

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 4722
STATE OF NEW JERSEY
219th LEGISLATURE

DATED: SEPTEMBER 25, 2020

SUMMARY

Synopsis: Increases annual assessment on net written premiums of HMOs to support charity care from three percent to five percent in FY 2021.

Type of Impact: Annual State revenue and expenditure increases.

Agencies Affected: Department of Banking and Insurance, Department of Human Services, Department of Health.

Office of Legislative Services Estimate

Fiscal Impact	Nine-Month FY 2021	Annualized Impact
Annual State Revenue Increase	\$263,000,000	\$350,000,000
Annual State Expenditure Increase	\$160,000,000	\$213,000,000

- The Office of Legislative Services (OLS) projects that raising the health maintenance organization (HMO) premiums assessment from three percent to five percent will increase State revenue collections by \$263 million and State expenditures by \$160 million in the nine-month FY 2021 that begins on October 1, 2020 and ends on June 30, 2021. Annualized, State revenue would grow by \$350 million and State expenditures by \$213 million. These estimates consider all the budgetary impacts of the federal revenue enhancement initiative, not just the additional HMO premiums assessment revenue.
- The OLS bases its projections on, and deems reasonable, an informal Executive estimate that the bill will yield \$162 million in additional HMO premiums assessment revenue in the nine-month FY 2021 (or \$216 million annualized).

BILL DESCRIPTION

This bill raises, beginning on October 1, 2020, the assessment on net written premiums received by each HMO from three percent to five percent. Assessment collections are deposited into the dedicated, off-budget Health Care Subsidy Fund, which receives its revenues from several State taxes with the State General Fund frequently providing additional support. Fund

expenditures support several Statewide health care initiatives with the NJ FamilyCare/Medicaid program currently receiving the largest allocation of fund resources.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Executive has not submitted a formal, written fiscal note on this bill. But the Executive has indicated that the bill will increase HMO premiums assessment collections by \$162 million in the fiscal period beginning on October 1, 2020 and ending on June 30, 2021.

The mechanics of the federal revenue enhancement initiative will play out so that the net effect of the initiative on the nine-month FY 2021 State budget will not be a revenue gain of \$162 million. Instead, the Executive anticipates a net increase in State resources of \$101 million attributable to federal Medicaid matching funds and another \$2 million attributable to HMO premiums assessment collections from non-Medicaid HMO plans.

OFFICE OF LEGISLATIVE SERVICES

The OLS projects that raising the HMO premiums assessment from three percent to five percent will increase State revenue by \$263 million and State expenditures by \$160 million in the nine-month FY 2021 that begins on October 1, 2020 and ends on June 30, 2021. Annualized, State revenue would grow by \$350 million and State expenditures by \$213 million.

The OLS bases its projections on, and deems reasonable, the informal Executive estimate that the bill will generate additional HMO premiums assessment collections of \$162 million in the nine-month FY 2021 (or \$216 million annualized). However, as a federal revenue enhancement initiative, the bill will produce an annual budgetary impact that extends beyond higher annual HMO premiums assessment collections.

Specifically, the State's Medicaid managed care organizations pay almost the entirety of the HMO premiums assessment (about 98 percent in the 12-month FY 2020). When the rate of the assessment goes up, so do the reimbursements the State pays to the Medicaid managed care organizations, resulting in the State ultimately paying the higher assessment to itself with the Medicaid managed care organizations serving as conduits. Accordingly, once the additional assessment revenue collections will have reverberated through the Medicaid finance system, the estimated State expenditure increase of \$160 million in the nine-month FY 2021 (or \$213 million annualized) will have turned into an offsetting \$160 million State revenue increase.

But the higher State Medicaid expenditures will qualify for federal Medicaid matching funds at an Executive-estimated rate of 63 percent. For that reason, the net impact of the federal revenue enhancement initiative for the nine-month FY 2021 will be a State revenue increase of \$103 million (or \$137 million annualized) composed of \$101 million (or \$134 million annualized) in federal Medicaid matching fund revenue and \$2 million (or \$3 million annualized) in HMO premiums assessment revenue from private HMO plans.

At a rate of two percent, HMO premiums assessment collections totaled \$196.0 million in FY 2018 and \$207.3 million in FY 2019. The Executive anticipates the assessment to yield \$312.9 million in the 12-month FY 2020 at a rate of three percent and \$485.8 million in the 12-month FY 2021 with the five percent rate under the bill in effect as of October 1, 2020.

Section: Legislative Budget and Finance Office

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