



Managed Care Organization Taxation

In his 2009-10 Executive Budget, the Governor proposed a broad-based 2 percent tax on all Managed Care Organizations (MCO) in the state beginning Jan. 1, 2010. This proposed tax replaces the existing Medicaid only MCO tax, which the federal government will discontinue on Oct. 1, 2009. According to the administration, the MCO tax will generate \$200 million in fiscal year 2009-10 and \$400 million in 2010-11.

While the Governor's proposed budget claims to exclude any new broad-based taxes, the MCO tax is exactly that – a broad-based tax on all managed care organizations regardless of whether they provide Medicaid or not. Here are just a few reasons why this new tax will increase the cost of health insurance in Pennsylvania, as well as affect some of those hardest hit by the current recession:

The MCO tax will target low income individuals and small businesses

- As proposed, this new tax cannot be assessed on self-funded plans. This means that small business plans, which are rarely self-funded, could bear the weight of this new tax.
- We expect that CHIP program participants, as well as adult Basic participants, could also be assessed this new tax. These plans will pass the cost of this new tax directly to their participants - children and low income individuals – or the taxpayers that already fund these programs. (They'll be taxed **twice**).

Virtually every health insurance plan could be affected

- The definition of MCO includes virtually all health insurance plans.
- Most insurers in Pennsylvania already pay taxes depending on the structure of their business. All commercial policies pay the 2 percent premium tax, HMOs pay the corporate tax, and the not-for-profit business of the Blues is subject to the Community Health Reinvestment (CHR) agreement. These taxes are already passed on to the consumer through premium rates.
- This legislation may affect the tenets of the CHR agreement. CHR committed the four nonprofit Blue Cross and Blue Shield Plans to annually contributing 1.6 percent of their annual healthcare premiums, plus 1 percent of their Medicare and Medicaid premiums, to support community health programs. Sixty percent of the funds were allocated to provide health insurance to low-income people through state approved programs, such as Pennsylvania's adult Basic program for low-income adults. Serious questions exist as to the effect of this tax on the CHR Agreement.

The MCO tax will increase the cost of health insurance in Pennsylvania

- Most agree that the State needs to address the increasing cost of healthcare; this new tax will directly increase the cost of health insurance in Pennsylvania.
- We expect that this tax will be delineated as a separate line item on health insurance bills.
- This proposal comes at a time when the economy is in recession and individuals are having difficulty affording healthcare. We need to address the cost drivers of healthcare so we can drive down the cost of health insurance, not place a direct tax on Pennsylvanian's access to care.

Last Session the administration proposed a new tax on individuals for not buying insurance, this session the administration has proposed a new tax on those who do purchase insurance.