

## Bill of the Week

# Tax Increase on HMOs (HF 2739)

This bill imposes a temporarily tax on Iowa insurance providers that will bring in more money to support Iowa's Medicaid budget for the coming year.

### Key Points & Impacts

- A new federal law (H.R. 1, or the One Big Beautiful Bill Act) left a gap in Medicaid funding to states.
- Iowa's Medicaid program was already running short on money when the new law passed. The state had to come up with more money to keep it running, or Medicaid costs had to be lowered.
- This short-term fix will bring in money for Medicaid that the State desperately needs. Without this fix, Medicaid would need to find other ways to cut costs or raise money to fill the gap in the State budget.
- Lowering Medicaid costs means cutting services, reducing the number of people on Medicaid, lowering reimbursement rates for providers or reducing what the State pays to the managed care organizations (MCOs) that administer Medicaid in Iowa.
- This tax increase will pay off the current year's shortfall and provide some money for the next budget year. If the federal government okays this tax change, the money will be matched by the Federal government (through the Medicaid match).
- Insurance providers will have to decide if they pass the increase on to Iowans who buy their HMO plans. One insurance provider predicts that it will increase insurance premiums up to \$500 a year for a family of four. *Remember this is a prediction.*
- Iowa's insurance commissioner reminded legislators that insurers are not allowed to increase what they charge without his approval. They have to prove the increase is needed and public hearings need to be held before a decision is made.
- Even with this increase "Iowa will remain competitive with other states and will operate with one of the lowest tax rates in the country, with both insurance premiums, as well as for HMO related taxes." *Doug Ommen, Iowa Insurance Commissioner*
- "If we don't do this slight increase for a short nine-month period of time, we lose federal funds. Why should those funds go to other states when they could be supporting Iowans?" *Rep. Shannon Lundgren, Floor Manager of HF 2739*

### Facts at a Glance

- This temporary tax will allow the state to bring in more money for the Medicaid budget.
- The bill increases taxes paid by a type of insurance called health maintenance organization (HMO) from January – September 2026 from .925% to 3.5%. Then on October 1, 2026, it will drop to .95%.
- There are currently ten HMOs doing business in Iowa, including Iowa's three Medicaid MCOs.
- According to the [Medicaid Forecasting Group](#), there is a \$90.6 million shortfall in Medicaid for this current budget year (fiscal year 2026) and \$167.6 million in the next budget year (fiscal year 2027).
- The tax is expected to bring in \$171.7 million to cover the shortfall in fiscal year 2027 and \$16.6 million in fiscal year 2028. ([LSA](#))
- The bill also appropriates \$70.3 million to pay for this year's Medicaid shortfall. This helps Medicaid pay for services through the end of the current fiscal year (June 30, 2026).

