Bill Number:	S. 0009 Signed by Governor on May 19, 2017
Author:	Hutto
Subject:	Medical Expense Policy
Requestor:	Senate
RFA Analyst(s):	Gable
Impact Date:	November 9, 2017 - Updated for revised analysis and fiscal impact

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19
State Expenditure		
General Fund	$0	$0
Other and Federal	$0	$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	$0	$27,503
Other and Federal	$0	$633
Local Expenditure	$0	$0
Local Revenue	$0	$0

Fiscal Impact Summary

The bill will increase Other Funds premium tax revenue by $633 and General Fund premium tax revenue by $27,503 beginning in FY 2018-19, due to the increase of insurance premiums. Newly defined medical expense policies will require additional insurance coverage for losses resulting from the insured being under the influence of intoxicants or narcotics, causing an increase in insurance premiums. This fiscal impact statement has been updated to include the distribution of premium tax revenue effective as of July 1, 2017, to revise the impact based upon updated data, and to revise the timing of fiscal impact of the bill.

Explanation of Fiscal Impact

Signed by Governor on May 19, 2017
State Expenditure

This bill creates a new category of health insurance policies known as medical expense policies. Beginning with policies issued or renewed after December 31, 2017, if a health insurance policy falls within the definition of a medical expense policy, it must cover losses resulting from the insured being under the influence of intoxicants or narcotics, because these policies may not use the exception found in §38-71-370(9).

The Affordable Care Act of 2010 (ACA) requires the State to defray the cost of private insurers for mandated additional benefits unless the benefit is an essential benefit under the ACA, among other exceptions. All benefits that were in place prior to the establishment of the ACA are considered essential benefits and, thereby, are not subject to defrayment. The requirement to cover losses resulting from the insured being under the influence of narcotics or alcohol was in place prior to the establishment of the ACA. However, an exception in §38-71-370(9) allowed insurance companies to exclude coverage for losses resulting from the insured being under the influence of narcotics or alcohol. This bill disallows the use of the exception found in §38-71-370(9) in medical expense policies. Because this bill is disallowing the exception for a benefit that was in place prior to the establishment of the ACA, the State is not responsible for defrayment.

Public Employee Benefit Authority (PEBA). The State Health Plan is a self-funded insurance benefits program that is not defined as an insurer pursuant to State insurance laws. Therefore, PEBA is not required to modify its policies based upon the requirements of this bill. This bill will not operationally or fiscally impact the Public Employee Benefit Authority (PEBA) and will not have an impact on the contributions from the General Fund, Federal Funds, or Other Funds.

Department of Insurance (DOI). This bill will require insurers to update all policies that fall within the definition of medical expense policy to ensure coverage for losses resulting from the insurer being under the influence of intoxicants and narcotics. The Department of Insurance (DOI) will have to review and approve any policies modified to fulfill the requirements of this bill, as well as any rate changes resulting from the modifications. However, as only policies renewed or issued after December 31, 2017, will be modified, the cost to DOI will be minimal and can be absorbed within existing appropriations.

State Revenue

This bill creates a new category of health insurance policies known as medical expense policies. Beginning with policies issued or renewed after December 31, 2017, if a health insurance policy falls within the definition of a medical expense policy, it must cover losses resulting from the insured being under the influence of intoxicants or narcotics. If a health insurance policy does not fall within the definition of a medical expense policy, it is not impacted by this bill.

DOI estimated the number of member months that may be impacted by this bill. One member month equals one person being covered by one policy for one month. Different policies have different total member months, depending on the number of people covered and the duration of the policy. All estimates were derived from data in the Supplement Health Care Exhibit Report by the National Association of Insurance Commissions (NAIC). As of 2015, an estimated 2,909,542 member months may have been covered by policies that will need modification under this bill.

Since the initial estimate, RFA has been able to access the 2016 Supplement Health Care Exhibit Report. In 2016, the estimated total member months that may have been covered by policies that will need modification under this bill was 3,307,990. However, for both the 2015 and 2016 estimates, not all of the member months may be within policies that include the §38-71-370(9) exclusion. Also, some of these policies may not be renewed after December 31, 2017. Additionally, there may be other policies that fall within the new category of medical expense policy that do not have membership data currently available.

The growth rate of member months from 2015 to 2016 was 13.69 percent. Using this growth rate, RFA estimates the member months for 2018 will be 4,276,055. Also, DOI estimated that the median cost to cover one person for one month for the increase in coverage required by this bill is estimated to be $0.47, resulting in an increase in insurance premiums of approximately $2,010,000 in calendar year 2018. However, given the inherent variability in the underlying assumptions for coverage, the cost for coverage per member per month may be as high as $1.05 resulting in an increase in premiums of approximately $4,490,000.

Based on prior reports from DOI on administrative costs relative to the increase in coverage, RFA anticipates an increase in administrative costs to be twelve percent of the premium increase, or $241,000. This added to the anticipated premium increase of $2,010,000 results in an overall increase of $2,251,000 in premiums.

The premium tax is one and one quarter percent. An increase of $2,251,000 in premiums will result in an increase of $28,000 in the premium tax revenue in calendar year 2018. Beginning July 1, 2017, insurance premium tax revenue is allocated as follows: one percent to the South Carolina Forestry Commission, one percent to the aid to fire district account within the State Treasury, one quarter of one percent to the aid to emergency medical services regional councils within the Department of Health and Environmental Control (DHEC), and the remaining ninety-seven and three-fourths percent to the General Fund. This results in an increase of $633 in Other Funds premium tax revenue and $27,503 in General Fund premium tax revenue over tax year 2018.

Premium taxes are paid quarterly. The first three payments, paid in June, September, and December of the current year, are estimated using the prior year's actual tax liability. The final payment is made in March of the following year and is the difference between the actual premium tax liability owed in that year and the prior payments made. Insurance companies may choose to pay more than their estimated quarterly payments to offset any anticipated increase in premium tax liability in the current year. RFA assumes no insurance company will choose to pay more than their estimated quarterly payments due to increased premiums from this bill. Therefore, the entire increase in premium taxes will be realized in March of 2019, and this bill will increase Other Funds premium tax revenue by $633 and General Fund premium tax revenue by $27,503 beginning in FY 2018-19.

Local Expenditure
N/A

Local Revenue
N/A

Frank A. Rainwater, Executive Director