

Managed Care Organization Financing Reform

FACT SHEET

The proposed legislation would implement a tax reform proposal to restructure the taxes paid by managed care plans. This includes a replacement Managed Care Organization (MCO) tax for the tax expiring at the end of June 2016 and replaces other taxes currently paid by the health plan industry. This tax reform proposal provides three years of critical funding for the Medi-Cal program, allowing for the continued expanded health care coverage to millions of Californians and protecting programs from cuts during future budget deficits.

The proposed legislation has the following elements:

1. Replacement MCO Tax

- The tax would apply to all full-service health plans licensed by the Department of Managed Health Care (DMHC) and/or plans contracted with the Department of Health Care Services (DHCS) to provide services to Medi-Cal beneficiaries, except that plans licensed to provide care across international borders and locally operated non-profit health plans in Sacramento and San Diego would be exempt from the tax.
- The tax would be assessed on a per enrollee basis for each month of enrollment on all enrollees in taxable plans in the base year with the exception of:
 - Individuals enrolled in a plan for Medicare services
 - Plan-to-plan enrollees (individuals enrolled in a managed care plan who are enrolled through a subcontract from another managed care plan)
 - Individuals enrolled in a Federal Employees Health Benefit Plan
- For all three years of the tax, the tax would be assessed based on cumulative enrollment for the base year (October 1, 2014 through September 30, 2015), collected on a quarterly basis and would be determined by the following taxing tiers and amounts.

	Medi-Cal Tier 1	Medi-Cal Tier 2	Medi-Cal Tier 3	Other Tier 1	Other Tier 2	Other Tier 3	AHCSP Tier
Cumulative Enrollment	<2,000,001	2,000,001 - 4,000,000	>4,000,000	<4,000,001	4,000,001 - 8,000,000	>8,000,000	<8,000,001
Tax Amounts							
FY 2016-17	\$40.00	\$19.00	\$1.00	\$7.50	\$2.50	\$1.00	\$2.00
FY 2017-18	\$42.50	\$20.25	\$1.00	\$8.00	\$3.00	\$1.00	\$2.25
FY 2018-19	\$45.00	\$21.00	\$1.00	\$8.50	\$3.50	\$1.00	\$2.50

- Cumulative enrollment would be based on quarterly Health plan data reported to DMHC retrieved by the Department as of January 1, 2016,

adjusted as necessary by DHCS and supplemented by Medi-Cal enrollment data for the base year as maintained by DHCS.

- The proposed legislation requires the assumption of the MCO tax liability in the event of a merger, acquisition or establishment of a health plan.
- Additionally, it establishes interest and penalties for overdue tax amounts, and provides the Director of DHCS the discretion to waive any interest/penalties and/or develop an alternative payment schedule as determined appropriate to prevent significant harm to the plan or impact on services.
- The proposed legislation establishes the Health and Human Services Fund and directs that all revenues from the tax be deposited in the fund.
- The fund will be continuously appropriated to DHCS for purposes of funding the non-federal share of Medi-Cal managed care rates.
- DHCS is required to provide an annual report to all health plans accounting for the funds deposited in the Health and Human Services Fund

2. *Existing Health Plan Industry Tax Reform*

- The proposed legislation also includes reform of other taxes currently imposed on the health plan industry and replaces those taxes with the above MCO tax.
- Under this tax reform package, qualified health care service plans that have qualified health care service plan income (as is required to be reported to the Department of Managed Health Care) will not have such income included in the calculation of gross income for purposes of their corporation tax liability.
- In addition, insurers that provide health insurance and also have a corporate affiliate that is a health plan under the MCO tax shall have the gross premiums tax rate for premiums received for the provision of health insurance be 0 percent.

The results of MCO Financing Reform under this proposed legislation for FY 2016-17 are as follows:

- \$2.38 billion in total revenues to the state
 - \$740 million to fund the required capitation adjustments to Medi-Cal managed care plans for the Medi-Cal cost of the tax
 - \$371 million to replace the reduced funding from the corporation and gross premiums tax reforms.
 - \$1.27 billion to fund Medi-Cal managed care

- \$2.38 billion in MCO tax liability for health plans
 - \$2.11 billion on Medi-Cal business for which the state is required to reimburse the health plans
 - \$267 million on other lines of business for the health plan
- \$371 million in estimated reduced corporation and gross premiums tax liability that was replaced with the MCO tax.
- Overall the tax reforms in this proposed legislation result in an estimated reduction in tax liability to the health plan industry of \$106 million.
- The entire package of tax reforms contained in the proposed legislation will sunset after three years.