



Legislative
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FINAL FISCAL NOTE

Drafting Number: LLS 20-0857
Prime Sponsors: Sen. Smallwood
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Bill Status: Postponed Indefinitely
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Bill Topic: REPEAL COLORADO REINSURANCE PROGRAM

Summary of Fiscal Impact:

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

The bill would have repealed Colorado's Reinsurance Program, limiting its operation solely to the 2020 benefit year. It would have decreased state revenue and expenditures on an ongoing basis.

Appropriation Summary: For FY 2020-21, the bill would have required a reduction in appropriations of \$507,561 to the Department of Regulatory Agencies.

Fiscal Note Status: The fiscal note reflects the introduced bill. The bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

**Table 1
State Fiscal Impacts Under SB 20-145**

		FY 2020-21	FY 2021-22
Revenue	Reinsurance Cash Fund	-	(\$40,000,000)
	Total	-	(\$40,000,000)
Expenditures	Cash Funds	(\$38,532,561)	(\$38,532,561)
	Federal Funds	(\$71,527,500)	(\$71,527,500)
	Centrally Appropriated	(\$33,531)	(\$33,531)
	Total	(\$110,093,592)	(\$110,093,592)
	Total FTE	(2.0 FTE)	(2.0 FTE)
Transfers and Diversions	General Fund	\$40,541,092	\$15,700,000
	Reinsurance Cash Fund	(\$40,541,092)	(\$15,700,000)
		\$0	\$0
TABOR Refund		-	-

Summary of Legislation

Senate Bill 19-1168 directed the Commissioner of Insurance to seek a State Innovation Waiver under the federal Affordable Care Act to create a jointly funded reinsurance program in Colorado. Federal approval was granted, and Colorado's Reinsurance Program is now authorized to be in effect for calendar years 2020 and 2021. This bill repeals the Reinsurance Program after the 2020 benefit year, limiting its operation to one year and requires the commissioner to disburse all applicable reinsurance payments to carriers by August 15, 2021. The remaining balance of the Reinsurance Program Cash Fund is to be refunded in proportion to the contribution of entities or funds from which it originated.

Background

Reinsurance. Reinsurance is a type of insurance available to insurance carriers to transfer a portion of their risk to one or more other carriers, thereby reducing the risk of having to pay high-cost claims. By covering a portion of costs for high-cost claims, reinsurance can allow insurance carriers to charge lower premiums to consumers. Colorado's Reinsurance Program uses state and federal funds to cover a portion of claims for high cost individuals insured through the individual market. About a quarter million Coloradans receive health insurance coverage through Colorado's individual market, with about half of this population receiving federal tax credits to pay a portion of their premiums.

State Revenue

The bill reduces state revenue to the Department of Regulatory Agencies (DORA) by an estimated \$40.0 million in FY 2021-22 from special fees assessed on hospitals, assuming this fee would be collected in the second half of the 2021 benefit year.

State Transfers and Diversions

The bill reduces transfers and diversions from the General Fund by \$40.5 million in FY 2020-21 and \$15.7 million in FY 2021-22.

For FY 2020-21, this includes:

- \$40 million General Fund transfer to the Reinsurance Program Cash Fund; and
- \$0.5 million General Fund diversion to the Division of Insurance Cash Fund related to staffing and Reinsurance Program administration.

For FY 2021-22, this includes:

- \$15.7 million General Fund diversion to the Reinsurance Program Cash Fund;

State Expenditures

The bill decreases state expenditures by an estimated \$110.0 million and 2.0 FTE in FY 2020-21 and FY 2021-22. These cost reductions are shown on Table 2 and described below.

**Table 2
 Expenditures Under SB 20-145**

	FY 2020-21	FY 2021-22
Reinsurance Program Payments*		
Reinsurance Payments - Cash Funds	(\$38,025,000)	(\$38,025,000)
Reinsurance Payments - Federal Funds	(\$71,527,500)	(\$71,527,500)
Subtotal (Reinsurance Payments)	(\$109,552,500)	(\$109,552,500)
Program Administration in DORA		
Personal Services and Operating Expenses	(\$169,561)	(\$169,561)
Contractor and Consultant Services	(\$338,000)	(\$338,000)
Centrally Appropriated Costs**	(\$33,531)	(\$33,531)
Subtotal (Administration)	(\$541,092)	(\$541,092)
Total Cost	(\$110,093,592)	(\$110,093,592)
Total FTE	2.0 FTE	2.0 FTE

* Reinsurance payments are shown as they align with the calendar year that the payments will reimburse insurers for. Actual payments will be made by August 15 of the following year.

** Centrally appropriated costs are not included in the bill's appropriation.

Reinsurance Program. Costs for the 2021 year of the reinsurance program are split evenly between FY 2020-21 and FY 2021-22. Repealing the program eliminates the need for reinsurance payments associated with 2021 plans and consequently eliminates the need for program administration staff. The cost structure of the 2021 plan year has not yet been established; the figures shown here are based on preliminary estimates and state funding available under current law.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These cost reductions, which include employee insurance and supplemental employee retirement payments, are estimated to be \$33,531 in FY 2020-21 and FY 2021-22.

Statutory Public Entity

Connect for Health Colorado. The state's health insurance exchange is funded primarily through a health insurance carrier fee charged on plans purchased through the marketplace. The fee is set at 3.5 percent of premiums for 2019. An increase in premiums will result in an increase in revenue to Connect for Health Colorado. This may be partially offset by a decrease in demand for health insurance policies.

Effective Date

The bill was postponed indefinitely by the Senate Finance Committee on February 13, 2020.

State Appropriations

For FY 2020-21, the bill requires a reduction in appropriations to the Department of Regulatory Agencies of \$507,561 from the Division of Insurance Cash Fund.

State and Local Government Contacts

Colorado Health Benefit Exchange
Health Care Policy and Financing
Law

Information Technology
Regulatory Agencies

Personnel
State Auditor