# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 6526**
**BILL NUMBER:** HB 1008

**NOTE PREPARED:** Feb 24, 2007
**BILL AMENDED:** Feb 23, 2007

**SUBJECT:** Health Coverage for Children and Adults.

**FIRST AUTHOR:** Rep. C. Brown
**FIRST SPONSOR:**

**BILL STATUS:** 2nd Reading - 1st House

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

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill increases the cigarette tax by 25.0 cents per pack for deposit in the Health Coverage Fund. The bill establishes the Health Coverage Fund to fund the Health Coverage Program.

The bill provides for a tax credit related to employee wellness programs.

The bill creates the Health Coverage Program, and requires establishment of a health coverage plan for all children and for adults with incomes below 100% of the federal poverty level (FPL), to be administered by the Office of the Children's Health Insurance Program (CHIP).

The bill increases the income limit for Medicaid eligibility for pregnant women and infants up to age 1 year from 150% to 200% of the federal income poverty level .

The bill provides for 12 continuous months of eligibility for an eligible child under Medicaid, CHIP and the Health Coverage Program.

The bill requires establishment of a demonstration project for a Medicaid Health Care Management Program and a pilot project for small employers to obtain health care coverage for employees.

The bill establishes the Healthy Indiana Task Force. It makes conforming changes.

The bill makes an appropriation.

**Effective Date:** Upon passage; July 1, 2007.

**Summary of Net State Impact:** *Tobacco Tax Increase:* The bill provides for a $0.25 increase in cigarette taxes; increasing the tax to $0.805. The bill would change the distribution percentages currently in statute to hold the dollars constant for existing distributions while providing an estimated $121.9 M and $123.4 M for FY 2008 and FY 2009, respectively.

(Revised) The Employer Wellness Program tax credit could potentially reduce revenue by $600,000 to $2.5 M annually beginning in FY 2009. The revenue loss could begin in FY 2008 if taxpayers adjust their quarterly estimated payments.

Medicaid and CHIP 12-month continuous eligibility is estimated to cost in excess of $23 M in state General Funds annually.

The bill also requires a Medicaid State Plan amendment to expand Medicaid eligibility for pregnant women and infants from 150% of the FPL to 200%. This provision would create an entitlement for services to a total population estimated by OMPP to be approximately 14,733 pregnant women and an equal number of infants. Total cost of this provision is estimated to be $160.1 M, or approximately $60.9 M in state General Funds.

The cost of the Health Coverage for Children Program and the Health Coverage for Adults Program is indeterminate at this time.

The Office of the CHIP (Office) is required to conduct an annual study by regions of the state to establish reliable estimates of the number of children eligible and enrolled in various types of health care coverage and the health outcomes or benefits of using the health insurance. The cost of this study is not known at this time.

(Revised) The cost of the Health Care Management Demonstration Project and the statewide implementation of the project is unknown at this time.

The Healthy Indiana Task Force is estimated to cost approximately $16,500 per interim session.

**Explanation of State Expenditures:** *Medicaid & CHIP Provisions*

*Medicaid and CHIP Continuous Eligibility:* The bill would provide that children under the age of 19 years would be continuously eligible for 12 months following a determination of eligibility for Medicaid or CHIP. In the December of 2002, Medicaid Cost Containment Forecast savings estimated for the Medicaid Program due to eliminating continuous eligibility were $23.5 M in state General Funds for FY 2005. The cost of re-instituting this provision is estimated to be somewhat higher due to increased enrollment. It is not clear from the forecast document if CHIP savings are included in the savings estimate. This provision would also apply to the expansion group added with the Health Coverage For Children Program.

*Details on the Expansion of Medicaid Pregnancy Related Services* - The bill requires OMPP to apply for a Medicaid State Plan amendment to expand Medicaid coverage for pregnant women with incomes from 150% of FPL to 200%. A State Plan amendment would create an entitlement status for the new population group.

A Medicaid State Plan amendment could only be applied to the population of pregnant women up to 185% of FPL. However, the state has the flexibility to determine amounts of income that may be disregarded in determining financial eligibility and therefore could effectively implement a medicaid eligibility expansion

to 200% of poverty for all pregnant women. The Plan amendment would also be required to cover the additional group of infants born with Medicaid coverage from birth until one year of age. This is a federal requirement. Under CHIP, a small percentage of the expansion group of infants already receive services subsidized by the state.

*Medicaid Fiscal Impact - Pregnant Women:* This provision would create an entitlement for services to a total population estimated by OMPP to be approximately 14,733 pregnant women. The average cost of pregnancy care in the Medicaid program is reported to be $8,421. Total cost of this provision is estimated by OMPP to be $124.1 M, or approximately $47.2 M in state General Funds. (This is the total cost to add the population of pregnant women to Medicaid.)
*Medicaid Fiscal Impact - Infants:* All children born to mothers with Medicaid benefits are eligible to remain on Medicaid until their first birthday. If it is assumed that 14,733 infants become eligible for Medicaid as a result of the expansion for pregnant women, an additional annual cost of $36.0 M or approximately $13.7 M in state General Funds would result.

*CHIP Impact - Infants:* Under the CHIP C program, all children in families with income between 150% and 200% of FPL can be covered at low cost to families. The premium amounts are between $22 and $50 per month, based on the family income and the number of family members covered. There are also small co-payments for some services. The expansion of eligibility for pregnant women under the Medicaid program up to 200% of FPL would also include the shift of all current CHIP infants, and any subsequently born, to the Medicaid program. CHIP premium revenue would be reduced by the amount being contributed to cover children under the age of one year who are in families with income below 200% but above 150% of FPL. FSSA procurement documents estimated the size of this enrolled population to be 189 infants in CHIP C. If all infants projected to be enrolled in CHIP are assumed to be single children, the maximum annual loss of premium revenue would be approximately $50,000.

*Medicaid Reimbursement:* The Medicaid Program is jointly funded by the state and federal governments. The state share of program expenditures is approximately 38%. Medicaid medical services are matched by the federal match rate (FMAP) in Indiana at approximately 62%. The CHIP program receives enhanced federal reimbursement of approximately 74%. The state share of the CHIP Program is approximately 26% for medical services. Administrative expenditures with certain exceptions are matched at the federal rate of 50%.

*Health Coverage for Children Provisions*

*Health Coverage for Children:* The bill creates the Health Coverage for Children Program to be administered by the CHIP program. The Program is to be coordinated with the existing children's health programs operated by the state. The CHIP Office is required to report details regarding the implementation of the Program to the Select Joint Commission on Medicaid Oversight, and the bill names that Commission as the forum for health care providers, advocates, consumers, and other interested parties to advise the Office with respect to the Program. The bill specifies the Office has rule-making authority to implement the Program.

*Benefits:* The Office is required to purchase, subsidize, or provide health coverage for eligible children that is identical to the coverage provided for children in the CHIP program with the exclusion of non-emergency transportation services,. The Office may provide partial coverage for children that have health insurance coverage with a high deductible plan or may offer limited benefit packages to cover dental, vision, or provide other particular benefits. Children in the program are to have continuous 12-month eligibility as long as

premium payments are made.

*Cost Sharing:* The Office is required to adopt rules to establish cost sharing requirements to include copayments and coinsurance for health care services other than preventive care services and monthly premiums. All cost sharing requirements must be based on a sliding fee scale determined by family income.

*Eligibility:* Eligible children must be state residents under the age of 19 years and not eligible for Medicaid or CHIP. Children must have been without health insurance coverage for at least 6 months, be a newborn with no affordable health insurance coverage, a child who lost insurance coverage due to a parent's loss of employment, or a child who has lost Medicaid or CHIP coverage.

*Required Study:* The Office is required to conduct an annual study by regions of the state to establish reliable estimates of the number of children eligible and enrolled in various types of health care coverage and the health outcomes or benefits of using the health insurance. The Office is to: (1) survey families with children who have declined employer-sponsored health care coverage concerning the reason for declining the coverage; and (2) determine the comprehensiveness of employer-sponsored coverage for children, the levels of cost sharing required for that coverage and the amount of cost-sharing required of employees. The study is to compare data from year to year. The study is to be submitted to the Governor and the Legislative Council. Preliminary results are due not later than July 1, 2009, and the final report is due July 1, 2011.

*Federal Financial Participation:* The bill specifies that the Office shall cooperate with OMPP to request any necessary State Plan amendments or waivers of federal requirements to allow for the receipt of federal matching funds to implement the program. However, the bill specifies that the Program is to be implemented regardless of federal approval of amendments or waivers. If federal approval for the whole Program or some portion of the Program is not received, federal matching funds would not be available, requiring the program, or portions of it, to use 100% state funding.

*Health Coverage Fund:* The bill creates the nonreverting, dedicated Health Coverage Fund to be administered by the Office. Money in the Fund is annually appropriated for the use of the Office in carrying out the Health Coverage for Children Program. Money in the Fund is to consist of distributions of cigarette tax revenue, appropriations, interest accruing from investments, and donations.

*Health Coverage for Adults Provisions*

The bill requires the Office to establish a plan through which the Office provides or purchases health coverage for individuals who are age 19 and above who do not have health services coverage. The Office is required to design a plan to cover Indiana residents in households with income 100% of FPL or less. The benefits covered under the program are to be determined by the Office. The cost of this program is indeterminate.

*Healthy Indiana Task Force*

The bill would establish the Healthy Indiana Task Force consisting of 16 lay members. The Task Force is to study and provide guidance to the state concerning the expansion of coverage for health care services for all children in Indiana, to develop methods to increase the availability of affordable coverage for all Indiana residents, and to make recommendations to the Legislative Council before November 1, 2008. The committee

is to operate under the policies governing study committees adopted by the Legislative Council. Legislative Council resolutions in the past have established budgets for interim study committees in the amount of $16,500 per interim for committees with 16 members or more.

(Revised) *Employee Wellness Program Tax Credit:*

The Department of State Revenue (DOR) will incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the new wellness program tax credit. The Department's current level of resources should be sufficient to implement these changes.

(Revised) *Health Care Management Demonstration Project*

The demonstration project would involve designing a program that would offer Marion County Medicaid recipients the opportunity to receive all of their medical services from Wishard Hospital and the clinics operated by the Health and Hospital Corporation (HHC). The offer must be extended to a number of Medicaid recipients that is large enough to provide meaningful data to guide the establishment of a statewide program. The demonstration waiver group would receive health care services based on a specified Veterans' Administration model. The Corporation is further required to establish and implement a health care management program that applies to all Medicaid recipients in the state that is modeled on the U.S. Department of Veteran's Affairs Quality Enhancement Research Initiative. The cost of implementing such a statewide program is not known.

In FY 2004, Medicaid reported 151,419 total Medicaid enrollments for Marion County. Of the total, 66% were participating in Hoosier Healthwise Managed Care or Primary Care Case Management. The remaining 34% consisted of fee-for-service patients and Medicaid Select enrollment. The demographic composition of the Medicaid eligibles that would accept an offer to be assigned to the demonstration project is not specified by the bill, although the group must be large enough to obtain meaningful data. Administrative actions would determine if the demonstration population would consist of specified populations inclusive of pregnant women, TANF adults, children, the aged, or the disabled. The demonstration project would, similar to a managed care organization (MCO), require the waiver of the Medicaid recipient's freedom of choice of provider selection and could potentially require patient reassignment from existing MCOs or Medicaid Select providers.

*Required Study:* The bill requires the CHIP Office to conduct a study in consultation with the Regenstrief Institute for Health Care to determine the impact of the program on quality of care and cost. The cost of the study will be determined partially by administrative actions that establish the size and the demographic composition of the recipient group assigned to the demonstration.

The program design is required to include incentive payments for providers and administrators to reward them for achievement of defined objectives. The bill does not specify the means of payment for services provided to Medicaid recipients (e.g., fee-for-service or capitation). This would be determined by administrative action in the development and design of the demonstration project. How an incentive payment would interact with the method of payment for services would influence the ultimate cost of this provision.

(Revised) *Small Employers Pilot Project*

The bill requires OMPP and the HHC to develop a pilot program through which small employers unable to provide health care benefits for their employees may obtain access to affordable health insurance. The bill

specifies that if the pilot project results in a premium rate that is 20% lower than a comparable health benefit plan available to small employer groups, an insurer may not enter into or enforce a "most favored nation" clause in an agreement with the HHC (i.e., an insurer would not be able to require the HHC to offer the same discounted prices to the insurer).

**Explanation of State Revenues:** *Tobacco Tax Increase:* The bill provides for a $0.25 increase in cigarette taxes; increasing the tax to $0.805. The bill would change the distribution percentages currently in statute to hold the dollars constant for existing distributions while providing an estimated $121.9 M and $123.4 M for FY 2008 and FY 2009, respectively.

*Medicaid:* See *Explanation of State Expenditures* regarding federal reimbursement in the Medicaid Program.

(Revised) *Employee Wellness Program Tax Credit:*

This bill establishes a nonrefundable tax credit for employers that provide certain wellness programs to their employees. The tax credit could potentially reduce state revenue from the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. Based on survey research estimating the prevalence of wellness programs and the average cost of these programs, the tax credit could potentially reduce revenue by $600,000 to $2.5 M annually beginning in FY 2009. The revenue loss could begin in FY 2008 if taxpayers adjust their quarterly estimated payments. To the extent that additional firms add wellness programs as a result of the tax credit, the revenue loss would be higher than the estimated range. In addition, cost inflation and employment trends suggest that the revenue loss could potentially grow by 1% to 2% per year.

*Background Information:* The bill provides a nonrefundable tax credit against a taxpayer's AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liability for the cost of providing a wellness program to the taxpayer's employees that rewards:

(1) overweight employees for losing weight and all employees for maintaining a healthy weight; or

(2) employees for no using tobacco.

The tax credit is equal to 50% of the cost incurred by the taxpayer in providing the wellness programs during the taxable year. The tax credit is nonrefundable, but excess credits may be carried forward to succeeding taxable years. The bill prohibits a taxpayer from carrying back excess credits. If the taxpayer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. Since the credit is effective beginning in tax year 2008, the fiscal impact would likely commence in FY 2009. However, the fiscal impact could begin in FY 2008 if taxpayers with wellness programs reduce their quarterly estimated payments the first half of 2008.

Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Survey research by the Kaiser Family Foundation suggests that about 5% of private sector employees in Indiana could potentially have access to wellness programs offering weight loss programs and/or smoking cessation programs. Survey research by the Wellness Councils of America (WELCOA) suggest that only

about 6% of employer-provided wellness programs offer no incentives to encourage program participation by employees. Based on the median employment scale and wellness program budget of firms responding to the WELCOA survey, the average cost of employer-provided wellness programs could range from about $10 to $40 per employee. Current estimates by the Bureau of Labor Statistics indicate private sector employment totals about 2.5 million, with long-run growth of about 1.1% annually.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Office of CHIP, OMPP, Family and Social Services Administration; Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Christy Tittle, Department of State Personnel, 317-232-3241; 2006 Annual Membership eSurvey, Wellness Councils of America, http://www.welcoa.org/. Employer Health Benefits Annual Survey, 2005 & 2006, Kaiser Family Foundation, http://www.kff.org/. State and Area Employment, Hours, and Earnings, U.S. Bureau of Labor Statistics, http://www.bls.gov.

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