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



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

Senate Bill 490 (as introduced 5-17-01)
Sponsor: Senator Bill Bullard, Jr.
Committee: Finance

Date Completed: 5-22-01

CONTENT

The bill would amend the Single Business Tax (SBT) Act to exempt from the tax a multiple employer welfare arrangement (MEWA) that provided dental benefits and met the criteria in Section 7001(h) of the Insurance Code.

(Under Chapter 70 of the Insurance Code, employers may provide health care and other benefits through MEWAs. Section 7001(h) 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 (unless the plan is fully insured). Chapter 70 lists several conditions that an MEWA must meet to obtain a certificate, including a requirement that the employers in the MEWA 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.)

MCL 208.35

Legislative Analyst: G. Towne

FISCAL IMPACT

Based on current activity, the bill would reduce General Fund revenues by approximately \$11,000; however, the bill could potentially reduce General Fund revenues by approximately \$200,000. At the end of 1999, the Michigan Insurance Bureau (now within the Office of Financial and Insurance Services, or OFIS) had authorized eight multiple employer welfare arrangements. Michigan does not require an MEWA that is fully insured to obtain authorization to operate, and the number of MEWAs operating in Michigan without authorization is unknown but is believed to be zero due to the nature of the business. Multiple employer welfare arrangements may provide a wide variety of services beyond the dental services identified in the bill, including medical-related benefits, disability benefits, vacation benefits, training benefits, day care centers, scholarship funds, and legal services. 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 remaining gross receipts are taxed at a rate of 1.1865%. The percentage of MEWA receipts attributable to the provision of disability insurance is unknown. 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 would be reduced by about \$11,000.

The bill would not restrict the exemption to business activity solely associated with the provision of dental services. Under the bill, any MEWA that provided dental services would be entirely exempt from the SBT, including the portion of activity not related to the provision of dental services. As a result, the bill would provide a strong financial incentive for the other seven MEWAs in Michigan to offer dental services. Assuming that no unauthorized MEWAs are operating in Michigan, that none of the premiums are attributable to disability insurance, and that all eight MEWAs were to offer dental services, the bill would exempt all \$16.9 million in premiums from the SBT and reduce General Fund revenues by approximately \$200,000.

The bill would not exempt premiums an employer may pay to an MEWA from the employer's SBT liability, nor would the bill exempt MEWAs from regulatory fees paid to the OFIS. Regulatory fees and assessments for the eight authorized MEWAs totaled slightly more than \$40,000 in 1999.

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

Fiscal Analyst: D. Zin