HB 922

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 922 (Delegate Redmer)
Economic Matters

Children's Health Care - Pilot Program - Refundable Tax Credit for Employer Sponsored Health Benefit Plan

This bill establishes a pilot program within the existing Children and Families Health Care Program (also referred to as CHIP) to encourage the purchase of dependent health insurance coverage through an employer health plan by offering a refundable tax credit for the premiums paid by the eligible taxpayer. The program will provide a credit of up to 100% of the premiums paid if the health insurance package meets State and federal requirements with regards to the benefits, the pricing, and the amount of employer contribution. The Insurance Commissioner must determine if the health plan meets those requirements. Non-qualifying plans are allowed a credit of 75% of the premiums paid only if the taxpayer falls within a specified income category. The program only applies to employees who reside in specified counties.

The bill takes effect July 1, 1999 and sunsets June 30, 2003. It applies to all taxable years beginning after December 31, 1998 and before January 1, 2003.

Fiscal Summary

State Effect: General fund revenues would decrease by $1 million in FY 2000. Future year revenue losses increase by 6% annually. No effect on expenditures.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($1.02)	($1.08)	($1.14)	($1.21)	$0.00
GF Expenditures	0	0	0	0	0
Net Effect	($1.02)	($1.08)	($1.14)	($1.21)	$0.00

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

Local Effect: None.

Small Business Effect: Minimal.

Fiscal Analysis

Background: Qualifying plans are plans that meet federal and State requirements established under Title XXI of the Social Security Act (Children's Health Insurance Program - CHIP) and Chapter 110 of 1998 (Maryland Children's Health Program), respectively. Meeting these requirements would qualify the program for federal matching funds of 65% of the total cost of the program. The requirements are:

- The benefits must meet the standards of federal benchmark or benchmark-equivalent coverage and must include benefits equivalent to Maryland's Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program;

- There may be no coinsurance, deductible, or copayment requirements of any kind;

- The State's portion of the policy premium may not exceed the State's cost of HealthChoice enrollment; and

- Employers must contribute at least 60% of the cost of the health plan.

Under current law, the Department of Health and Mental Hygiene (DHMH) is required to develop and implement a program to provide health insurance coverage to children through the private insurance market for families between 185% and 200% of the federal poverty level (FPL). The private insurance option program will begin in July 1999. Under the private insurance program, participants must make annual premium contributions of between 1% and 2% of the family's annual income.

Pursuant to Chapter 110, a Technical Advisory Committee was established to study the private health insurance option for the Maryland Children's Health Program (CHIP). The report noted that at the time of writing, there was no indication of any currently existing plan available in the Maryland insurance market that would qualify, without modification, under CHIP. The report also noted that the federal and State requirements could significantly discourage employers from participating in the program for the following reasons:

- The current federal requirement that employers contribute 60% of health insurance costs (although it might be adjusted downwards) is inconsistent with current market practices;

- State and federal benefit design requirements result in a richer benefit package than currently offered in the private health insurance market; and even though, actuarially, a private option plan could be priced to conform to the requirement that the cost be no more than the Medicaid option, it is uncertain if the private market would price the product at an acceptable level;

- The private option would apply to a very small target group that will fluctuate as family size and income changes, presenting administrative complexities and actuarial risks; and

- There would be significant administrative costs for employers and the insurance industry.

State Effect: Under the bill, the tax credit would be available to essentially two groups of individuals: (1) those who are eligible for coverage under CHIP (taxpayers with adjusted gross income up to 200% of FPL who have a qualifying plan); and (2) those who are not (taxpayers with adjusted gross income between 200% and 225% of FPL).

It should be noted that the federal Health Care Financing Administration (HCFA) has determined that a tax credit program does not qualify for federal matching dollars under CHIP. Thus, regardless of whether a plan meets federal and State requirements under CHIP, this tax credit program would not qualify for federal matching dollars.

It is unlikely that there will be any individuals in the first category of taxpayers who will claim the tax credit for the following reasons:

- CHIP already provides coverage for uninsured children up to 200% of FPL and will begin to provide coverage for some children between 185% and 200% of FPL through a private insurance plan in the absence of this bill;

- The bill provides that the pilot program be available to employees who do not have dependent coverage through their employer-sponsored plan. Thus, individuals who already have dependent coverage through an existing employer-sponsored health plan are not eligible for the tax credit; and

- Based on the Technical Advisory Committee's report that existing employer-sponsored plans do not meet CHIP requirements and that the average employer contribution in 1996 was 56% and recent trends do not indicate an increase in the amount of employer contribution, it is assumed that no employer will incur increased cost to modify their plans to conform to CHIP for employees who could receive dependent coverage through CHIP.

The second category of taxpayers will, however, benefit from the tax credit because the credit may be claimed regardless of whether or not the plan qualifies under CHIP and because individuals in this income group are not eligible for CHIP coverage. General fund revenue loss as a result of the credits taken by individuals in this category is estimated to be $1.0 million in fiscal 2000. The estimate is based on the following facts and assumptions:

- In 1996 there were 3,635 returns from qualifying counties with modified adjusted gross income between 200% and 225% of FPL. These returns were from households with children;

- Approximately 21% of the households have uninsured children;

- Half of the households with uninsured children will purchase dependent coverage under the pilot program and claim the tax credit; and

- The additional cost for dependent coverage in 1996 is $3,248.

Out-year revenue losses grow by 6% annually until fiscal 2003, after which the bill sunsets.

Information Source(s): Department of Health and Mental Hygiene (Health Services Analysis and Evaluation Administration, Licensing and Certification), Maryland Insurance Administration, Comptroller of the Treasury (Bureau of Revenue Estimates), Bureau of the Census, Department of Legislative Services

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