

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

SENATE, No. 1878

STATE OF NEW JERSEY
218th LEGISLATURE

DATED: MARCH 20, 2018

SUMMARY

- Synopsis:** “New Jersey Health Insurance Premium Security Act;” establishes health insurance reinsurance plan.
- Type of Impact:** One-time State Expenditure Increase. Potential Annual State Expenditure and Revenue Increases. Potential Annual Expenditure Increase to Local Government Entities.
- Agencies Affected:** Department of Banking and Insurance, Department of the Treasury, and local government entities.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual</u>
State Expenditure Increase	Indeterminate
Potential State Revenue Increase	Indeterminate
Potential Local Expenditure Increase	Indeterminate

- The Office of Legislative Services (OLS) notes that the bill will result in a one-time indeterminate increase in State administrative expenditures. The Department of Banking and Insurance (DOBI) will accrue the additional expenses in applying for a waiver from the United States Secretary of Health and Human Services, whose approval is necessary for the implementation of the reinsurance program envisioned by the bill.
- Assuming that the federal government grants the waiver and that DOBI elects to implement the reinsurance program, the bill will have four additional indeterminate annual fiscal impacts:
 - An annual increase in State administrative expenditures tied to DOBI’s implementation of the program;
 - An annual increase in State expenditures equal to the amounts disbursed from the bill’s dedicated New Jersey Health Insurance Premium Security Fund to make reinsurance payments to eligible insurance carriers;
 - An annual increase in State revenue equal to the amounts deposited into the New Jersey Health Insurance Premium Security Fund; including collections

from the annual assessment on insurance carriers and third-party administrators, any State or federal funds allocated to the reinsurance program, and any penalty payments by insurance carriers. The OLS notes that the bill's indeterminate annual increases in State expenditures and revenue will partially, if not fully, offset one another; and

- An indeterminate impact on annual employee health benefit expenditures by State and local government entities to the extent that the bill's assessment may cause insurance carriers and third-party administrators to alter the amounts they charge to the State and local government entities for their health benefits plans and services.

BILL DESCRIPTION

This bill, entitled the "New Jersey Health Insurance Premium Security Act," directs DOBI to apply to the United States Secretary of Health and Human Services for a waiver of certain provisions of the Affordable Care Act to support a reinsurance program to help stabilize premiums in the New Jersey individual health insurance market for plan years beginning on or after January 1, 2019.

If the waiver is granted and DOBI accepts the waiver, the bill creates a reinsurance plan to be known as the Health Insurance Premium Security Plan. DOBI is to administer the reinsurance plan, a responsibility that includes the setting of specific payment calculation parameters and the exercise of certain auditing and review functions to ensure the plan operates pursuant to the bill's provisions.

In addition, the bill creates the New Jersey Health Insurance Premium Security Fund in the State Treasury as the repository for moneys collected to finance the reinsurance plan. The moneys include proceeds from an annual assessment to be imposed by DOBI on health insurance carriers and third-party administrators. DOBI is to set the rate of the assessment annually in such a manner that the amount to be collected does not exceed the amount required to fund the plan, less any amounts the New Jersey Health Insurance Premium Security Fund received from other sources.

DOBI must also publish an annual report on the department's website on the operation of the plan, including the results of an audit performed by an independent certified public accountant for each benefit year.

The bill also penalizes any carrier that violates any provision of the bill in an amount not less than \$1,000 or more than \$10,000 for each day of violation.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS notes that the bill will result in a one-time indeterminate increase in State administrative expenditures. DOBI will accrue the additional expenses in applying for a waiver

from the United States Secretary of Health and Human Services, whose approval is necessary for the implementation of the reinsurance program envisioned by the bill.

Assuming that the federal government grants the waiver and that DOBI elects to implement the reinsurance program, the bill will have four additional indeterminate annual fiscal impacts.

First, the bill will result in an indeterminate annual increase in State administrative expenditures tied to DOBI's implementation of the program, including the cost of preparing the required annual reports. Absent information from DOBI, however, the OLS cannot anticipate the resources the department will allocate to operating the program.

Second, the bill will result in an indeterminate annual State expenditure increase equal to the amounts disbursed from the bill's dedicated New Jersey Health Insurance Premium Security Fund to make reinsurance payments to eligible insurance carriers. The OLS cannot quantify the amount of annual reinsurance payments because the bill grants DOBI substantial discretion in establishing payment calculation parameters and the OLS cannot anticipate the department's decisions in that regard.

Third, the bill will result in an indeterminate annual State revenue increase equal to the amounts deposited into the New Jersey Health Insurance Premium Security Fund; including collections from the annual assessment on insurance carriers and third-party administrators, any State or federal funds allocated to the reinsurance program, and any penalty payments by insurance carriers. The OLS notes that DOBI is to set the annual assessment imposed on insurance carriers and third-party administrators at a level so that fund balances from all sources will not exceed the cost of the reinsurance program. Accordingly, the bill's indeterminate annual increases in State expenditures and revenue will partially, if not fully, offset one another.

Fourth, the bill may also have an indeterminate impact on annual employee health benefit expenditures of the State and local government entities to the extent that the bill's assessment may cause insurance carriers and third-party administrators to alter the amounts they charge to the State and local government entities for their health benefits plans and services. Given that the rate of the assessment is to be determined by DOBI, the OLS cannot determine the magnitude of any related changes in annual employee health benefit expenditures of the State and local government entities.

The OLS also notes that, assuming the waiver is granted and accepted, there may be a potential indeterminate annual reduction in State charity care disbursements to hospitals but only if the following chain of events occurs: if the bill results in lower insurance rates, then insurance coverage will become more affordable; if insurance coverage becomes more affordable, then more individuals are likely to obtain insurance coverage or better insurance coverage; if more hospital patients can pay their bills because they have insurance coverage, then hospitals have reduced outstanding uncompensated care liabilities; as hospitals have reduced outstanding uncompensated care liabilities, the State can then reduce charity care payments to hospitals.

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).