

**Department of Legislative Services**  
 Maryland General Assembly  
 2000 Session

**FISCAL NOTE**

House Bill 1350 (Delegate Guns. *et al.*)

Environmental Matters

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**Public Health - Senior Assistance - Insurance Subsidy for Medicare Plus Choice**

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This bill establishes the Maryland Medicare Plus Choice Insurance Subsidy Program within the Department of Health and Mental Hygiene (DHMH).

This bill takes effect July 1, 2000, and sunsets the earlier of June 30, 2002, or when Medicare provides comparable prescription drug benefits.

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**Fiscal Summary**

**State Effect:** \$3.33 million general fund expenditure increase for DHMH in FY 2001. Expenditures in FY 2002 reflect annualization and assume the bill will sunset June 30, 2002.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
GF Expenditures	3.33	4.32	0.00	0.00	0.00
Net Effect	(\$3.33)	(\$4.32)	\$0.00	\$0.00	\$0.00

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

**Local Effect:** None.

**Small Business Effect:** Potential minimal. Health care providers in the 14 underserved Maryland counties may lose fee-for-service Medicare patients and/or gain managed care Medicare Plus Choice patients.

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## Analysis

**Bill Summary:** The program will be provided to individuals who: (1) are 65 and over; (2) are eligible for Medicare Plus Choice; (3) do not have Medicare Plus Choice plans available in their county of residence or in an area designated as medically underserved by the federal Health Care Financing Administration (HCFA); (4) pay the Medicare Part B premium; and (5) pay the premium and deductibles for a Medicare Plus Choice managed care program.

DHMH will pay a \$30 per enrollee per month subsidy to the first managed care provider to establish a Medicare Plus Choice managed care insurance program in a county or medically underserved area that currently has no Medicare Plus Choice managed care program. The managed care provider must: (1) sign a contract with DHMH guaranteeing the provider will provide this program in the designated area for at least two years; (2) qualify as a Medicare Plus Choice plan as determined by HCFA; (3) maintain premiums at the same or lower rate for the two-year contract period; (4) include the required minimum benefit package; (5) provide proof of enrollment as required by DHMH; (6) make all performance review and financial records available for review by DHMH; and (7) meet all requirements of the Maryland Insurance Administration.

DHMH must submit a report to the General Assembly by June 30, 2001, and each successive year, that includes a summary of the program's activities for the year and any recommendations for legislative consideration.

**Current Law:** There is no statutory provision to provide a premium subsidy to Medicare Plus Choice plans to encourage their participation in underserved areas.

**Background:** Medicare is the nation's largest health insurance program, covering approximately 39 million Americans. Medicare provides health insurance to people aged 65 and over, those who have permanent kidney failure, and certain people with disabilities. Medicare Part A covers hospitalization costs, while Part B covers supplemental medical services. Generally, beneficiaries pay no premium for Part A coverage. In 2000, a beneficiary is responsible for paying \$45.50 per month for Part B coverage. Medicare pays the remaining covered costs, although beneficiaries are responsible for paying any applicable deductibles, copayments, and costs not covered by Medicare.

Facing projected shortfalls in the Medicare Part A Trust Fund, Congress passed the Balanced Budget Act of 1997, part of which substantially restructured Medicare. The Act created Medicare Part C, the Medicare Plus Choice program.

Medicare Plus Choice offers beneficiaries a variety of health delivery models, including HMOs (with or without point-of-service options), preferred provider organizations (PPOs), provider sponsored organizations (PSOs), and Medical Savings Accounts (MSAs).

To be eligible for Medicare Plus Choice, a beneficiary must be enrolled in both Parts A and B of Medicare. A beneficiary must choose to switch from Parts A and B coverage (fee-for-service) to Medicare Plus Choice coverage (managed care). Advantages to Medicare Plus Choice enrollment include receiving an enriched benefit package (often including prescription drug coverage), lower out-of-pocket costs, coverage regardless of health status, and eliminating the need to purchase an additional Medigap policy. Disadvantages include limited provider choice inherent in a managed care system and constraints on disenrolling from the program.

HCFA pays Medicare Plus Choice programs a monthly capitation rate, which is adjusted for a beneficiary's age, disability status, gender, geographical location, and other factors. HCFA's reimbursement rate to Medicare Plus Choice became a source of controversy in 1999, with many carriers claiming reimbursement rates were too low. Medicare Plus Choice plans have pulled out or are pulling out of selected counties in 16 states, including Maryland. Currently, Medicare Plus Choice does not provide coverage in 14 counties: Allegany, Calvert, Caroline, Cecil, Dorchester, Garrett, Kent, Queen Anne's, Somerset, St. Mary's, Talbot, Washington, Wicomico, and Worcester.

In an effort to bring Medicare Plus Choice back to selected counties, HCFA will award bonus incentives to the first Medicare Plus Choice HMO to serve a HCFA-designated underserved area. HCFA will award the HMO a 5% bonus the first year (based on annual capitation rates), and a 3% bonus the second year.

**State Fiscal Effect:** General fund expenditures will increase by \$3.33 million in fiscal 2001, which accounts for a 90-day start-up delay. This estimate reflects Medicare Plus Choice subsidy payments and the cost of two administrative positions to conduct performance and financial reviews of the Medicare Plus Choice HMO. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- 12,000 Medicare beneficiaries lost the Medicare Plus Choice coverage option as of January 1, 2000;
- it is assumed that all 12,000 beneficiaries will enroll in the Medicare Plus Choice program when offered; and
- DHMH will provide a \$30 per member per month subsidy for these enrollees (\$30 x 12,000 x 12 months = \$4,320,000 for one calendar year).

Salaries and Fringe Benefits	\$79,756
Medicare Plus Choice Subsidy Payments	3,240,000
Operating Expenses	<u>13,020</u>
<b>Total FY 2001 State Expenditures</b>	<b>\$3,332,776</b>

Future year expenditures reflect (1) full salaries with 4.5% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; (3) a constant number of Medicare Plus Choice enrollees; and (4) the bill's June 30, 2002, sunset date.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** SB 855 (Senator Dyson, *et al.*) - Finance.

**Information Source(s):** CareFirst of Maryland; *A Summary of the New Medicare Plus Choice Program*, National Senior Citizens Law Center; *Medicare Managed Care*, Health Care Financing Administration; *Medicare Plus Choice - An Evaluation of the Program (August 4, 1999)*, Committee on Commerce, U.S. House of Representatives; Department of Health and Mental Hygiene (Medicaid, Maryland Health Care Commission, Community Public Health Administration); Maryland Insurance Administration, Department of Aging; Department of Legislative Services

**Fiscal Note History:** First Reader - March 13, 2000  
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