OFFICE OF FISCAL ANALYSIS
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sHB-6710
AN ACT CONCERNING ASSOCIATION HEALTH PLANS AND ESTABLISHING A TASK FORCE TO STUDY STOP-LOSS INSURANCE.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 24 $	FY 25 $
Connecticut Health Insurance Exchange	Resources of the Exchange - Revenue Loss	Potential Significant	Potential Significant
Insurance Dept.	IF - Cost	None	See Below
Department of Revenue Services	GF - Potential Revenue Loss	None	See Below

Note: IF=Insurance Fund; GF=General Fund

Municipal Impact: None

Explanation

The bill authorizes two forms of association health plans that are not permitted under current law: (1) a fully insured multiple employer welfare arrangement (MEWA) that is regulated as part of the large group health insurance market, and (2) a self-funded MEWA that administers a health benefit plan that is not insurance.

The bill results in (1) new costs to the Insurance Department (DOI) associated with regulating the plans beginning in FY 25, (2) a potential revenue loss to the General Fund associated with insurance premiums tax beginning in FY 25, and (3) a potentially significant revenue loss to the Connecticut Health Insurance Exchange ("exchange") beginning in FY 24.

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The bill also creates a task force to study stop loss insurance and report on its findings and recommendations by February 1, 2024, which is not anticipated to result in a fiscal impact.

State Regulation Cost

The total annual costs for state regulation of self-funded MEWAs will depend on the number of such entities that are established; however, the cost per year to DOI is anticipated to be approximately $17,000 each. Due to the effective date of the bill and time necessary for DOI to adopt licensing regulations, these costs are not anticipated to begin until FY 25.[1]

The estimate reflects the staff time, at both analyst and supervisor hourly rates, anticipated to be required to handle the new volume of work, including time spent: (1) performing quarterly analysis and review, (3) reviewing requests for approvals, and (3) meeting with the companies as needed.

To the extent many such self-funded MEWAs are established, DOI would incur costs by hiring additional staff, resulting in salary and fringe benefit costs to the Insurance Fund. If the number of MEWAs is small, the agency is likely to rely on consultants to supplement staff capacity, resulting in contract costs of approximately $17,000 per entity annually.

The bill requires the DOI to adopt implementing regulations, which has no fiscal impact because the agency has the necessary expertise. The bill does not specify licensing and filing fees, therefore any revenue gain associated with those activities would result from the regulations.

State Tax and Exchange Revenue Impacts

The bill may result in a change to the amount of net direct written premiums in the fully insured small group market beginning in FY 24, to the extent small employers currently purchasing that insurance begin

[1] Fully insured MEWAs are not anticipated to increase DOI costs.

participating in the two types of association health plans permitted under the bill.[2]

Significant uptake of self-funded MEWAs by small employers currently in the fully insured market could reduce the total amount of net direct written premium that is taxed by the state beginning in FY 25, as health plans offered by self-funded MEWAs are not an insurance product.[3]

The insurance premiums tax is levied at a rate of 1.5% on all net direct premiums underwritten. The Department of Revenue Services collected $204.7 million from the insurance premiums tax in FY 22; it is uncertain how much of that revenue is from policies that could be affected by the bill.

Significant uptake of either type of MEWA could reduce exchange revenue substantially by reducing the base for its marketplace assessment. The operations of the exchange are almost entirely funded by its marketplace assessments, which are charged at a rate of 1.65% on premiums in the fully insured individual and small group markets.

The exchange marketplace assessment totals approximately $31.4 million for FY 23, with small group premiums accounting for 48% of that revenue (approximately $15.2 million). If there was a 10% reduction in fully insured small group premiums as a result of the bill, exchange revenue would be anticipated to decrease by approximately $1.5 million. For context, fully insured small group plan enrollment was 107,652 in 2021.[4]

Given that fully insured small group market enrollment has been

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[2] Because self-funded MEWAs cannot operate without a license and DOI must adopt licensing regulations, shifts of insurance premiums to self-insured MEWAs are unlikely to occur before the last quarter of FY 24.

[3] Significant uptake of fully insured MEWA benefit plans would shift current spending on insurance premiums in the small group market to the large group market, which is not part of the base for the exchange's assessment.

[4] Connecticut Insurance Department, *2022 Consumer Report Card on Health Insurance Carriers*. Individual plan enrollment was 109,471 in 2021.

decreasing in recent years, further enrollment reductions from the bill could contribute to a smaller, deteriorating risk pool for those small employers remaining in the fully insured small group market.

Insurance Fund Assessments

The bill does not impact the revenue to be collected by the three assessments that support the Insurance Fund (i.e., the general assessment, the Health and Welfare Fee, and the Public Health Fee), except to the extent that more revenue is needed to support DOI costs for regulating self-funded MEWAs. These assessments begin with the total amount of revenue needed and divide responsibility for that total amount amongst insurers, HMOs, and in the case of the Health and Welfare Fee, third-party administrators on behalf of the self-funded plans they administer.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to: (1) inflation, (2) the number of self-funded MEWAs that get licensed by DOI, (3) shifts in insurance coverage from the fully insured small group market to both the self-funded and large group markets, and (4) changes in employee wage and benefit costs, to the extent DOI hires new staff.