

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 10 (Delegate Busch, et al.)
Economic Matters

Referred to Finance

Health Insurance - Expense and Loss Ratio Information

This amended bill repeals current law benchmarks that provide expense and loss ratio guidelines by which the Insurance Administration may require new rate filings by health insurers and health maintenance organizations (HMO). It establishes new loss ratio benchmarks based on whether the health benefit plan is issued to the group or individual market. The bill specifies that the annual report submitted by health insurers and HMOs to the Insurance Administration must include information reported either by product line, in the aggregate, or in a manner determined by the Insurance Commissioner, depending on the type of insurance. The bill also imposes on health insurers and HMOs that do not submit annual reports in a timely manner a monetary penalty of \$500 a day for each day after March 1 that the report is late.

Fiscal Summary

State Effect: General fund revenues could increase by an indeterminate minimal amount due to the monetary penalty provision and higher number of rate filings; any general fund revenue increase could be offset, however by a decline in revenues due to decreased insurance premium tax revenues. The bill could indirectly and in the long-term decrease expenditures in the Medicaid and State employee health benefit programs to the extent that health insurance premiums fall.

Local Effect: Expenditures for local jurisdiction employee health benefits could decrease by an indeterminate amount. Revenues would not be affected.

Fiscal Analysis

Background: For illustrative purposes, a loss ratio of 75% would indicate that the health insurer is paying out 75 cents in claims for each premium dollar received; the other 25 cents goes toward administrative costs or profit.

State Revenues: General fund revenues could increase by an indeterminate amount, depending on the magnitude of monetary penalties imposed by the Insurance Administration. Any such increase is assumed to be minimal.

In addition, general fund revenues could increase by an indeterminate minimal amount in fiscal 1997 since the bill's requirements make health insurers subject to additional rate fees. Each insurer (with the exception of health maintenance organizations) that revises its rates must submit the proposed rate change to the Insurance Administration and pay a \$100 rate filing fee. It is not possible to reliably estimate the number of insurers who will file new forms and rates as a result of the bill's requirements, since rate and form filings often combine several rate and policy amendments at one time.

On the other hand, general fund revenues could decrease by an indeterminate amount in fiscal 1997 as a result of the State's 2% insurance premium tax that would apply to any decreased health insurance premiums resulting from the bill's requirements. The State's premium tax is only applicable to "for-profit" insurance carriers. If a health insurer or HMO's loss ratio falls below the minimum threshold specified in the bill, premiums could decrease to the extent that the Insurance Administration works with the insurer or HMO to ensure that excessive administrative costs are lowered and no longer passed on through premiums.

State Expenditures: There is no direct impact to the Medical Assistance Program or the State employee health benefit plan because the bill's requirements affect health insurers rather than these programs. However, expenditures could decrease indirectly and in the long-term to the extent that excessive administrative costs are lowered and no longer passed on through premiums.

Local Expenditures: Expenditures for local jurisdiction employee health benefit plans that are not self-insured could decrease by an indeterminate amount to the extent that insurance premiums fall as a result of the bill's requirements.

Information Source(s): Department of Budget and Fiscal Planning, Insurance Administration, Department of Health and Mental Hygiene (Health Care Access and Cost Commission, Medical Care Programs Administration), Department of Fiscal Services

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