

Legislative Analysis



HEALTH INSURANCE CLAIMS ASSESSMENT

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Senate Bill 335 (S-1)

Sponsor: Sen. Roger Kahn, M.D.

Committee: Appropriations

Complete to 5-21-13

A SUMMARY OF SENATE BILL 335 (S-1) AS PASSED BY THE SENATE 5-16-13

Senate Bill 335 (S-1) would change the sunset date of the Health Insurance Claims Assessment Act from January 1, 2014 to January 1, 2018.

Background

Since 2002 Michigan has established several health care provider assessment programs as a means to implement Medicaid rate increases for hospitals, nursing homes, health maintenance organizations (HMOs), and specialty prepaid inpatient health plans (PIHPs) for Medicaid mental health services. These assessments leverage additional federal Medicaid matching funds. These initiatives are also referred to as quality assurance assessment programs (QAAPs).

For HMOs the State transitioned from the QAAP, to the Use Tax, to the HICA as a means of generating matchable revenue. This was done due to anticipated disallowances by the federal Centers for Medicare and Medicaid Offices. The establishment of HICA through PA 141 of 2011 is considered a broad-based tax which satisfies the federal government as a replacement for the Use Tax model.

Initial revenue projections for HICA were based on an estimate of total taxable health care claims of \$40.0 billion, with a 1% tax generating \$400.0 million annually. Actual revenue collections however, have been lower due to a larger volume of out-of-State insurer claims that are not subject to HICA. Also, the self-funded insurer market is smaller than anticipated and the under-valuation of the impact of increasing health care deductibles both result in less taxable claims.

The most recent estimate is that HICA revenues are short \$137.0 million in FY 2012-13. The projected shortfall of HICA revenue in FY 2013-14 is approximately \$124.0 million. For the current fiscal year, the Executive has put forth a supplemental request using a combination of Medicaid Benefits Trust Fund and Merit Award Trust Fund revenues to address the shortfall.

FISCAL IMPACT:

For the FY 2013-14 Department of Community Health budget, SB 335 (S-1) would allow assessment revenue to be collected into the last three quarters of the fiscal year, and beyond through December 31, 2017. Absent the extension of the sunset, a larger shortfall

would exist in the budget: \$276.1 million in FY 2013-14 and \$326.6 million in FY 2014-15, both GF/GP. The resulting impact on the State Medicaid program considering lost federal financing would be a gross reduction of \$815.4 million in FY 2013-14 and \$955.8 million in FY 2014-15.

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