

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 444 (Delegate Queen)
Health and Government Operations and
Ways and Means

Public Health - Participation in Healthy Lifestyle Programs - Incentives and Tax Credits

This bill establishes a refundable State income tax credit for participation in a “healthy lifestyle program.” It is only available to an individual enrolled, for at least nine months of the taxable year, in (1) a health benefit plan through the Maryland Health Benefit Exchange (MHBE); (2) the Medicaid program; or (3) the Maryland Children’s Health Program (MCHP). To be eligible for the credit, such an individual must show evidence of active participation in a healthy lifestyle program for at least nine months of the taxable year. The credit is capped at \$1,500 for a family with multiple qualifying participants; otherwise it is \$500 per individual. The tax credit applies to taxable years beginning after December 31, 2017.

The bill also expands the permitted uses of the HealthChoice Performance Incentive Fund to include providing financial incentives designed to promote participation in a healthy lifestyle program by managed care organization (MCO) enrollees.

Fiscal Summary

State Effect: General fund revenues decrease, likely significantly, due to credits claimed against the personal income tax beginning in FY 2019. Medicaid expenditures (50% general funds, 50% federal funds) increase beginning in FY 2018 to capitalize the special fund in order to provide financial incentives to promote participation in a healthy lifestyle program by MCO enrollees. Federal fund revenues and special fund revenues and expenditures increase accordingly.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: “Healthy lifestyle program” means an organized program designed to promote a healthy lifestyle and prevent or reduce chronic disease – including a smoking cessation, weight loss, exercise, and physician-planned program.

Current Law/Background: Medicaid is a joint federal and state program that provides assistance to indigent and medically indigent individuals. Most Medicaid recipients (about 85%) must enroll in HealthChoice, the statewide mandatory managed care program. Populations excluded from HealthChoice are covered on a fee-for-service (FFS) basis. The FFS population generally includes the institutionalized and individuals who are dually eligible for Medicaid and Medicare. Medicaid currently covers smoking cessation programs and prescription medications. In fiscal 2017, approximately 1.2 million individuals are enrolled in Medicaid, about 1.0 million in a HealthChoice MCO. MCHP is Maryland’s Medicaid program for low-income children up to age 19. In fiscal 2017, approximately 145,000 children are enrolled in MCHP.

The HealthChoice Performance Incentive Fund was created in 2001 and must be used exclusively for the HealthChoice provider budget, including providing financial incentives designed to improve the quality of care to MCOs that exceed performance targets. The fund consists of fines paid by MCOs. In fiscal 2004 through 2006, monies in the fund were earmarked for grants totaling \$2.7 million to Medbank of Maryland, Inc. to assist low-income individuals obtain prescription drugs. Although statute allows the fund to maintain a balance of \$3.0 million with any amount in excess of that reverting to the general fund at year-end, the fund does not have a balance. Accordingly, the Governor’s proposed fiscal 2018 budget does not include any spending associated with the fund.

As of January 2017, there are approximately 150,000 individuals enrolled in health insurance through MHBE. Under the federal Patient Protection and Affordable Care Act, consumers who purchase a qualified health plan (QHP) through MHBE may be eligible for an advanced premium tax credit (APTC), which can be used by individuals earning between 100% and 400% of federal poverty guidelines to help pay monthly health insurance premiums. For tax year 2016, an estimated 100,844 Marylanders enrolled in a QHP received a monthly APTC (an average of \$243 per month).

According to the Center on Budget and Policy Priorities, several states provide rewards (ranging from gift certificates to deposits in health savings accounts) to Medicaid enrollees for participation in healthy lifestyle programs or activities. Research indicates that, in the private sector, financial incentives appear to increase participation in healthy activities such as obesity prevention programs and tobacco cessation. In Medicaid, financial rewards have been effective incentives for one-time or short-term activities; however, the evidence

is mixed as to whether incentives can be effective in changing long-term behaviors that require ongoing engagement, such as sustained weight loss or smoking cessation.

From 2011 to 2016, the federal Medicaid Incentives for Prevention of Chronic Disease program tested incentive programs in 10 state Medicaid programs, awarding \$85.0 million in grants to states for program incentives and administration. In its 2016 interim report on the program, the U.S. Department of Health and Human Services noted that states faced administrative challenges in setting up their programs and recruiting participants and providers. However, participants noted that the incentives had the strongest impact in encouraging them to enroll in healthy lifestyle activities, rather than encourage long-term behaviors such as sustained weight loss.

State Fiscal Effect: General fund revenues decrease by an indeterminate but likely significant amount beginning in fiscal 2019 due to credits claimed against the personal income tax each year. Because the tax credit is refundable, a qualifying individual who has no tax liability may receive a refund check for the \$500 credit. However, a reliable estimate cannot be made as it depends on the behavior of the population eligible for the tax credit. *For illustrative purposes only*, general fund revenues decrease by \$1.6 million annually if 3,238 individuals qualify for and claim the tax credit each year at an amount of \$500 per individual. This number represents only 0.25% of the total 1.3 million individuals enrolled in Medicaid, MCHP, and MHBE combined (including 1.0 million Medicaid MCO enrollees, 145,000 MCHP enrollees, and 150,000 individuals in MHBE). As noted earlier, approximately two-thirds of the MHBE population in tax year 2016 qualified for and received a monthly APTC; if only one-half of the MHBE population qualifies for and claims the tax credit each year, general fund revenues decrease by \$37.5 million annually.

It is unclear whether the Comptroller's Office can implement the new refundable tax credit with existing resources, as the Comptroller's Office did not respond to a request for information on this fiscal and policy note. However, one-time general fund expenditures may be needed to modify existing systems.

As the HealthChoice Performance Incentive Fund has no balance, it must be capitalized with other funds in order to provide financial incentives that promote participation in a healthy lifestyle program by MCO enrollees. It is unclear what amount would constitute a viable incentive program. Regardless, to provide incentives, Department of Health and Mental Hygiene (DHMH) expenditures (50% general funds, 50% federal funds) increase beginning in fiscal 2018 to capitalize the fund. DHMH advises that any general fund expenditures for this purpose are eligible for federal matching funds at a rate of 50%. Thus, federal fund revenues and special fund revenues and expenditures increase correspondingly.

This analysis does not reflect any potential savings to Medicaid over time from Medicaid and MCHP enrollees participating in healthy lifestyle programs and any associated reduction in the incidence of chronic health care conditions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Center on Budget and Policy Priorities; Department of Health and Mental Hygiene; Department of Legislative Services

Fiscal Note History: First Reader - February 9, 2017
fn/ljm

Analysis by: Jennifer B. Chasse

Direct Inquiries to:
(410) 946-5510
(301) 970-5510