SB 565

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 565 (Senator Hollinger)
Finance

Long-Term Care Insurance - Offer of Coverage

This bill requires a health insurer, nonprofit health service plan, or HMO (carrier) that provides health insurance coverage through an employer or private group arrangement to offer, or contract with another carrier to offer, long-term care insurance. The employer or private group arrangement may require an individual who accepts the long-term care insurance to pay the premiums for the long-term care insurance policy. The bill applies to the State employee health benefit plan.

Fiscal Summary

State Effect: Expenditures for the State employee health benefit plan could increase by an estimated $67,000 in FY 1998, which reflects the bill's October 1, 1997 effective date and one-time costs. Future year expenditures reflect annualization and inflation. Indeterminate effect on general fund revenues.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	---	---	---	---	---
GF/SF/FF	$67,000	$39,900	$41,300	$42,800	$44,400
Net Effect	($67,000)	($39,900)	($41,300)	($42,800)	($44,400)

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: None.

Small Business Effect: Minimal, since small businesses that offer health insurance are not required to subsidize the long-term care policies.

Fiscal Analysis

State Effect: In 1993, private long-term care insurance paid for less than 1% of long-term care costs. In 1995, only about 4% of elderly individuals purchased private long-term care insurance because of the high cost of the policies. Between 1988 and 1994, the State employee health benefit plan offered a long-term care insurance policy. The plan covered nursing homes, home health benefits, adult day care, and respite care. During that period, less than 1,000 employees subscribed to the long-term care plan.

The 1996 federal Health Insurance Portability and Accountability Act provides tax incentives for consumers to purchase private long-term care insurance policies and allows employers to obtain significant tax breaks if they set up a group long-term care plan for the employees. Some of the favorable tax treatment for employer-provided long-term care plans, however, do not extend to employer-provided benefits that are offered through a cafeteria plan, such as the State employee health benefit plan. For instance, a State employee's contribution for long-term care insurance premiums would not be a pre-tax deduction from income. Under the bill, State employees can treat long-term care insurance premiums as medical expenses for the purpose of itemized deductions and certain distributions from the long-term care insurance policy are excludable from taxable income. Given the new federal tax incentives, it is anticipated that participation under the State employee health benefit plan could increase.

Expenditures for the State employee health benefit plan could increase by an estimated $67,000 in fiscal 1998 (assumes a mix of 60% general funds, 20% special funds, and 20% federal funds), which accounts for the bill's October 1, 1997 effective date. This estimate reflects the cost of hiring one Administrative Officer to administer the program, organize payroll deductions, and fund transfers. It includes salary, fringe benefits, and ongoing operating expenses. In addition, the estimate includes a one-time procurement cost of a consultant for actuarial forecasting.

Salary and Fringe Benefits	$29,641
Procurement and Operating Expenses	37,369
Total FY 1998 State Expenditures	**$67,010**

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

The State employee health benefit plan would also incur additional administrative expenses, such as printing of enrollment material, that would be based upon the number of employees who choose to participate in the long-term care plan.

If more individuals purchase long-term care policies as a result of this bill, it could reduce the State's Medicaid burden of long-term care cost in the future. The extent of the reduction on

Medicaid expenditures cannot be determined at this time.

In addition, general fund revenues could increase since carriers who currently do not offer a long-term care policy would have to file new rates and forms to the Insurance Administration and pay a $100 rate and/or form filing fee. The extent of the increase, however, cannot be reliably estimated at this time because it would depend on whether carriers offer the contracts themselves (which would entail a filing with the Insurance Administration) or contract with another carrier to provide the long-term care policy. Currently, 21 health insurers offer a long-term care policy. General fund revenues could also increase by an indeterminate amount in fiscal 1998 as a result of the State's 2% insurance premium tax. This increase is dependent on the number of individuals who purchase long-term care policies as a result of this bill. The State's premium tax is only applicable to "for-profit" insurance carriers.

Due to the favorable tax treatment afforded the purchase of long-term care insurance policies, federal taxable income could decline, which would flow through to State taxable income. Consequently, general fund revenues could decline by an indeterminate amount depending on the increase in the purchase of long-term care insurance policies.

Information Source(s): Department of Health and Mental Hygiene (Medical Care Policy Administration, Health Care Access and Cost Commission); Department of Budget and Management; Insurance Administration; Department of Education; Department of Fiscal Services

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