

FISCAL NOTE

SB 1852 - HB 1848

April 6, 2001

SUMMARY OF BILL: Provides that the primary source of health insurance should be an employer sponsored health insurance plan and that it is a taxable privilege to conduct business and use employees. An employee or their family is not deemed covered if they are enrolled in TennCare. Imposes a \$1,200 tax on employers for each full-time employee not insured, but provides a tax credit for all health insurance expenses not to exceed \$1,200. The tax shall apply to employers with greater than 200 employees on January 1, 2002, to all employers with greater than 100 employees on January 1, 2003 and to all employers with greater than 25 employees on January 1, 2004. Also imposes an additional one percent premium tax on all health insurers that do not have an enrollee base at least 25% of which is TennCare or at least 200,000 lives. Imposes the same one percent premium tax on all health maintenance organizations that do not have forty percent of their enrollment in TennCare or at least 40,000 lives.

ESTIMATED FISCAL IMPACT:

**Increase State Expenditures - \$565,000 Recurring
\$479,000 One-Time**

Decrease State Expenditures - Exceeds \$1,000,000/TennCare

**Increase State Revenues - \$78,500,000 First Year
\$106,715,000 Second Year
\$189,131,000 Third and Subsequent Years**

**Other Fiscal Impact - Decrease Federal Expenditures - Exceeds
\$2,000,000/TennCare**

Tax requirements in the bill may prevent additions to the TennCare program that would have occurred in the absence of the bill resulting in a cost avoidance to the state estimated to exceed \$1,000,000 in the long term. The state may also forgo the collection of potential federal revenue.

Estimate assumes:

- The one percent tax on health insurance companies and HMOs will raise approximately \$38 million annually.
- The net privilege tax on employers (less health insurance expenses) will come primarily from small employers who do not provide health insurance.

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- Based on statistics obtained from the Department of Labor and Workforce Development, there are approximately 1,650 employers with 200 or more employees. The total employee base is approximately 1,500,000 for this category. Estimate assumes most such large employers provide insurance for their employees. Estimate assumes 5% of employees in this category would be uninsured. Estimate further assumes at least one-half of those will become insured as a result of the bill. (2.5% of 1,500,000 = 37,500. $37,500 \times \$1,200 = 45,000,000$). Estimate assumes a 90% collection rate or \$40,500,000 in revenues in the first year.
- There are approximately 1,500 employers with 100 employees but less than 200. This employer grouping has approximately 209,000 employees. Estimate assumes approximately 25% of employees in this category would be uninsured. Estimate further assumes that one-half of those will become insured as a result of the bill ($209,000 \times 12.5\% = 26,125$. $26,125 \times \$1,200 = \$31,350,000$). Estimate further assumes a 90% collection rate or \$28,215,000 in additional revenues in the second year.
- There are approximately 12,563 employers with greater than 25 employees but less than 100. This employer grouping has approximately 404,000 employees. Estimate assumes approximately 40% of employees in this category would be uninsured. Estimate further assumes that one-half of those will become insured as a result of the bill ($404,000 \times 20\% = 80,800$. $80,800 \times \$1,200 = \$96,960,000$). Estimate further assumes an 85% collection rate or \$82,416,000 in additional revenues in the third year.
- Some enrollees will leave the TennCare Program when they are enrolled in employer programs. The amount of savings cannot be determined but is estimated to exceed \$1,000,000. A one percent decline in the number of uninsured/uninsurable would represent a savings of approximately \$11 million.
- Increased administrative costs in the Department of Revenue for enforcement, audit and systems changes to enforce the tax provisions of the bill.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director