**OAHU takes “Neutral” position on Initiative 101: 1.5% Insurance Tax**

Election date: January 23, 2018

**Initiative 101**

Following the 2017 legislative session, Rep. Julie Parrish (R-West Linn) and Rep. Cedric Hayden (R-Cottage Grove) led an effort to refer part of the Medicaid tax package to the ballot. The referral includes the 1.5% tax on commercial health insurance and the 0.7% “real” tax on hospitals.

The election will be held on Tuesday, January 23, 2018. This special election date was chosen by the legislature so they would have the short legislative session in February 2018 to react if voters say “no” to the taxes.

A “yes” vote on Initiative 101 means the voter supports the taxes. A “no” vote means they oppose the taxes.

**Background**

The 2017 legislature worked with hospitals and insurers to put together a package of cuts and new revenues to close a $934 million Medicaid budget gap. The package also creates a 2-year market stability fund, or reinsurance program, to reduce premiums in the individual market.

This package insures that the 350,000 Oregonians covered by the ACA Medicaid expansion continue on the Oregon Health Plan.

The Medicaid Budget Package includes:

Agency savings $171 million

CCO rate of growth reduction from 3.4% to 2.7% $36 million

Elimination of hospital transformation program $68 million

Increased hospital tax – new true tax – on DRG hospitals $120 million

New rural hospital tax $90 million

OHSU intergovernmental transfer $105 million

CCO and commercial insurer 1.5% premium tax $205 million

General fund increase $139 million

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TOTAL $934 million

Initiative 101, to be voted on January 23, 2018, targets two components of the package:

1. The 1.5% insurance premium tax
2. The 0.7% new true tax on DRG (large) hospitals

**1.5% Insurance Premium Tax**

This new tax will apply to individual, small group and large group plans in the regulated insurance market. The state will also apply the tax to PEBB self-insured plans.

Medicare, Medicare Advantage, TriCare and self-insured plans are exempt under federal law.

The tax would be collected and administered in the same way as the 2009-2013 premium tax program.

The package divides revenues from the 1.5% tax into two components:

* 1.2% would be matched with federal funds at a 9:1 match rate and go into the Oregon Health Plan.
* 0.3% would be used to fund a new reinsurance program for the individual commercial market.

**Reinsurance Program**

CMS recently approved Oregon’s waiver request to create a new reinsurance program for the individual market. O.3% of the premium tax would be used to fund that program along with $57 million remaining balance in the old high-risk pool (OMIP) account.

This reinsurance program reduces premiums in the individual market by 4.9%.

**0.7% new hospital tax**

Historically, the larger DRG hospitals have paid a 5.3% tax that is used as the state match for federal funds to pay for the Oregon Health Plan. That 5.3% is then returned to the hospitals, in aggregate, through enhanced Medicaid rates.

This package adds a new 0.7% true tax on top of the 5.3%, bringing the total hospital tax to 6.0%.

**January 23rd Vote**

Oregonians will decide whether they support these new taxes to pay for the Medicaid expansion and the reinsurance program. A “yes” vote means they support the taxes; a “no” vote means they oppose the taxes.

If voters say “no” it creates a $240 to $300 million hole in the Medicaid budget.

* The reinsurance program would be eliminated but the $57 million remaining balance in the OMIP fund would be used to fund the program for 2018, since it has already been built into the rates and those plans have already been sold.
* Insurers would raise rates in the individual market by 4.9% when the reinsurance program goes away in 2019.
* Legislators in February would have two choices: eliminate the ACA Medicaid expansion, kicking some 350,000 off the Oregon Health Plan and forfeiting nearly $2 billion in federal Medicaid funding, or find the $240+ million needed to fully fund the program.

**Issues Discussed by OAHU**

In deciding whether to take a position on Initiative 101, OAHU’s Legislative Committee discussed a variety of issues including:

* Most Oregon insurance carriers (Providence, Moda, Pacific Source, Kaiser) support the tax and Initiative 101. Regence is staying neutral.
* Most carriers are self-insured and will not be paying the tax on their employees.
* If voters say “no” to the taxes, 350,000 Oregonians would lose their Medicaid coverage. Many of those who lose Medicaid coverage would become uninsured and much of their health care would be covered by charity care.
* The $240 million raised by the taxes is matched by nearly $2 billion in federal funds for Medicaid. Those federal funds would be lost to the state if legislators cannot figure out a way to replace the tax revenues.
* Other options to pay the state’s portion of Medicaid were considered during the 2017 and rejected in favor of the package that includes the insurance tax.
* No one is saying they want to kick people off the system who deserve it. The discussion is how will Oregon fund it?
* Has the Oregon Health Authority managed our Medicaid money wisely? Some would say no.

**After considering the pros and cons of the 1.5% insurance tax, OAHU decided to remain neutral.**

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