

- SUBJECT:** Premium tax credits for the Texas Health Insurance Risk Pool
- COMMITTEE:** Insurance — favorable, without amendment
- VOTE:** 7 ayes — Smithee, Taylor, Eiland, Hancock, Martinez, Vo, Woolley
0 nays
2 absent — T. Smith, Thompson
- WITNESSES:** For — Pati McCandless, UniCare; Mike Pollard, Texas Association of Life & Health Insurers; Jared Wolfe, Texas Association of Health Plans; (*Registered, but did not testify*: Tom Aldred, Texas Conservative Coalition; Shelton Green, Texas Association of Business; Lee Manross, Texas Association of Health Underwriters; Marisa Martin, Scott & White Center for Healthcare Policy; Shannon Meroney, Aetna; John Oates, CIGNA; Charles Stuart, Blue Cross & Blue Shield of Texas

Against — None

On — Gary Johnson, Texas Comptroller's Office; (*Registered, but did not testify*: Kevin Brady, Texas Department of Insurance; Steve Browning, Betty DeLargy, Texas Health Insurance Risk Pool)
- BACKGROUND:** In 1997, the 75th Legislature created the Texas Health Insurance Risk Pool to serve as a "health insurer of last resort" for eligible Texas residents who, due to medical conditions, are unable to obtain coverage through the private health insurance market.

Funding for the pool comes from premium and investment income. Losses are covered through assessments on insurers and HMOs. In 2005, the Pool assessed 380 health insurers and HMOs for a total collection of \$98,371,720. The total Texas health insurance premium base subject to assessment was \$8.7 billion.
- DIGEST:** HB 1978 would allow health insurers a premium tax credit against the issuer's premium tax for the total amount of assessments for the Texas Health Insurance Risk Pool. The tax credit would apply in the calendar year following the year in which the assessment was paid. An unused

credit could be carried over for the following five consecutive years. In the case of a merger, acquisition, or total assumption of reinsurance, credits could be transferred or assigned among health plan issuers. The insurance commissioner could also approve the transfer of credits.

The bill would amend provisions for determining assessments paid by insurers and the method for determining gross health benefit plan premiums.

Insurers would be able to claim tax credits based on the first premium tax payment due on or after January 1, 2008. Changes to the method of assessment would apply to assessments in a calendar year on or after the effective date.

The bill would take effect June 30, 2007, if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 30, 2007.

**SUPPORTERS
SAY:**

HB 1978 would relieve health insurers of full responsibility for funding losses for the state-run health insurance risk pool by allowing companies to claim tax credits for assessments paid to the pool. Although Texas must provide guaranteed access to the pool for individuals who qualify under federal law, and Texas requires access for medically uninsurable individuals, the pool is not funded by any state revenue.

Since the pool was established in 1998, insurers have covered all of the costs of pool losses by paying about \$500 million in assessments. Insurers should be entitled to tax credits to reflect the state's responsibility for the operation of this insurer of last resort.

**OPPONENTS
SAY:**

HB 1978 would create an annual loss to general revenue of nearly \$100 million per year in tax credits to health insurers and HMOs that currently are covering losses to the pool through assessments. The state cannot afford to assume total responsibility for this risk pool while insurers pay little or nothing.

Health insurers should continue to have responsibility for all or a portion of pool losses as part of the cost of doing business in the state. Insurers realize a financial benefit from the pool because it saves them from having to accept some high-risk individuals who would qualify for private coverage under HIPAA, the federal law that allows employees to retain

health insurance when they change jobs. Even though assessments cover a significant portion of pool losses, the majority of costs are covered by policyholders, whose premiums are significantly higher than overall health insurance premiums.

NOTES:

According to the fiscal note, HB 1978 would result in a total loss of \$96,188,000 per fiscal year, including \$72,141,000 in general revenue and \$24,047,000 to the Foundation School Fund. The insurance premium tax is an occupation tax, with 25 percent of the revenue constitutionally dedicated to the Foundation School Fund.

The author plans to introduce an amendment that would make the premium tax credit applicable only to non-HIPAA eligible enrollees.