Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 201 (The President, *et al.*) (Administration)
Finance

Children's Health Program Expansion Act of 2000

This Administration bill expands the Children's Health Program (CHIP) to include a child whose family income is between 200% and 300% of the federal poverty level. The bill requires the Department of Health and Mental Hygiene (DHMH) to establish a private option plan for qualified children and their families by implementing a cost-sharing arrangement among the child's parent, the parent's employer, and the State.

This bill takes effect July 1, 2001.

Fiscal Summary

State Effect: $1.3 million (65% federal funds, 35% general funds) administrative expenditure increase for the Medicaid program in FY 2001. $19.5 million expenditure increase for FY 2002 as a result of the implementation of CHIP's private option plan and associated administrative costs. $9.8 million special fund revenue and expenditure increase in FY 2002 as a result of individual premium collection and payment to carriers. Future year revenues and expenditures reflect inflation.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
SF Revenues	$0.0	$9.8	$10.3	$10.9	$11.6
GF Revenues	0.0	0.0	0.0	0.0	0.0
FF Revenues	0.0	0.0	0.0	0.0	0.0
SF Expenditures	0.0	9.8	10.3	10.9	11.6
GF Expenditures	0.4	6.8	7.2	7.6	8.0
FF Expenditures*	0.8	12.7	13.4	14.2	15.0
Net Effect	($1.3)	($19.5)	($20.6)	($21.8)	($23.0)

Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect
** Federal fund expenditures are reimbursable by the federal government.*
Numbers may not total due to rounding.

Local Effect: None.

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.

Analysis

Bill Summary: This bill establishes a private option plan that allows children with family incomes between 200% and 300% of the federal poverty level to receive subsidized health insurance either through an employer's health benefit plan or through a HealthChoice managed care organization. To be eligible for employer-provided coverage: (1) a child's parent or guardian must be enrolled in an employer-sponsored health benefit plan; (2) the employer elects to participate in the private option plan; (3) the employer contributes at least 50% of the annual premiums; (4) the employer-sponsored plan includes a benefit package that is equivalent to or better than the State's Comprehensive Standard Health Benefit Plan (CSHBP) currently offered to small businesses; and (5) the employer's plan does not impose cost-sharing requirements (other than the premium) on eligible individuals.

A child who is ineligible for coverage under an employer-provided plan will be enrolled in the individual option, which will be a HealthChoice "look alike" plan, using the same managed care organizations currently providing health care under HealthChoice.

Current Law: CHIP covers children with family incomes at or below 200% of the federal poverty level.

Background: 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 provides health insurance coverage for children with family incomes up to 200% of the federal poverty level through enrollment in HealthChoice, the Medicaid managed care program. Since its implementation in July 1998, CHIP covers 63,000 children.

Chapter 381 of 1999 (Senate Bill 738) required DHMH to study how to expand eligibility for CHIP by using private market insurance (private option) coverage. DHMH formed a Technical Advisory Committee (TAC) to study the issue. The TAC committee recommended targeting the private option expansion to children with family incomes between 200% and 235% of the federal poverty level.

State Expenditures:

DHMH Administrative Costs in Fiscal 2001:

Medicaid administrative expenditures could increase by an estimated $1.3 million (65% federal funds, 35% general funds) for fiscal 2001, which accounts for a six-month start-up delay. This estimate reflects the cost of 31 positions to administer a new private option unit within the CHIP program. These positions include one medical care program manager, one medical care program supervisor, and 29 other administrative and support staff positions. 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:

Salaries and Fringe Benefits	$489,523
Contract for Computer Services	500,000
Operating Expenses	287,631
Total FY 2001 Expenditures	**$1,277,154**

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Private Option Plan Implementation in Fiscal 2002:

In total, Medicaid expenditures could increase by an estimated $19.5 million in fiscal 2002 (65% federal funds, 35% general funds) for the implementation of the private option plan and associated administrative costs. Future year expenditures reflect 6% health care inflation.

FY 2002 State Costs

Employer-Sponsored Plan	$ 3,951,960
Individual HealthChoice Look-Alike Plan	14,159,040
Administrative Costs	1,353,832
Total FY 2002 Expenditures:	**$19,464,832**

These estimates are based on the assumption that the State will receive the 65% federal fund match, as currently received in the CHIP program. The federal Health Care Financing Administration (HCFA) requires, under the private plan option, that employers contribute at least 60% of an individual's premium. The State is seeking a waiver from HCFA to allow employers to contribute only 50% of the premium as required by this bill. If the State is not granted this waiver, federal funds will only match 50% of the cost of the program. Failure to receive the waiver will mostly likely result in the State's eliminating the employer-sponsored health plan option and enrolling all participants in the HealthChoice look-alike individual option so that the State can continue to receive the 65% federal fund match.

Employer-Sponsored Insurance Plan:

Total State expenditures for this option could be $4.0 million (65% federal funds, 35% general funds) for fiscal 2002.

DHMH estimates that approximately 35,000 uninsured children with incomes between 200% and 300% of the federal poverty level will be eligible to enroll in the private option plan. However, only 19,600 children and their eligible parents or guardians are expected to enroll in this plan because the child's family will be required to pay a monthly premium for insurance, which discourages enrollment. For a family of two with income between 200% and 250% of the federal poverty level, the family must pay approximately $37 per month. Families with income between 251% and 300% must pay approximately $46 per month. These estimates are based on a family of two that includes the child and the child's parent, who must be enrolled in an employer-sponsored health plan. The State will pay the portion of the premium not collected from the employer and employee.

It is assumed that 5,880 (or 30% of the estimated 19,600 participating children and eligible adults) will enroll in employer-sponsored plans. It is also assumed that the State's average annual cost for an enrollee in the employer-sponsored plan is $672 (an average of the high and low costs given by the TAC committee). Total State expenditures for this option are $3,951,960 for fiscal 2002.

HealthChoice Look-Alike Option:

Total State expenditures for this option could be $14.2 million (65% federal funds, 35% general funds) for fiscal 2002.

Children who do not have access to employer-sponsored plans will be enrolled in the HealthChoice look alike option. Enrolled children will receive care through Medicaid managed care organizations under HealthChoice. It is assumed that 13,720 (or 70% of the estimated 19,600 participating children and eligible adults) will enroll in this option. It is also assumed that the State's average annual cost for an enrollee in the HealthChoice look-alike plan is $1,032 ($1,281 fiscal 2001 budgeted cost per CHIP enrollee less $249 annual family contribution per child). Total State expenditures for this option are $14,159,040 for fiscal 2002.

Individual Premium Costs:

Enrolled families must pay either $37 or $46 monthly premiums, depending on their income.

It is assumed that half of the enrollees will have family incomes between 200% and 250% and that the other half will have family incomes between 251% and 300%. Total individual premium costs for fiscal 2002 are approximately $9.8 million ($498 average annual family contribution). These funds will be collected by the State and paid to insurance carriers.

State Revenues: State special fund revenues resulting from the collection of individual premiums could be $9.8 million for fiscal 2002. These premiums are paid directly to carriers and the State is only responsible for the collection and distribution of the funds.

Additional Comments:

1999 Federal Poverty Level Income Guidelines			
Size of Family Unit	100% FPL	200% FPL	300% FPL
1	$8,240	$16,480	$24,720
2	$11,060	$22,120	$33,180
3	$13,880	$27,760	$41,640
4	$16,700	$33,400	$50,100

Additional Information

Prior Introductions: Chapter 381 of 1999 repealed the required implementation of a private market option by July 1, 1999, and instead required DHMH to study how to best implement this option by July 1, 2000. Chapter 110 of 1998 established CHIP and had the original mandate to implement the private market option by July 1, 1999.

Cross File: HB 2 (Delegate Taylor, *et al.*) - Economic Matters and Environmental Matters.

Information Source(s): "Maryland Children's Health Program - 1999 Private Option Study," Technical Advisory Committee, Maryland Insurance Administration, Department of Health and Mental Hygiene (Health Care Commission, Medicaid), U.S. Health Care Financing Administration, Department of Budget and Management (Employee Benefits Division), Department of Legislative Services

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