Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

Senate Bill 738 (Senator Bromwell)
Finance

Children and Families Health Care Program

This bill repeals the requirement that the Department of Health and Mental Hygiene (DHMH) develop and implement a program to provide health insurance coverage to children through the private insurance market under the Children and Families Health Care Program. The bill delays by one year, from July 1999 to July 2000, the family contribution requirement for program participants with income between 185% and 200% of the federal poverty level (FPL).

DHMH, in consultation with various State agencies and industry groups, must study the State's ability to expand the program beyond the current income eligibility level (200% of FPL) to qualified individuals through the private market. The study must include a plan to foster the enrollment of children of State employees. The department must prepare an interim report on the recommendations of the study by September 1, 1999. A final report is due to the House Economic Matters Committee and the Senate Finance Committee by December 1, 1999.

The bill takes effect June 1, 1999.

Fiscal Summary

State Effect: Medicaid administrative expenditures would decrease by $760,000 in FY 2000 as a result of repealing the private insurance option. Out-year estimates include ongoing costs only and reflect inflation. Special fund revenues would decrease by $210,000 in FY 2000 only and federal fund revenues would decrease by $390,000 in FY 2000 only as a result of the delay in implementing the family contribution requirement. The FY 2000 special fund appropriation of $210,000 for the Children's Health Program is contingent upon the failure of the legislation to eliminate the premium requirement for these families. Out-year revenues remain unchanged.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
SF Revenues	($210,000)	$0	$0	$0	$0
FF Revenues	(390,000)	0	0	0	0
GF Expenditures	(266,000)	(178,500)	(182,100)	(185,700)	(189,400)
FF Expenditures*	(494,000)	(331,500)	(338,100)	(344,900)	(351,800)
Net Effect	$160,000	$510,000	$520,200	$530,600	$541,200

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

Local Effect: None.

Small Business Effect: Minimal.

Fiscal Analysis

State Effect: Chapter 110 of 1998 (SB 85) established the Children and Families Health Care Program pursuant to the federal Children's Health Insurance Program (Title XXI of the federal Social Security Act). The State's program establishes health insurance coverage for pregnant women and children up to 200% of FPL through enrollment in HealthChoice in the first year. Chapter 110 requires DHMH to establish a private insurance option for children between 185% and 200% of FPL by July 1, 1999 and requires those participants to make annual premium contributions of between 1% and 2% of annual family income.

Chapter 110 also established an advisory committee to study the feasibility, cost-effectiveness, and administrative costs of providing health insurance coverage to uninsured children and their families through the private insurance market. As a result of the study, the advisory committee recommended repealing the private insurance option 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.

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

- The premium requirement may discourage enrollment in the program and may create a selection bias in that individuals with high anticipated health care costs will more likely participate, increasing the per person cost of the program.

Repealing the private option would reduce expenditures for the Medicaid program by reducing administrative costs. According to the advisory committee's report, administrative expenses for the first year of implementation of the private health insurance option are estimated to be about $760,000: $510,000 in ongoing operating expenses and $250,000 in one-time start-up costs. Since the bill repeals the private insurance option, administrative expenditures for the Medicaid program are expected to decrease by $760,000 in fiscal 2000 - the first year the private option would have been in effect. Of this amount, $266,000 is a general fund expenditure decrease and $494,000 is a federal fund expenditure decrease. Future year expenditure decreases include only operating expenses and reflect 2% inflation.

The bill delays the implementation of the collection of family contributions. Under the bill, program participants with incomes between 185% and 200% of FPL are required to make an annual premium contribution towards the cost of health insurance coverage beginning July 1, 2000 instead of July 1, 1999. In order to implement the collection of family contributions by fiscal 2001, DHMH expects to incur a full-year's administrative expenses in fiscal 2000: $800,000 in one-time start-up costs and $500,000 in ongoing operating expenses. These costs are included in the fiscal 2000 budget. Out-year expenses remain unchanged.

Since families are not required to make premium payments until July 2000, revenues from premiums are estimated to decrease by $600,000 in fiscal 2000, of which $210,000 is special funds and $390,000 is federal funds. The estimate assumes 3,000 participants will each have to make an average annual contribution of $200. The fiscal 2000 special fund appropriation of $210,000 for the Children's Health Program is contingent upon the failure of legislation to eliminate the premium requirement for these families. Out-year revenues remain unchanged.

Information Source(s): Department of Health and Mental Hygiene (Medical Care Policy Administration, Community and Public Health Administration), Maryland Insurance

Administration, Department of Legislative Services

Fiscal Note History:	First Reader - March 5, 1999
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