Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 490 (as enrolled)
Sponsor: Senator Bill Bullard, Jr.
Committee: Finance

Date Completed: 5-24-01

RATIONALE

The Insurance Code allows certain employers to provide health care and other benefits through multiple employer welfare arrangements (MEWAs). According to the Michigan Retailers Association, at the request of many of its small members, in 1993 the Association formed the first, and only, dental MEWA to give small retailers the ability to offer dental benefits to their employees. It has been pointed out that the Michigan Retailers Association dental MEWA is subject to the single business tax, while Blue Cross and Blue Shield of Michigan (BCBSM) has been declared a charitable and benevolent institution exempt from State or local taxation, as has Delta Dental of Michigan. It has been suggested that the tax base attributable to an MEWA that provides dental benefits only should also be exempt from the tax.

CONTENT

The bill would amend the Single Business Tax (SBT) Act to exempt from the tax that portion of the tax base attributable to a multiple employer welfare arrangement that provided dental benefits only and had obtained a certificate of authority under Chapter 70 of the Insurance Code. The exemption would apply to tax years beginning after December 31, 2000.

MCL 208.35

BACKGROUND

Chapter 70 of the Insurance Code defines "multiple employer welfare arrangement" as an MEWA as defined in the Federal Employee Retirement Income Security Act (ERISA) that meets either or both of the following criteria: (1) One or more of the employer members either is domiciled, or has its principal headquarters or administrative office, in Michigan; and/or (2) the MEWA solicits an employer that is domiciled or has its principal headquarters or administrative office in this State. Chapter 70 prohibits a person from establishing an MEWA without a certificate of authority from the Commissioner of the Office of Financial and Insurance Services (OFIS), unless the plan is fully insured. Chapter 70 lists several conditions that an MEWA must meet to obtain a certificate. Among other things, the employers in the MEWA must be members of an association or group of two or more businesses or entities that are in the same trade or industry, or same type of service.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The Michigan Retailers Association is a nonprofit organization that represents over 5,500 retail businesses in Michigan. Though the membership includes some of the State's largest retailers, the bulk of the members are small retailers with fewer than 10 employees. According to the Association, in the past decade it was approached by several of these small employers who wanted to provide their employees with dental insurance at a reasonable cost. Reportedly, insurers do not offer dental insurance plans to groups with under 10 employees; thus, the premium discounts available to larger employers were not available to the small retailers. In an attempt to solve this problem, the Association formed the first MEWA for dental benefits only, which allows those retailers who wish to participate to pool their resources for the purchase of dental insurance. The Association reports that approximately 1,700 groups now obtain their dental insurance through that MEWA. While this has proved advantageous for small retailers, the MEWA is subject to the SBT because it is not specifically exempted, unlike Delta Dental of Michigan and BCBSM. By exempting the dental MEWA from the SBT, the bill would grant it the same tax advantages enjoyed by others and thus improve the affordability of dental benefits for small retailers.

Opposing Argument

There are other MEWAs that offer health insurance benefits, and many of them are much larger than the dental MEWA in terms of premiums paid. It is possible that if the dental MEWA were exempted from the tax, other MEWAs would request similar treatment.

Legislative Analyst: G. Towne

FISCAL IMPACT

Based on current activity, the bill would reduce General Fund revenues by less than $29,000. At the end of 1999, the Michigan Insurance Bureau (now within the OFIS) had authorized eight MEWAs. Multiple employer welfare arrangements may provide a wide variety of services beyond the dental services identified in the bill, including, for example, medical-related benefits, disability benefits, and vacation benefits. The eight authorized MEWAs reported $16.9 million in direct premiums written during 1999, or an average $2.1 million in premiums per MEWA. Under the SBT Act, the first $180 million in each company's premiums for disability insurance is exempt and the remaining gross receipts are taxed at a rate of 1.1865%. The percentage of MEWA receipts attributable to providing disability insurance is unknown, as is the share related to dental services. Only one of the eight authorized MEWAs is known to provide dental services, and none of its premiums cover services other than dental services. If only the one MEWA known to provide dental services would be affected by the bill, then General Fund revenues under the insurance portion of the SBT would be reduced by about $11,000.

The bill would restrict the exemption to business activity solely associated with an MEWA that only provided dental services. As a result, any MEWA that provided any nondental services still would be taxed under the Act. The bill would not allow such taxpayers simply to exclude that portion of the tax base attributable to premiums for providing dental benefits.

As worded, the bill also would exempt from an employer's SBT liability premiums the employer had paid to an MEWA for dental services as long as the MEWA only provided dental services. For the one known dental-only MEWA, this exemption would reduce General Fund revenues under the noninsurance portion of the SBT by as much as an additional $18,000, because employers' premiums are included in the SBT base and are taxed at a 2.0% rate. Because the number of participants in the affected MEWA is small, many of the employers likely exhibit little or no SBT liability and the $18,000 impact likely represents an upper bound. The bill would not exempt other components of an employer's tax base or exempt the MEWAs from regulatory fees paid to the OFIS.

The bill would not have any fiscal impact on local units.

Fiscal Analyst: D. Zin

A0102\s490a
This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.