

D79Z02
Maryland Health Insurance Plan

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$156,502	\$175,458	\$97,246	-\$78,212	-44.6%
Contingent & Back of Bill Reductions	0	0	-11	-11	
Adjusted Special Fund	\$156,502	\$175,458	\$97,235	-\$78,223	-44.6%
Federal Fund	21,273	27,088	130	-26,958	-99.5%
Contingent & Back of Bill Reductions	0	0	-1	-1	
Adjusted Federal Fund	\$21,273	\$27,088	\$130	-\$26,958	-99.5%
Nonbudgeted Fund	102,681	87,569	49,578	-37,991	-43.4%
Adjusted Nonbudgeted Fund	\$102,681	\$87,569	\$49,578	-\$37,991	-43.4%
Adjusted Grand Total	\$280,456	\$290,115	\$146,943	-\$143,173	-49.4%

- The budget for the Maryland Health Insurance Plan (MHIP) falls by over \$143 million, 49.4%. This reflects declining enrollment in the MHIP State and MHIP federal programs as most enrollees move to insurance coverage through the Maryland Health Benefit Exchange (Exchange).

Note: Numbers may not sum to total due to rounding.

For further information contact: Simon G. Powell

Phone: (410) 946-5530

Personnel Data

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Positions	12.00	9.00	9.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	12.00	9.00	9.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/13	1.00	11.11%

- There are no personnel changes in the program in fiscal 2015. The program had 2 positions transferred to the Exchange during fiscal 2014.

Analysis in Brief

Major Trends

MHIP Applications and Costs Covered: The number of applications and claims costs covered are anticipated to fall as MHIP enrollees transition to insurance coverage through the Exchange or open market.

Senior Prescription Drug Assistance Program Coverage: Enrollment in the Senior Prescription Drug Assistance Program continues to grow steadily. Enrollment at the end of fiscal 2013 was 27,375, an increase of 6.6% over the most recent actual.

Recommended Actions

1. Concur with Governor's allowance.

D79Z02
Maryland Health Insurance Plan

Operating Budget Analysis

Program Description

As of October 1, 2008, the Health Insurance Safety Net Program became an independent State agency. Prior to that, it was organizationally part of the Maryland Insurance Administration but managed independently. The program is governed by a board.

The Health Insurance Safety Net Program includes the Maryland Health Insurance Program (MHIP) and the Senior Prescription Drug Assistance Program (SPDAP). MHIP has two parts:

- **MHIP State:** The State’s high risk health insurance pool, whose purpose is to provide access to affordable, comprehensive health benefits for the medically uninsurable. The program is funded by premiums paid by enrollees (nonbudgeted funds) and hospital assessment revenues (special funds). MHIP State also includes an MHIP State Plus option, which provides additional premium subsidies for enrollees with incomes at or below 300% of the federal poverty line.

New enrollment in MHIP State ended on December 31, 2013 (because of the provisions of the federal Affordable Care Act that ended exclusion from insurance coverage based on pre-existing conditions), with a new exception created by Chapter 1 of 2014. MHIP State Plus coverage ends on March 31, 2014. The MHIP standard plan was recently extended through December 31, 2014, with no final decision yet being made about coverage beyond that time.

Chapter 1 of 2014 created a temporary “bridge” program for individuals who had tried to get insurance coverage through the Maryland Health Benefit Exchange (Exchange) but because of issues with the Exchange enrollment and eligibility system had not been able to enroll. Enrollment in the bridge program is possible through March 31, 2014 unless extended by the MHIP board of directors and coverage lasts until the individual gets coverage through an Exchange qualified health plan. At the time of writing, eight individuals had taken advantage of the bridge program.

- **MHIP Federal:** This is also a high-risk health insurance pool, established under the federal Patient Protection and Affordable Care Act. Program funding is derived from premiums paid by enrollees (nonbudgeted funds) and federal fund support.

Enrollment in MHIP federal is also closed, although coverage was also recently extended until March 31, 2014.

SPDAP provides Medicare Part D premium and coverage gap assistance for the purchase of outpatient prescription drugs for moderate-income (at or below 300% of the federal poverty level) Maryland residents who are eligible for Medicare and are enrolled in a Medicare Part D Prescription Drug Plan. SPDAP receives special funds from a portion of the value of CareFirst's premium tax exemption and \$4 million, also from CareFirst, for the coverage gap subsidy when CareFirst's surplus reaches certain statutory levels. The program is scheduled to sunset on December 31, 2014. HB 106 of 2014 extends the sunset by two years.

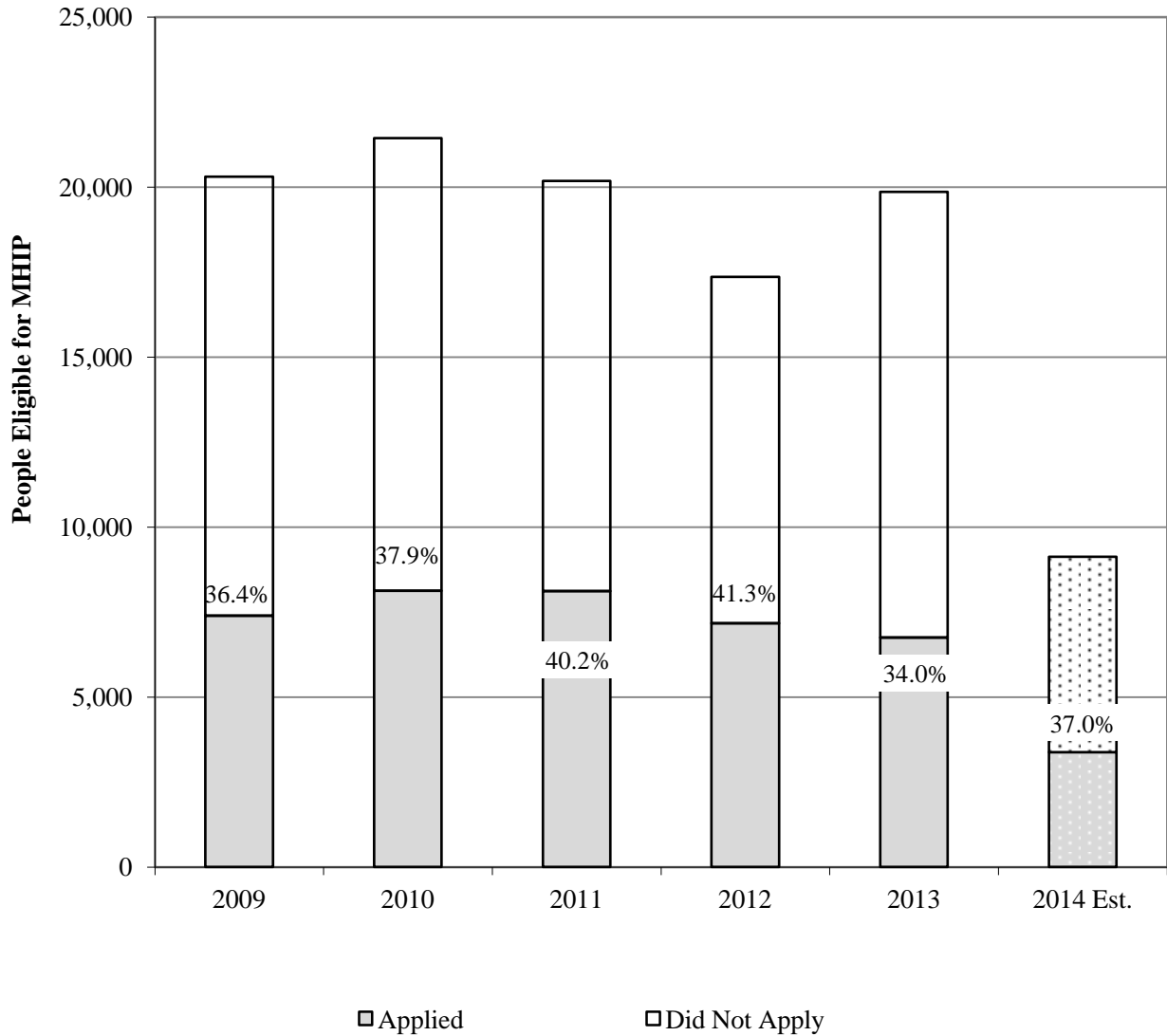
Performance Analysis: Managing for Results

1. MHIP Applications and Costs Covered

Medical eligibility for the program requires that applicants have been denied individual coverage, have been offered a plan that excludes or limits coverage for a medical condition, have been offered coverage that costs more than MHIP due to a specific health condition, or have one of certain specified health conditions. Individuals can also qualify for MHIP if they have exhausted their Consolidated Omnibus Reconciliation Act (also known as COBRA) coverage. The number of individuals that have been denied or offered substandard insurance coverage by other carriers is one indication of the population eligible for MHIP.

Exhibit 1 shows the estimated total population who becomes eligible for MHIP in each year and the percentage that apply for MHIP coverage. The percent of the eligible population applying for MHIP coverage fell in 2013. The estimated percentage of eligibles applying for MHIP in fiscal 2014 increases. However, the number of people eligible to apply and actually applying for MHIP in fiscal 2014 drops sharply, a reflection of the availability of coverage through the Exchange and open market.

Exhibit 1
Applications for Coverage from Individuals That Have Been Denied or
Offered Substandard Insurance
Fiscal 2009-2014 Est.

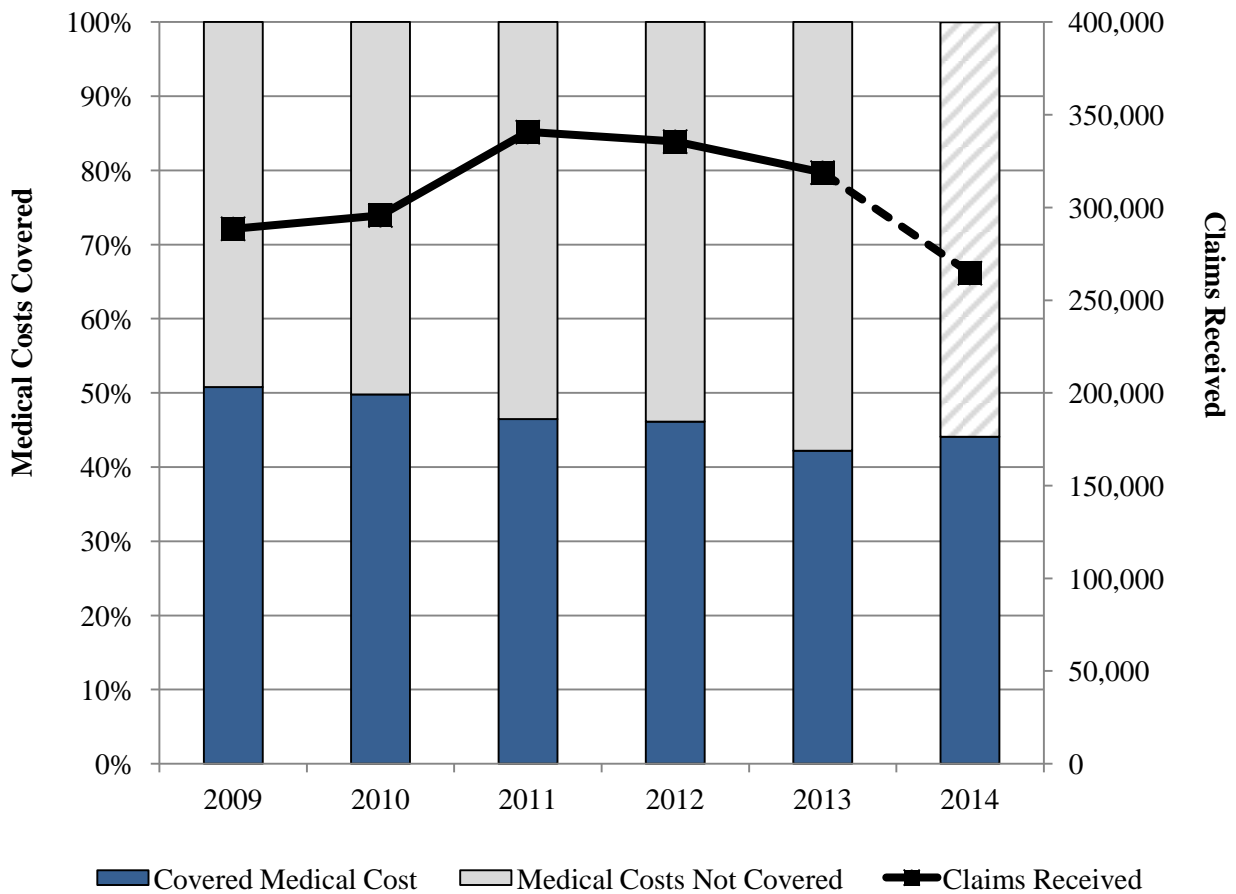


MHIP: Maryland Health Insurance Plan

Source: Maryland Health Insurance Plan; Department of Legislative Services

Exhibit 2 shows the percent of member claims costs that were covered by MHIP compared to the total value of those claims. The costs shown here are considered avoided uncompensated care. The percentage of costs covered has fallen slightly in the past few years, to 42.2% in fiscal 2013, from 50.8% in fiscal 2009, although the fiscal 2014 estimate increases to 44.1%. Claims received peaked in fiscal 2011. Again, the closure of the plan to new enrollees (with the one new temporary exception) effective December 31, 2013, means the number of received claims is projected to fall by 22.0% in fiscal 2014.

Exhibit 2
Proportion of Medical Costs Covered by MHIP
Fiscal 2009-2014



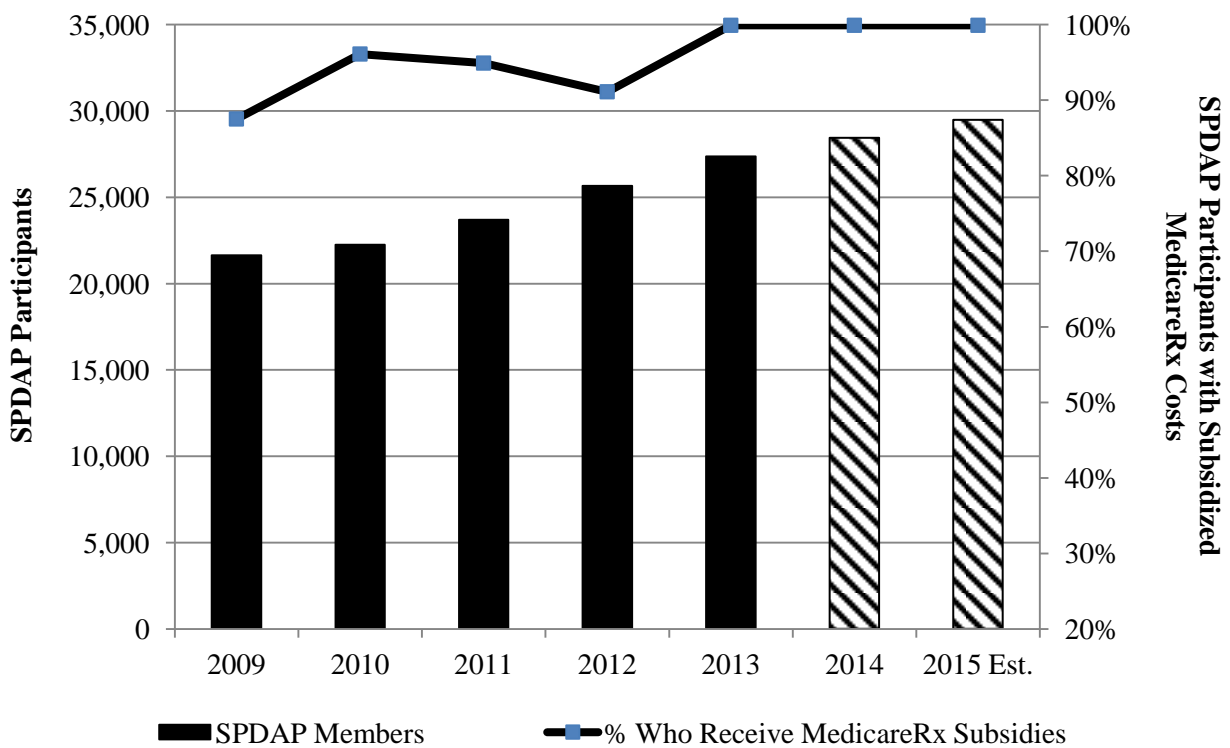
MHIP: Maryland Health Insurance Plan

Source: Maryland Health Insurance Plan; Department of Legislative Services

2. Senior Prescription Drug Assistance Program Coverage

SPDAP aims to reduce the cost of prescription drugs for Maryland’s seniors. **Exhibit 3** shows the number of participants in the plan and the number of those who have MedicareRx costs subsidized by the plan. The number of SPDAP participants has grown steadily since fiscal 2009 from 21,635 to an estimated 29,480 in fiscal 2015. Growth between fiscal 2012 and 2013 was 6.6%. The percent of members who receive MedicareRx subsidies, which fell to 91.1% in fiscal 2012, was 100.0% in fiscal 2013 and is estimated to remain at that level in fiscal 2014. It should be noted that there are still benefits to enrolling in SPDAP even if the person is not eligible for subsidized premium costs, such as Medicaid coverage gap subsidies and the ability to change Medicare Part D plans at any time of year.

Exhibit 3
SPDAP Participants and Percent Who Receive MedicareRx Subsidies
 Fiscal 2009-2015 Est.



SPDAP: Senior Prescription Drug Assistance Program

Source: Maryland Health Insurance Plan; Department of Legislative Services

Proposed Budget

As shown in **Exhibit 4**, the budget for MHIP decreases by over \$143.0 million in total funds, 49.4%. This decline is driven by the projected drop in MHIP State and MHIP federal spending (\$143.5 million) based on the expectation that enrollment in these programs are closed to new enrollment and, with the exception of the MHIP standard program, will end on March 31, 2014.

**Exhibit 4
Proposed Budget
Maryland Health Insurance Plan
(\$ in Thousands)**

How Much It Grows:	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Nonbudgeted Fund</u>	<u>Total</u>
2014 Working Appropriation	\$175,458	\$27,088	\$87,569	\$290,115
2015 Allowance	<u>97,235</u>	<u>130</u>	<u>49,578</u>	<u>146,943</u>
Amount Change	-\$78,223	-\$26,958	-\$37,991	-\$143,173
Percent Change	-44.6%	-99.5%	-43.4%	-49.4%

Where It Goes:

Personnel Expenses	-\$203	
Annualization of fiscal 2014 cost-of-living adjustment and increment		\$33
Social Security contributions		-11
Retirement contributions		-15
Miscellaneous adjustments.....		-25
Accrued leave payout.....		-29
Employee and retiree health insurance.....		-55
Savings in regular salaries from two positions transferred to the Maryland Health Benefit Exchange		-101
Maryland Health Insurance Plan	-\$143,458	
Fiscal services		-1,064
Service expenditures		-142,394
Senior Prescription Drug Assistance Program	\$910	
Service expenditures		1,091
Fiscal services		-181

D79Z02 – Maryland Health Insurance Plan

Where It Goes:

Miscellaneous Items	-\$400
Lower costs for outside contracts: fiscal 2014 budget included compliance audits on CareFirst for fiscal 2010 through 2013; the fiscal 2015 compliance audit will be for one year. Fiscal 2014 also included a data security audit.....	-400
Other	-22
Total	-\$143,173

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

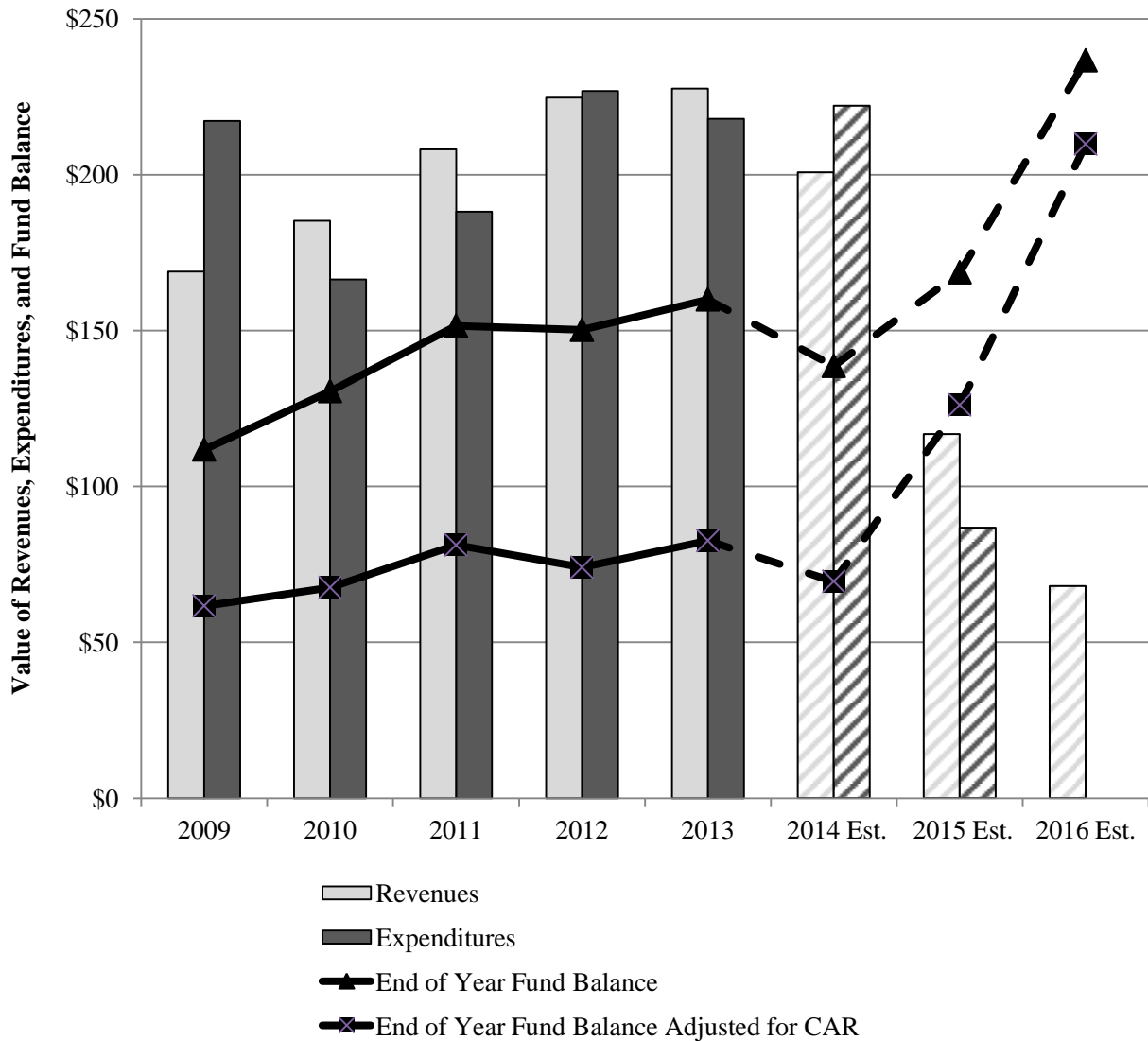
MHIP

As noted above, the drop in funding for MHIP reflects the decline in enrollees served in the program. Average annual enrollment in the program is anticipated to drop from 18,513 in fiscal 2014 to 5,881 in fiscal 2015. Although no formal decision has been made to end the program (the MHIP board recently announced an extension of the MHIP standard program until December 31, 2014), current projections of the MHIP fund assume that there will be no enrollees beyond fiscal 2015.

The health of the MHIP fund is detailed in **Exhibit 5**. Based on current projections, the MHIP fund will accrue a significant fund balance in the upcoming years. This projection is based on:

- an assumption that the program will end during fiscal 2015;
- a proposed reduction in the MHIP assessment in the last few months of fiscal 2014 as part of a plan required in the Budget Reconciliation and Financing Act (BRFA) of 2013 to provide the Medicaid program with funding because of unrealized savings from outpatient tiering (see the Medical Care Programs Administration analysis for additional details); and
- the proposed reduction in the BRFA of 2014 to cut the MHIP assessment to a maximum of 0.5% effective October 1, 2014.

Exhibit 5
MHIP State Revenues, Expenditures, and Fund Balance
Fiscal 2009-2016 Est.
(\$ in Millions)



CAR: capital adequacy requirements
 MHIP: Maryland Health Insurance Plan

Source: Maryland Health Insurance Plan; Department of Legislative Services

D79Z02 – Maryland Health Insurance Plan

The loss of revenue to the MHIP fund from the Administration's BRFA proposal still leaves the MHIP program with a significant projected surplus over capital adequacy requirements at the end of fiscal 2015, \$126 million. This surplus will continue to grow in the out-years. Chapter 159 of 2013 extended the use of the MHIP fund to a reinsurance program in the Exchange. At the time of writing, no specific proposal for a reinsurance proposal has been developed.

However, as part of an analysis of a potential State Reinsurance Program requested by the Administration, the University of Maryland Baltimore County's Hilltop Institute has issued a paper analyzing potential State supplemental subsidies for Exchange enrollees above and beyond existing federal subsidies. The Administration has stated publicly that the MHIP fund surplus could be used to support premium subsidies. Additional legislation would likely be required to use the MHIP fund for that purpose.

The Hilltop analysis offers multiple scenarios based on:

- lowering expected consumer contributions to supplement the federal premium tax credit (and having an option for consumers up to 400 and 500% federal poverty level (FPL));
- reducing consumer contributions to a maximum flat percentage of income (and having an option for consumers up to 400 and 500% FPL);
- a hybrid approach of the above with lower contributions for individuals below 200% FPL and establishing a maximum premium payment to a flat percentage of income above 200% FPL to either 400 or 500% FPL; and
- providing a State subsidy as a fixed percentage of premiums regardless of income.

Cost estimates were run based on "high" and "low" enrollment scenarios, although even the low scenario is well above current enrollment levels. Cost estimates ranged from \$27 million to \$195 million for fiscal 2015 depending on the option. However, absent information about enrollment, future premium rates, and the impact on affordability, at this point, these remain just scenarios.

In the short term, there appears to be more than enough fund balance to provide additional rate relief by lowering the MHIP assessment to 0% for the nine months, effective October 1, 2014. As proposed in the Medicaid analysis, this rate relief could be combined with a temporary increase in the Medicaid assessment to generate one-time general fund savings in the Medicaid program of \$36 million.

SDPAP

As shown in Exhibit 4, costs for SPDAP are anticipated to increase slightly in fiscal 2015 (\$910,000) reflecting increased enrollment (shown in Exhibit 3). Based on the most recent projections assuming premium subsidies of \$40 per month and the gap subsidy covering all prescription drug costs in the coverage gap after the federal discount, any supplemental coverage, and a 5% co-pay is applied, the SPDAP fund projects a surplus through fiscal 2017 (see **Exhibit 6**).

Exhibit 6
SPDAP Fund Data
Fiscal 2012-2017 Est.

	<u>2012</u>	<u>2013</u>	<u>2014 Est.</u>	<u>2015 Est.</u>	<u>2016 Est.</u>	<u>2017 Est.</u>
Opening Balance	\$9,559	\$9,333	\$3,240	\$3,447	\$2,955	\$2,155
Income	18,250	18,226	18,225	18,225	18,225	9,115
Actual/Projected Expenditures	-16,905	-15,616	-18,017	-18,717	-19,025	-9,627
Transfers to Other Programs	-1,571	-8,703				
Fund Balance (After Transfers)	\$9,333	\$3,240	\$3,447	\$2,955	\$2,155	\$1,643
Income/Expenditures Difference	\$1,345	\$2,610	\$208	-\$492	-\$800	-\$512

SPDAP: Senior Prescription Drug Assistance Program

Note: Assumes program sunset will be extended to December 31, 2016.

Source: Maryland Health Insurance Plan; Department of Legislative Services

Given this projected surplus, the Department of Legislative Services recommends in the BRFA of 2014 a fund transfer in fiscal 2014 of \$1 million from the SPDAP fund to the general fund.

Personnel Expenditures

Personnel costs are anticipated to decline by \$203,000. Most of this relates to the transfer of 2 positions (in accounting and information technology) to the Exchange. The reduction in personnel expenditures includes a decline in employee and retiree health insurance expenditures of \$55,000, including \$3,510 in fiscal 2015 back-of-the-bill cost containment, and a \$15,000 drop in retirement contributions, including \$8,006 attributed to the contingent reduction in retirement reinvestment.

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Health Insurance Plan (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2013					
Legislative Appropriation	\$0	\$168,872	\$34,748	\$10,000	213,621
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	9	3	0	12
Reversions and Cancellations	0	-12,380	-13,478	-10,000	-35,858
Actual Expenditures	\$0	\$156,502	\$21,273	\$0	\$177,775
Fiscal 2014					
Legislative Appropriation	\$0	\$175,438	\$27,083	\$0	\$202,521
Budget Amendments	0	20	5	0	25
Working Appropriation	\$0	\$175,458	\$27,088	\$0	\$202,546

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

The fiscal 2013 legislative appropriation for MHIP was reduced by \$35.8 million. The fiscal 2013 cost-of-living adjustment (COLA) added \$12,000 to the appropriation through budget amendment to fund the fiscal 2013 COLA. However, cancellations totaled over \$35.8 million (\$12.4 million in special funds, \$13.5 million in federal funds, and \$10.0 million in reimbursable funds) due to overestimates of program spending in the various MHIP programs.

Fiscal 2014

To date, the fiscal 2014 legislative appropriation for MHIP has been increased by \$25,000 (\$20,000 in special funds and \$5,000 in federal funds), all of which relates to the fiscal 2014 COLA and increments approved during the 2013 session but not included in the fiscal 2014 allowance.

**Object/Fund Difference Report
Maryland Health Insurance Plan**

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	12.00	9.00	9.00	0.00	0%
Total Positions	12.00	9.00	9.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,163,282	\$ 1,320,650	\$ 1,130,870	-\$ 189,780	-14.4%
03 Communication	98,544	55,728	82,777	27,049	48.5%
04 Travel	7,223	8,500	19,000	10,500	123.5%
07 Motor Vehicles	5,759	5,760	6,000	240	4.2%
08 Contractual Services	279,025,938	288,569,447	145,583,708	-142,985,739	-49.5%
09 Supplies and Materials	78,506	51,494	56,000	4,506	8.8%
10 Equipment – Replacement	7,012	2,000	1,000	-1,000	-50.0%
11 Equipment – Additional	560	30,000	3,000	-27,000	-90.0%
13 Fixed Charges	69,244	71,741	71,753	12	0%
Total Objects	\$ 280,456,068	\$ 290,115,320	\$ 146,954,108	-\$ 143,161,212	-49.3%
Funds					
03 Special Fund	\$ 156,501,625	\$ 175,458,165	\$ 97,245,752	-\$ 78,212,413	-44.6%
05 Federal Fund	21,273,020	27,088,055	130,456	-26,957,599	-99.5%
07 Nonbudgeted Fund	102,681,423	87,569,100	49,577,900	-37,991,200	-43.4%
Total Funds	\$ 280,456,068	\$ 290,115,320	\$ 146,954,108	-\$ 143,161,212	-49.3%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Fiscal Summary
Maryland Health Insurance Plan

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
01 Maryland Health Insurance Program	\$ 261,908,882	\$ 271,918,353	\$ 127,718,953	-\$ 144,199,400	-53.0%
02 Senior Prescription Drug Assistance Program	18,547,186	18,196,967	19,235,155	1,038,188	5.7%
Total Expenditures	\$ 280,456,068	\$ 290,115,320	\$ 146,954,108	-\$ 143,161,212	-49.3%
Special Fund	\$ 156,501,625	\$ 175,458,165	\$ 97,245,752	-\$ 78,212,413	-44.6%
Federal Fund	21,273,020	27,088,055	130,456	-26,957,599	-99.5%
Nonbudgeted Fund	102,681,423	87,569,100	49,577,900	-37,991,200	-43.4%
Total Appropriations	\$ 280,456,068	\$ 290,115,320	\$ 146,954,108	-\$ 143,161,212	-49.3%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.