The risk of seeking a new insurer tax far outweigh its possible benefits

- ***A request for a tax increase.*** The General Assembly included a provision in the budget that would require Ohio Medicaid to ask the U.S. Department of Health and Human Services (HHS) for permission to impose a new 25-percent higher tax on health insurers, replacing Ohio's approved 5.8 percent tax with a new 7.2 percent tax. This provision was requested by the County Commissioner's Association of Ohio (CCAO) to generate additional revenue for counties and transit authorities.
- ***It is unlikely that a tax this high would be approved.*** During the budget process, CCAO suggested it would be easy for Ohio to request an exception to the federal test that currently caps health care related provider taxes at 6 percent. However, the federal government has never approved a tax rate above the cap – there is no precedent for a state to exceed the 6 percent cap. Furthermore, when in Congress, the current HHS Secretary Tom Price called for eliminating these kinds of taxes.
- ***A denial could cost Ohio everything.*** If Ohio's request for a new 7.2 percent tax rate were denied, the funds from the current 5.8 percent tax could be eliminated, which would leave a $615 million funding shortfall for Medicaid. A shortfall of this magnitude could only be managed with significant rate cuts to providers.
- ***Other conditions outside Ohio's control could also potentially cost Ohio everything.*** Additionally, rates above 6 percent come with conditions that Ohio has not control over meeting. If 75 percent of the plans that pay the tax receive 75 percent or more of its benefits, the federal government would no longer consider it a "broad based" tax and would shut it down, leaving a $615 million funding shortfall for Medicaid. Currently, Ohio could meet these conditions, but given the rate at which companies are withdrawing from the individual health insurance market, it is possible and completely beyond the state's control that additional private sector plans could withdraw, causing Ohio to fail the 75/75 and the tax to shut down.
- ***Even this new large tax increase falls short of local governments' desired amount.*** Even if the federal government approved a tax increase to 7.2 percent, local governments would still fall $64 million short of the amount they seek. That is because this provision caps the additional revenue to be collected under the tax increase at $207 million (the CCAO's original request). However, 31 percent of any amount collected is returned to the Medicaid managed care plans to cover the cost of the tax they pay. Therefore, a $207 million tax increase would only generate $142 million in revenue (69 percent of the revenue collected) for counties and transit authorities – $64 million less than the amount they seek.
- ***Too much risk and too little gain.*** It is very unlikely that this request will be approved. Both denial and approval bring unacceptable risks that the entire tax would be eliminated. Furthermore, the funds from the tax increase don't even cover the amount sought by those requesting it, making it likely that their search for additional funds will continue. The risks are far too short of the possible benefits to justify this provision.