



SF 2349 – Association Health Plans (LSB5672SV)
Analyst: Angel Banks-Adams (515.281.6301) angel.banks-adams@legis.iowa.gov
Fiscal Note Version – Final Based on Enrolled Bill

Description

Senate File 2349 as passed by the General Assembly, allows Employer Association Health Plans, a type of Multiple Employer Welfare Arrangement (MEWA), to be established by bona fide associations of employers.

The Bill also provides that health benefit plans sponsored by a nonprofit agricultural organization domiciled in the State will not be classified as health insurance, and will not be subject to regulation by the Commissioner of the Iowa Insurance Division if requirements outlined within the Bill are met. The health benefit plans are to be provided through a self-funded arrangement and administered by a domestic third-party administrator that holds a certificate of registration issued by the Commissioner.

Background

In 2017, approximately 153,000 Iowans purchased health insurance directly, instead of through an employer. Of these individuals, 105,000 purchased insurance through Affordable Care Act (ACA) off-exchange plans, grandfathered policies, or transitional policies. The remaining 48,000 individuals purchased insurance through online health exchanges. Approximately 26,000 individuals left the ACA individual health insurance market between 2017 and 2018 due to an inability to afford ACA-compliant health insurance premiums. These individuals were not eligible for federal subsidies. The Iowa Insurance Division projects that approximately 20,000 individuals will leave the ACA individual health market in 2018 for these reasons.

Fully Insured and Self-Funded Multiple Employer Welfare Arrangements

A fully insured MEWA is required to pay the Iowa insurance premium tax for the participant group; however, a self-funded MEWA is exempt from paying the Iowa insurance premium tax.

Currently in Iowa, there are three MEWAs: Petroleum Marketers and Convenience Stores of Iowa (PMCI) Trust, Iowa Bankers Benefit Plan, and the Cooperative Welfare Benefits Plan. These MEWAs are self-funded and are therefore exempt from Iowa's insurance premium tax.

Fiscal Impact of Employer Association Health Plans

The fiscal impact as a result of the establishment of Employer Association Health Plans by bona fide associations of employers cannot be determined at this time.

It is uncertain whether the proposed health plans would be self-funded or fully insured. Additionally, the composition of these plans, in terms of the number of uninsured participants and previously insured participants, is unknown. If Employer Association Health Plans are established as self-funded and attract participants from plans with premiums that are currently subject to the Iowa insurance premium tax, the fiscal impact could be significant. However, if the health plans are established as fully insured, or are comprised of mostly uninsured individuals, the fiscal impact could be minimal.

Assumptions for Health Benefit Plans Sponsored By an Agricultural Organization

An analysis conducted by the Iowa Department of Revenue assumes there are two groups who may elect to purchase coverage under the proposed health benefit plans. One group is comprised of the 20,000 individuals that the Iowa Insurance Division anticipates will leave the ACA individual health insurance market in 2018 due to an inability to afford ACA-compliant health insurance premiums and ineligibility for federal subsidies, as they would otherwise be uninsured. The second group includes 4,000 insured individuals who would find more favorable premium levels within the proposed health benefit plans, causing these individuals to migrate toward these health benefit plans and away from their current insurance plans. This analysis assumes the following:

- The health benefit plans currently under consideration are sponsored by Farm Bureau, to be administered by Wellmark Blue Cross Blue Shield.
- Health benefit plan coverage will begin July 2018. The Bill applies retroactively to tax years beginning on or after January 1, 2018.
- The average annual cost of the health benefit plans would be \$5,000 for each participating household.
- The 4,000 insured individuals are currently paying an average annual premium of \$17,000 for each household.
- Participating taxpayers who choose to itemize deductions will be able to file a federal Schedule F (Profit or Loss from Farming) and take the health insurance premium deduction on their Iowa individual income tax returns.
- The average marginal tax rate will be 4.9% for all Iowans filing a federal Schedule F and taking the Iowa health insurance premium deduction for tax year 2018.
- 11.9% of taxpayers choosing to itemize deductions for the 2018 tax year will not take the health insurance premium deduction on their Iowa individual income tax returns, and instead, will deduct unreimbursed medical and dental expenses on the Iowa Schedule A (to the extent these expenses exceed 10.0% of the taxpayer's federal Adjusted Gross Income). When extrapolated to the uninsured 20,000 individuals electing to purchase one of the proposed health benefit plans, this percentage is comprised of approximately 2,380 individuals within the uninsured group. The amount these previously uninsured individuals will claim as deductions is expected to decrease by \$11,000 due to health benefit plan coverage.

Fiscal Impact

Taxpayers participating in one of the proposed health benefit plans may choose to file a federal Schedule F once covered under a health benefit plan, thus reducing their collective Iowa individual income tax liability by an estimated \$4.9 million at the marginal tax rate of 4.9%. However, this fiscal impact is reduced by the forecasted decrease in claimed medical expenses by the aforementioned 2,380 individuals electing to claim medical expenses, as the decreased claim amount is expected to increase their collective Iowa individual tax liability by \$1.2 million for tax year 2018. Because coverage is assumed to start July 2018, the partial-year application of this impact for FY 2019 is \$1.8 million, and the full-year impact for FY 2020 is \$3.7 million.

The 4,000 individuals with existing insurance who elect to purchase coverage under one of the proposed health benefit plans will leave insurance companies that are required to pay the Iowa insurance premium tax on their premiums. No longer collecting the tax revenue for these premiums will cause an estimated \$0.7 million decrease in tax revenue in FY 2020 that would have otherwise been deposited into the General Fund in FY 2020. However, this group would claim a lower health insurance premium deduction due to the lower premium amount under one of the proposed health benefit plans, which would increase their collective Iowa individual

income tax liability by \$2.4 million. These two factors create a positive net General Fund fiscal impact of \$1.7 million in FY 2020.

The total net fiscal impact to the General Fund in FY 2019 is a reduction of approximately \$1.8 million and in FY 2020 is a reduction of approximately \$2.0 million.

**SF 2349 as Passed by the General Assembly
Estimated Fiscal Impact to General Fund**

Health Benefit Plan Participants	FY 2019	FY 2020
20,000 Uninsured	\$ (1,821,068)	\$ (3,744,117)
4,000 Insured	0	1,744,836
Total	\$ (1,821,068)	\$ (1,999,281)

Sources

Iowa Department of Revenue Individual Income Tax Micro Model
Iowa Insurance Division
Wellmark

/s/ Holly M. Lyons

March 28, 2018

The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
