

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

ASSEMBLY, No. 5119

STATE OF NEW JERSEY
219th LEGISLATURE

DATED: DECEMBER 23, 2020

SUMMARY

Synopsis: Provides for reorganization of health service corporation.

Types of Impact: Recurring State revenue decrease.
One-time State expenditure increase.

Agencies Affected: Department of the Treasury.
Department of Banking and Insurance.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023 to FY 2039</u>
State Revenue Impact	(\$54,900,000) – (\$62,500,000)	\$506,200,000 - \$565,600,000	(\$712,700,000) - (\$927,900,000)
State Expenditure Increase	Indeterminate	\$0	\$0

- The Office of Legislative Services (OLS) projects that the bill will lower annual State revenue collections by varying amounts in each fiscal year with the exception of net revenue gains in FY 2022 and FY 2023.
- The OLS estimates that the bill will decrease State insurance premium tax collections by between \$54.9 million and \$62.5 million in FY 2021, assuming that the reorganization will already affect insurance premium tax payments that are due in March and June of 2021.
- Because of a one-time \$600.0 million assessment on the successful conversion applicant, the OLS estimates that the bill will increase State net tax revenues by a range of \$506.2 million to \$565.6 million in FY 2022.
- The OLS forecasts that for fiscal years 2023 to 2039, the fiscal years in which the State will likely receive additional assessment revenue and incur insurance premium losses attributable to the bill, the potential combined net revenue loss to the State may range between \$712.7 million and \$927.9 million. Starting in FY 2040, the bill’s sole fiscal impact will be an annual loss in insurance premium tax revenue.

- Indeterminate one-time State expenditures will accrue as the Department of Banking and Insurance will examine and rule on any reorganization application. The added responsibility may include the engagement of outside experts and consultants, the cost of whose services would be recouped from the applicant.

BILL DESCRIPTION

This bill permits the reorganization of a health service corporation (Horizon Blue Cross Blue Shield of New Jersey) into a mutual holding company, subject to Department of Banking and Insurance approval. The department may contract with experts and consultants in examining an application with the costs of the outside services charged to the applicant.

If the reorganization is approved and takes effect before June 1, 2022, the company must pay a one-time \$600 million assessment to the State by June 1, 2022. If the reorganization takes effect after that date, the payment will be due by June 1 of the calendar year following the reorganization.

For 17 years beginning with the calendar year following the initial assessment, the mutual holding company must also pay to the State an annual limited duration business tax by June 1 of each year. Total limited duration business tax payments over the 17-year period cannot exceed \$650 million with the payment in each year determined according to the following schedule:

(1) In the first assessment year, 20 percent of the reorganized insurer's earned premiums in the preceding calendar year, with the assessment not to exceed \$100 million.

(2) In each of the next ten assessment years, 5 percent of the reorganized insurer's earned premiums in the preceding calendar year, with each year's assessment not to exceed \$25 million.

(3) In each of the last six assessment years, 10 percent of the reorganized insurer's earned premiums in the preceding calendar year, with each year's assessment not to exceed \$50 million.

If the mutual holding company does not pay the required assessment for a given calendar year, that payment, along with the remaining payment schedule, will be deferred one year. Any payment obligation required under the assessment schedule that remains deferred and outstanding 25 years from the date the reorganization takes effect will be cancelled.

Lastly, the reorganized entity will continue to be subject to the State's insurance premium tax but will newly qualify for a cap on the total tax liability that applies to other insurers under current law. Currently, a health service corporation pays insurance premium tax on 100 percent of premiums earned in New Jersey at the following rates: 2.1 percent for premiums paid on individual, or "non-group" business and 1.05 percent on group accident and health insurance premiums. Under the bill, the calculation of the base tax liability will not change, but if the company's New Jersey premiums exceed 12.5 percent of its total worldwide premiums, it will pay not more than 12.5 percent of worldwide premiums earned.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS projects that the bill will lower annual State revenue collections by varying amounts in each fiscal year with the exception of revenue gains in FY 2022 and FY 2023. In addition, indeterminate one-time State expenditures will accrue as the Department of Banking and Insurance will examine and rule on any reorganization application. The added responsibility may include the engagement of outside experts and consultants, the cost of whose services would ultimately be recouped from the applicant.

For purposes of this revenue impact analysis, the OLS builds two scenarios. For the first scenario, the OLS assumes two-percent growth in annual taxable premiums based on the actual average rate of growth in the years for which the OLS has access to data. The OLS bases the second scenario on current Federal Reserve Board projections for the price index for core personal consumption expenditures (Core PCE) excluding food and energy.

The table below displays the difference in annual State tax collections under current law and the bill using both scenarios. As an overarching caveat to these projections, the OLS notes that there is a larger degree of uncertainty concerning the more distant years.

State Revenue Collections under Current Law and Bill (in \$ Millions)							
Scenario 2: Core PCE Growth as Inflator of Insurance Premiums				Scenario 1: Two-Percent Growth as Inflator of Insurance Premiums Based on Historical Data			
Fiscal Year	Current Law	Bill	Net Impact: Bill - Current Law	Fiscal Year	Current Law	Bill	Net Impact: Bill - Current Law
2021	\$62.7 - \$69.3	\$7.8 - \$8.2	(\$54.9) – (\$60.6)	2021	\$64.6 - \$71.5	\$8.1 - \$8.9	(\$56.6) – (\$62.5)
2022	\$63.8 - \$70.5	\$608.0 - \$608.8	\$506.2 - \$559.5	2022	\$66.6 - \$73.6	\$608.3 - \$609.2	\$511.7 - \$565.6
2023 – 2039	\$1,520.2 - \$1,680.2	\$840.0 - \$860.0	(\$712.7) – (\$787.7)	2023 - 2039	\$1,665.1 - \$1,840.4	\$858.1 - \$880.1	(\$839.5) – (\$927.9)

First, as shown in the table, under both scenarios combined, the OLS estimates that the bill will decrease State insurance premiums tax collections by at least \$54.9 million and at most \$62.5 million in FY 2021, assuming that the reorganization will already affect insurance premium tax payments that are due and payable in March and June of 2021.

Second, the bill imposes a one-time \$600.0 million assessment on Horizon Blue Cross Blue Shield of New Jersey payable to the Department of the Treasury on June 1, 2022, provided that the reorganization takes effect before June 1, 2022. Therefore, the OLS estimates that the bill will likely result in a net increase in State revenues by a range of \$506.2 million and \$565.6 million in FY 2022 after subtracting the projected revenue loss from reduced insurance premium tax liabilities.

Third, the OLS further forecasts that for fiscal years 2023 to 2039, the potential combined net revenue loss to the State may be between \$712.7 million and \$927.9 million. The OLS opts for FY 2039 as the endpoint of its range because FY 2039 will likely be the last year in which the mutual holding company will pay an assessment to the State. Starting in FY 2040, the bill’s sole fiscal impact will be an annual loss in insurance premium tax revenue.

The table below shows a forecast of the impact of the bill on State revenue collections per fiscal year from FY 2021 through FY 2042 using the midpoint estimates of scenario 1 above.

Estimated State Revenue Impact per Fiscal Year, FY 2021 through FY 2042					
Fiscal Year	Current Law: Insurance Premium Tax Revenue	Bill: Insurance Premium Tax Revenue	Bill: Assessment Revenue	Bill: Total Revenue	Net State Revenue Impact: Bill Revenue Minus Current Law Revenue
2021	\$68,049,010	\$8,506,126	\$0	\$8,506,126	-\$59,542,883
2022	\$70,111,058	\$8,763,882	\$600,000,000	\$608,763,882	\$538,652,824
2023	\$72,353,749	\$9,044,219	\$100,000,000	\$109,044,219	\$36,690,470
2024	\$74,791,187	\$9,348,898	\$25,000,000	\$34,348,898	-\$40,442,289
2025	\$77,438,589	\$9,679,824	\$25,000,000	\$34,679,824	-\$42,758,766
2026	\$80,312,371	\$10,039,046	\$25,000,000	\$35,039,046	-\$45,273,324
2027	\$83,430,237	\$10,428,780	\$25,000,000	\$35,428,780	-\$48,001,458
2028	\$86,811,289	\$10,851,411	\$25,000,000	\$35,851,411	-\$50,959,878
2029	\$90,476,130	\$11,309,516	\$25,000,000	\$36,309,516	-\$54,166,613
2030	\$94,446,983	\$11,805,873	\$25,000,000	\$36,805,873	-\$57,641,110
2031	\$98,747,824	\$12,343,478	\$25,000,000	\$37,343,478	-\$61,404,346
2032	\$103,404,513	\$12,925,564	\$25,000,000	\$37,925,564	-\$65,478,949
2033	\$108,444,946	\$13,555,618	\$25,000,000	\$38,555,618	-\$69,889,328
2034	\$113,899,214	\$14,237,402	\$50,000,000	\$64,237,402	-\$49,661,812
2035	\$119,799,776	\$14,974,972	\$50,000,000	\$64,974,972	-\$54,824,804
2036	\$126,181,644	\$15,772,706	\$50,000,000	\$65,772,706	-\$60,408,939
2037	\$133,082,589	\$16,635,324	\$50,000,000	\$66,635,324	-\$66,447,265
2038	\$140,543,349	\$17,567,919	\$50,000,000	\$67,567,919	-\$72,975,431
2039	\$148,607,872	\$18,575,984	\$50,000,000	\$68,575,984	-\$80,031,888
2040	\$160,299,349	\$20,037,419	\$0	\$20,037,419	-\$140,261,931
2041	\$172,910,634	\$21,613,829	\$0	\$21,613,829	-\$151,296,805
2042	\$186,514,091	\$23,314,261	\$0	\$23,314,261	-\$163,199,830
Total	\$2,410,656,406	\$301,332,051	\$1,250,000,000	\$1,551,332,051	-\$859,324,356

Additionally, the OLS notes that the bill provides that if the mutual holding company continues to participate in the New Jersey Individual Health Coverage Program and the New Jersey Small Employer Health Benefits Program, it will continue to be exempt from all State, county, district, municipal, and school taxes other than taxes on real estate and equipment and taxes on premiums. In the event that the company stops participating in either program, there will be an indeterminate increase in annual State and local units’ tax collections. Horizon Blue Cross Blue Shield of New Jersey reported in its 2016 “Understanding Reserves” publication that the company saved \$9.1 million in sales and use taxes and the Newark payroll taxes in 2016 because of the exemption.

Section: Commerce, Labor and Industry

Analyst: Juan C. Rodriguez
Senior Fiscal Analyst

Approved: Thomas Koenig
Assistant Legislative Budget and Finance Officer

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.).