HB 4

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Revised

House Bill 4 (Delegate Hurson, *et.al.*)
Environmental Matters and Economic Matters

Children and Families First Health Care Act of 1998

This emergency bill expands the Medicaid program to pregnant and two months postpartum women from families with incomes up to 200% of the federal poverty level (FPL). The bill also establishes the Children and Families First Health Care Program ("program"). The program extends Medicaid coverage to children under 19 years from families with incomes up to 200% of FPL if they do not have access to certified employer-sponsored dependent coverage. If a qualified child has access to certified employer-sponsored dependent coverage, the child will receive a voucher to cover the cost of dependent coverage under an employer-sponsored private health insurance plan ("voucher program").

The bill requires the Governor to include in the annual budget at least $500,000 for the Maryland Health Care Foundation, beginning in fiscal 2000, and authorizes the Governor to transfer $500,000 to the foundation in fiscal 1999. In addition, the Governor must include in the general fund appropriation to the foundation an amount equivalent to the general fund surplus for the Children and Families Health Care Program for the second year prior to which the budget is introduced.

Fiscal Summary

State Effect: The FY 1999 Medicaid budget allowance includes $77.4 million to fund the Administration's proposed Maryland Children's Health Program, of which $30 million is general funds and $47.4 million is federal funds. Legislative Services anticipates that actual expenditures for the program would be approximately $67.4 million in FY 1999, of which $30.0 million is general funds, excepting any savings from cost-sharing and enrollment in the voucher program. Out-year estimates account for an increase in participation rates, a 5% annual "crowd-out" rate, and inflation. Future year expenditures also include $500,000 to the Maryland Health Care Foundation, beginning in FY 2000.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003

GF Expenditures	$30.0	$41.5	$43.2	$44.9	$46.7
FF Expenditures*	37.4	53.0	55.1	57.3	59.6
Net Effect	$67.4	$94.5	$98.3	$102.2	$106.3

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds
*- federal fund expenditures are reimbursable by the federal government

Local Effect: Local expenditures for health services could decrease by an indeterminate but significant amount to the extent that the bill results in fewer uninsured individuals in a jurisdiction. No effect on revenues.

Small Business Effect: Meaningful impact on small businesses.

Fiscal Analysis

Bill Summary: A child may be ineligible to participate in the Children and Families Program if the child voluntarily terminated employer-based health insurance coverage in the preceding six months. If the child is enrolled in the voucher program and is from a family with income between 185% and 200% of FPL, the family must pay an annual premium between 1% and 3% of annual family income. The premiums would be based on a sliding scale.

The Department of Health and Mental Hygiene (DHMH) must implement expedited eligibility for any child who applies for health insurance coverage under the Medicaid program and the Children and Families Program. In addition, DHMH may extend six months of guaranteed eligibility to the newly-eligible population under the Medicaid Managed Care Program (“HealthChoice”).

The bill specifies enrollment and outreach efforts for the Children and Families Program, including: (1) a school-based enrollment program; (2) mail-in applications; and (3) outreach efforts through health insurers and nonprofit health service plans (carriers) that issue group or blanket health insurance policies in Maryland.

A carrier that offers employer-based coverage or intends to participate in the voucher program must submit the health insurance plan to the Secretary of DHMH for certification to ensure that the health benefit coverage: (1) meets the requirements of a qualified plan under Title 21 of the Social Security Act; and (2) includes a benefit substantially equivalent to the Early Periodic Screening Diagnosis and Treatment (EPSDT) program.

Under the voucher program, the Secretary of DHMH must: (1) determine the cost of the dependent coverage; and (2) make payments for the child's portion of the benefit cost directly to the carrier. Until dependent coverage under an employer-sponsored plan has been certified by DHMH, the child is eligible to enroll in the Medicaid program.

The bill directs DHMH, in consultation with other State agencies, the business and health care community, and the Maryland Health Care Foundation, to: (1) study the feasibility and cost-effectiveness of providing health insurance coverage through the private market to uninsured children and families as part of the Children and Families Program; and (2) recommend programs that provide private health insurance coverage to children and families that qualify for the enhanced (65%) federal match under the new federal Children's Health Insurance Program. The foundation must develop programs to expand the availability of health insurance coverage to low-income, uninsured children which involve the private health insurance market in accordance with the activities and study conducted by DHMH. DHMH must report its findings to various General Assembly committees by December 1 each year, beginning in 1998. These provisions sunset June 30, 2004.

Before July 1, 2000, all children under 19 years from families under 200% of FPL qualify for the voucher program or Medicaid, depending on whether they have access to employer-based dependent coverage. Beginning July 1, 2000, all children below 185% of FPL qualify only for Medicaid while children between 185% and 200% of FPL who have not enrolled in the Children and Families Program qualify for Medicaid if they do not qualify under the voucher program or any other program developed by the foundation. **Table 1** below represents the eligibility criteria for children as well as pregnant women.

Table 1: Eligibility Criteria for Pregnant Women and Children under HB 4

Income as % of FPL	**Pregnant women**	**Children under 19 years enrolled in Children and Families Program**	
		Before July 1, 2000	Beginning July 1, 2000
185% - 200%	Covered under Medicaid	Covered through voucher program or Medicaid if not eligible for voucher program	Voucher or other programs developed by the foundation, or Medicaid
under 185%			Medicaid coverage only

DHMH must take necessary steps to receive approval from the federal Health Care Financing Administration (HCFA) for a tax credit program for the Children and Families Program and report on the status of its efforts to the General Assembly by December 1, 1998.

The bill requires that after the initial appointment of the board of trustees by the Governor for the foundation, subsequent appointments must be elected by the board. The bill also provides for the appointment, compensation, and duties of the executive director of the foundation.

Background: The 1998 federal budget commits $20.25 billion in block grants to states to fund health insurance coverage for uninsured children below 200% of FPL (the Children's Health Insurance Program, or "CHIP"). Maryland's share of the block grant in federal fiscal 1998 amounts to approximately $61.6 million. Under the federal program, federal dollars would cover 65% of the total cost of the program while State general funds must cover 35% of the total cost. Currently, Maryland's Medicaid program receives a 50% federal funds match. Under the new program, no more than 10% of total funding may be used for administrative costs. States may apply for a waiver to provide family coverage if it is demonstrated to be cost-effective.

The Maryland Kids Count Program provides primary and preventive health care services to children with family income below 185% of FPL who do not qualify for Medicaid. The program operates on a Medicaid 1115 waiver, which is scheduled to terminate in October 1998. HCFA, the federal agency administering CHIP, has indicated that the Kids Count children would not qualify under CHIP, and as such, for the 65% federal funds match. These children could, however, receive the current 50% Medicaid federal funds match if enrolled in Medicaid.

HCFA has also established guidelines for states that choose to subsidize employer- sponsored coverage under CHIP. These guidelines are essentially to minimize the occurrence of families substituting CHIP coverage for employer-sponsored private health insurance coverage ("crowding-out"). The guidelines include the requirements that:

1. the look-back period for private insurance coverage be at least six months but no more than 12 months;

2. employers contribute at least 60% of the cost of family coverage in order for the employer-sponsored plans to qualify under CHIP; and

3. a state's payment for a child enrolled in an employer-sponsored group health plan be no greater than the payment the state would have made for the child if enrolled in Medicaid (or a separate CHIP plan offered through the state).

State Effect:

Table 2: Estimates from Department of Health and Mental Hygiene (DHMH) and Department of Legislative Services (DLS)

	DHMH's Estimate	DLS's Estimate
Total Cost	$72 million* ($29.7 million in	$67.4 million** ($30

	general funds)	million in general funds)
Total enrollment of newly-eligible population	34,599 children and 240 pregnant women	29,023 children and 203 pregnant women
Total enrollment of those currently Medicaid-eligible	8,461 children and 819 pregnant women	6,829 children and 567 pregnant women
Savings from Voucher Program	1,730 children in employer-sponsored plans: $1.74 million savings ($0.6 million general fund savings)	Depends on number of participants and relative cost of the employer plan
Savings from Cost Sharing through Premiums	Assumes 2 children per family and $600 annual family premiums: $0.69 million savings ($0.24 million general fund savings)	Depends on premiums developed and family participation

* Total cost estimate includes savings from the voucher program and premiums
** Does not include savings from the voucher program and premiums. Total cost would be lower depending on the levels of these savings.

<u>The Department of Health and Mental Hygiene's Estimate</u>

DHMH advises that expenditures as a result of this bill are expected to be $72 million in fiscal 1999, of which $29.7 million is general funds and $42.3 million is federal funds. The fiscal 1999 Medicaid budget allowance includes $77.4 million to fund the Administration's proposed Maryland Children's Health Program, of which $30 million is general funds and $47.4 million is federal funds. DHMH expects 34,599 newly-eligible children and 240 newly-eligible pregnant women to participate in the new program and 8,461 children and 819 women currently eligible for Medicaid but who have not enrolled would seek coverage as a result of publicity surrounding the new program. The estimates are based on the following assumptions:

- 5% of the newly-eligible population lose eligibility as a result of the six-month look-back period.

- Premiums for children between 185% and 200% of FPL would reduce participation in that income category to 45%, while 75% of the eligible children in the other income categories would participate.

- 15% of the pregnant women and children who are currently eligible for, but not enrolled in, Medicaid would seek coverage.

- The average annual Medicaid cost per infant is $3,718 and per child is $1,511. The average annual cost per pregnant woman is $5,667.

- The average annual cost per child of subsidized dependent coverage through a private health insurance plan is $504.

- Assumes each family would have two newly-eligible children and average annual premiums per family would be $600.

- Only 5% of the plans would qualify and be certified.

- Administrative costs for the Medicaid expansion would approximate 10% of total costs.

- Annualized costs for administering the premium payments and voucher program would approximate $2.44 million in general funds (since it exceeds the 10% cap).

- Premium payments and the voucher program would be implemented in July 1998.

Although DHMH incorporates annualized savings due to premium payments and the voucher program in fiscal 1999, it is anticipated that implementation of premiums and the voucher program would involve some start-up delay. As such, the savings would not be realized for part or all of fiscal 1999.

The Department of Legislative Services' Estimate

Total Cost of HB 4, Exclusive of Savings from Voucher Program and Cost-Sharing

The Department of Legislative Services (DLS) advises that total expenditures would be less than $67.4 million in fiscal 1999, of which $30 million is general funds and $37.4 million is federal funds. This estimate does not account for the savings as a result of children enrolling in a private health insurance plan instead of Medicaid and cost-sharing contributions from families. The actual impact to the State would depend on: (1) the number of children who have access to employer-sponsored dependent coverage that qualifies as a certified plan under the bill; (2) the cost of dependent coverage under the private health insurance plan relative to the Medicaid cost; (3) the level of cost-sharing imposed by DHMH; and (4) the implementation date of premium payments and the voucher program.

DLS estimates that 29,023 newly-eligible children and 203 newly-eligible pregnant women would participate in the new program and 6,829 children and 567 pregnant women currently eligible for, but not enrolled in, Medicaid would apply for coverage. DLS's estimates are based on the following assumptions:

- 1.25% crowd-out rate in the first year due to the six-month look-back period and open enrollment delays; and 5% crowd-out in subsequent years. This represents an additional 1,297 children who would enroll in the program in the first year.

- Premiums for children between 185% and 200% of FPL would reduce participation in that income category to 33% in the first year and 50% in subsequent years. Other income categories would experience participation rates of 50% in the first year and 75% in subsequent years.

- 15% of the pregnant women and children who are currently eligible for, but not enrolled in, Medicaid would seek coverage.

- The average annual cost per child in Medicaid is $1,548 and average annual cost per pregnant woman is $5,243.

- Administrative costs for the Medicaid expansion would approximate 10% of total costs.

- 14,970 of the newly-eligible children participating in the program would be formerly Kids Count-eligible children. These children would receive a 50% federal match.

Future year estimates account for an increase in participation rates, a 5% annual crowd-out rate, and 4% inflation.

Voucher Program and Cost-Sharing from Premiums: Indeterminate decrease.

In addition to the benefit coverage requirements, the employer must also contribute at least 60% of the cost of family coverage under the employer-sponsored health insurance plan in order for the plan to qualify under CHIP. As such, it is expected that the cost to the State would be reduced if some children were covered through an employer-sponsored private health insurance plan instead of Medicaid. The savings to the State would depend on the number of children enrolled in these private health plans and the cost of the plans.
The bill requires children from families between 185% and 200% of FPL to contribute towards the cost of the voucher program. Premiums would be between 1% and 3% of annual family income and would be based on a sliding scale. The decrease in expenditures for the State as a result of premium contributions would depend on the level of premiums developed by DHMH. The table below (**Table 3**) represents the possible cost-sharing for families of two, three, and four at 185% and 200% of FPL.

Table 3: Annual Cost-Sharing for Families at 185% and 200% of FPL

Premiums	Family of 2		Family of 3		Family of 4	
	185% FPL ($19,629)	200% FPL ($21,220)	185% FPL ($24,661)	200% FPL ($26,660)	185% FPL ($29,693)	200% FPL ($32,100)
1% of annual family income	$196	$212	$247	$267	$297	$321
3% of annual family income	$588	$636	$741	$801	$891	$963

Some of the savings from enrolling children through the private plan and from the premium contributions would be offset by the increase in administrative costs associated with running the voucher program and collecting premiums. These administrative costs would be funded entirely with general funds since it is assumed that administrative costs for the Medicaid expansion would be at the 10% cap.

Expedited Enrollment and *Guaranteed Eligibility*: No impact.

Currently, the Medicaid program offers expedited enrollment for women and children in the Pregnant Women and Children (PWC) program. In addition, Medicaid currently offers six months of guaranteed eligibility for enrollees in HealthChoice. Thus, these provisions would impose no additional costs to the Medicaid program.

Other Indirect Effects: Indeterminate decrease.

The number of uninsured persons in Maryland would decrease as a result of this bill, thereby decreasing the amount of uncompensated care. This could result in reduced expenditures for: (1) the Medicaid program and the State Employee Health Benefit Plan due to lower hospital rates; and (2) health services funding to local health departments which serve the "grey-area" population (those who have too much income to be eligible for Medicaid but cannot afford health insurance). Any such decrease cannot be reliably estimated at this time.

<u>*Appropriations to the Maryland Health Care Foundation*</u>: General fund expenditure increase of at least $500,000 annually, beginning in fiscal 2000.

General fund expenditures would increase by at least $500,000 annually, beginning in fiscal 2000, as a result of the appropriations to the Maryland Health Care Foundation to fund its operating expenses. General fund expenditures could increase further if the general fund appropriation for the Children and Families Program exceeds the actual expenditures for the program. In that instance, an amount equivalent to the general fund surplus for that fiscal year must be appropriated to the foundation in the budget for the second year following that fiscal year.

Additional Comments: DLS's estimate does not assume that children qualifying through the expansion are healthier than current non-disabled Medicaid recipients. The DHMH estimate includes a 5% reduction in costs due to the superior health status of the newly-eligible population. If a similar adjustment were applied to the DLS estimate, projected expenditures would be reduced by $3.0 million in fiscal 1999.

The determination by HCFA that Kids Count children do not qualify for the 65% federal funds match increases the State's general fund share of the total cost of the program. The change in the State's share from 35% to 50% of total cost amounts to an increase in general funds of approximately $4.2 million in fiscal 1999.

Small Business Effect: An anticipated 36,000 uninsured children will enroll in the Medicaid program as a result of this bill. Consequently, small business health care providers that contract with Managed Care Organizations (MCOs) will experience increased business activity. MCOs are not considered small businesses.

Information Source(s): Department of Health and Mental Hygiene (Medical Care Policy Administration, Community and Public Health Administration); Insurance Administration; Department of Budget and Management; Department of Legislative Services

Fiscal Note History:	First Reader - January 20, 1998
lncs	Revised - House Third Reader - March 28, 1998

Analysis by: Lina Walker
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst

(410) 841-3710
(301) 858-3710