

MEMO IN OPPOSITION

FOR IMMEDIATE RELEASE: MARCH 23, 2006

Re: S.7002 (Morahan)/A.11140 (Paulin)

An act to amend to amend the public health law, in relation to establishing a healthcare reinvestment fund suburban demonstration project.

This proposal, S.7002/A.1140 is misguided legislation that seeks to establish a suburban health care reinvestment fund demonstration project in nine counties. This legislation institutes a sizable tax on a narrow base of businesses – predominately sole proprietors and small – businesses while undermining insurance markets in this region. The New York Health Plan Association (HPA) *strongly opposes* this proposal for the following reasons:

S.7002/A.11140 is a regressive and substantial tax on small employers

The \$267 million tax levied under this program will fall on a very narrow base of payers in this region. Under the terms of the legislation, that tax will be paid solely by premium payers that are:

- In the nine designated counties
- Buying fully-insured policies and;
- Purchasing coverage from a for-profit health plan.

According to these terms, the region's largest companies – those that offer self-insured plans, which now provide coverage for roughly 50% (higher downstate) of New Yorkers with insurance – are allowed to escape the tax. These businesses are given a “free ride,” as are all local government entities. Therefore, the tax burden will be disproportionately borne by small businesses that can least afford it.

Health plans and premium payers generously underwrite the health care system

The legislative intent section of the proposal suggests a financial imbalance between insurers and hospitals. In fact, according to the most recent DOH figures, hospitals in these regions accumulated net income of more than \$230 million in 2003. At the same time health plans have continued to underwrite a significant portion of New York's health care system. This is evidenced by:

- More than **\$1.5 billion** in surcharges and assessments under New York's Health Care Reform Act (HCRA) to provide for bad debt and charity care and graduate medical education.
- Tens of millions of dollars paid by plans in the form of corporate franchise taxes, premium taxes and Section 332 assessments.
- Higher reimbursements for hospitals – the fastest rising component of health care costs.

Distorting the Insurance Market Place

Provisions that require this tax be applied solely to for-profit entities will bring unwelcome disruption to this competitive marketplace. At this time, about two-thirds of the plans serving these areas are for profit entities. Requiring only for-profit plans to tax their customers to cover this legislation will result in a competitive advantage for non-profits in this region. It will also hurt stock values of for-profit entities – including the WellChoice (Empire Plan BCBS) whose biggest stockholder, the state of New York, will stand to be the biggest loser if this legislation passes.

Health Insurers are not Banks

This legislation is reportedly modeled on banking legislation enacted years ago to address the concerns of “redlining.” However, the insurance and banking industries are different. Banks are able to accumulate and direct large amounts of capital to finance specified projects of their own choice. Insurers are predominately claims payers, paying a significant percentage of premiums to providers on an ongoing basis. Furthermore, under community reinvestment legislation, banks were required to provide *loans* within certain geographic areas. This legislation is a tax, and one that lacks justification and accountability.

HEAL NY: Hospital Information Technology (HIT) Grants

In last year’s budget, the legislature passed the landmark Health Care Efficiency and Affordability Law for New Yorkers (HEAL-NY). This act authorized the state to make available \$1 billion in capital grant funding over four years to facilitate the transition to a new and improved health care system in the state. Parts of the funds are earmarked to support HIT enhancements and \$50 million in grant awards are currently pending. Additionally, the federal government is accelerating its investment in information technology (federal state health reform partnership- F-SHRP), which facilities in this region should be aggressively pursuing. With these significant grant opportunities available to hospitals to pursue enhanced information technology, a new tax on health insurance premiums for additional HIT funding is unnecessary.

S.7002/ A.11140 is a poorly conceived tax scheme designed to address an unsubstantiated need. For all these reasons, we urge your opposition to this legislation.