

Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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H.524 – An act relating to health insurance and the individual mandate

As passed the House Committee on Health Care - 3/14/19

<https://legislature.vermont.gov/Documents/2020/Docs/BILLS/H-0524/H-0524%20As%20Introduced.pdf>

The purpose of this bill is to implement Vermont’s individual mandate to maintain health insurance coverage. The bill also has other insurance related requirements related to association health plans, brokers, and certain consumer protections and requires the Agency of Human Services (AHS) to develop strategies for increasing the affordability of health insurance and evaluate options for the future of Vermont’s health insurance markets. The following provisions are estimated to have fiscal impacts:

Individual Mandate

Act 182 of 2018 established an individual mandate for Vermont residents to maintain minimum essential coverage beginning on January 1, 2020.¹ It also expressed legislative intent to enforce the individual mandate through a financial penalty or other enforcement mechanisms to be enacted by the General Assembly during the 2019 legislative session and a working group to develop recommendations regarding the administration and enforcement of the individual mandate.²

Sec. 1 of this bill would establish a penalty for “applicable individuals” who fail to maintain minimum essential coverage. It would implement an individual mandate that is modeled upon, with variations, the tax penalty previously instituted by the federal government. However, it is difficult to estimate how much revenue the penalty might yield.³ In addition, estimating the level of compliance with a not yet established collection mechanism at the Department of Taxes also make approximating potential revenues challenging. Given these factors, along with other state-specific modifications that differ from how the federal penalty was implemented, it is difficult to use the federal penalty revenues as a benchmark from which to determine how much revenue a new state penalty might yield. At this time, we estimate it could generate between roughly \$2 and \$4 million in FY 2021.

¹ [Act 182 of 2018](#)

² [Report of the Individual Mandate Working Group](#), November 1, 2018

³ According to the Internal Revenue Service, in 2016, 3.2% of tax returns reported penalties resulting in \$7.34 million dollars in penalties. However, it was later determined that many people who were Medicaid-eligible wrongly paid the penalty and revised numbers from the IRS have not yet been released.

According to testimony provided by the Department of Taxes, implementing a penalty could have start up costs as high as \$1.1 million, not including on-going costs for additional full-time equivalents to do compliance, appeals, outreach, and other necessary administrative work.⁴ The Department also stressed that the typical timeline for implementing a tax of this sort is usually one year.

Additionally, officials from the Department of Vermont health Access (DVHA) estimate administrative costs to DVHA (which include IT vendor costs and additional FTEs) associated with administering exemptions, hearing appeals of exemptions, rulemaking on exemptions and mandate administration, and providing documentation of coverage, could range between \$500,000 to \$4.5 million with \$100,000 to \$200,000 in annual on-going costs.

Health Insurance Affordability Report

Sec. 9 of this bill would require the Agency of Human Services (AHS) to submit a report to the General Assembly that 1) develops a health insurance affordability strategy; 2) explores increasing co-pays for Medicaid beneficiaries; 3) determines costs and mechanisms regarding out-of-pocket exposure for ensuring Vermonters have access to primary care services; and 4) explores the potential of a regional publicly-financed universal health care program. Some of this work would likely require hiring outside expertise, including actuaries, the cost of which could range from \$100,000 to \$250,000. The Administration has also expressed concerns regarding their internal capacity to do all this work within the established timeframe.

Fiscal Impact

Est. Cost = \$100,000 to \$250,000

Merged Insurance Market Report

Sec. 12 of this bill also requires AHS to evaluate Vermont's health insurance market to determine the potential advantages and disadvantages of merging the individual, small group, and large group markets, separating each of these markets, and maintaining the current market structure as well as the impact on premiums for each scenario. Similar reports were commissioned in 2009 by the Health Care Reform Commission⁵ and in 2016 by the Green Mountain Care Board⁶. The costs of these reports ranged from \$50,000 (in 2009) to \$97,106 (in 2016). The proposed report would have a broader scope and could require more actuarial resources than previous reports.

Fiscal Impact

Est. Cost = \$80,000 to \$120,000

⁴ This estimate is based on the estimated for implementing an individual mandate in the District of Columbia.

⁵ [Merging the Individual, Small-Group, and Association Markets in Vermont](#). Prepared by Elliot Wicks, Health Management Associates. January 2009.

⁶ [Report on the Impact of Expanding Vermont Health Connect to include Large Group Employers](#). Prepared by Lewin & Ellis, Inc. February 2016.