

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 8028**  
**BILL NUMBER: SB 386**

**DATE PREPARED:** Apr 10, 2001  
**BILL AMENDED:** Apr 9, 2001

**SUBJECT:** Filing of Insurance Fees.

**FISCAL ANALYST:** Jim Landers  
**PHONE NUMBER:** 232-9869

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
 **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** (Amended) The bill makes various changes to the Indiana Insurance law concerning: (1) wage assignments for purposes of paying premiums; (2) the definition of "insurer" for purposes of the holding company law; (3) consideration of remediation efforts when assessing a penalty for unfair methods of competition or deceptive acts or practices; (4) requirements for cancellation or nonrenewal of residential policies; (5) notice regarding flood insurance; (6) provision of information from utilization review agents; (7) internal and external grievance reviews; (8) various health maintenance organization provisions.

The bill authorizes the Insurance Commissioner to adopt rules providing for the accrual and quarterly billing of insurance filing fees.

The bill codifies a section of the Indiana Administrative Code concerning investments of an insurance company in a subsidiary company. It also removes certain requirements for an application for admission by a foreign or alien insurance company.

The bill provides for the Office of Medicaid Policy and Planning to apply for a demonstration waiver to provide coverage to individuals with severe chronic diseases. The bill also requires the Health Finance Advisory Committee to review issues related to the Indiana Comprehensive Health Insurance Association (ICHIA) and report to the Health Finance Commission. The bill repeals the law concerning ICHIA effective January 1, 2004.

The bill also requires the Insurance Commissioner to begin to study potential solutions to: (1) The accelerated rate increases for individual health insurance policies that are not actively marketed; and (2) consumer misunderstanding of precertification and preauthorization requirements under preferred provider plans. The bill requires the Commissioner to report any potential solutions resulting from the study no later than July 1, 2002, to the Chairman of the House Insurance, Corporations, and Small Business Committee and

the Chairman of the Senate Insurance and Financial Institutions Committee.

The bill also makes conforming amendments.

**Effective Date:** (Amended) Upon Passage; July 1, 2001; January 1, 2002; January 1, 2004.

**Explanation of State Expenditures:** (Revised) *Billing of Insurance Fees:* The bill potentially could increase administrative costs to the Department of Insurance, including computer programming cost and staff time cost. The nature and extent of the additional administrative cost would depend upon which fees the Department elects to collect via quarterly billing.

*Department of Insurance Study:* The bill requires that the Department of Insurance conduct a study of the potential solutions to: (1) The accelerated rate increases for individual health insurance policies that are not actively marketed; and (2) consumer misunderstanding of precertification and preauthorization requirements under preferred provider plans. The study presumably can be performed without additional staffing or resources.

*Medicaid Waiver:* The bill authorizes the Office of Medicaid Policy and Planning to apply for a demonstration waiver to provide coverage to individuals with severe chronic diseases. This could potentially reduce costs to the state from ICHIA if health care cost of some individuals that would otherwise be assumed by ICHIA is paid through Medicaid. The impact of the bill also depends upon whether the Medicaid waiver is pursued by OMPP and granted by the federal government and the extent to which individuals currently being served in the ICHIA program would, instead, receive medical services through the Medicaid waiver. The extent of the potential reduction in cost is indeterminable. Waiver costs would be shared with the federal government under the Medicaid program with the federal share equal to about 62% and the state share being about 38%.

*ICHIA Review:* The bill requires the Health Finance Advisory Committee to review issues related to ICHIA and report to the Health Finance Commission. The Health Finance Commission is a statutorily created commission that receives funding from the Legislative Council. It is charged with studying health-related issues. The Commission may study any topic directed by the chairman of the Commission; assigned by the Legislative Council; or concerning issues that include: the delivery, payment, and organization of health care services; and promulgated rules that pertain to health care delivery, payment, and services that are under the authority of any board or agency of state government. The review presumably can be performed by the Health Finance Advisory Committee without additional staffing or resources.

**Explanation of State Revenues:** (Revised) *Billing of Insurance Fees:* If the Department elects to allow certain fees to be accrued and collected through quarterly billing, the timing of revenue collection would be affected.

*ICHIA Sunset:* The bill also repeals state law establishing ICHIA, including state law that entitles member insurers and HMOs to take tax credits in order to recapture ICHIA assessments. The repeal would be effective January 1, 2004. This would result in a saving to the state by eliminating the assessment tax credits to which member insurers and HMOs are entitled. However, this impact would be delayed until after January 1, 2004. ICHIA assessment tax credits are estimated to total approximately \$15 M annually.

*Background:* ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA and by assessments imposed on member companies (insurers, health maintenance organizations, and others that

provide health insurance or health care coverage in Indiana). ICHIA assessments are estimated to be approximately \$48.75 M in CY 2001 and \$57.10 M in CY 2002.

Under current law, member companies are permitted to recapture the assessments by taking a non-refundable credit against Premium Taxes, Gross Income Taxes, Adjusted Gross Income Taxes, Supplemental Corporate Net Income Taxes, or any combination of these taxes. Assessments that are not claimed as credits in a calendar year can be credited in succeeding years until the total of the assessments has been offset. Thus, a portion of ICHIA assessments paid by member companies are currently reimbursed by the state General Fund in the form of reduced tax payments from those companies. However, some member companies have been unable to claim tax credits in the full amount of ICHIA assessments.

A survey conducted by Outsourced Administrative Systems (OASYS, third-party administrator of ICHIA) during 2000 suggests that in CY 1998 member company tax credits were equal to 62.1% of assessments for that year. This amounted to an estimated \$14.97 M in tax credits claimed for assessments imposed in CY 1998 (62.1% of \$24.1 M in total assessments). Assuming that profit margins of member companies will be similar in CY 2001 and CY 2002, the value of tax credits claimed for assessments imposed in each year is estimated to be \$14.97 M. Thus, unclaimed assessment tax credits for CY 2001 and CY 2002 are estimated to be \$33.78 M and \$42.13 M, respectively. Under current law, these unclaimed assessment tax credits would have to be carried over to subsequent years.

*Penalties:* This bill eliminates the maximum amount of aggregate penalties that may be imposed for unfair methods of competition and unfair or deceptive acts or practices in the business of insurance. The Department of Insurance collected \$394,000 in fines during FY 1998; \$165,000 during FY 1999; and \$130,467 in FY 2000. This bill affects the aggregate amount of fines that can be collected, so the amount of increase in fine collections will depend on administrative action in the determination of the fines imposed. Fines imposed and collected are deposited into the State General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of Insurance, Office of Medicaid Policy and Planning, Indiana Comprehensive Health Insurance Association, Health Finance Commission.

**Local Agencies Affected:**

**Information Sources:** Liz Carrol, Department of Insurance, 232-2406.