. Census Bureau for Ohio (2007 Economic Census is not available yet). The \$924.3 billion figure was projected forward using the growth in Ohio's gross state product (GSP) forecast by Global Insight,¹¹ an economic forecasting firm, yielding an estimate of gross receipts in CY 2013 of \$1,248.98 billion. LSC assumes that "taxable gross receipts" for purposes of the bill differs from "taxable gross receipts" for the commercial activity tax (CAT). The CAT exempts all businesses with less than \$150,000 in gross receipts, excludes insurance companies, utilities, financial institutions, and dealers in intangibles, and applies to out-of-state businesses with Ohio receipts.

¹¹ January 2010 forecast for Ohio was used for this purpose.

Estimates of tax receipts will certainly be somewhat erroneous, and possibly significantly so. The size of the revenue for the various taxes, and particularly the gross receipts tax (about 74% of state-source receipts), is such that there is likely to be some tax avoidance, which could reduce the revenue actually experienced for the Plan. LSC staff is not aware of any research that would allow a reliable estimate of the likely magnitude of any tax avoidance response by Ohio businesses.

Estimated fiscal impact on the local governments

The bill would eliminate all political subdivisions' health benefit plans and consolidate them into the Plan. The bill would significantly decrease administrative and benefits costs to political subdivisions statewide of providing health benefits to employees and their dependents. The bill divides all counties in the state into seven regions and creates seven Regional Health Advisory Committees. The bill also requires all county and city health commissioners in each region to convene for meetings to elect residents for representation in the Regional Committees for their respective regions. This provision may minimally increase counties' and cities' health districts' administrative costs.

The bill requires each Regional Committee to convene meetings to elect residents for representation on the Board. The bill also requires each Regional Committee to act as the advisory body to the Board and oversee complaints and disputes originated in its region. The local boards of health would have increased expenses related to convening meetings to elect residents to the Regional Committees. These requirements would also increase the Regional Committees' administrative costs. However, the bill does not specify whether members of the Regional Committees are to be compensated or reimbursed for expenses, nor does the bill specify what government entity will pay for any expenses incurred by the Regional Committees.

The savings from no longer providing health benefit plans would be offset with increased expenditures related to a tax levied on employers' payrolls. The bill provides a list of funding sources, among which is a tax up to 3.85% on employers' payrolls. There would likely be a net savings for all political subdivisions, since, as noted above, the cost of health benefits for state and local governments averaged 11% of payroll nationally in the fourth quarter of 2009.