



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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<b>Bill Number:</b>	S. 0368	Introduced on January 15, 2019
<b>Author:</b>	Climer	
<b>Subject:</b>	Insurance Companies and Health Maintenance Organizations	
<b>Requestor:</b>	Senate Banking and Insurance	
<b>RFA Analyst(s):</b>	Miller and Shuford	
<b>Impact Date:</b>	February 14, 2019 Updated for Additional Agency Response	

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### **Fiscal Impact Summary**

The revenue and expenditure impact of this bill is pending, contingent upon a response from the Department of Insurance (DOI).

The Public Employee Benefits Authority (PEBA) indicates that the State Health Plan would provide insurance coverage for the required tests for cardiovascular disease for approximately 39,000 members. Since the effective date of this bill is January 1, 2020, expenditures for FY 2020-21 will be for one-half of the fiscal year and total of \$844,500. Of this total, \$198,500 would be for coverage of the tests and \$646,000 would be for coverage of the subsequent medical treatment based on the test results. As 51.4 percent of the contributions to the State Health Plan are State appropriated funds, General Fund expenditures will increase by \$434,100. Other Funds and Federal Funds expenditures by state agencies will increase by \$206,100, or 24.4 percent of the total. Contributions to PEBA from local governments for their employees covered by the State Health Plan will increase by the remaining \$204,300, or 24.2 percent of the total.

For FY 2021-22 and beyond, the annual expenditure increase will total \$1,689,000 per fiscal year. Of this total, \$397,000 would be for coverage of the tests and \$1,292,000 would be for coverage of the subsequent medical treatment based on the test results. As 51.4 percent of the contributions to the State Health Plan are State appropriated funds, General Fund expenditures will increase by \$868,100. Other Funds and Federal Funds expenditures by state agencies will increase by \$412,100, or 24.4 percent of the total. Contributions to PEBA from local governments for their employees covered by the State Health Plan will increase by the remaining \$408,800, or 24.2 percent of the total additional insurance coverage contributions.

This fiscal impact statement has been updated to include a response from PEBA.

### **Explanation of Fiscal Impact**

**Updated for Additional Agency Response on February 14, 2019**

**Introduced on January 15, 2019**

#### **State Expenditure**

This bill requires every health maintenance organization or insurance contract issued in the state to cover tests for early detection of cardiovascular disease for insured males 45 to 76 years old and insured females 55 to 76 years old. The insured must be diabetic and have a risk of developing coronary heart disease, based on a Framingham Heart Study coronary prediction algorithm score of intermediate or higher. The bill specifies minimum coverage must provide

for certain non-invasive screening up to \$200, every five years. This bill takes effect on January 1, 2020.

The Affordable Care Act of 2010 (ACA) requires the State to defray the cost of private insurers for mandated additional benefits unless the benefit is an essential benefit under the ACA, among other exceptions. There is no history of a state triggering the reimbursements or precedent for state payments for expanded coverage requirements, and the responsibilities of a state with regard to this component of the ACA have not been established. If State liability is established, then the state would have to pay the increased costs of coverage. If litigation is required to resolve this issue, then additional expenses may be incurred.

**Department of Insurance (DOI).** DOI is working to provide an actuarial analysis, as required by §2-7-73 for bills mandating health insurance coverage. Therefore, the expenditure impact of this bill is pending, contingent upon a response from DOI.

**Public Employee Benefits Authority.** PEBA indicates that the State Health Plan would provide insurance coverage for the required tests for cardiovascular disease for approximately 39,000 members. Anticipating that 20 percent will seek coverage on an annual basis, PEBA estimates that the additional expense to the State Health Plan will total \$1,689,000 each year beginning in January 1, 2020. Of this total, \$397,000 would be for coverage of the tests and \$1,292,000 would be for coverage of the subsequent medical treatment based on the test results. As 51.4 percent of the contributions to the State Health Plan are State appropriated funds, General Fund expenditures will increase by \$868,100. Other Funds and Federal Funds expenditures by state agencies will increase by \$412,100, or 24.4 percent of the total. Contributions to PEBA from local governments for their employees covered by the State Health Plan will increase by the remaining \$408,800, or 24.2 percent of the total additional insurance coverage contributions.

Since the effective date of this bill is January 1, 2020, expenditures would amount to one-half of the estimates above for FY 2020-21, or a total of \$844,500. Of this total, \$198,500 would be for coverage of the tests and \$646,000 would be for coverage of the subsequent medical treatment based on the test results. As 51.4 percent of the contributions to the State Health Plan are State appropriated funds, General Fund expenditures will increase by \$434,100. Other Funds and Federal Funds expenditures by state agencies will increase by \$206,100, or 24.4 percent of the total. Contributions to PEBA from local governments for their employees covered by the State Health Plan will increase by the remaining \$204,300, or 24.2 percent of the total. For FY 2021-22 and beyond, the annual expenditure increase will total \$1,689,000 per fiscal year as detailed above.

This portion of the fiscal impact statement has been updated to include a response from PEBA.

### **State Revenue**

Again, the impact upon State revenue will depend upon the legal conclusion of whether the newly mandated benefit is considered an essential benefit under the ACA. If the mandated coverage is not defrayed by the state, any increase in premiums for private insurers as a result of this bill would increase insurance premiums. An increase in premiums would increase premium

tax. The premium tax is one and one quarter percent. Premium taxes are paid quarterly and is allocated as follows: one percent to the South Carolina Forestry Commission, one percent to the aid to fire district account within the State Treasury, one quarter of one percent to the aid to emergency medical services regional councils within the Department of Health and Environmental Control (DHEC), and the remaining ninety-seven and three-fourths percent to the General Fund. Premium taxes are paid quarterly. The first three payments, paid in June, September, and December of the current year, are estimated using the prior year's actual tax liability. The final payment is made in March of the following year and is the difference between the actual premium tax liability owed in that year and the prior payments made. Insurance companies may choose to pay more than their estimated quarterly payments to offset any anticipated increase in premium tax liability in the current year. RFA assumes no insurance company will choose to pay more than their estimated quarterly payments due to increased premiums from this bill. DOI is working to provide an actuarial analysis, as required by §2-7-73 for bills mandating health insurance coverage which should include an estimate for the increase in premiums. Therefore, the revenue impact of this bill is pending, contingent upon a response from DOI.

If the coverage is determined to be a mandated new benefit, and the State is liable for the cost, then the premiums would not increase, and there would be no increase in General Fund revenue or Other Funds revenue.

#### **Local Expenditure**

This bill requires every health maintenance organization or insurance contract issued in the state to cover tests for early detection of cardiovascular disease for certain insured individuals. This bill takes effect on January 1, 2020.

As described above, PEBA indicates that the State Health Plan would provide insurance coverage for the required tests for cardiovascular disease for approximately 39,000 members. A portion of these expenditures will be funded through local government contributions for their employees covered by the State Health Plan. For FY 2020-21, we anticipate that expenditures by PEBA for the additional insurance coverage that is funded through local government contributions will increase by \$204,300, or 24.2 percent of the total increase as detailed above. For FY 2021-22 and beyond, the annual local government expenditure increase for the additional insurance coverage will total \$408,800 per fiscal year, or 24.2 percent of the total additional insurance coverage contributions.

#### **Local Revenue**

N/A

#### **Introduced on January 15, 2019**

##### **State Expenditure**

This bill requires every health maintenance organization or insurance contract issued in the state to cover tests for early detection of cardiovascular disease for insured males 45 to 76 years old and insured females 55 to 76 years old. The insured must be diabetic and have a risk of developing coronary heart disease, based on a Framingham Heart Study coronary prediction algorithm score of intermediate or higher. The bill specifies minimum coverage must provide

for certain non-invasive screening up to \$200, every five years. This bill takes effect on January 1, 2020.

The Affordable Care Act of 2010 (ACA) requires the State to defray the cost of private insurers for mandated additional benefits unless the benefit is an essential benefit under the ACA, among other exceptions. There is no history of a state triggering the reimbursements or precedent for state payments for expanded coverage requirements, and the responsibilities of a state with regard to this component of the ACA have not been established. If State liability is established, then the state would have to pay the increased costs of coverage. If litigation is required to resolve this issue, then additional expenses may be incurred.

**Department of Insurance (DOI).** DOI is working to provide an actuarial analysis, as required by §2-7-73 for bills mandating health insurance coverage. Therefore, the expenditure impact of this bill is pending, contingent upon a response from DOI.

**Public Employee Benefits Authority (PEBA).** PEBA is working to provide an estimated fiscal impact for this bill. Therefore, the expenditure impact of this bill is pending, contingent upon a response from PEBA.

### **State Revenue**

Again, the impact upon State revenue will depend upon the legal conclusion of whether the newly mandated benefit is considered an essential benefit under the ACA. If the mandated coverage is not defrayed by the state, any increase in premiums for private insurers as a result of this bill would increase insurance premiums. An increase in premiums would increase premium tax. The premium tax is one and one quarter percent. Premium taxes are paid quarterly and is allocated as follows: one percent to the South Carolina Forestry Commission, one percent to the aid to fire district account within the State Treasury, one quarter of one percent to the aid to emergency medical services regional councils within the Department of Health and Environmental Control (DHEC), and the remaining ninety-seven and three-fourths percent to the General Fund. Premium taxes are paid quarterly. The first three payments, paid in June, September, and December of the current year, are estimated using the prior year's actual tax liability. The final payment is made in March of the following year and is the difference between the actual premium tax liability owed in that year and the prior payments made. Insurance companies may choose to pay more than their estimated quarterly payments to offset any anticipated increase in premium tax liability in the current year. RFA assumes no insurance company will choose to pay more than their estimated quarterly payments due to increased premiums from this bill. DOI is working to provide an actuarial analysis, as required by §2-7-73 for bills mandating health insurance coverage which should include an estimate for the increase in premiums. Therefore, the revenue impact of this bill is pending, contingent upon a response from DOI.

If the coverage is determined to be a mandated new benefit, and the State is liable for the cost, then the premiums would not increase, and there would be no increase in General Fund revenue or Other Funds revenue.

**Local Expenditure**

N/A

**Local Revenue**

N/A

A handwritten signature in blue ink, reading "Frank A. Rainwater". The signature is stylized with a large, sweeping flourish at the end.

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Frank A. Rainwater, Executive Director