



Senate Bill 502: Health Insurance Premium Tax

Prepared for
New Mexico Department of Finance & Administration

By
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HEALTH INSURANCE COVERAGE REQUIREMENTS

DESCRIPTION: Health Insurance Premium Surtax: Mandate Insurers cover circumcision of newborn males, and screening for alpha-fetoprotein IV in pregnant women.

Relates to House Bill 394

This report presents updated results of a dynamic analysis of SB 502, which creates a “health insurance premium surtax” and mandates that insurers cover circumcision of all newborn males and alpha-fetoprotein IV (AFP) screening for pregnant women.

Changes from original version of Senate Bill 502:

- Health Insurance Carriers are required to cover alpha-fetoprotein IV (AFP) screening for pregnant women. Originally required screening coverage for AFP III.
- Disability Income contacts are excluded from the premium tax surcharge
- Language is added allowing tax overpayments from the insurance premium tax changes passed in the last session and paid between January 1, 2004 and March 20, 2003 to be credited against future payments.

The original bill specified that an increase in health insurance premium tax paid by insurers from 3% to 3.003%. The surtax will generate \$19.5 Million to the General Fund, excluding the disability income, in FY05. Subsequent years an additional \$23.8 Million of Revenue would be collected, at an increasing rate of 5% per year. Current overpayments would be credited against future payments expected to shift the \$7.1 Million in non-recurring impact from FY04 to FY05. Federally matched funds

This analysis incorporates two types of economic impacts: *Static impacts*—which reflect only the direct changes to the economy brought about by the proposal; and *dynamic impacts*—economic changes resulting from behavioral responses by businesses and households to the static changes. Full economic impacts of a proposal will include both static and dynamic impacts. The impacts presented in this report are based on comparing the state of the New Mexico economy with SB 502 to the economy without SB 502 (referred to below as the baseline).

Based on a Fiscal Impact Report produced by the Legislative Finance Committee in February 2004, the static impacts of the bill on revenues and expenditures are displayed in Tables 1 and 2. To illustrate how the static impacts balance, the expenditure table includes both increased state spending on Medicaid and the federal matching funds brought in by state seed money.

FISCAL IMPACT:

Table 1. Static Revenue Impacts



	Static Revenue Impact					
	2005	2006	2007	2008	2009	2010
Insurer Surtax Revenue	9,750	11,900	12,495	13,120	13,776	14,465
Overpayment Credit	(7,100)	0	0	0	0	0
Federal Matched Funds	9,750	11,900	12,495	13,120	13,776	14,465
Total	19,500	23,800	24,990	26,240	27,551	28,929

(Parenthesis () Indicate Revenue Decreases)

Table 2. Static Expenditure Impacts

	Static Expenditure Impact					
	2005	2006	2007	2008	2009	2010
Net New State Government Spending	2,650	11,900	12,495	13,120	13,776	14,465
Federal Matched Funds	9,750	11,900	12,495	13,120	13,776	14,465
Total	12,400	23,800	24,990	26,240	27,551	28,929

ECONOMIC IMPACT:

The overall economic impacts of SB 502 are slightly positive at the outset, but over time turn negative as the health insurance surtax hurts New Mexico's business and self-employed communities. The additional government spending on Medicaid stimulates the health care sector, which is responsible for the majority of the increase in jobs and output shown in Table 3. During the first year in which the surcharge is collected and Medicaid spending is elevated, statewide Output exceeds \$22 million (or 0.017%) above the baseline level. While half of this is produced by the medical industry, the remainder is created by industries that support health care, such as retail and business services. The infusion of money into the health care industry triggers higher rates of private sector investment, which approaches \$4 million above the baseline forecast levels in FY2005. However, after this initial stimulus, the higher cost of insurance begins exerting a drag upon the private sector as a whole, driving Output \$16 million below the baseline by FY 2008.

Higher output leads to higher personal income than under the baseline, although the trend weakens over time as higher insurance costs hamper economic growth. By FY 2008, personal income remains \$1 million above the baseline, but the population growth stimulated by the enhanced Medicaid system washes out these gains, yielding a slight decrease in disposable income per capita. Nearly all of the sustained long-term income gains displayed in Table 3 accrue to employees of the health care sector.

Impacts on employment follow a similar time trend to output, with short-term gains that are virtually eroded by FY 2008 as higher insurance costs slow payroll growth. New Mexico initially gains 220 jobs in FY 2005, with 146 occurring in the medical sector and the remainder largely bolstering the retail, construction and business services industries. But by FY 2008, continued gains in the medical sector are offset by job losses elsewhere, particularly in the insurance sector as well as certain industries for which insurance is a



sizeable portion of their costs. In that year, employment dips 23 jobs beneath the baseline level.

.1.1.1 Table 3. Dynamic Economic Effects

Dynamic Economic Effects Relative to Baseline					Measure
FY04	FY05	FY06	FY07	FY08	
0.000	7.000	4.000	3.000	0.000	Disposable Personal Income (Millions of Dollars)
0.000	7.000	4.000	3.000	1.000	Personal Income (Millions of Dollars)
0.000	22.106	5.070	(6.109)	(16.324)	Output (Millions of Dollars)
0.000	12.160	4.944	0.000	(3.837)	Gross State Product (Millions of Dollars)
0.000	0.047	0.060	0.061	0.054	Population (Thousands of Persons)
0.000	0.216	0.095	0.028	(0.027)	Employment: Private Nonfarm (Thousands)
0.000	0.003	0.005	0.004	0.004	Employment: Government
0.000	0.220	0.100	0.032	(0.023)	Total Employment
0.000	1.235	0.085	(0.296)	(0.628)	Residential Investment (Millions of Dollars)
0.000	0.574	(0.073)	(0.450)	(0.785)	Nonresidential Investment (Millions of Dollars)
0.000	3.215	(0.309)	(2.716)	(4.979)	Producer Durable Equipment (Millions of Dollars)

(Parenthesis () indicate decreases relative to the baseline)



Employment:

New Mexico’s suffers small job losses for the first three years of this program: (74 jobs in 2006, 15 in 2008). By 2009, the program generates 15 new jobs, and by 2020 New Mexico creates 104 new jobs. The General Fund Revenue reduction fuels the employment shift from the public sector to the private sector. The net effect then produces a net loss of jobs from 2006 to 2008, despite the gain in the private industry sectors. Figure 1-1 shows the employment changes due to the program

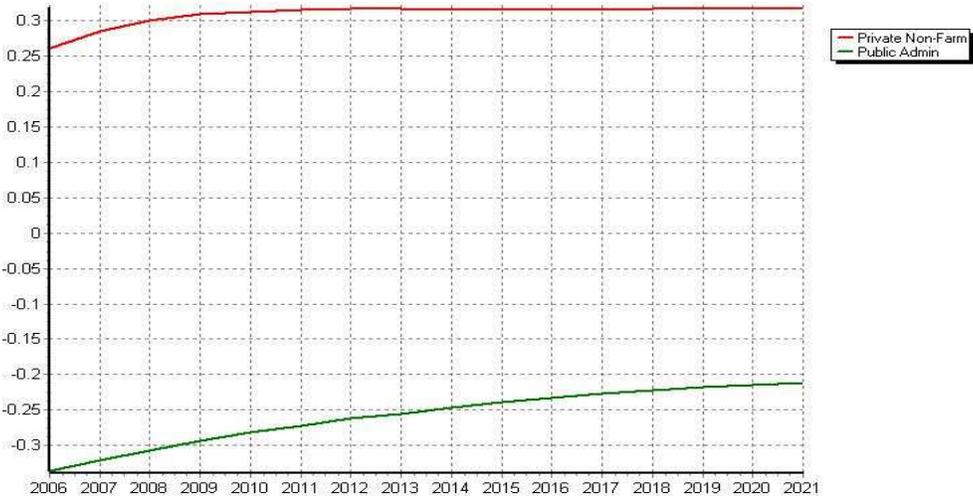


Figure 1-1: New Mexico total Employment Changes by Sector, in thousands

Real Disposable Personal Income:

Personal Income increases due to the new Federal Income Tax Deductions. The new Deductions create \$25.36 Million in additional real disposable income in 2006. The additional disposable income will then transfer into increased consumer spending within the New Mexico economy, resulting in higher Gross State Product. Figure 1-2 shows the increase in real disposable income total and per capita. The Real Disposable Income Per Capita appears to be decreasing in the long term, however, as figure 1-2 shows population increases over time are driving down the per capita amount even though the total real disposable personal income is still increasing.

	2006	2010	2015	2020
Real Disp Pers Inc per Cap (Fixed 96\$)	11.34	7.357	3.941	2.34
Real Disp Pers Inc (Mil Fixed 96\$)	25.36	30.46	34.17	36.85
Population	182.5	600.3	1073	1238

Figure 1-2



Gross State Product:

The change in Gross State Product (GSP) measures the economic impact in New Mexico. GSP is a value-added concept based on Gross Domestic Product (GDP), and is equal to output not including intermediate inputs, therefore representing profits. The positive growth in GSP shows New Mexico’s Industries growing from additional consumer spending purchasing goods and services from the local economy. The graph below shows the increased GSP due to consumption, rise in fixed investment, and reduced government demand.

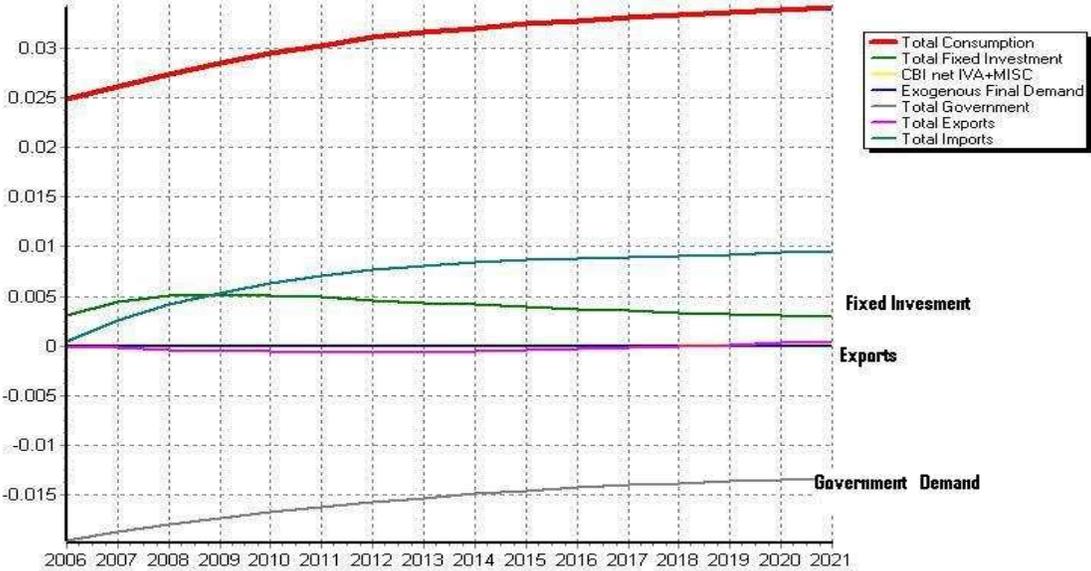


Figure 1-3 GSP by Demand Source, in Billions \$

	2006	2010	2015	2020
GSP (Chained Mil\$)	8.995	12.87	14.4	15.52

Figure 1-4 total GSP

Fiscal Impacts:

	2006	2010	2015	2020
Revenues	2.176	3.923	5.098	5.724
Expenditures	0.6786	4.435	7.421	8.839
Dynamic Expenditures	-22.8214	-19.065	-16.079	-14.661

Figure 1-5 State Revenues & Expenditures, in Millions \$

All fiscal impacts are on the State General Fund. Initially government expenditures increase due to the additional influx of population. The additional expenditures are then off set by the reduction of the state general fund. The increased consumption within the New Mexico economy, generates additional Revenues for the state, as expenditures decrease. At the beginning of 2006



New Mexico's revenues increase by \$2.176 Million and \$5.724 Million by 2020. Lower taxes for low- and middle income households therefore increases the attractiveness of the area resulting in higher population, increased consumption, resulting in higher revenues.



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