HB 114

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 114 (Delegate Benson)
Economic Matters

Health Care Consumers' Bill of Rights

This bill establishes that health care consumers have the following rights: (1) to choose a managed care insurer at any time without being confined to an open enrollment period; (2) to access alternative health care delivery systems through a managed care insurer; (3) to be provided affordable health care; (4) to be provided health care within a community location; (5) to have competent health care providers sensitive to the consumer's culture and ethnicity; (6) to request and receive information about a managed care insurer's health care providers and services; (7) to have a community board review care a consumer receives; and (8) to participate, if qualified, as a provider of health services in the community.

Fiscal Summary

State Effect: Expenditures could increase by $4.5 million in FY 1997, with the possibility of an additional indeterminate but significant expenditure growth in Medicaid. Future year expenditures increase with annualization and inflation. General fund revenues could increase by $3.8 million in FY 1997. Future year revenues increase with inflation.

($ in millions)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	$3.8	$4.0	$4.2	$4.4	$4.6
GF/SF/FF Expen.	4.5	6.2	6.6	6.9	7.3
Net Effect	($0.7)	($2.2)	($2.4)	($2.5)	($2.7)

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Expenditures relating to employee health benefit plans could increase by an indeterminate amount. Revenues could increase by $2.1 million.

Fiscal Analysis

State Effect: The State's federal tax exempt status for employee contributions for health insurance could be jeopardized by the bill's requirement that health care consumers be allowed to choose a managed care insurer at any time without being confined to an open enrollment period. Section 125 of the Internal Revenue Service Code stipulates that, for cafeteria style health benefit plans, there will be one open enrollment period each year. Currently, $76 million is protected from taxation under this law; if Maryland lost its tax exempt status: (1) employees would be responsible for federal taxes on the employee share; and (2) the State would be responsible for paying FICA taxes which would amount to $4.4 million (7.65% of $76 million) in fiscal 1997, which reflects the bill's October 1, 1996 effective date. It is assumed that the $4.4 million would be paid with a mix of general, special, and federal funds. Future year expenditures reflect 5.5% annual increases to account for medical cost inflation.

On the other hand, the State could receive additional tax revenues of $3.8 million. If the employee contribution for health insurance becomes taxable by the federal government, it automatically represents additional income taxable by the State, unless the State takes steps to subtract it from taxable income.

The Insurance Administration advises that general fund expenditures could increase by $314,848 in fiscal 1997 to hire: (1) two Technicians to handle complaints regarding the violation of health care consumer rights required in the bill and one for market conduct examination; and (2) seven Office Clerks, an Associate, and a Technician in the Consumer Services section to distribute information concerning these rights to the general public.

The Department of Fiscal Services advises, however, that three additional Technician positions should be sufficient to handle the bill's requirements regarding complaint investigation and market conduct. There is no requirement in the bill regarding public education of health care consumer rights; any increase in consumer services should be handled with existing resources. General fund expenditures could increase by an estimated $100,923 in fiscal 1997, which reflects the bill's October 1, 1996 effective date and includes salaries of $58,198, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$79,608
Computer and Office Equipment	17,040
Other Operating Expenses	4,275
Total FY 1997 State Expenditures	**$100,923**

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

Currently, 25% of Medicaid recipients are enrolled in managed care health plans and are restricted to one annual enrollment period. Under the Department of Health and Mental Hygiene's (DHMH) Medicaid reform proposal, most Medicaid recipients would be enrolled in a managed care plan and would be restricted to an annual open enrollment period. The bill, however, requires that consumers have unlimited enrollment access. As a result, general and federal funds could increase by an indeterminate but significant amount due to:

- additional administrative costs to the Medical Assistance Program; and
- additional health care reimbursement costs due to the program's inability to restrict the enrollment period and prevent inappropriate use of health care.

Fifty percent of additional Medicaid expenditures would be reimbursed by federal funds. However, Congress is considering legislation that may cap the amount of funds states receive under Medicaid.

Local Revenues: Local government could gain piggyback tax revenues of about 54% of the State tax increase of $3.8 million. In fiscal 1997, the gain could total $2.1 million.

Local Expenditures: Local jurisdictions could lose their tax exempt status under the federal Internal Revenue Service code on employee contributions for a health benefit plan, resulting in increased expenditures of an indeterminate amount.

Information Source(s): Insurance Administration, Department of Health and Mental Hygiene (Office of Licensing and Certification, Medical Care Policy Administration), Department of Budget and Fiscal Planning, Department of Fiscal Services

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