

# Frequently Asked Questions

## Michigan 1 percent claims tax



### 1. What did the Michigan Legislature pass?

The Michigan Legislature approved a new 1 percent tax to be applied to certain Michigan health insurance claims beginning Jan. 1, 2012. Gov. Rick Snyder signed the legislation into law on Sept. 20, 2011. The tax applies to self-funded health care plans and health insurance carriers operating in Michigan, including Blue Cross Blue Shield of Michigan and Blue Care Network.

### 2. What will the tax be used for?

The new 1 percent tax will replace the current 6 percent use tax applied to Medicaid managed care plan services and will be used to support Michigan's Medicaid program. The tax also ensures that Michigan continues to receive federal funds for its Medicaid program.

### 3. How is the current 6 percent tax paid and collected?

The current 6 percent tax applies only to Medicaid managed care plans and they pay the state of Michigan in a similar manner to sales and use tax. Groups were not affected and were not directly charged this tax. Under the new law, the 1 percent tax will be directly recouped from both group and individual members.

### 4. Does the tax apply to all health care claims?

It applies to most health care claims, but not all. According to the statute, some of the exempt claims include:

- Services for Michigan residents received outside of the state
- Cost-sharing requirements (deductibles, copays and coinsurance)
- Reimbursements under a flexible spending arrangement, health savings account, Archer medical savings account, Medicare Advantage medical savings account or other health reimbursement arrangements authorized under federal law
- Claims paid under a federal employee health benefit program
- Medicare, Medicare Advantage, Medicare Part D claims
- TRICARE (military-CHAMPUS and the United States Veterans Administration claims)
- Workers' compensation and long-term care claims

### 5. Are there dollar limits to the tax?

Yes. The law limits the annual tax to \$10,000 per insured individual or covered life.

**6. Does the tax apply to claims paid for ERISA groups?**

Yes. The tax applies to claims paid for group customers regardless of whether they're an ERISA or non-ERISA group, but only applies to Michigan residents for services received in Michigan.

**7. Does the tax apply to health care claims for individuals who are in non-group plans?**

Yes. It applies to claims paid for individuals covered in individual (non-group) health plans, but only to Michigan residents who received services in Michigan.

**8. Does the tax apply to Medicare supplemental, prescription drug, vision and dental claims?**

Yes. It applies to commercial Medicare supplemental, prescription drug, vision and dental claims, but only applies to Michigan residents for services received in Michigan. **Note:** Because vision claims are not expressly excluded under the law, the Blues believe vision claims are subject to the tax.

**9. Does the tax apply to services received outside of Michigan?**

No. The tax only applies to Michigan residents who receive services in Michigan.

**10. Does the tax apply to services received in Michigan by non-residents?**

No. The tax only applies to Michigan residents who receive services in Michigan.

**11. Does the tax apply to companies headquartered outside of Michigan with a Michigan operation?**

The tax applies to Michigan residents receiving services in Michigan. The location of the company headquarters or its operations is irrelevant.

**12. How will Blue Cross and Blue Care Network collect funds to pay the tax?**

**Blue Cross fully insured area-rated group customers** – Blue Cross will apply a single .75 percent tax factor\* to the group's monthly premium. It will be separately identified and added to the group's monthly invoice.

**Blue Care Network fully insured (underwritten) group customers** – Blue Care Network will apply a single .84 tax factor\* to the group's monthly premium. It will be separately identified and added to the group's monthly invoice.

**\*Note:** Blue Cross and Blue Care Network's recoupment factors are based on the estimated claims tax for the group's risk pool and incorporates assumptions for residency and claims. The factor will be adjusted annually to accurately match the amounts charged to the taxes paid.

**Blue Cross fully insured experience-rated group customers** – Because our experience-rated arrangement uses a group’s own experience, Blue Cross will apply a single claim factor based on the group’s percentage of Michigan membership. This factor will be applied to the monthly premium and will be separately identified and added to the group’s monthly invoice.

% of outstate membership	Factor applied to premium
<10%	.75%
10-20%	.65%
21-40%	.55%
41-60%	.35%
61-80%	.20%
80%+	.0%

**Blue Cross and Blue Care Network self-funded (ASC) customers** – Blue Cross and Blue Care Network will collect 1 percent of Michigan paid claims from the group and pay it to the state of Michigan. The tax amount will be separately identified and added to the group’s monthly invoice.

**Blue Cross individual (non-group) customers** – BCBSM will apply a single .75 percent tax factor\* to the individual’s monthly premium. The tax amount will be separately identified on the member’s bill.

**Blue Care Network individual (non-group) customers** – BCN will apply a single .84 percent tax factor\* to the individual’s monthly premium. The tax amount will be separately identified on the member’s bill.

**\*Note:** The tax factor is based on the claims for the entire pool of individual members divided by total premiums. This pooled approach is an equitable way to assess the claims tax and minimize the impact of high-cost claims. The factor charged to the member will be adjusted annually to accurately match the amounts charged to the taxes paid.

### **13. When applying the percent tax is Blue Cross Blue Shield and Blue Care Network factoring in non-Michigan versus Michigan employees?**

Yes. For underwritten groups, the composite factors developed by Blue Cross Blue Shield and Blue Care Network have incorporated assumptions for residency and out-of-state claims.

For groups with an ASC arrangement, groups will only be taxed on claims for services performed in Michigan and for Michigan residents.

### **14. When will the tax be added to the invoice or bill?**

Blue Cross and Blue Care Network will begin applying the factor in January 2012 and will collect for the entire year. The estimated tax amount will be separately identified and added to the group’s invoice by April 2012 or earlier depending on when our system changes are finalized.

**15. Can you provide the exact cost to me?**

We're unable to determine the exact cost of the tax because it's based on the use of health care services. That's why it will be identified as an estimated tax and why the factor will be adjusted annually. Your estimated tax will be separately identified and added to your monthly premium invoice.

**16. Can employers pass the claims tax onto their employees?**

The law does not prohibit the employer charging the tax back to its employees, but other employment-related laws or collective bargaining agreements may be applicable. We recommend you consult your legal or tax counsel as we cannot give legal or tax advice.

**17. Can a group pay their own tax directly to the state?**

No. The tax applies to Blue Cross and Blue Care Network so as the health insurance carrier, we must collect and pay the tax to the state.

**The summary and FAQs are provided for information purposes only. They should not be considered legal advice or relied upon as such. You should consult your legal counsel and the underlying laws and regulations in order to gain a full understanding of the law.**