

**LEGISLATIVE FISCAL ESTIMATE**  
**ASSEMBLY, No. 4705**  
**STATE OF NEW JERSEY**  
**221st LEGISLATURE**

DATED: JULY 15, 2024

**SUMMARY**

- Synopsis:** Increases annual assessment on net written premiums of HMOs from five percent to six percent.
- Types of Impact:** Annual State revenue and expenditure increases.
- Agencies Affected:** Department of Banking and Insurance, Department of Human Services, Department of Health.

**Office of Legislative Services Estimate**

<b>Fiscal Impact</b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>
<b>State Revenue Increase</b>	<b><u>\$135.0 Million</u></b>	<b><u>\$313.5 Million</u></b>	<b><u>\$340.5 Million</u></b>
A) HMO Assessment	\$80.8 Million	\$187.7 Million	\$203.9 Million
B) Federal Revenue	\$54.1 Million	\$125.8 Million	\$136.6 Million
<b>State Expenditure Increase</b>	<b><u>\$80.8 Million</u></b>	<b><u>\$187.7 Million</u></b>	<b><u>\$203.9 Million</u></b>

- The Office of Legislative Services (OLS) projects that raising the health maintenance organization (HMO) premiums assessment from five percent to six percent will increase State revenue collections by \$135.0 million and State expenditures by \$80.8 million in FY 2025, for a net gain of \$54.1 million. These estimates represent six months of financial impacts.
- Annualized, in FY 2026 and FY 2027, the OLS estimates State revenue to grow by \$313.5 million and \$340.5 million and State expenditures by \$187.7 million and \$203.9 million, for a net gain of \$125.8 million and \$136.6 million, respectively.
- The OLS projections consider all budgetary impacts of the federal revenue enhancement initiative: a) the State’s increased HMO premiums assessment collections; b) the State’s increased federal cost reimbursements under the Medicaid program; and c) the State expenditure increase from compensating the Medicaid HMOs for their higher operating costs as they must pay the higher assessment.



**BILL DESCRIPTION**

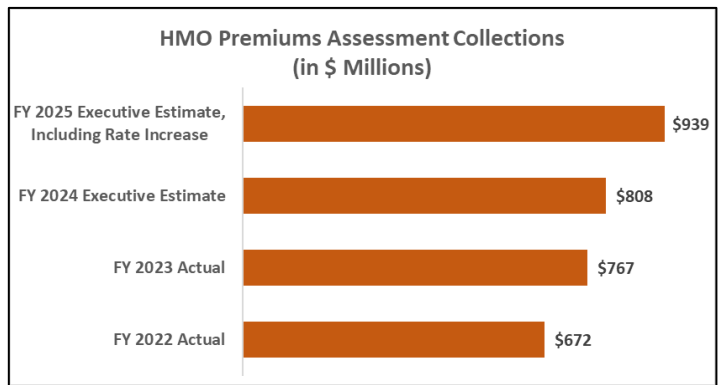
This bill increases the annual assessment on net written premiums of HMOs from five percent to six percent first applicable to assessments made for FY 2025. Because of the way the revenue is administered, only six months of the increased assessment will be collected in FY 2025.

Assessment collections are deposited into the dedicated, off-budget Health Care Subsidy Fund. The fund supports several Statewide health care initiatives with the NJ FamilyCare/Medicaid program currently receiving the largest distribution.

**FISCAL ANALYSIS**

***EXECUTIVE BRANCH***

The Executive has not submitted a formal, written fiscal note on this bill. However, the Executive has indicated that the bill will increase HMO premiums assessment collections by \$83 million in FY 2025, reflecting a six-month period. The Executive has not provided an annualized estimate for FY 2026 and beyond.



***OFFICE OF LEGISLATIVE SERVICES***

The OLS projects that in FY 2025 the bill will increase State revenue collections by \$135.0 million and State expenditures by \$80.8 million, for a net gain of \$54.1 million. These estimates represent six months of impacts.

Annualized, in FY 2026 and FY 2027, the OLS estimates State revenue to grow by \$313.5 million and \$340.5 million and State expenditures by \$187.7 million and \$203.9 million, for a net gain of \$125.8 million and \$136.6 million, respectively.

These estimates consider all budgetary impacts of the federal revenue enhancement initiative

Components of Projected State Revenue Increases			
Component	FY 2025	FY 2026	FY 2027
HMO Assessment	\$80.8 Million	\$187.7 Million	\$203.9 Million
Federal Cost Reimbursements	\$54.1 Million	\$125.8 Million	\$136.6 Million
Total State Revenue Increase	\$135.0 Million	\$313.5 Million	\$340.5 Million

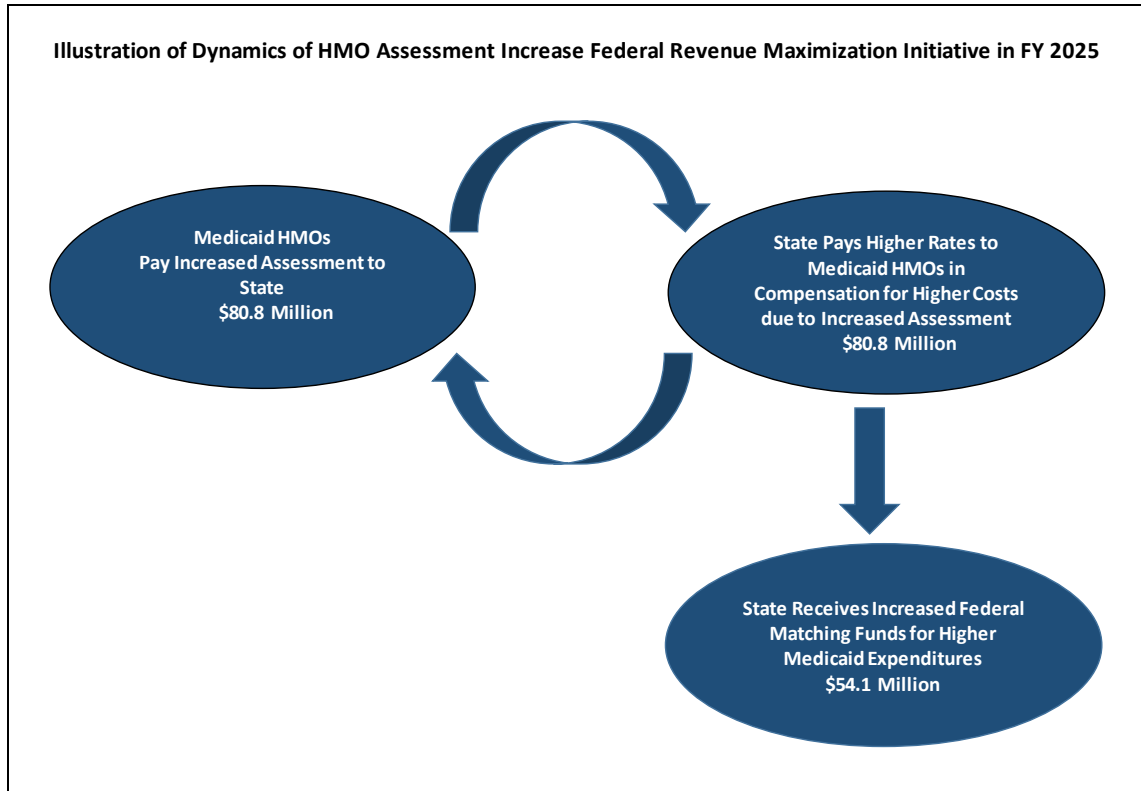
pursued in this legislation. To that effect, the table to the left shows the allocation of the total State revenue gain between its two components: the direct revenue gain in the form of additional HMO premiums

assessment revenue as well as the indirect revenue gain from increased federal cost reimbursements under the Medicaid program.

Concerning the estimation method, the OLS bases its projections on the Executive’s estimate of \$808.2 million in HMO premiums assessment revenue in FY 2024, at the current tax rate of five percent, as specified in the FY 2025 Governor’s Budget. For the six months of increased collections in FY 2025, the OLS applies the bill’s six percent tax rate to the FY 2024 base amount but does not project baseline growth because the effects of medical cost inflation are assumed to be offset by the annualization of the enrollment reduction effect from the FY 2024 unwinding of the COVID-19 continuous enrollment policy. For FY 2026, the OLS annualizes the FY 2025

increase in HMO premiums assessment collections and assumes baseline growth of 16 percent as a combined impact of medical cost inflation and the resumption of NJ FamilyCare/Medicaid enrollment growth.

However, as indicated above, as a federal revenue enhancement initiative, the bill will produce budgetary impacts that extend beyond higher annual HMO premiums assessment collections.



Specifically, the State’s Medicaid managed care organizations pay virtually the entirety of the HMO premiums assessment. When the rate of the assessment goes up, so do the reimbursements the State pays to the Medicaid managed care organizations, resulting in the State ultimately paying the higher assessment to itself with the Medicaid managed care organizations serving as conduits. Accordingly, once the additional assessment revenue collections will have reverberated through the Medicaid finance system, the estimated State revenue increase of \$80.8 million from the higher HMO premiums assessment in the applicable six-month period in FY 2025 will have turned into an offsetting \$80.8 million State expenditure increase.

But the higher State Medicaid expenditures will qualify for federal Medicaid matching funds at an estimated rate of 67 percent. For that reason, the estimated net impact of the federal revenue enhancement initiative for FY 2025 will be a State revenue increase of \$54.1 million, representing the higher federal cost reimbursements.

*Unit: Legislative Budget and Finance Office*  
*Analyst: Juan C. Rodriguez*  
*Oscar A. Mendez*  
*Revenue and Economic Policy Analysts*  
*Approved: Thomas Koenig*  
*Legislative Budget and Finance Officer*

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).