



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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**Bill Number:** S. 0009 Introduced on January 10, 2017  
**Author:** Hutto  
**Subject:** Medical Expense Policy  
**Requestor:** Senate Banking and Insurance  
**RFA Analyst(s):** Gable  
**Impact Date:** February 6, 2017 - Updated for additional agency response

**Estimate of Fiscal Impact**

	<b>FY 2017-18</b>	<b>FY 2018-19</b>
<b>State Expenditure</b>		
General Fund	Undetermined	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
<b>State Revenue</b>		
General Fund	\$25,000	\$0
Other and Federal	\$0	\$0
<b>Local Expenditure</b>	\$0	\$0
<b>Local Revenue</b>	\$0	\$0

**Fiscal Impact Summary**

This bill would have an undetermined expenditure impact on the General Fund for the Department of Insurance reviewing insurance policies affected by the bill. The bill would also increase the General Fund premium insurance tax revenue by \$25,000 due to the increased premiums associated with the increased cost of coverage. There would be no impact on Other Funds or Federal Funds. This fiscal impact has been updated to reflect an updated response from the Department of Insurance.

**Explanation of Fiscal Impact**

**Updated on February 6, 2017**

**State Expenditure**

This bill requires insurers to cover matters pertaining to intoxicants and narcotics under medical expense policies by disallowing the provision in §38-71-370(9).

The mandated benefit for coverage on matters pertaining to intoxicants and narcotics was in place prior to December 31, 2011. Therefore, it is considered an essential health benefit and is not subject to defrayment by the State (45 CFR 155.170). This bill does not create a new mandated benefit. Instead, it disallows an exception for a previously established mandated benefit.

Based on the response from the Department of Insurance (DOI), the bill would require every policy form that falls within the category of medical expense policy and currently includes the provision allowed by §38-71-370(9) to be re-filed by insurers. These policies would have to be

reviewed and approved by the department. Additionally, insurers would need to refile their rates to reflect the anticipated increase in premiums associated with the increase in claims coverage. DOI would also have to review and approve the new rates.

Based on data from the 2015 Supplement Health Care Exhibit Report, at least 240,000 covered lives in policies would meet the bill's definition of medical expense policy. However, not all of the policies within the 240,000 mentioned, would currently include the provision from §38-71-370(9). Also, there are other policies that were not included in the 2015 Annual Statement of Insurers that would fall under the bill's definition of medical expense.

DOI anticipates the non-recurring expenditure impact of this bill would be significant. DOI would have to review and approve an undetermined number of policies and rates and need to hire contractors to assist in the review in order to meet the effective date of the legislation. Given the uncertainty in the number of policies to review, the exact amount of the expenditure increase is undetermined.

### **State Revenue**

This bill requires insurers to cover matters pertaining to intoxicants and narcotics under medical expense policies by disallowing the provision in §38-71-370(9), which would cause an increase in premiums and thereby an increase to the General Fund premium tax revenue in FY 2017-18. This fiscal impact statement has been updated to reflect an updated response from DOI on the General Fund revenue impact.

Based on the response from DOI, approximately 240,000 covered lives may be impacted by this bill. The department based this estimate on information in the 2015 Supplement Health Care Exhibit Report. However, not all of these policies currently include the §38-71-370(9) exclusion and there may be other policies that do.

The resulting total member months would be 2,910,000. A member month is the number of months for which one individual is covered under a policy. Different policies have different member months. A policy may cover one individual for only six months and have 6 member months, while another policy may cover a family of four for a year and have 48 member months. DOI estimates the growth rate for member months from 2015 to 2016 to be approximately 25 percent, resulting in 3,596,000 member months. The estimated median cost for each member per month for the additional coverage is \$0.47, resulting in \$1,689,000 in insurance premiums plus an additional \$311,000 in miscellaneous expenses leads to an overall increase of \$2,000,000 in premiums. However, given the nature of the claims associated with this coverage, these claims are characterized by high cost claims on an infrequent basis. Therefore, the actual implementation of this coverage may have vastly different results. The premium tax is 1.25 percent. An increase of \$2,000,000 in premiums would result in a \$25,000 in the General Fund premium tax revenue.

### **Local Expenditure**

N/A

### **Local Revenue**

N/A

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**State Expenditure**

This bill requires insurers to cover matters pertaining to intoxicants and narcotics under medical expense policies by disallowing the provision in §38-71-370(9).

The mandated benefit for coverage on matters pertaining to intoxicants and narcotics was in place prior to December 31, 2011. Therefore, it is considered an essential health benefit and is not subject to defrayment by the State. (45 CFR 155.170). This bill does not create a new mandated benefit. Instead, it disallows an exception for a previously established mandated benefit.

Based on the initial response from the Department of Insurance (DOI), the bill would require every policy form that falls within the category of medical expense policy and currently includes the provision allowed by §38-71-370(9) to be re-filed by insurers. These policies would have to be reviewed and approved by the department. Additionally, insurers would need to refile their rates to reflect the anticipated increase in premiums associated with the increase in claims coverage. DOI would also have to review and approve the new rates.

Based on data from the 2015 Annual Statements of Insurers, at least 732,000 covered lives in policies would meet the bill's definition of medical expense policy. However, not all of the policies within the 732,000 mentioned, would currently include the provision from §38-71-370(9). Also, there are other policies that were not included in the 2015 Annual Statement of Insurers that would fall under the bill's definition of medical expense.

DOI anticipates the non-recurring expenditure impact of this bill would be significant. DOI would have to review and approve an undetermined number of policies and rates and need to hire contractors to assist in the review in order to meet the effective date of the legislation. Given the uncertainty in the number of policies to review, the exact amount of the expenditure increase is undetermined.

**State Revenue**

The anticipated increase in premiums would increase General Fund premium tax collections in FY 2017-18. DOI is working to determine the amount of the increase to an individual's premium and the number of policies affected. The exact amount of the increase is pending, contingent upon additional information from DOI.

**Local Expenditure**

N/A

**Local Revenue**

N/A



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