

# HOUSE RESEARCH

## Bill Summary

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**Authors:** Bradley and others

**Subject:** MCHA Assessment, Premium Tax, HSAs, and Cigarette Taxes

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### Overview

This bill makes the following changes. It:

- Eliminates the Minnesota Comprehensive Health Association (MCHA) assessment on health insurance
- Makes structural changes in MCHA to reflect the elimination of assessments
  - Eliminates the premium tax on health insurance, health maintenance organizations, and nonprofit health services corporations.
  - Conforms the Minnesota income tax to the federal tax treatment of Health Savings Accounts (HSAs).
  - Increases the cigarette excise tax by 99 cents/pack from \$.48/pack to \$1.47/pack to offset the cost to the state of paying MCHA deficits and the revenue losses from conforming to HSAs and eliminating the premium tax on health insurance.

### Section

- 1 Effects on premium rates of certain law changes.** Requires that health plan companies pass along to their customers in the form of lower premiums, the elimination of taxes and assessments on health coverage accomplished in this bill.

## Section

- 2 Health plan company.** Technical conforming change to amend a definition to eliminate a reference to insurers as being "contributing members" of the Minnesota Comprehensive Health Association (MCHA). Eliminates unnecessary language.
- 3 Approval of state plan premiums.** Eliminates a reference to solvency of contributing members as a factor for the commissioner of commerce to consider in approving MCHA premiums. Under this bill, insurers will not be assessed to cover MCHA's deficits, so their financial solvency will no longer be relevant.
- 4 Creation; tax exemption.** Eliminates the list of types of insurers who are currently members of MCHA and provides that MCHA will no longer have members.
- 5 Board of directors; organization.** Eliminates designated insurance-related board positions on the MCHA board and provides that all board members will be selected by the commissioner of commerce. Retains the current requirements that at least two board members be MCHA enrollees and that at least two live outside the seven-county metropolitan area. Eliminates references to features of MCHA that are no longer relevant under this bill.
- 6 Organizational documents.** Eliminates the requirement that insurers be members of MCHA as a condition of doing business in this state. Makes technical editing changes.
- 7 Antitrust exemption.** Amends the language to conform to the changes made in this bill.
- 8 General powers.** Eliminates long-obsolete language relating to MCHA providing reinsurance to member-insurers that issue policies to cover MCHA enrollees as an alternative to MCHA issuing its own policies to those enrollees.
- 9 Special assessment upon termination of individual health coverage.** Retains the existing procedure permitting MCHA to make special assessments on insurers that unjustifiably terminate individual health coverage, thus causing additional enrollment in, and cost to, MCHA. Makes conforming changes in terminology to eliminate references to these insurers as "contributing members" of MCHA and a reference to the regular annual assessment on members.
- 10 Termination of individual plan without replacement coverage.** Similar to the preceding section, but involves a related special assessment to cover costs to MCHA of providing coverage for preexisting conditions during the first six months of enrollment in MCHA by persons dropped from individual coverage by insurers. Eliminates references to these insurers as "contributing members" and to the regular annual assessment.
- 11 Selection of writing carrier.** Eliminates language referring to MCHA members and unnecessary language.
- 12 Extension of writing carrier contract.** Replaces a reference to best interest of the members with one to best interest of the state.
- 13 Appropriation.** Provides an open, general fund appropriation to the commissioner of commerce in whatever amount is necessary to offset the MCHA deficit for a fiscal year. This appropriation will have an effect only if the legislature does not make a sufficient fixed dollar appropriation to cover the deficit. See section 22, which provides specific appropriations for FY 2006-07 for this purpose.
- 14 Application; contents.** Technical conforming change to eliminate a reference to MCHA members.
- 15 Termination of individual policy or contract.** Conforming change to eliminate reference to a "contributing member" of MCHA.
- 16 Net income; HSA effective date.** Provides that the effective date of Minnesota's conformity with the federal income tax treatment of HSAs, accomplished under section 0, would be

## Section

retroactive to January 1, 2004.

- 17 Internal revenue code.** Conforms Minnesota's income tax treatment of HSAs to the federal income tax laws. HSAs, when paired with a high deductible health plans (HDHP), form a type of consumer driven health plan. A person insured by an HDHP, as individual coverage or employer group coverage, may use an HSA to pay part of the deductible and other cost-sharing under the HDHP and medical expenses not covered by the HDHP, including dental care, vision care, long-term care, and cosmetic surgery. The insured person, the employer, or both, may deposit funds into the insured person's HSA up to an annual limit. The funds in the HSA belong to the insured person, and money not spent is carried over to future years, including into retirement. Funds in the HSA may be invested to earn interest, dividends, and capital gains.

Under federal tax law, contributions to the HSA are tax-free (not just tax-deferred), earnings of the HSA are tax-free, and withdrawals to pay medical expenses are tax-free. This section would give health savings accounts the same tax advantages under state tax law that they have under federal tax law.

- 18 Rates; cigarettes.** Increases the excise tax rates on cigarettes by 99 cents per pack. This will raise the tax from 48 cents per pack of 20 to \$1.47. This increase is effective on December 1, 2005.
- 19 Dedication of cigarette tax.** Adjusts the dedication of the cigarette tax revenues to the Academic Health Center at the University of Minnesota and to the medical education and research account in the special revenue fund to hold the revenues of those funds constant in light of the tax increase in section 0. These funds both receive a share of the cigarette tax revenues, based on the number of cigarettes sold. Since increasing the excise tax will reduce purchases of cigarettes, this section raises the rates of the dedications by the amounts estimated to hold the two funds revenues constant.
- 20 Premiums paid to health carriers.** Exempts the premiums paid to health insurers for a "health plan" from the 2 percent premiums tax. The definition of health plan includes health and sickness coverage provided by insurance companies, HMOs, and nonprofit health service corporations. It includes Medicare supplement policies, but excludes other types of insurance that have minor or non-basic health coverage components. These include (among others) disability or income protection coverage, automobile medical payment coverage, insurance supplemental to liability insurance, credit accident and health insurance, policies providing only dental or vision care, long-term care policies, accident only coverage, workers compensation, and so forth.
- 21 Floor stocks tax.** Imposes a 99 cents per pack floor stocks cigarette tax on the stocks of cigarettes possessed by cigarette distributors, subjobbers, retailers, and others on December 1, 2005 (the day the new excise tax rate takes effect under section 0.) The floor stocks tax is intended to prevent distributors, subjobbers and retailers from purchasing large stocks of cigarettes in anticipation of the excise tax rate increase to avoid the tax. If they do so, they will become liable for the floor stocks tax equal to the excise tax, which they avoided.
- 22 Appropriation.** Appropriates \$210,309,000 to the Commissioner of Commerce to pay for the estimated MCHA deficit in the next biennium. The Governor is

**Section**

directed to include a recommendation for this item in the next biennial budget submission to the legislature. \$41,151,000 is appropriated to the Health Care Access Fund (HCAF) for FY 2006 and \$73,934,000 for FY 2007. This is to offset HCAF's loss of receipts from the premiums tax on HMOs and nonprofit health service corporations, which is repealed by section 0.

**23 Repealer.** Paragraph (a) repeals current laws involving MCHA that involve the assessment or MCHA members.

Paragraph (b) repeals the 1 percent premiums tax on HMOs and nonprofit health service corporations (§ 297I.05, subd. 5). It also repeals the definition of HMOs for chapter 297I (§ 297I.01, subd. 10), since the tax in the 297I.05 subdivision 5, is the only place in the chapter that that term is used.