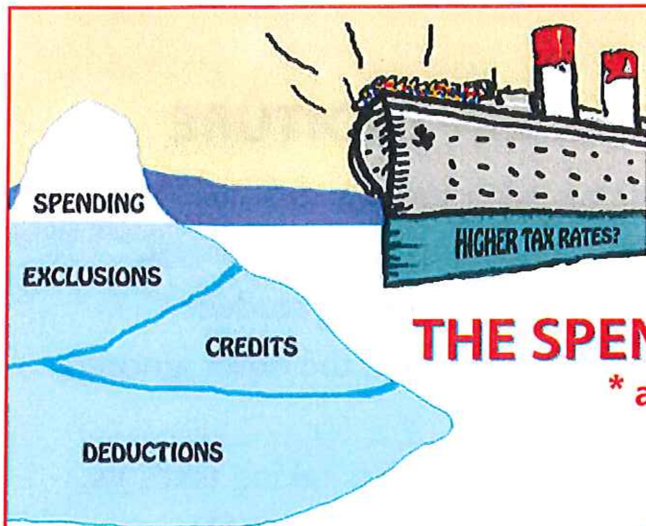

THE SPENDING NO ONE SEES*

* and other tax policy reflections

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OVERVIEW

- A word about WISTAX
- Today's topic, concept and context
- A parable
- Sales tax, income taxes (Indiv. and corporate)
- Why care?
- What to do about it?

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THE CONCEPT OF TAX EXPENDITURE

- What is an expenditure vs. tax expenditure
  e.g., GPR subsidy to nursing schools to limit tuition **vs.** refundable income tax credit to each nursing student
- Problem: Same goal, but one scrutinized, the other ignored; hence, "the spending no one sees"
- Exacerbated by politics: Spending requires taking taxes **vs.** tax expenditure (here, credit) gives tax money back!
  Comment: Kahneman, Tversky and the Nobel prize

THE WISCONSIN CONTEXT

- Like federal gov't, state elected officials love giving "tax goodies"; natural bias to barnacle-ization
- Attempts to control:
  — Jt. Survey Committee on Tax Exemptions
  — DOR *Tax Exemption Devices* (1977 - present)
- Little success, e.g., Wis. indiv. inc. tax: Goal, fed. conformity;
  But (1) adds/subtracts to FAGI – 41 (2001) vs. 75 (2015)
  (2) Wis. credits – 10 (2001) vs. 40 (2015) **Exception?**

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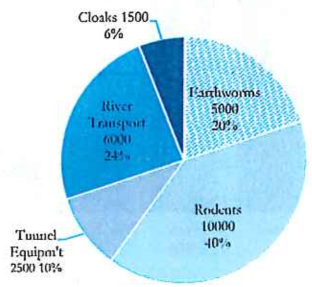
A BADGER PARABLE (Island sales tax)

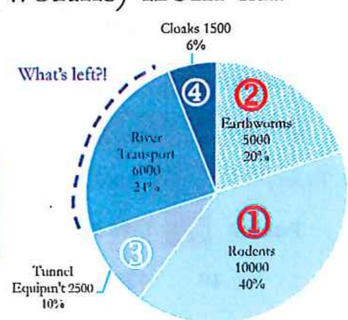
- Community of 100 badgers, live on island mid-river
- Badgers consume:
  - Food (worms, rodents), Clothing (scarves) Transport (tunnel equipm't, river crossing)
  - Subject to 4% sales tax

Badger Island Consumer Purchases
(Total = $β25,000)



THE PARABLE OF BADGER ISLAND, II

- ①② Pressure to exempt food (rodents, then worms) from tax
- ③ Tunnellers get equipm't exemption
- ④ "Make clothing exempt, too" (cloaks)



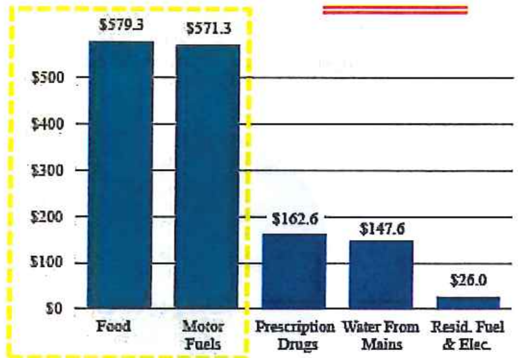
	No exempts	① Ex. rodents	② Ex. worms	③ Ex. Equip.	④ Ex. cloaks
Rate	4.0%	6 ⅔%	10.0%	13⅓%	16⅔%
Tax Base	25,000	15,000	10,000	7,500	6,000
Revenue	1,000	1,000	1,000	1,000	1,000

WISCONSIN SALES TAX

Background

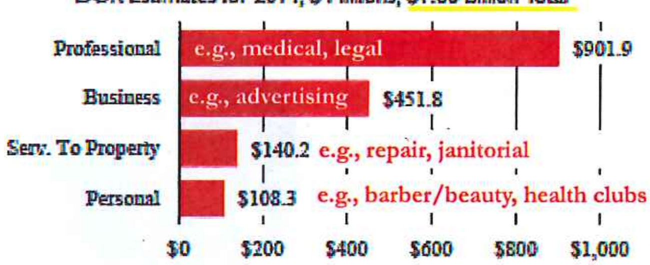
- Wis "late": 60's, selective, gen'l
- Tax "tangible personal prop."
  What it's not . . . services
- 2013-14: $4.3 billion; now . . .
- 5% + 0.5% + . . .

Figure 3: Tax Cost of Major Sales Tax Exemptions
DOR Estimates for 2014, $ Millions, $3.54 Billion Total



WISCONSIN SALES TAX, II

Figure 4: Tax Cost of Service Exclusions From Sales Tax
DOR Estimates for 2014, $ Millions, $1.60 Billion Total

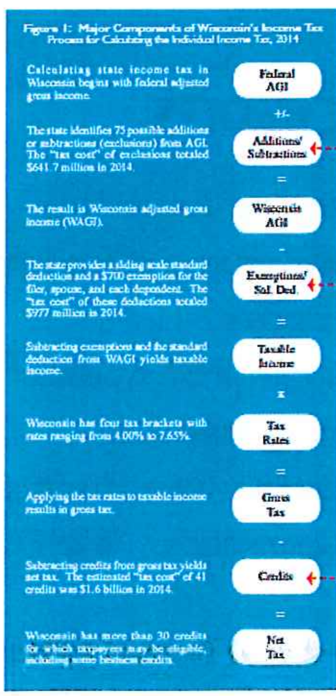


- Economy: goods vs. services
- Tax "tangible personal prop."
  do not *impose* tax on services
- DOR: 27 services @ $1.6 bill.
- Ex's: medical ($651m)
  legal ($120m), advert. ($88m)
  janitorial ($22m), beauty ($22m)
- But, tax?? e.g., business inputs?

WISCONSIN INCOME TAX

Background

- Wis. "the first" – 1911
- Unusual reliance, ~ half of GPR taxes, 2014-15: $7.33 bill.
- Now, rates - 4.00% to 7.65%, four brackets, max. jt.- $325,700
- Rank, 2013 as share of pers. income, 7th
  usually 20%-30% > U.S. average (another speech!!)

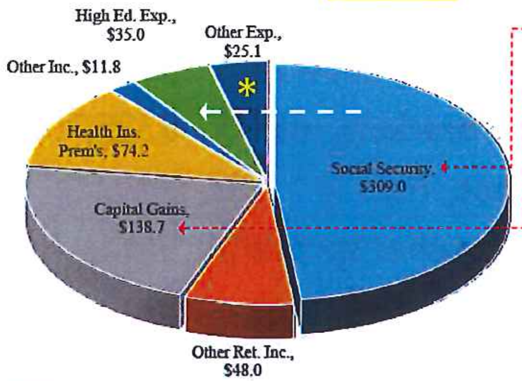


INCOME TAX VOCABULARY

- Exclusions
- Pers. exemption, Std. deduct'm
- Tax credits (incl. itemized ded.)

INCOME TAX EXCLUSIONS

Figure 2: Tax Cost of Wis. Income and Expenditure Exclusions
DOR Estimates, in Millions, for 2014, $641.7 Million Total



- Exclusions from income
  - — Soc. Security: Fed. vs. WI, dumb?
  - — Cap. gains: Fed. vs. WI, 60%-30%
- Spending excluded
  - — Tuit'n to Wis. college/univ ($24m)
  - — College savings plans ($11m)
  - — Adoption expenses * ($0.1m ?!)

INDIVIDUAL INCOME TAX CREDITS

Table 1: Wisconsin Income Tax Credits
Estimated "Tax Costs" for 2014, $ Millions

Credit	Amt.
School Property Tax	$403.0
Income Tax Paid to Other States	325.0
Itemized Deductions	265.0
Married Couples	262.0
Homestead	118.0
Earned Income (EITC)	104.0
Other (35)	121.7
Total	1,598.7

- Credits are not deductions
- Refundable or non-refundable
- Specific credits
- Out of control? $1.6 billion
  - — Politically appealing
  - — Both parties have dumb credits
  - — Small consolat'n: WISTAX, CPAs

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CORPORATE INCOME TAX CREDITS

Background

- 1911 "companion"
- Evolving co. design: C vs. Sub-S, etc.
- Flat 7.9% rate
- $967m (2014)
- Ag-Manuf. credit, indiv + corp. = $284 m by FY 2017 e.g., need for policy

Table 2: Corporate Income Tax Credits
DOR Estimates for 2014, $ Millions

Credit	Amount	% of Corp. Collections
Manufacturing and Ag.	$33.2	3.4%
Enterprise Zones Jobs	32.4	3.3
Research Expenditures	25.9	2.7
Economic Development	8.3	0.9
Jobs	7.2	0.7
Development Zones	2.7	0.3
Health Ins. Risk-sharing Pool	2.6	0.3
Others	10.7	1.1
Total	123.0	12.7

SPENDING VIA TAX SYSTEM – WHY CARE?

First, what makes a *good* tax system? (Little disagreement . . .)

- Economically, behaviorally neutral: doesn't unnecessarily damage economy or encourage unproductive behaviors
- Easy to comply: Minimal taxpayer costs in time, money
- Minimal administrative/enforcement costs, as well.
- Maximally "productive" – reliably generates needed revenue
- Stable, predictable revenue (e.g., CA income tax?!)
- Fair, equitable (horizontal, vertical equity)

SPENDING VIA TAX SYSTEM – WHY CARE?

- **Huge** amounts of spending with little/no scrutiny
- Puts upward pressure on tax rates:
  Higher rates for all, benefits for relatively few
- Economically "suboptimal": distorts market, plays favorites, higher rates discourage behavior, e.g., work, saving
- Complexity increases regulatory/compliance burden: costs in dollars, unproductive use of time
- Increases government administrative/enforcement costs

. . . WHY CARE? (II)

- Compliance expense is regressive (immoral?)
- Alienating, contrary to Amer. philosophy ("of the people . . .")
- Getting worse
- Naïve—Context overlooked:
  - —Federal vs. state tax policy
  - — State tax collections vs. state economy
  - — State taxes vs. local property taxes

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WHAT CAN WE DO?

- Honestly, not a lot: Lack policy vision, political courage
- Small steps: Use tools we have (JSCTE and DOR report)
- Larger goal: Design taxes that can't be "mucked up"
- Examples: Individual income tax (context – simplification!)
  - — Simple state income tax, 1 or 2 rates based on FAGI
  - — . . . or percentage of fed. liability ("piggyback")
  - — Income tax to payroll tax: no form filing (~ Soc. Sec.)
- Sales tax even tougher? VAT or LOW-rate gross receipts tax

Questions?

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Thank you for your support.

Iowa Department of REVENUE

IOWA TAX CREDIT TRACKING AND ANALYSIS PROGRAM

Angela Gullickson

Iowa Department of Revenue

May 5, 2016

History of the Program

- Tax Credit Tracking and Analysis Program (TCTAP) was established in 2005
- Purposes
  - ➢Respond to a need to provide revenue estimators with better information on how tax credits were impacting the State budget
  - ➢Respond to a request by legislators and other policy-makers to improve the accountability of tax credits and to gain a better understanding of the benefits derived from these credits

New Data Requirements

- Comprehensive database that would contain both tax credit awards and tax credit claims
- Ability to track tax credit transfers
- Ability to track tax credit claims earned by pass-through entities

Administrative Changes

- Tax Credit Awards
  - Inter-agency Steering Committee was established
    - Tax Credit Awarding Agencies
      - Dept. of Cultural Affairs, Community Colleges, Economic Development Authority, Dept. of Revenue, and Iowa Utilities Board
    - Information Agencies
      - Dept. of Workforce Development and Dept. of Education
- Tax Credit Claims
  - Development of IA 148 Tax Credits Schedule

IA 148 Tax Credits Schedule

- Form started in tax year 2006 to track nearly all tax credits claimed on the IA 1040, IA 1120, and other tax forms – data behind "Other Tax Credit" lines
- Filed by any taxpayer making a claim to a credit
  - Corporation, franchise, insurance, fiduciary
  - Both spouses if filing separately on joint return
  - Not filed by pass-through entities
- 2015 IA 148 Tax Credits Schedule and Instructions Included with Handouts

5

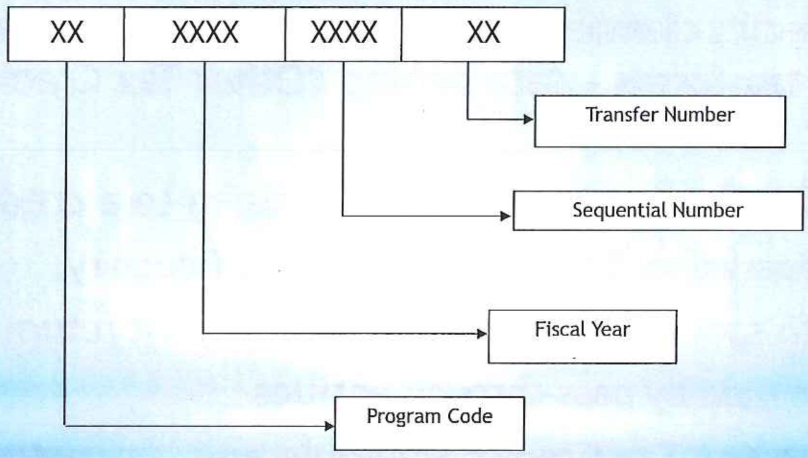
Tax Credit Transfers

- Prior to TCTAP all awarding agencies completed all tax credit transfer requests
- Upon implementation of TCTAP, the Department of Revenue (IDR) began working with the awarding agencies to shift the responsibility of tax credit transfers to IDR
- Many tax credits are transferred to taxpayers filing insurance premium or franchise taxes

6

Tax Credit Certificate Number

The certificate number is a 12-digit number



The last six digits change depending on the tax credit rules

Tax Credit Claims

- Between 2006 and 2012 tax years
  - ➢Average of 30,900 nonrefundable tax credits claimed each year
  - ➢Claims average $118.9 million each year
  - ➢Average of 3,300 refundable tax credits claimed each year
  - ➢Claims average $87.5 million each year

Tax Credit Compliance

- TCTAP required taxpayers to provide details with tax credit claims
- Additional data revealed that many taxpayers were making errors
- Compliance efforts resulted in over $17 million in repayments since fiscal year 2009
- IDR also required to enforce clawbacks of economic development tax credits when taxpayers fail to meet the contract using data captured on IA 148

Tax Credit Forecasts

- Implementation of TCTAP led to the development of the Contingent Liabilities Report
  - Quantifies tax expenditures of State's 40 tax credits
- Provided to Revenue Estimating Conference prior to three State revenue forecasts each year
- Includes two forecasts of tax credit claims
  - Contingent liabilities ($551.2 million in FY 2017)
  - Expected claims ($406.6 million in FY 2017)
- Copy of the most recent report in the handouts

Tax Credit Evaluation Studies

- Through 2015 the Department of Revenue has completed 24 evaluation studies
- Tax credits are reviewed every five years according to legislation enacted in 2010
- Almost all evaluation studies have an advisory panel comprised of stakeholders and academics to ensure studies are thorough and unbiased

Interesting Evaluation Study Findings

- Average wages paid to employees in companies claiming the Research Activities Tax Credit are not systematically higher than other companies in the same industry and metropolitan locations (2011)
- Controlling for income, marital status, and age, non-Endow charitable contributions increased by $0.09 for each dollar donated toward an Endow Iowa fund, one-third of the value of the 25% Endow Iowa Tax Credit (2012)

Interesting Evaluation Study Findings

- Using the REMI model, assuming that absent the Historic Tax Credit, zero rehabilitation expenditures would have been spent and no new construction would have occurred on the property, it was estimated that for every $1 million of rehabilitation expenditures, 21 more jobs were supported and $0.8 million of personal income was added (2014)
- For the 28 firms receiving investments incentivized by the Venture Capital Tax Credit in early 2000's, 70 percent of firms were still in business as of 2011, a slightly higher survival rate than similar firms outside the program (2014)

Interesting Evaluation Study Findings

- 2/3 of businesses eligible for New Jobs Tax Credit did not make a claim, suggesting the credit is a windfall to businesses who happen to know about the tax and questioning its incentive in creating new jobs (2015)
- Agricultural Assets Transfer Tax Credit participants were estimated to have greater persistence in farming than similar young farmers in Iowa not benefiting from the program (2015)

Strengths of TCTAP

- Extensive claim data to estimate utilization of awards and timing of claims for revenue forecasting and tax credit fiscal estimates
- Allowed for tax credit claim compliance
- Claim data available for evaluating tax credits

Weaknesses of TCTAP

- Goal to have awarding agencies upload award data into the system never realized
- There is a lag in claim data availability
  - Currently working on completing the Annual Tax Credit Claims Report for the 2013 tax year
- Claim verification requires a lot of manual work
  - Electronic claims loaded automatically (~88%)
  - Manual verification against awards, validation of carryfoward, or eligibility for automatic claims

Future - CACTAS

Tax Credit Award, Claim & Transfer Administration System

- Moving each tax credit award process and transfers into an integrated online system
  - Generally eliminating paper applications
- Automating verification of claims against awards and checking auxiliary forms filed by taxpayers
- Comprehensive database of awards (including allocations) and claims for forecasting

More Information

Iowa Tax Credits User's Manual

https://tax.iowa.gov/report/Background?combine=Users%20Manual

Iowa Department of REVENUE

Questions

Iowa Department of
REVENUE

SELF-FUNDING 101

Presented by Dean M. Hoffman
Dean M. Hoffman, LLC
May 5, 2016
Madison, Wisconsin

Linked in

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To insure or not to insure, that is the question?

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What is Fully Insured

Fully Insured

- Employers pay a fixed premium to an insurer
- The insurer calculates a premium amount based on the estimated risk of the group
- Insurer uses the premium dollars to pay employee medical claims
- The insurer assumes the financial risk and realizes the benefits that result from years with lower or higher claim volume
- OCI regulates the health insurance industry in Wisconsin

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Insurance carriers with group plans

- Stock Insurance Company
- Mutual Insurance Company
- Health Maintenance Organizations
    - For profit
    - Not for profit

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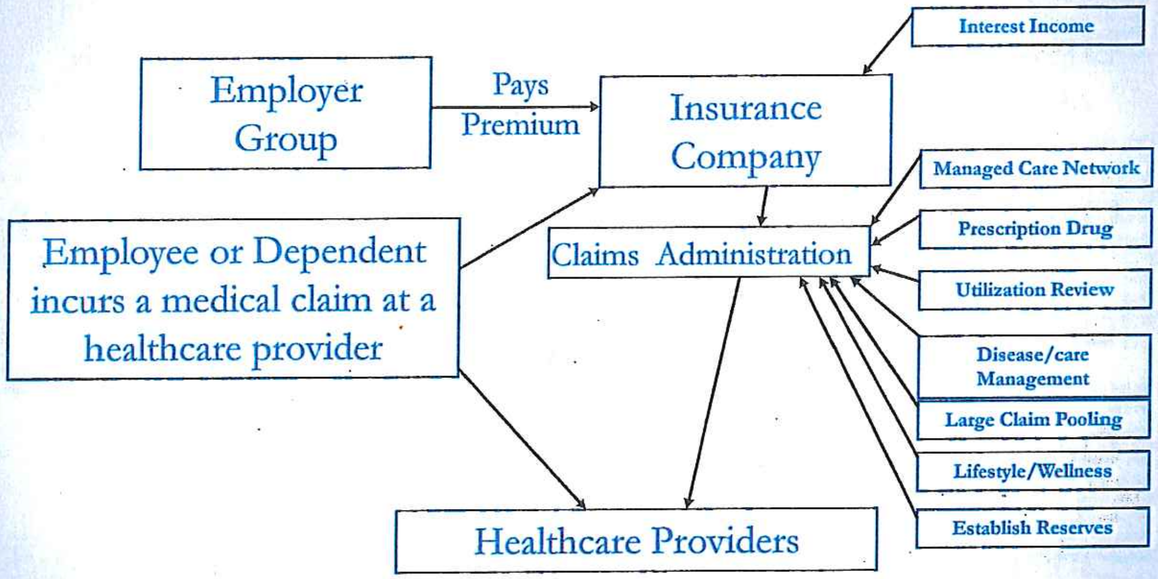
Typical Fully Insured Model



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Insured Winner Take All Arrangement

- **Advantages**
  - Minimal Employer involvement
  - Level Budget
  - Bad claim year employer wins
- **Disadvantages**
  - Carrier benefits when lower claim volume than expected
  - Lack of benefit design flexibility
  - Limited access to data
  - Packaged services
  - No surplus carry forward

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What is self-funding?

- Employer sets up fund to pay claims (usually through the services of a TPA)
- Employer designs its own benefits plan
- Stop-loss protection for abnormal risks
- Partial/true self-funding
- US Department of Labor regulates self-funding; however OCI regulates small self-funded business through form approvals and TPA registration

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Growth of self-funding

- Started with Taft Hartley Act of 1947 for union groups
- In 1967, there were 2,500 self-funded plans
- Employee Retirement Income Security Act: 1974
  - Placed regulation with federal government
  - Self-funded plans under ERISA escape state regulations, including insurance regulation

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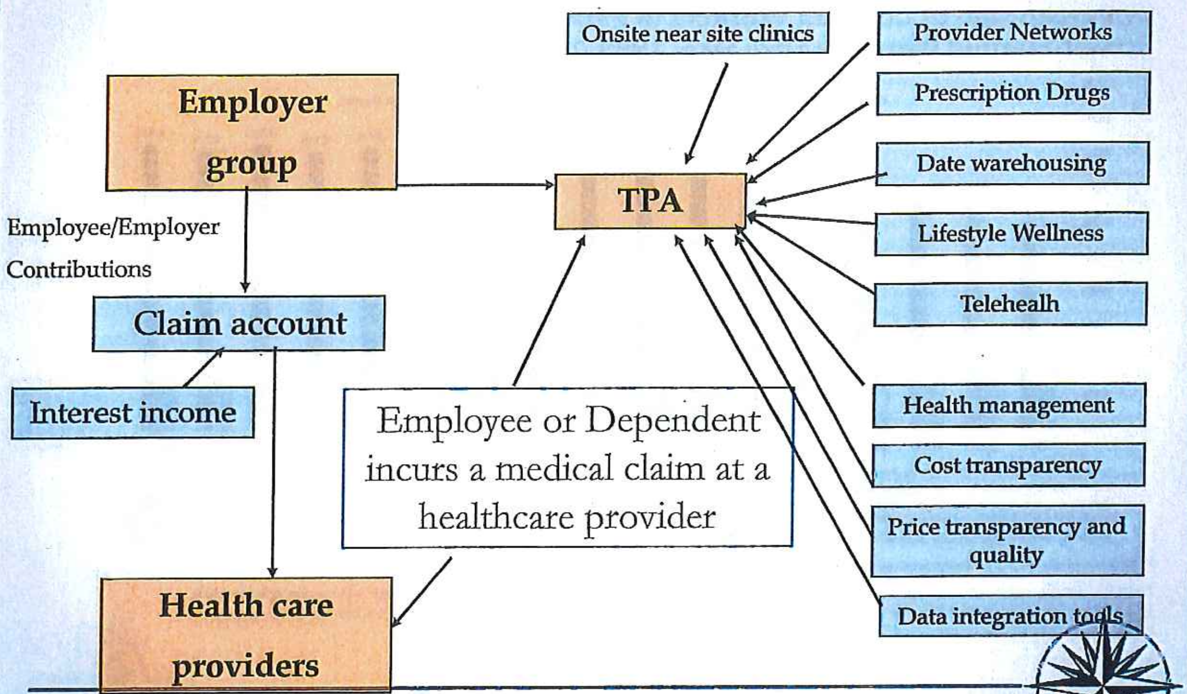
Typical self-funded model



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Dispel the myths of self-funding

- Self-funding will result in all state employees needing to change providers
  - No…providers are the practitioners members see for medical services. Insurers, TPAs, and health plans have similar networks, meaning they include access to many of the same providers as their competitors.
- Self-funding will result in fewer benefits
  - No…whether the state program is self-funded or fully -insured has no bearing on the benefits offered. State employee benefits are determined by the Group Insurance Board.
- Management and coordination of care is compromised
  - No…through increased access to claims data, there will be more of an opportunity to ensure care is managed in a way that is aligned with the needs of the state employee group.

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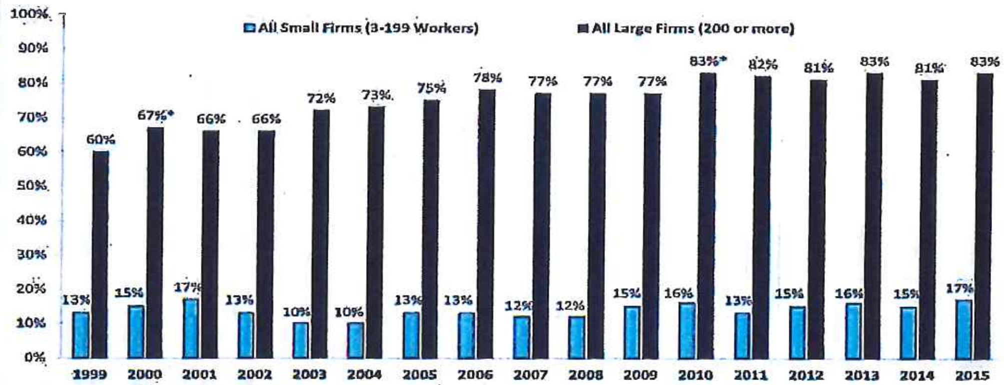
Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Firm Size, 1999-2014

Exhibit 10.2

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Firm Size, 1999-2015



* Estimate is statistically different from estimate for the previous year shown (p<.05).

NOTE: Sixty-three percent of covered workers are in a partially or completely self-funded plan in 2015. Due to a change in the survey questionnaire, funding status was not asked of firms with conventional plans in 2006. Therefore, conventional plan funding status is not included in the averages in this exhibit for 2006. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2015.

* Estimate is statistically different from estimate for the previous year shown (p<.05).

NOTE: Sixty-three percent of covered workers are in a partially or completely self-funded plan in 2014. Due to a change in the survey questionnaire, funding status was not asked of firms with conventional plans in 2006. Therefore, conventional plan funding status is not included in the averages in this exhibit for 2006. For definitions of Self-Funded and Fully Insured plans, see the introduction to

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2014.

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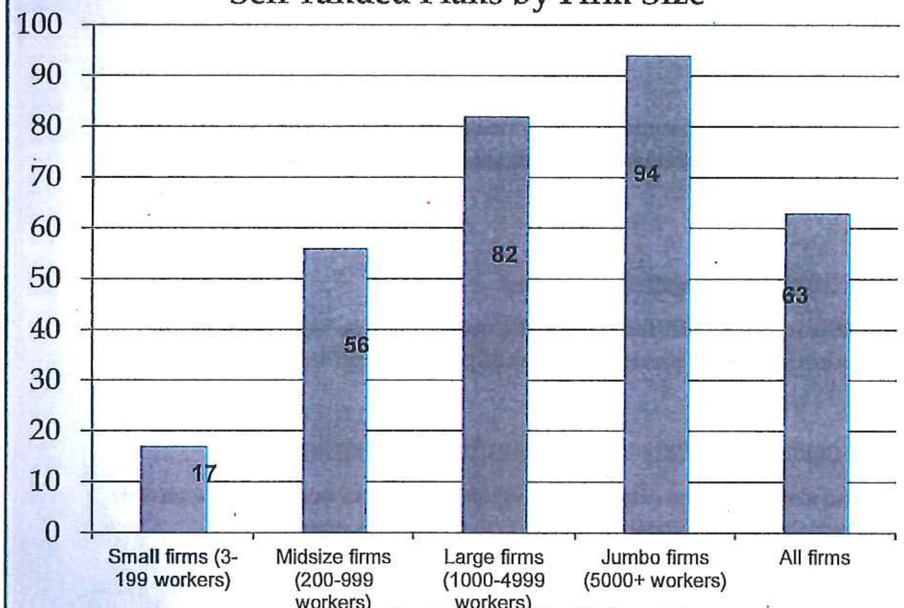
Self-funding trend: 2015

Percentage of Covered Workers In Self-funded Plans by Firm Size



Courtesy Kaiser Family Foundation

Nationally

63% of covered workers were in a plan that was completely or partially self-funded.

Regionally 2014

Northeast	61%
Midwest	65%
South	64%
West	47%

Regionally 2015

Northeast	70%
Midwest	64%
South	68%
West	48%

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The Fundamentals

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The advantages

- Cash flow benefit
- Lower operation cost
- 100% Credibility
- Plan control and flexibility
- Stability
- Disease, Care Management services
- Network configuration

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The advantages

- ❑ ROI on reserves
- ❑ Effective claim management
- ❑ Plug and play services
  - ❑ Complete flexibility on vendor choice
- ❑ Complete benefit design flexibility

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The disadvantages

- ❑ Claims experience
  - ❑ If claims experience is higher than anticipated, need to have reserves to cover expenses
- ❑ Budgeting for claim costs
- ❑ Fiduciary and legal responsibility
- ❑ Employer involvement (typically for smaller employers)

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What is stop loss?

Specific coverage

- ❑ Insures the employer against a catastrophic loss incurred by **one individual** over a certain dollar limit.
- ❑ **Example:** transplants, leukemia, premature birth

Aggregate coverage

- ❑ Insures the employer against unusually high overall claim levels for the **entire covered group**, due to high frequency or an unexpected number of large, catastrophic claims
- ❑ Aggregate generally consists of ordinary claims – well care, colds, flu, prescription drugs, vision, etc. Only claims below the specific deductible on covered individuals are eligible.

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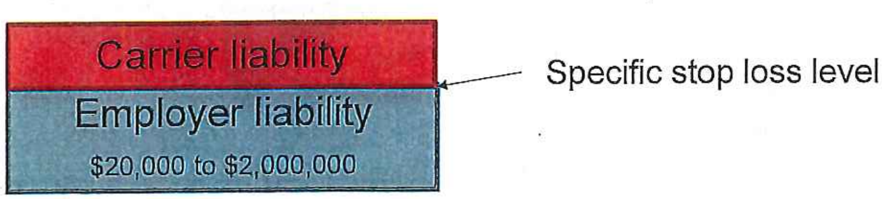
Specific stop loss role

Coverage on the individual claim

- ❑ All eligible claims in excess of the individual stop loss level are reimbursed by the carrier
- ❑ All eligible claims below the individual stop loss level are the responsibility of the employer



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Plug and Play Services

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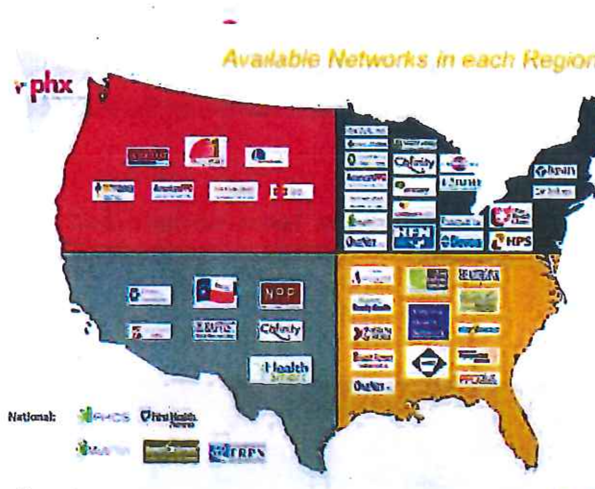
Provider networks

- ❑ Geo access reports
  - Provider access
  - Network savings
  - Disruption
  - Performance guarantee
- ❑ Primary networks
  - Proprietary
    - o Broad network
    - o High Performance
  - Rental
- ❑ Secondary networks
  - Travel or backdoor



• Any employer, like the state, has the opportunity to indicate what it is looking for in a network.

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Pharmacy benefit manager Rx

- Two PBM models
  - Traditional
  - Pass through
- Manages the drug aspects of the plan
- Access to capitated rates/discounts on drugs
- Often has cost management services available
  - Generic drivers
  - Safety checks
  - Mail order
  - Specialty pharmacy

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Data integration tools and warehousing

Types of DIT tools

- Internet portals
- Management dashboards
- Standard parameter driven reports
- OLAP cubes
- Ad hoc query
- Training and reference documentation
- Vendor management

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Data integration and warehousing

Data enhancement

- ❑ Data groupers
  HCG, DRG, Episodes of Care
- ❑ Population groupers
  Person ID, risk scores, disease classification
- ❑ Benchmarking
- ❑ Reference table roll-up
  MCD, therapeutic class
- ❑ Evidence-based quality measures

❑ Data sources

- Claims, pharmacy, enrollment, member, provider
- Financial adjustments, encounters, lab results, HRA
- FTE, call detail, patient registries, state lab and immunizations

❑ Data elements

- Claims, CPT, DRG, ICD9, NDC, POS, TOB
- Provider; NPA, taxonomy, specialty network
- Business groupings: group ID, line of business, product types

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Employer lifestyle/wellness strategy

Employer 3-year strategy

- o Leadership acceptance
- o Employer participation incentives
- o Wellness committee
- o Health risk assessment
- o Biometric profiles
- o Digital, telephonic or onsite coaching
- o Lunch n' learns
- o Employee premium contribution incentives

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Telehealth ~ Telephonic/FaceTime

Goal: Decrease Urgent Care and low-complexity office visits

•Telephonic/Facetime service – advanced version of call-a-nurse service

•Staffed by nurse practitioners who can diagnose and implement treatment including prescribing medications

•Available to plan members weekdays, weekends and off-hours

•Improve patient and member convenience – parents and patients can use service and not have to visit UC or physician office

•Deliver clinical quality care while reducing overall plan costs

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Integrated health management

Independent integration service will help the member to:

- o Benefit design
- o Patient education
- o Branded communication
- o Health needs assessment
- o Wellness education and programing
- o Primary care coordination
- o Disease management
- o Acute care coordination
- o Data mining and performance analysis

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Cost transparency and quality

Independent membership portal for

- o Pharmacy advisor for cost and effectiveness
- o Local, Regional and national price and quality measures for hospitals
- o Lifestyle/wellness library
- o Employee health self service
- o Video library
- o Healthcare basics

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Health Plan Payer Audit

- Effectiveness of the vendors policies, procedures and internal controls
- Participant and dependent eligibility
- Claims paid in accordance with the plan documents
- Accuracy of COB Procedures
- Validity of covered diagnoses
- Incidents and dollar volume of duplicate payments
- Test benefit calculations, network discounts, deductible, copayments and plan limits
- Timeliness of claim payments
- Procedures regarding pended claims
- Effectiveness of utilization review protocols
- Effectiveness of large case management
- High cost claims, financial coding accuracy and coordination with case management programs

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Emerging Trends

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ACA impact to Self-funding

Self-funded plans are exempt:

❑ Primarily from:

- o Paying the HHS-calculated annual tax to which health insurers are subject starting in 2014. This amount will vary between insurer and is based on the prior years health insurance premiums received.
  - 1% to 2.5% in 2014
  - 1.5% to 3.5% in 2015
  - 1.5% to 3.5% in 2016
  - TBD thru 2017

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ACA impact to self-funding

Self-funded Plan Sponsors plans will pay

- ❑ Reinsurance contributions to fund the Transitional or Temporary Reinsurance Program
  - o 2014 $5.25 PMPM
  - o 2015 estimated $3.50 PMPM
  - o 2016 estimated $2.19 PMPM
    - Ends at the end of 2016

- ❑ PCORI (Patient Centered Outcome Research Institute (2014-2019) at $2 PMPY

- ❑ Excise Tax 2018 (The Cadillac or Maserati Tax)
  - o 40% excise tax on amount above threshold
  - o Individual $10,200, Family $27,500, Indexed to CPI after 2018
  - o Affects all plans, union, non-profit, government, corporations
  - o Insured or Self-funded
  - o Postponed to 2020

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Summary and Questions

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