

MINNESOTA • REVENUE

GROSS PREMIUM TAX PEIP Premiums

May 3, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 646 (Hann), As Proposed To Be Amended (SCS0646A-1)

	<u>Fund Impact</u>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
		(000's)		
Health Care Access Fund	\$100	\$200	\$300	\$400

Effective for premiums paid by new and rejoining local units of government entering the PEIP self-funded insurance pool on or after May 1, 2011.

EXPLANATION OF THE BILL

Current Law: Minnesota Statutes, Section 297I.15, subd. 3, exempts from the gross premium tax self-funded pools that provide insurance coverage to local units of government. Also, self-funded pools are exempt from Minnesota Comprehensive Health Association (MCHA) assessments. MCHA is high-risk pool funded partially by assessments on health care insurers.

Proposed Law: One of the self-funded pools providing insurance coverage to local units of government is the Public Employee Insurance Program (PEIP). **Under this bill as proposed to be amended**, if a unit of government enters the PEIP self-funded pool on or after May 1, 2011, its premiums are subject to a 1% gross premium tax. If a current member of PEIP lets its insurance lapse and rejoins PEIP on or after May 1, 2011, its premiums are subject to the 1% gross premium tax.

Also, the new and rejoining members of PEIP on or after May 1, 2011, would be subject to MCHA assessments.

There are eight service cooperatives that operate self-funded pools that provide insurance coverage to local units of government. These self-funded pools would continue to be exempt from the gross premiums tax. Also, the same self-funded pools would continue to be exempt from MCHA assessments.

REVENUE ANALYSIS DETAIL

- Based on the experience in 2009, it is assumed that most of the new insurance purchased through PEIP will be purchased by school districts. Data provided by Minnesota Management and Budget show that in 2009 a total of 81 groups representing 10,400 school district employees requested insurance quotes from PEIP. Fourteen school districts with 2,500 employees accepted the insurance quotes and entered PEIP. This group represents 24% of the total number of employees covered by school districts seeking insurance quotes from PEIP in 2009.

- In 2011, 232 groups of school district employees requested insurance quotes from PEIP. This group of 232 covers 56,000 employees. The actual number of employees that will be covered by PEIP will be determined by school districts in the coming months. A school district can choose to purchase insurance through PEIP or through other sources.
- If a similar percentage of the total employees covered by the 2011 PEIP quotes enters PEIP as happened in 2009, over 13,000 new employees would be covered by PEIP.
- Due to the provisions in this bill that increase the cost of insurance offered by PEIP, it is assumed that the percentage of employees that actually will enter PEIP will be 15% lower than the 2009 percentage. Given this assumption, it is estimated that about 11,200 new employees will be covered by the PEIP self-funded pool. It is assumed the insurance for these employees will be effective for calendar year 2012.
- Data supplied by Minnesota Management and Budget show the average insurance premium for the 14 school districts that newly entered PEIP in calendar year 2010 is \$10,358 per employee. Premium amounts are assumed to grow at 2.8% per year. It is assumed that the estimated 11,200 new employees covered by PEIP will have premiums similar to those in the 2010 group. The product of total new employees in PEIP multiplied by \$10,946 equals the premiums subject to the 1% gross premium tax.
- The next time school districts can seek PEIP insurance quotes is in 2013 for calendar year 2014. It is assumed an additional 5,600 employees will join PEIP in calendar year 2014.
- A 2004 report by Reden and Anders on a statewide health insurance pool for school district employees estimates the effective gross premium tax rate to be 0.8%. It is assumed that a vast majority of school district insurance premiums is subject to the 1% gross premium tax under current law. An effective rate of less than 1% is used because it includes insurance purchased through other self-insured pools or by self-insured school districts. This type of insurance pays no gross premium tax.
- There are increased collections from 1% gross premium tax because under the bill 100% of the premium tax base is subject to 1% tax versus under current law where 80% of the premium tax base subject to the 1% tax.
- The revenue gain for fiscal year 2012 reflects 6 months of activity in calendar year 2012. The revenue gain for fiscal year 2013 covers a full year of activity. The revenue estimate for fiscal year 2015 reflects the full impact of 16,800 new employees covered by PEIP.
- Since MCHA assessments are not a tax, no estimate of the net change in assessments is included.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy