DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

January 11, 2018

Honorable Clay Cox
Representative
507-C Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 33 7101)

Dear Representative Cox:

The bill would provide an income tax credit to employers that provide health insurance coverage to employees who would otherwise be eligible for Medicaid under O.C.G.A. Article 7 of Chapter 4 of Title 49. The tax credit would be $5,000 for the first year and $2,500 for both the second and third years that the eligible employee participates in the health plan. The tax credits cannot exceed the employer's tax liability for a year. The bill would be effective for tax years beginning on or after January 1, 2018 and the code section would be repealed on December 31, 2028.

Impact on Tax Revenue and Medicaid Expenditures
Georgia State University's Fiscal Research Center (FRC) reviewed the bill to determine the impact on state tax revenue. The state cost savings per Medicaid recipient that switches to employer coverage would be $1,052 for most workers. For each worker, state revenue would be reduced by $5,000 in the first year and $2,500 in years two and three, resulting in a net state cost of $3,948 in year one and $1,448 in years two and three. It should also be noted that employers that already provide coverage to Medicaid-eligible employees could claim the credit, but there would be no offsetting savings.

While the bill would reduce state expenditures for each individual who forgoes Medicaid coverage for their employer's health benefit plan, FRC was unable to obtain information necessary to provide a reliable estimate of the bill's total costs. FRC noted the following limitations that prohibit a full cost estimate:

- limited data is available on the work status of existing Medicaid participants and their access to employer-based insurance

- virtually no data are available on the population that is eligible for, but not participating in, Medicaid
- virtually no data are available as to the length of time a typical Medicaid-eligible worker might remain both eligible and working to continue generating credits for their employers in the second or third year of coverage; and
- the high degree of uncertainty regarding the bill's impact on employers offering new health benefit plans and whether workers will sign up for the plans (i.e. whether they can be induced to choose a plan with premiums, deductibles, and copays over Medicaid).

While it is not possible to reliably estimate the overall cost of these tax credits, the attached appendix provides FRC's discussion of the relevant populations; the issues around Medicaid income limits, work status and access to private insurance; and the limited data that are available. To the degree possible, the appendix also provides the net cost of credits on a per eligible worker basis and estimates of certain eligible populations. It also provides what may be considered lower-bound estimates of the net cost related to Medicaid-eligible workers who may already have access to employer coverage, and thus would be eligible for credits for their employers.

Impact on Department of Revenue Expenditures
The bill would result in additional one-time and annual expenditures for the Department of Revenue. Agency officials estimated that design/development, system testing, and other IT requirements would result in first-year, one-time costs of $40,000. Approximately $16,000 would be needed to develop and provide training and to update procedures and forms. In addition, one new staff auditor position would be created to ensure that the tax credit is appropriately used. The position would cost approximately $80,000 annually for salaries/benefits. In the first year, the position would require $8,200 in one-time funding for equipment and training.

Table 2. Estimated Costs for the Department of Revenue

	One-Time Costs	Annual Costs
Taxpayer Services Division	$15,700	
Information Technology	$40,000	
Auditor Salaries/Benefits		$79,870
Auditor Equipment/Training	$8,200	
Total	$63,900	$79,870

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Discussion of Medicaid Eligibility and Likelihood of Employment, and Access to Employer-Based Coverage

Under the proposed bill, for an employer to earn a credit, the covered employee must be eligible for Medicaid coverage for themselves. Medicaid coverage in Georgia (other than the "medically needy" program) is limited to those residents with incomes below specified levels who also fall in one of the following groups:

- Children under age 19
- Aged, blind, or disabled (ABD)
  - SSI recipients
  - Nursing home residents or community care patients with limited assets
  - Medicare Part A participants with limited assets
- Hospice patients – terminally ill with life expectancy of six months or less
- Pregnant women
- Parent/caretaker of children under age 19

Of these eligibility groups, it is assumed that only a few would be likely to be employed in material numbers; these include parents/caretakers, children age 16-18, pregnant women, and Medicare participants. Assuming various family sizes for the four groups, representative limits for annual family income for these groups from all sources for 2017 would be as follows:

- Parents/caretakers, $7,836 for a family of 4, additional $600 per person above 4
- Children age 16-18, $21,600 for a family of 2, $32,724 for a family of 4 (133% of FPL)
- Medicare participants, $16,488 for a couple, $12,300 for individual (100% of FPL+$240)
- Pregnant women, $35,736 for a family of 2, $54,120 for a family of 4 (220% of FPL)

Parents, Teens, and Seniors: Likelihood of Employment, Access to Employer-Based Coverage, and Medicaid Costs

For all of the groups above except pregnant women, the income limits suggest that any employment would have to be part-time and low-wage. As of March 2017, according to the US Bureau of Labor Statistics (BLS), 19 percent of part-time workers in the US have employer-based access to healthcare benefits. Reportedly, several well-known large employers of part-time workers including Starbucks, UPS, Home Depot, and others offer healthcare benefits to those part-time workers (Christian Science Monitor, Oct. 6, 2015, and Employee Benefit News, Feb. 15, 2017). It is likely that some portion of Medicaid-eligible, part-time workers in Georgia already have access to employer-based health insurance, in which case their employers would earn credits without any change in their benefit policies or hiring. For any of these workers already enrolled in employer-based coverage, there would be no associated expenditure-side savings to the state.

Other firms may, of course, extend these benefits to part-time workers in response to the incentive of receiving tax credits. Those already offering coverage may also increase their contributions toward coverage, reducing the employees' cost and increasing participation. To the extent this occurs, current Medicaid enrollment could decline. For each worker who would otherwise be enrolled in Medicaid, but instead obtains private coverage, the savings to the state is estimated to be approximately $1,020, or the 32.3 percent state share of Medicaid costs in Georgia times the $263 per month total payment for Low-Income Medicaid as reported by the Georgia Department of Community Health (DCH) in its FY 2017 Annual Report. Assuming one year of inflation in Medicaid costs at the average rate for medical services since 2008 (3.1 percent per year), the average cost savings for 2018 would be approximately $1,052 per diverted enrollee. For these workers, the net cost to the state of the tax credits would be approximately $3,948 for the first year and $1,448 in each of the next two years of coverage.

Note also that in addition to having, as a result of the credit, a financial incentive for offering healthcare coverage, these employers would also have an incentive to limit the hours and earnings of these workers in order to maintain their Medicaid eligibility and qualify for the credit for the full three years. If employers do not do so, it is likely that many workers with low-enough incomes to qualify for Medicaid initially, and thus qualify their employers for the first-year credit, would no longer qualify for Medicaid by the second or third year, thus reducing the potential for employers to earn the credits for those years and reducing the cost to the state. On the other hand, to the extent that employee turnover is higher for these workers, the same part-time, low-wage worker could, by changing jobs, qualify the second employer for the full $5,000 first-year credit where, if they hadn't changed jobs, the first employer would only be eligible for a $2,500 credit.

According to the Centers for Medicare & Medicaid Services (CMS), Georgia's average monthly enrollment in Medicaid and CHIP for the first four months of FY 2018 was approximately 1.765 million members. Based on earlier breakdowns of members by type, the estimated number of non-ABD adults enrolled for FY 2018 is assumed to be approximately 298,000. Another roughly 75,000 people may be eligible for Medicaid, but remain uninsured, based on 2016 estimates from the Kaiser Family Foundation (KFF), while yet more may be eligible, but have private insurance. Ignoring the unknown numbers in the latter, this brings the total population of non-ABD adults eligible for Medicaid to approximately 373,000 in the current year.

This number would include pregnant women, but not minors age 16-18 or seniors. Based on DCH current enrollment data, it is assumed that the latter two groups would roughly offset eligible pregnant women (see below). Also based on DCH data, 11.4 percent of low-income Medicaid participants age 16 or older reported earned income at the time of their application, suggesting employment. On the other hand, KFF reports that, in Georgia, 48% of non-ABD adult Medicaid participants worked at least part time as of 2016. Taking the DCH percentage as a lower bound, at least 42,500 of the 373,000 population could be expected to be employed.

If only 11 percent of the 42,500 have access to an employer plan <u>and</u> enroll in that plan (the BLS estimate for part-time workers as of March 2017), then first year credits for those workers would total $23.4 million and the net cost to the state, net of Medicaid cost savings, would be at least $18.5 million.

Pregnant Women: Likelihood of Employment, Access to Employer-Based Coverage, and Medicaid Costs

Because of the significantly higher income limits, the final group, pregnant women, is the only group likely to both qualify for Medicaid and to work full time. According to a 2017 study from researchers at The National Institute for Occupational Safety and Health, Centers for Disease Control and Prevention (CDC), an estimated 72 percent of pregnant women in the US from 1997-2007 worked at least one month during their pregnancies and of those who worked, almost 39 percent had household income below $30,000 per year (56% had incomes below $50,000).

Of full-time workers nationally, 85 percent have access to medical insurance through their employers according to BLS, though the share is lower for lower-wage occupations, only 22 percent for the lowest wage decile and 33 percent for the lowest quartile. Again, employers already offering coverage may earn credits without changing hiring or the benefits they offer, but the share offering coverage may also rise in response to the credit incentive. As with the other groups, credits earned for the second and third year of coverage may be limited, in this case unless the pregnancy-based eligibility period spans two years, or the worker becomes pregnant again or extends Medicaid eligibility on some other basis to a second or third year.

The cost savings to the state for Medicaid-eligible pregnant women who obtain employer-based coverage is expected to be materially higher due to the costs of prenatal care, delivery, and other services. According to the CMS, the average cost of Medicaid-funded prenatal care and delivery nationally in 2008 was $7,218. Assuming a state share of 32.3 percent and inflation at the average rate for medical services since 2008 (3.1 percent per year), the state cost in 2018 would be approximately $3,154. Thus, the net cost of the tax credit in this case would be $1,846 ($5,000 less $3,154) per participant.

Finally, KFF reports that as of 2014, approximately 54% of Georgia births were covered by Medicaid. The CDC reports 131,404 Georgia births in 2015, implying nearly 71,000 Medicaid-funded births. Additional pregnant women may be eligible for Medicaid, but have private insurance already, so the numbers of Medicaid-eligible (but not necessarily Medicaid-funded) births could be materially higher than 71k per year. DCH reports that as of October 31, 2017, 34 percent of current Pregnant Women Medicaid participants reported earned income at the time of their applications for coverage, suggesting employment. If only 33 percent of working, Medicaid-eligible pregnant women have access to employer-based coverage, around 8,000 or more pregnant, Medicaid-eligible women per year could make their employers eligible for a $5,000 credit.

At a net cost of $1,846 per credit, the cost to the state arising from credits for employers of these 8,000 pregnant women would be approximately $14.8 million per year. This number could be considered a lower bound as it only assumes that 34 percent of Medicaid births involve working mothers (compared to the CDC estimate that 72 percent work during pregnancy) and that only 33 percent of those working women have access to private insurance (compared to 85 percent of all full-time workers having access, according to the BLS). The cost would be significantly higher to the extent that either of these assumptions is low and also to the extent that any Medicaid-eligible pregnant women would NOT have participated in Medicaid even in the absence of the credit for their employers (i.e. because they already participate in an employer-based plan).

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Atlanta, Georgia 30334-8400

GREG S. GRIFFIN
STATE AUDITOR
(404) 656-2174

MEMORANDUM

TO: The Honorable Clay Cox
507-C CLOB

FROM: Greg S. Griffin
State Auditor

DATE: 1/16/2018

SUBJECT: Fiscal Note

The fiscal note(s) listed below was delivered on the day indicated and received by the undersigned.

LC 33 7101

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Date Received

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Received By