HB 1243

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 1243 (Delegate Frush, *et al.*)
Appropriations

State Employees and Retirees - Health Insurance and Benefit Options - Coverage

This bill requires the State Employee and Retiree Health and Welfare Benefit Program (State plan) to permit an employee or retiree the option to enroll all dependent children and one adult member of the employee's or retiree's household.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: Significant expenditure increase in the State plan, beginning in FY 2006. Under one set of assumptions, State plan expenditures could increase by $21.1 million in FY 2006. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Secretary of Budget and Management administers the State plan and specifies the types of benefit options included in the State plan as well as the types or categories of State employees and retirees who are allowed to participate. In general, a participating State employee or retiree may enroll a spouse or dependent child. The enrollment of dependent children is limited by specified factors including age and marital status of the child, legal guardianship, college enrollment status, or disability.

The State plan is a cafeteria plan under 26 USC § 125 which provides tax benefits to the State as well as employees who enroll. In order to keep its tax-preferred status, the State plan may not enroll any federally-ineligible spouses or dependents. Under 26 USC § 152, a legal dependent is any of the following individuals over half of whose support was received from the enrollee: (1) a son or daughter, or descendent of either; (2) a stepson or stepdaughter; (3) a brother, sister, stepbrother, or stepsister; (4) the father or mother or ancestor of either; (5) a stepfather or stepmother; (6) a niece or nephew; (7) a blood-related aunt or uncle; (8) specified in-laws; and (9) an individual who has as his or her principal place of residence the enrollee's home.

According to several Internal Revenue Service (IRS) private rulings, employment-based health benefits for domestic partners or nonspouse cohabitants are excludable from taxable income only if the recipients are legal spouses or legal dependents. The IRS also states that the relationship must not violate local laws in order to qualify for tax-favored treatment.

Background: With continued concerns over the uninsured population, many policy makers are seeking ways to facilitate access to health benefits. Many businesses as well as several state and local governments have extended employee health insurance benefits to other members of the household, including unmarried partners. A variety of studies have estimated the costs to businesses to add unmarried partners. There is very limited data available on the addition of parents, grandparents, aunts, uncles, or other unrelated adult household members to an enrollee's health benefit plan.

According to a U.S. Congressional Budget Office study of HB 2426 of 2003, which would have extended benefits to the domestic partners of federal employees, about 2% of employees would enroll a domestic partner. This participation level is supported by other studies. The International Society of Certified Employee Benefits Specialists found in 1995 that 56% of employers offering partner benefits saw a 1% or smaller increase in enrollment. Another 19% reported a 2% enrollment rate for domestic partners. A recent survey by the Policy Institute of the National Gay and Lesbian Task Force collected data from cities offering domestic partner benefits. Fourteen cities that extended benefits to both same-sex and opposite-sex partners responded. For these cities, the average enrollment increase was 2.1%, with a 0.4% average enrollment rate for same-sex partners.

State Fiscal Effect: State plan expenditures could increase by a potentially significant amount, beginning in fiscal 2006. While it is safe to assume about 2% of enrollees would add an unmarried partner, there are insufficient data to reliably estimate the percentage of enrollees who would add a dependent child or another adult household member to their coverage.

For illustrative purposes only, if 6% of enrollees in the "individual" or "individual plus one" coverage levels added one additional dependent (child or adult), State plan expenditures could increase by $21.1 million in fiscal 2006. The information and assumptions used in calculating the estimate are stated below:

- there are 77,658 State plan enrollees with "individual" or "individual plus one" coverage, the two coverage levels that would incur additional costs if dependents were added;
- 2% or 1,553 enrollees add an unmarried partner;
- 2% or 1,553 enrollees add a dependent child;
- 2% or 1,553 enrollees add another adult member of a household; and
- the average annual increase per new dependent is $4,536 to provide medical and prescription drug coverage.

State plan expenditures assume a fund mix of 60% general funds, 20% federal funds, and 20% special funds; and 20% of expenditures are reimbursable through employee contributions.

Additional Comments: To the extent new State plan enrollees are currently uninsured, uncompensated care costs for hospitals and other health care providers could decrease.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Congressional Budget Office, International Society of Certified Employee Benefits Specialists, Maryland Insurance Administration, Department of Budget and Management (Employee Benefits Division), Department of Legislative Services

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