

# **Fiscal Impact Analysis of Alfa Health Plans on Alabama's General Fund and Education Trust Fund**

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## **Key Findings**

The analysis shows no net revenue loss to the General Fund caused by adopting Alfa Health Plans (AHP) at any participation level.

The analysis shows that when including Education Trust Fund revenues, the combined tax inflows are projected to be between \$232,000 and \$11 million, based on enrollment and premium savings rates.

## **Introduction**

I have conducted a comprehensive fiscal analysis of the proposed Alfa Health Plan and its potential impact on Alabama's General Fund (GF) and Education Trust Fund (ETF). This analysis examines both tax outflows and inflows under conservative and optimistic scenarios.

## **Assumptions**

1. Enrollment Growth
  - a. Initial coverage of 1,000 individuals (Alfa members and dependents)
  - b. Annual increase of 1,000 policyholders
  - c. Projected total enrollment of 10,000 by 2034
2. Policy Pricing
  - a. Base market price of \$6,768 in 2025
  - b. Annual market price increase of 7.5%
  - c. AHP pricing 30-60% below market rates (30% representing Alfa's most conservative estimate)
3. Economic Impact
  - a. Disposable income multiplier of 1.6 applied to consumer savings
  - b. Additional spending generated from increased disposable income flows to both GF and ETF
4. Origin of Subscribers
  - a. Analysis assumes all subscribers transition from premium-tax-paying plans
  - b. This represents a conservative assumption that maximizes potential tax revenue loss

## **Premises**

1. Tax Exemption - AHP policies are self-funded and, like other self-funded programs in Alabama, are exempt from Insurance Premium Taxation.
2. GF Tax Outflow - For every AHP policy replacing a traditional policy, the GF loses taxes equivalent to the maximum premium tax rate in Alabama of 1.6% of the market price of the replaced policy.
3. Tax Inflow - Lower policy costs increase disposable income, which stimulates economic spending, generating additional income and tax inflows for the GF and ETF.

## **Fiscal Impact Analysis**

The fiscal impact analysis employs standard economic modeling techniques, examining both direct tax effects and induced economic activity. The model accounts for tax outflows through reduced premium tax collections and tax inflows generated by increased consumer spending. When insurance premiums decrease, the resulting increase in disposable income creates a multiplier effect as those savings circulate through the local economy. This analysis uses a conservative multiplier of 1.6 to estimate the economic impact of premium savings, meaning every dollar saved on health insurance premiums generates \$1.60 in

economic activity. Using actual premium data from CMS, enrollment patterns from similar programs in other states, and Alabama's maximum premium tax rate of 1.6%, the analysis provides projections under both conservative (30% premium savings) and optimistic (60% premium savings) scenarios. The tables and charts attached summarize the fiscal impact of AHP policies over a ten-year period.

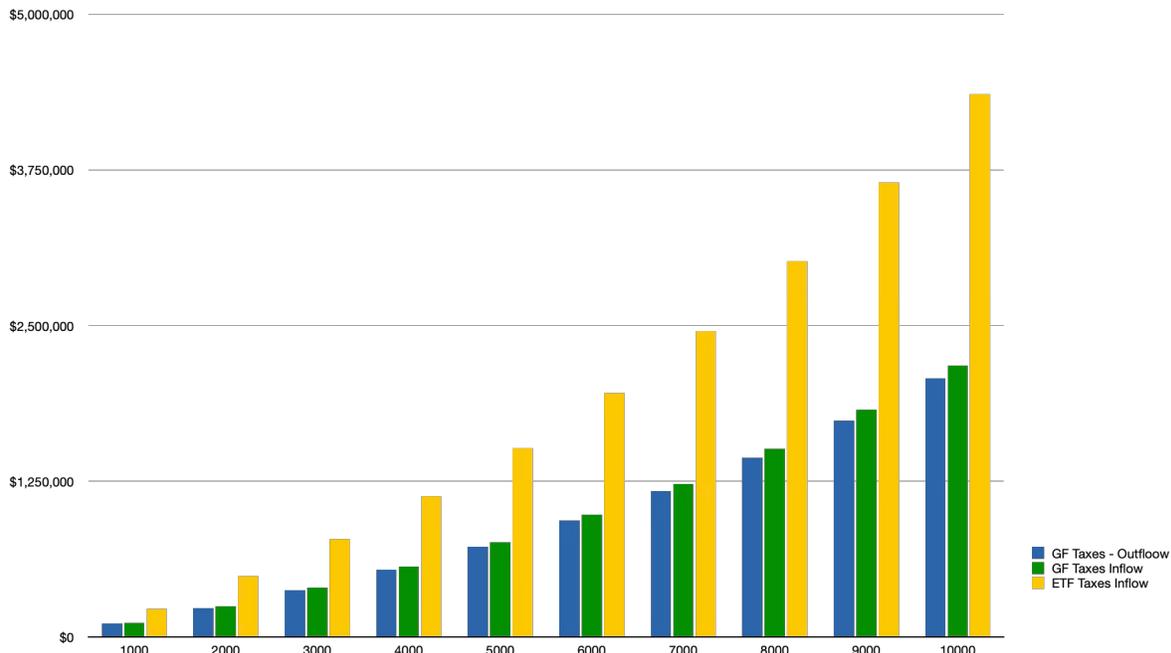
**Conclusion**

The analysis shows that even under the most conservative assumptions - all subscribers to AHP come from existing premium-tax-paying plans, application of the highest premium tax rate (1.6%), and minimum premium savings (30%) - the analysis shows no net revenue loss to the General Fund at any adoption level. When including Education Trust Fund revenues, the combined tax inflows are projected to range from \$232,000 to \$11 million, depending on enrollment levels and premium savings rates.

**Table 1 - Analysis based on 30% Policy Price Discount Rate**

Persons	Market Policy Price	GF Taxes - Outflow	Alfa Price	Disposable Income Increase - because of Policy Price Change	Impact on Income	GF Taxes - Inflow	ETF Inflow
1000	\$6,768	\$108,288	\$4,737.60	\$2,030,400	\$3,248,640	\$113,702	\$227,405
2000	\$7,276	\$232,819	\$5,092.92	\$4,365,360	\$6,984,576	\$244,460	\$488,920
3000	\$7,821	\$375,421	\$5,474.89	\$7,039,143	\$11,262,629	\$394,192	\$788,384
4000	\$8,408	\$538,103	\$5,885.51	\$10,089,438	\$16,143,101	\$565,009	\$1,130,017
5000	\$9,038	\$723,076	\$6,326.92	\$13,557,683	\$21,692,292	\$759,230	\$1,518,460
6000	\$9,716	\$932,769	\$6,801.44	\$17,489,411	\$27,983,057	\$979,407	\$1,958,814
7000	\$10,445	\$1,169,847	\$7,311.55	\$21,934,636	\$35,095,417	\$1,228,340	\$2,456,679
8000	\$11,228	\$1,437,241	\$7,859.91	\$26,948,267	\$43,117,227	\$1,509,103	\$3,018,206
9000	\$12,071	\$1,738,163	\$8,449.40	\$32,590,560	\$52,144,897	\$1,825,071	\$3,650,143
10000	\$12,976	\$2,076,139	\$9,083.11	\$38,927,614	\$62,284,182	\$2,179,946	\$4,359,893

**Chart 1 - Inflow & Outflow of Taxes at 30% Price Discount Rate**



**Table 2 - Analysis based on 60% Policy Price Discount Rate**

Persons	Market Policy Price	GF Taxes - Outflow	Alfa Price	Disposable Income Increase - because of Policy Price Change	Impact on Income	GF Taxes - Inflow	ETF Inflow
1000	\$6,768	\$108,288	\$2,707.20	\$4,060,800	\$6,497,280	\$227,405	\$454,810
2000	\$7,276	\$232,819	\$2,910.24	\$8,730,720	\$13,969,152	\$488,920	\$977,841
3000	\$7,821	\$375,421	\$3,128.51	\$14,078,286	\$22,525,258	\$788,384	\$1,576,768
4000	\$8,408	\$538,103	\$3,363.15	\$20,178,877	\$32,286,203	\$1,130,017	\$2,260,034
5000	\$9,038	\$723,076	\$3,615.38	\$27,115,365	\$43,384,585	\$1,518,460	\$3,036,921
6000	\$9,716	\$932,769	\$3,886.54	\$34,978,821	\$55,966,114	\$1,958,814	\$3,917,628
7000	\$10,445	\$1,169,847	\$4,178.03	\$43,869,272	\$70,190,835	\$2,456,679	\$4,913,358
8000	\$11,228	\$1,437,241	\$4,491.38	\$53,896,534	\$86,234,454	\$3,018,206	\$6,036,412
9000	\$12,071	\$1,738,163	\$4,828.23	\$65,181,121	\$104,289,793	\$3,650,143	\$7,300,286
10000	\$12,976	\$2,076,139	\$5,190.35	\$77,855,228	\$124,568,364	\$4,359,893	\$8,719,785

**Chart 2 - Inflow & Outflow of Taxes at 60% Price Discount Rate**

