

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 337 (Senator Forehand, et al.)
Finance

Health Insurers and Health Maintenance Organizations - Hospitalization Benefits for Childbirth - Payment for Extended Stay

This bill requires health insurers and health maintenance organizations (HMOs) to pay the additional cost of hospitalization for a newborn if a mother is required to remain in the hospital after childbirth and requests that the newborn remain in the hospital.

Fiscal Summary

State Effect: If the State elects to include this mandated benefit in the State employee health benefit plan, expenditures could increase by \$69,800 in FY 1997. Future year expenditures grow with annualization and inflation. General fund revenues could increase by an indeterminate minimal amount.

| (in dollars) | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 |
|--------------|------------|-------------|-------------|-------------|-------------|
| GF Revenues | ---- | ---- | ---- | ---- | ---- |
| GF Expend.* | \$69,800 | \$147,300 | \$155,400 | \$163,900 | \$173,000 |
| Net Effect* | (\$69,800) | (\$147,300) | (\$155,400) | (\$163,900) | (\$173,000) |

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

*assumes a mix of 60% general funds, 20% special funds, and 20% federal funds

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

Fiscal Analysis

State Revenues: General fund revenues could increase by an indeterminate minimal amount in fiscal 1997 as a result of the State's 2% insurance premium tax that would apply to any increased health insurance premiums resulting from the bill's requirements. The State's premium tax is only applicable to "for-profit" insurance carriers.

In addition, general fund revenues could increase by an indeterminate minimal amount in fiscal 1997 since insurance companies that do not already provide the coverage mandated by the bill's requirements will be subject to rate and form filing fees. Each insurer (with the exception of health maintenance organizations) that amends its insurance policy must submit the proposed change to the Insurance Administration and pay a \$100 form filing fee. Further, 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.

State Expenditures: Although the State is self-insured and not required to cover mandated health benefits, in the past the State employee health benefit plan has always included coverage for mandated health benefits. Therefore, if the State chooses to include the bill's mandated benefit, expenditures could increase by an estimated \$69,800 (assumes a mix of 60% general funds, 20% special funds, and 20% federal funds) in fiscal 1997. The \$69,800 estimate is based on fiscal 1995 utilization rates and hospital expenditures for employees enrolled in the Blue Cross/Blue Shield (BCBS) preferred provider organization (PPO) plan and assumes that: (1) utilization rate and hospital expenses for different lengths of stay found for the BCBS population are equivalent for the entire State active employee enrolled population; (2) the newborn does not have any medical problems and the cost of additional nursery care is 30% of normal hospital daily rates; (3) the newborn remains hospitalized for an additional five days; (4) the number of State employees enrolled in the health plan remains constant; and (5) an effective date of January 1, 1997, the start date of the annual State employee health benefit plan contract. Future year expenditures reflect medical cost inflation of 5.5% and annualization in fiscal 1998 from fiscal 1997.

Although the number of State employees has remained relatively constant in recent years, the Department of Fiscal Services notes that the fiscal 1997 budget allowance reflects a net decrease of 851 permanent positions. Expenditures for the State employee health benefit plan could therefore be lower than those indicated above as a result of the bill's requirements, but it is not possible to reliably estimate the extent of decrease at this time. Any decrease in the number of covered lives would serve to mitigate the projected expenditure growth, but it is not possible to reliably estimate the extent at this time.

There is no direct impact to the Medical Assistance Program because the bill's requirements directly affect health insurers and not the program. However, the bill could indirectly affect Medicaid expenditures in the long-term if Medicaid rates set for health maintenance organizations (HMOs) increase due to higher costs incurred by HMOs. Currently, 25% of Medicaid recipients are enrolled in HMOs. Under the Department of Health and Mental

Hygiene's Medicaid reform proposal, most Medicaid recipients will be enrolled in managed care. In addition, under current federal law, 50% of any additional Medicaid expenditures are reimbursable by federal funds. However, Congress is considering legislation that may cap the amount of funds that states receive under Medicaid. As a result, it's possible that any additional Medicaid expenditures will be funded entirely with general funds. It is not possible at this time to reliably estimate the magnitude of any increase in Medicaid program expenditures resulting from the bill's requirements.

Local Expenditures: Expenditures for local jurisdiction employee health benefits could increase by an indeterminate amount, depending upon the current type of health care coverage offered and number of enrollees.

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

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