SB 85

Department of Legislative Services

Maryland General Assembly

FISCAL NOTE

Revised

Senate Bill 85 (The President. *et al.*)
(Administration)

Finance

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 Health Care Program ("program"). The program extends comprehensive health insurance coverage to children up to age 19 from families with incomes up to 200% of FPL through enrollment in either the Maryland Medicaid Managed Care Program or a private health insurance plan.

The bill authorizes the Governor to transfer $500,000 to the Maryland Health Care Foundation in the fiscal 1998 or 1999 budgets to cover the expenses associated with the operation of the foundation.

Fiscal Summary

State Effect: The FY 1999 Medicaid budget includes $77.4 million to fund a 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 $69.1 million in FY 1999, of which $30.6 million is general funds. Out-year estimates account for changes in participation rates, a 5% annual "crowd-out" rate, and inflation. Future year estimates do not adjust for potential savings from cost-sharing and enrollment in private health insurance plans.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Expenditures	$30.6	$41.0	$42.7	$44.4	$46.2
FF Expenditures*	38.5	53.0	55.1	57.3	59.6
Net Effect	$69.1	$94.0	$97.8	$101.7	$105.8

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: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Fiscal Analysis

Bill Summary: On or before July 1, 1999, a qualified child will be enrolled in an individual or employer-sponsored private health benefit plan if: (1) dependent coverage is available under the plan; (2) the plan has been certified by the Department of Health and Mental Hygiene (DHMH) as a qualified plan; and (3) the individual has family income between 185% and 200% of FPL. 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 a private health insurance plan, the family must pay an annual premium between 1% and 2% of annual family income.

DHMH must implement expedited eligibility for any child who applies for health insurance coverage under 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 intends to participate in the Children and Families 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 private insurance program, the Secretary of DHMH is responsible for: (1) approving premium payments that are adjusted to the benefits provided as long as the amount does not exceed the cost of Medicaid coverage; and (2) making payments for the child's portion of the benefit cost directly to the carrier.

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. DHMH must report its findings to the Governor and the General Assembly by December 1 each year, beginning in 1998. These provisions sunset June 30, 2004.

The bill directs DHMH to seek a written determination from the federal Health Care Financing Administration (HCFA) regarding: (1) the use of a refundable tax credit program; and (2) extending the use of individual or employer-sponsored plans to families at or below 185% of FPL. By December 1, 1998, DHMH must report to the General Assembly regarding HCFA's determination and the feasibility of and methods for implementing the proposal(s) if approved by HCFA. In addition DHMH must report to the General Assembly by December 1, 1998 the administrative costs of mandating the use of private health insurance plans and family contributions to the State, carriers, managed care organizations, and employers.

The bill directs the Department of Legislative Services (DLS) to study the structure and organization of entities similar to the Maryland Health Care Foundation and to report the results of the study to the Governor and the General Assembly by December 1, 1998.

The bill provides for the appointment of the executive director of the foundation.

Background: The 1997 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: FY 1999 Estimates from Department of Health and Mental Hygiene (DHMH) and Department of Legislative Services (DLS)

	DHMH's Estimate	**DLS's Estimate**
Total Cost	$74.5 million* ($29 million in general funds)	$69.1 million* ($30.6 million in general funds)
Total enrollment of newly-eligible population	36,135 children and 240 pregnant women	30,140 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
Future Year Savings from Private Health Insurance Plans	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
Future Year 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

* Does not include savings from the premiums and private health insurance plans.

The Department of Health and Mental Hygiene's Estimate

DHMH advises that expenditures as a result of this bill are expected to be $74.5 million in fiscal 1999, of which $29 million is general funds and $45.5 million is federal funds. The fiscal 1999 Medicaid budget 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 36,135 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.

- 75% of the newly-eligible children 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.

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

- Premium payments and private health insurance plans would be implemented in July 1999.

Future year estimates include savings as a result of enrolling children in private health insurance plans instead of Medicaid and cost-sharing contributions in the form of premium payments from families. The projections assume: (1) a reduction in participation rates, from 75% to 45%, for children between 185% and 200% of FPL as a result of premium payments; (2) average annual private health plan costs of $504; (3) average annual premium contributions of $600; and (4) $2.44 million in general fund administrative costs.

The Department of Legislative Services' Estimate

Total Cost of SB 85

The Department of Legislative Services (DLS) advises that total expenditures would be $69.1 million in fiscal 1999, of which $30.6 million is general funds and $38.5 million is federal funds. This estimate assumes enrollment in a private health insurance plan instead of Medicaid and cost-sharing contributions from families would not be implemented until July 1, 1999.

DLS estimates that 30,140 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.

- Participation rates for the newly-eligible children would be 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.

In the out-years, it is assumed that the participation rate for those children between 185% and 200% of FPL would decline to 50% as a result of premium payments. The participation rate for children in other income categories would increase to 75% in the out-years. Future year estimates also account for a 5% annual crowd-out rate and 4% inflation. The out-year estimates do not reflect savings from enrolling children in private health plans instead of Medicaid or from premium contributions.

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.

Enrollment in Private Health Plans 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 individual or 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 private health plan. Premiums would be between 1% and 2% of annual family income. 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
2% of annual family income	$392	$424	$494	$534	$594	$642

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.

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.

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.

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 13, 1998
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