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# Payroll Tax Scenarios

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# Cost Shift Proposal: Review

- The Governor's plan helps address the Medicaid cost shift, lower private insurance costs, and strengthen our health care system for the long term
- Two key revenue strategies
  - 0.7% payroll tax to draw down federal funds to invest in health care
  - Targeted cost shift investments to maximize recovery of \$ by GMCB
- Administered by Tax Department
  - Tax would start on January 1, 2016
  - Paid by all firms that pay UI excluding self-employed
  - \$3.47 million in start up costs and \$592,000 ongoing costs

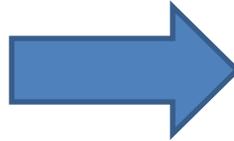
# Where the Money for Health Care Reform Proposal Comes From



% Source of Money

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# Where the Money Will be Invested



% Use of Money

3

- Federal Funds
- State Funds

- Reduce Out-of-Pocket Costs Through VT Health Connect
- Strengthening the Blueprint
- Other - GNCB, Tax implementation, State payroll tax Contribution
- Payment Reform Initiatives
- Other Provider Reimbursement
- Available to Reduce Provider Premiums

**Governor's FY 2016 Health Care Reform Proposal (in Millions)**

| <b>0.7% Payroll Tax - 5.5 Months of Collections</b>           |              |               |              |
|---|--------------|---------------|--------------|
|   | <b>41.44</b> |               |              |
| FY 2016 Health Care Reform Related Expenditures               | State Funds  | Federal Funds | Total        |
| <i>One-time Costs</i>   |              |               |              |
| Tax Department Implementation <sup>2</sup>                    | 3.47         | -             | 3.47         |
| <i>Costs Starting July 1, 2015</i>                            |              |               |              |
| Nursing Home Statutory Rate Increase                          | 1.44         | 1.76          | 3.20         |
| Caseload & Utilization Increase for New Adults                | 4.48         | 9.21          | 13.70 *      |
| Caseload & Utilization Incr. for ABD, Kids, Gen. Adults       | 6.89         | 8.44          | 15.33 *      |
| GMCB All Payer Waiver and Utility Analysis Costs <sup>3</sup> | 1.08         | 0.43          | 1.51         |
| <i>Costs Starting in January 1, 2016</i>                      |              |               |              |
| State Payroll Tax Liability                                   | 1.94         | -             | 1.94         |
| Strengthening the Blueprint                                   | 2.03         | 2.48          | 4.51         |
| Home Health Increase  | 0.56         | 0.69          | 1.25         |
| Increased Reimbursement Rates <sup>4</sup>                    | 11.44        | 14.06         | 25.50 *      |
| 2.5% Medicaid Provider Increase <sup>5</sup>                  | 2.55         | 3.12          | 5.66         |
| Health Home Expansion <sup>6</sup>                            | 0.50         | 4.50          | 5.00         |
| Increase Cost Sharing Reduction Program                       | 2.00         | -             | 2.00         |
| <b>Total Health Care Reform Proposal</b>                      | <b>38.39</b> | <b>44.68</b>  | <b>83.07</b> |
| <b>Other Caseload and Utilization Pressures</b>               | <b>3.06</b>  |               |              |

| <b>Investments Available to Impact Private Premiums (Cost Shift) *</b> |              |              |              |
|--|--------------|--------------|--------------|
| Caseload & Utilization Increase for New Adults                         | 4.48         | 9.21         | 13.70        |
| Caseload & Utilization Incr. for ABD, Kids, Gen. Adults                | 6.89         | 8.44         | 15.33        |
| Increased Reimbursement Rates  | 11.44        | 14.06        | 25.50        |
| <b>Total Available to Impact Private Premiums</b>                      | <b>22.82</b> | <b>31.70</b> | <b>54.53</b> |

| <b>Steady State Budget Pressures</b>                          |              |
|---|--------------|
| Nursing Home Statutory Rate Increase                          | 1.44         |
| Caseload & Utilization Increase for New Adults                | 4.48         |
| Caseload & Utilization Incr. for ABD, Kids, Gen. Adults       | 6.89         |
| Remaining Revenue for Other Budget Pressures                  | 3.06         |
| <b>Total</b>  | <b>15.87</b> |
| GMCB All Payer Waiver and Utility Analysis Costs <sup>3</sup> | 1.08         |
| <b>Total Including Funding GMCB All Payer Waiver</b>          | <b>16.95</b> |

**Estimated Annualized Health Care Reform Proposal (in Millions)<sup>1</sup>**

| <b>0.7% Payroll Tax - 12 months of Collections</b>                   |              |               |               |
|--|--------------|---------------|---------------|
|  | <b>90.42</b> |               |               |
| Annualized Health Care Reform Proposal                               | State Funds  | Federal Funds | Total         |
| Tax Department On-going Expenses                                     | 0.59         | -             | 0.59          |
| Nursing Home Statutory Rate Increase <sup>7</sup>                    | 1.48         | 1.81          | 3.30          |
| Caseload & Utilization Increase for New Adults <sup>7</sup>          | 4.61         | 9.49          | 14.10 *       |
| Caseload & Utilization Incr. for ABD, Kids, Gen. Adults <sup>7</sup> | 7.10         | 8.69          | 15.79 *       |
| GMCB All Payer Waiver and Utility Analysis Costs <sup>3</sup>        | 1.15         | 0.43          | 1.57          |
| State Payroll Tax Liability  | 4.24         | -             | 4.24          |
| Strengthening the Blueprint  | 4.06         | 4.96          | 9.02          |
| Home Health Increase   | 1.12         | 1.38          | 2.50          |
| Increased Reimbursement Rates <sup>4</sup>                           | 23.42        | 27.58         | 51.00 *       |
| 2.5% Medicaid Provider Increase <sup>5</sup>                         | 5.09         | 6.23          | 11.32         |
| Health Home <sup>6</sup>   | 1.00         | 9.00          | 10.00         |
| Increase Cost Sharing Reduction Program                              | 4.00         | -             | 4.00          |
| Continued Cost Shift investments <sup>8</sup>                        | 29.49        | 29.52         | 59.01 *       |
| <b>Total Annualized Health Care Reform Proposal</b>                  | <b>87.36</b> | <b>99.08</b>  | <b>186.44</b> |
| <b>Other Caseload and Utilization Pressures</b>                      | <b>3.06</b>  |               |               |

| <b>Investments Available to Impact Private Premiums (Cost Shift) *</b> |              |              |               |
|--|--------------|--------------|---------------|
| Caseload & Utilization Increase for New Adults <sup>6</sup>            | 4.61         | 9.49         | 14.10         |
| Caseload & Utilization Incr. for ABD, Kids, Gen. Adults <sup>6</sup>   | 7.10         | 8.69         | 15.79         |
| Increased Reimbursement Rates <sup>3</sup>                             | 23.42        | 27.58        | 51.00         |
| Continued Cost Shift investments <sup>8</sup>                          | 29.49        | 29.52        | 59.01         |
| <b>Total Available to Impact Private Premiums</b>                      | <b>64.62</b> | <b>75.27</b> | <b>139.90</b> |

1 - Annualized assumptions; not the FY2017 Budget Proposal

2 - Includes ongoing annual operating cost of \$592K

3 - GMCB State funds include the match for GC, the Bill back fund, and other non-matchable GF needs; total only includes Federal and General funds

4 - Reimbursement rates include in-state outpatient, primary care services, Dartmouth-Hitchcock, and professional services (included psychologists, specialists, and chiropractors across all settings of care)

5 - Medicaid provider increase for providers not reimbursed through the Department of Vermont Health Access Global Commitment, State Only, and Non-DVHA Waiver Appropriations

6 - 10/90 Match rate

7 - Assume 3% Medicaid Growth and the FY2016 FMAP assumptions for New Adults and traditional Medicaid

8 - Investments could include further reduction in the uninsured, Medicaid/Vermont Premium Assistance/Cost Sharing Reduction, additional investment in rates, and Provider Reimbursement Inflation

# Regulatory Recovery of Cost Shift Investment

- Proposal targeted to recover dollars through the GMCB.
- Administration offered a realistic approach while considering more aggressive alternatives.
- Robin Lunge and Kara Suter will testify in detail at 3:30.
- Employer experience is different based on other insurance factors as well like: premium rating pool, health of that pool, utilization of services in that pool, and admin rates of insurer.

# Payroll Tax

- Overall, more money available to reduce premiums than is raised by tax.
- All businesses that offer insurance should see reduction in commercial premiums compared to trend. Savings will off-set tax and may lead to overall savings.
- Firms that do not provide health care will pay full cost.
- Experience is different for every firm, depending on payroll, decision to offer benefits, cost of offered benefits, take up rate of benefits, and effective tax rates

# Payroll Tax & Firms Offering Insurance

| Firm Size    | Total Firms | 2017 Estimate of Firms Offering Insurance | 2017 Firms Offering | 2017 Firms Not Offering |
|--------------|-------------|---|---------------------|-------------------------|
| Less than 50 | 20,518      | 37%                                       | 7,592               | 12,926                  |
| 50 – 99      | 831         | 84%                                       | 698                 | 133                     |
| 100 – 499    | 643         | 99%                                       | 637                 | 6                       |
| 500+         | 92          | 100%                                      | 92                  | 0                       |
|              |             |   | 9,018               | 13,066                  |

Source: 2015 RAND Study and VT Dept. Taxes

# Drilling Down on Individual Firms

- Today, we show example firms at 75<sup>th</sup>, 95<sup>th</sup>, and 99<sup>th</sup> percentile of payroll
  - Bigger firms are more likely to offer insurance.
  - Most Vermont businesses are quite small.
    - Smallest quarter of businesses (5,521 firms) would pay \$230 or less annually
    - Half of businesses (11,042 firms) would pay \$670 or less annually
    - 61% of businesses (13,471 firms) would pay \$1,000 or less annually
- Experience varies for every firm, depending on payroll, decision to offer benefits, cost of benefits, take up rate of benefits, and effective tax rates.
- Results driven by percent of payroll currently spent on health care.

# Other Considerations

- Non-offering firms face two other costs
  - Vermont's Employer Assessment, \$533.32 per FTE in 2015 excluding first four FTEs
  - ACA large employer penalty is a maximum of \$2,000 per FTE after 30 FTEs
- When will we know the potential impact on health insurance premiums?
  - Rates filed with GMCB in April and rate decision by GMCB in August
- Reduction in premiums growth will slow ascent towards Cadillac Tax
- Focus on operational simplicity to ensure tax starts smoothly on January 1

**Administration's Payroll Tax Proposal Firm Examples**

**Firms Offering Insurance**

| Firm Size 75th Percentile of Payroll<br>5% Payroll on Insurance |             |                     | Firm Size 75th Percentile of Payroll<br>10% Payroll on Insurance |             |                     | Firm Size 75th Percentile of Payroll<br>15% Payroll on Insurance |             |                     | Firm Size 75th Percentile of Payroll<br>20% Payroll on Insurance |             |                     |
|---|-------------|---------------------|--|-------------|---------------------|--|-------------|---------------------|--|-------------|---------------------|
| Firm Size   | Current Law | Cost Shift Proposal | Firm Size  | Current Law | Cost Shift Proposal | Firm Size  | Current Law | Cost Shift Proposal | Firm Size  | Current Law | Cost Shift Proposal |
| Payroll   | 268,212.00  | 268,212.00          | Payroll  | 268,212.00  | 268,212.00          | Payroll  | 268,212.00  | 268,212.00          | Payroll  | 268,212.00  | 268,212.00          |
| Premium Spending  | 13,410.60   | 12,740.07           | Premium Spending   | 26,821.20   | 25,480.14           | Premium Spending   | 40,231.80   | 38,220.21           | Premium Spending   | 53,642.40   | 50,960.28           |
| Payroll Tax   | 0.00        | 1,877.48            | Payroll Tax  | 0.00        | 1,877.48            | Payroll Tax  | 0.00        | 1,877.48            | Payroll Tax  | 0.00        | 1,877.48            |
| Gross Cost  | 13,410.60   | 14,617.55           | Gross Cost   | 26,821.20   | 27,357.62           | Gross Cost   | 40,231.80   | 40,097.69           | Gross Cost   | 53,642.40   | 52,837.76           |
| Federal Deduction   | 2,856.46    | 3,113.54            | Federal Deduction  | 5,712.92    | 5,827.17            | Federal Deduction  | 8,569.37    | 8,540.81            | Federal Deduction  | 11,425.83   | 11,254.44           |
| Net Cost  | 10,554.14   | 11,504.01           | Net Cost   | 21,108.28   | 21,530.45           | Net Cost   | 31,662.43   | 31,556.89           | Net Cost   | 42,216.57   | 41,583.32           |
| <b>Change</b>   | <b>0.00</b> | <b>949.87</b>       | <b>Change</b>  | <b>0.00</b> | <b>422.17</b>       | <b>Change</b>  | <b>0.00</b> | <b>-105.54</b>      | <b>Change</b>  | <b>0.00</b> | <b>-633.25</b>      |

| Firm Size 95th Percentile of Payroll<br>5% Payroll on Insurance |              |                     | Firm Size 95th Percentile of Payroll<br>10% Payroll on Insurance |              |                     | Firm Size 95th Percentile of Payroll<br>15% Payroll on Insurance |              |                     | Firm Size 95th Percentile of Payroll<br>20% Payroll on Insurance |              |                     |
|---|--------------|---------------------|--|--------------|---------------------|--|--------------|---------------------|--|--------------|---------------------|
| Firm Size   | Current Law  | Cost Shift Proposal | Firm Size  | Current Law  | Cost Shift Proposal | Firm Size  | Current Law  | Cost Shift Proposal | Firm Size  | Current Law  | Cost Shift Proposal |
| Payroll   | 1,736,788.00 | 1,736,788.00        | Payroll  | 1,736,788.00 | 1,736,788.00        | Payroll  | 1,736,788.00 | 1,736,788.00        | Payroll  | 1,736,788.00 | 1,736,788.00        |
| Premium Spending  | 86,839.40    | 82,497.43           | Premium Spending   | 173,678.80   | 164,994.86          | Premium Spending   | 260,518.20   | 247,492.29          | Premium Spending   | 347,357.60   | 329,989.72          |
| Payroll Tax   | 0.00         | 12,157.52           | Payroll Tax  | 0.00         | 12,157.52           | Payroll Tax  | 0.00         | 12,157.52           | Payroll Tax  | 0.00         | 12,157.52           |
| Gross Cost  | 86,839.40    | 94,654.95           | Gross Cost   | 173,678.80   | 177,152.38          | Gross Cost   | 260,518.20   | 259,649.81          | Gross Cost   | 347,357.60   | 342,147.24          |
| Federal Deduction   | 18,496.79    | 20,161.50           | Federal Deduction  | 36,993.58    | 37,733.46           | Federal Deduction  | 55,490.38    | 55,305.41           | Federal Deduction  | 73,987.17    | 72,877.36           |
| Net Cost  | 68,342.61    | 74,493.44           | Net Cost   | 136,685.22   | 139,418.92          | Net Cost   | 205,027.82   | 204,344.40          | Net Cost   | 273,370.43   | 269,269.87          |
| <b>Change</b>   | <b>0.00</b>  | <b>6,150.83</b>     | <b>Change</b>  | <b>0.00</b>  | <b>2,733.70</b>     | <b>Change</b>  | <b>0.00</b>  | <b>-683.43</b>      | <b>Change</b>  | <b>0.00</b>  | <b>-4,100.56</b>    |

| Firm Size 99th Percentile of Payroll<br>5% Payroll on Insurance |              |                     | Firm Size 99th Percentile of Payroll<br>10% Payroll on Insurance |              |                     | Firm Size 99th Percentile of Payroll<br>15% Payroll on Insurance |              |                     | Firm Size 99th Percentile of Payroll<br>20% Payroll on Insurance |              |                     |
|---|--------------|---------------------|--|--------------|---------------------|--|--------------|---------------------|--|--------------|---------------------|
| Firm Size   | Current Law  | Cost Shift Proposal | Firm Size  | Current Law  | Cost Shift Proposal | Firm Size  | Current Law  | Cost Shift Proposal | Firm Size  | Current Law  | Cost Shift Proposal |
| Payroll   | 7,317,505.00 | 7,317,505.00        | Payroll  | 7,317,505.00 | 7,317,505.00        | Payroll  | 7,317,505.00 | 7,317,505.00        | Payroll  | 7,317,505.00 | 7,317,505.00        |
| Premium Spending  | 365,875.25   | 347,581.49          | Premium Spending   | 731,750.50   | 695,162.98          | Premium Spending   | 1,097,625.75 | 1,042,744.46        | Premium Spending   | 1,463,501.00 | 1,390,325.95        |
| Payroll Tax   | 0.00         | 51,222.54           | Payroll Tax  | 0.00         | 51,222.54           | Payroll Tax  | 0.00         | 51,222.54           | Payroll Tax  | 0.00         | 51,222.54           |
| Gross Cost  | 365,875.25   | 398,804.02          | Gross Cost   | 731,750.50   | 746,385.51          | Gross Cost   | 1,097,625.75 | 1,093,967.00        | Gross Cost   | 1,463,501.00 | 1,441,548.49        |
| Federal Deduction   | 77,931.43    | 84,945.26           | Federal Deduction  | 155,862.86   | 158,980.11          | Federal Deduction  | 233,794.28   | 233,014.97          | Federal Deduction  | 311,725.71   | 307,049.83          |
| Net Cost  | 287,943.82   | 313,858.77          | Net Cost   | 575,887.64   | 587,405.40          | Net Cost   | 863,831.47   | 860,952.03          | Net Cost   | 1,151,775.29 | 1,134,498.66        |
| <b>Change</b>   | <b>0.00</b>  | <b>25,914.94</b>    | <b>Change</b>  | <b>0.00</b>  | <b>11,517.75</b>    | <b>Change</b>  | <b>0.00</b>  | <b>-2,879.44</b>    | <b>Change</b>  | <b>0.00</b>  | <b>-17,276.63</b>   |

**Notes**

Assumes 5% Reduction in Premium. Employer experience is different based on other insurance factors as well like: premium rating pool, health of that pool, utilization of services in that pool, and admin rates of insurer.

Assumes 21.3% Federal Tax Rate when Calculating Federal Deduction, per Quantria Study. Individual Firm Tax Situations will Vary.

[http://www.s-corp.org/wp-content/uploads/2013/08/Quantria\\_Study\\_ETR\\_8-6-13\\_Final\\_pm.pdf](http://www.s-corp.org/wp-content/uploads/2013/08/Quantria_Study_ETR_8-6-13_Final_pm.pdf)

Experience is different for every firm, depending on payroll, decision to offer benefits, cost of offered benefits, take up rate of benefits, and effective tax rates.