

Revised on 5/11/09 based upon amendments adopted through 5/7/09.

FISCAL NOTE
 LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES *				
	FY 2009-10		FY 2010-11	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		\$542,000		\$960,000
MUTUAL FINANCE ASSISTANCE FUND		\$135,500		\$240,000
FEDERAL FUNDS				
CHIP DISTRIBUTIVE FUND	(See Below)	See Below	(See Below)	See Below
TOTAL FUNDS	(See Below)	See Below	(See Below)	See Below

*Does not include any impact on political subdivisions. See narrative for political subdivision estimates.

LB 358 changes the Comprehensive Health Insurance Pool Act (CHIP). The bill makes changes to provider reimbursement rates, eligibility, and premium rates for the pool. The following provisions of the bill have a fiscal impact for the pool, the state General Fund and other political subdivisions:

Provider Reimbursement Rates: The bill provides for the CHIP board to conduct a review of provider reimbursement rates for benefits for covered services at the close of each calendar year. The review is to determine whether rates are in excess of reasonable amounts and if cost savings can be achieved by establishing rates for services as a multiplier of an objective standard. If the board determines that cost savings can be achieved, the board may establish provider reimbursement rates as a multiplier of an objective standard. Providers who serve covered individuals and request payment from the pool are deemed to have agreed to such reimbursement rates. Reimbursement is limited to the lesser of billed charges or the established rates. The Department of Insurance (DOI) indicates these provisions will have an indeterminate positive fiscal impact in terms of reduced payments for claims.

Eligibility: The bill eliminates the possibility of third parties paying to cover an individual in the pool. So, employers and other entities will not be allowed to pay premiums for employees, etc. DOI indicates the change will have an unknown impact on premiums received and individuals covered by the pool. It is projected there will be a small impact in terms of reduced claims for the pool. Likewise, prohibiting those eligible for group coverage from participation in the pool and requiring the exhaustion of COBRA prior to being eligible for coverage by the pool will also decrease expenditures by a small unknown amount.

Premium Rates: The bill changes the premium rates that are charged to CHIP policyholders. Currently, premium rates charged for CHIP coverage are capped at 135% of the rates established for individual standard risks, based upon the average rates charged by the five insurers providing the largest amount of individual health insurance in the state. Beginning, January 1, 2010, the bill provides for CHIP premium rates to be computed based upon the average of the rate charged by the ten largest sellers, rather than the five largest sellers, of individual health coverage in the state. The capped rate is also increased by 5% each year over a three year period, from 135% in 2009, to 150% in 2012.

DOI estimates the premium increases will generate an additional \$1 million per each 5% incremental increase in the rate. The estimated calendar year increase in revenue for the CHIP Distributive Fund is \$1 million in 2010, \$2 million in 2011 and \$3 million in 2012 and thereafter. On a fiscal year basis, this translates to a .5 million increase in 2009-10, \$1.5 million in 2010-11, \$2.5 million in 2011-12 and \$3 million in 2012-13 and thereafter.

Premium rates for children covered by CHIP are also changed in the bill. Currently, the rates to cover children less than 18 years of age are 67.5% of rates established for other individuals. The bill eliminates the differential rate charge so rates are the same for all individuals, regardless of age. DOI projects a revenue increase of \$1 million after three years for the CHIP program from the rate change. The fiscal note phases-in the revenue increase over a four year period from 2009-10 to 2012-13.

Impact for State and Political Subdivisions: Any funds remaining in the CHIP Distributive Fund after the payment of claims and expenses are allocated to the state and political subdivisions on an annual basis. Decreased expenditures by the CHIP Distributive Fund for claims and increased revenue from rate increases will increase the amount of revenue that is annually distributed to these entities. Currently, proceeds are allocated to the General Fund (40%), Mutual Finance Assistance Fund (10%) and the Insurance Tax Fund (50%). The Insurance Tax Fund is allocated to schools (60%), municipalities (30%) and counties (10%).

The specific revenue gains for these entities depends upon savings achieved by the CHIP fund from reduced provider reimbursement rates, redefined eligibility guidelines, and increased premium rates. DOI estimates there will be reduced expenditures, of an unknown amount, for the CHIP fund from decreased claim payments based upon changes in provider rates and eligibility pursuant to the bill. LB 358 will also increase revenue to the CHIP fund by an estimated \$4 million per year when the premium rate increases and lower rates for children are fully phased-in in 2012-13. The increase in revenue for the General Fund will be at least \$1.6 million and for the Mutual Finance Assistance Cash Fund will be at least \$400,000 at that time. The other political subdivisions will also receive their corresponding share of the CHIP Distributive Fund. It should be noted that any increase in revenue for school districts from the Insurance Tax Fund increases resources for state aid purposes and reduces state aid by a like amount two years later. The table shows the estimated increase in revenue pursuant to the bill.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Change Provider Rates - Decrease Claims	Unknown	Unknown	Unknown	Unknown
Change Eligibility - Decrease Claims	Unknown	Unknown	Unknown	Unknown
Eliminate Lower Rate for Children	855,000	900,000	950,000	1,000,000
Annual 5% Increase in Premium Rates	<u>500,000</u>	<u>1,500,000</u>	<u>2,500,000</u>	<u>3,000,000</u>
Total Revenue - CHIP Fund	1,355,000	2,400,000	3,450,000	4,000,000
ALLOCATION OF REVENUE:				
General Fund (40%)	542,000	960,000	1,380,000	1,600,000
Mutual Finance Assistance Fund (10%)	135,500	240,000	345,000	400,000
Insurance Tax Fund:				
-Schools (30%)	406,500	720,000	1,035,000	1,200,000
-Municipalities (15%)	203,250	360,000	517,500	600,000
-Counties (5%)	67,750	120,000	172,500	200,000