HB 375

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 375 (Delegate Morhaim, *et al.*)
Economic Matters

Health Maintenance Organizations - Nonprofit Status Required

This bill requires all HMOs operating in Maryland to be nonprofit HMOs by October 1, 2002. The Insurance Commissioner, in consultation with the Maryland Health Care Commission and the Office of the Attorney General, must adopt a plan for HMOs' conversion to nonprofit status. The conversion plan must ensure that the value of assets of each HMO is safeguarded and maintained after conversion. After conversion, the HMOs must meet the applicable financial requirements to continue to operate as HMOs in Maryland.

Fiscal Summary

State Effect: Potentially significant expenditure increase for the State Employee Health Benefits Plan. $49,000 special fund expenditure increase for the Maryland Insurance Administration (MIA). Future year expenditures reflect annualization and inflation. Potentially significant general fund revenue reduction resulting from loss of corporate income taxes.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2000
SF Revenues	$0	$0	$0	$0	$0
SF Expenditures	49,000	62,300	65,200	68,300	71,500
Net Effect	($49,000)	($62,300)	($65,200)	($68,300)	($71,500)

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

Local Effect: To the extent HMOs discontinue doing business in Maryland, and premium rates increase as a result of less market competition, local jurisdiction health benefits expenditures could increase. Revenues would not be affected.

Small Business Effect: Potentially meaningful.

Analysis

Current Law: An HMO operating in Maryland may be either for-profit or nonprofit.

Background: There are ten licensed HMOs in Maryland, two of which are nonprofit, Kaiser Permanente and George Washington University Health Plan.

Nonprofit and for-profit corporations are similar in organizational structure, and both can operate to make a profit. A for-profit organization has a board of directors and officers, produces goods or services, makes investments, and may turn a profit. A nonprofit organization is run by an administrative board and officers, produces goods or services, and makes investments. A non-profit organization may also turn a profit, unlike its name suggests. A nonprofit corporation, however, may not pass its profits on to shareholders, owners, or administrators. Instead, a nonprofit corporation's profits must be reinvested in a nonprofit activity sponsored by the corporation or donated to another nonprofit organization. By not permitting nonprofit organizations to distribute their profits to shareholders, owners, or administrators, it is thought that nonprofit organizations will observe their pledges to serve the public interests and provide charity to the surrounding community.

No other state requires its HMOs to be nonprofit; however, all HMOs in Massachusetts are nonprofit.

State Revenues: General fund revenues may decrease significantly if HMOs convert to nonprofit status and are therefore exempt from paying corporate income taxes. Seventy-five percent of corporate income taxes are paid to the general fund and 25% are paid to the Transportation Trust Fund (TTF). The amount that for-profit HMOs pay in corporate income taxes is unquantifiable at this time. HMOs are not subject to the 2% premium tax imposed on other insurance carriers.

State Expenditures:

Maryland Insurance Administration

Special fund expenditures could increase by an estimated $48,989 in fiscal 2001, which accounts for the bill's October 1, 2000, effective date. This estimate reflects the cost of hiring one full-time MIA specialist II to develop the conversion plan and review the plan as applied to each HMO. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	$45,820
Operating Costs	3,169
Total FY 2001 Expenditures	**$48,989**

Future year expenditures reflect: (1) full salary with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

State Employee Health Benefits Plan

If HMOs choose to discontinue operating in Maryland instead of converting to nonprofit by 2002, there would be a significant impact on State Employee Health Benefits Plan expenditures. The State plan currently has six for-profit HMO products available to employees and retirees, including three HMOs and three point-of-service (POS) plans that use HMOs as the underlying provider networks. These products are: (1) FreeState HMO; (2) Optimum Choice HMO; (3) Prudential HMO; (4) Aetna POS; (5) Maryland POS; and (6) M.D. IPA Preferred POS. The State plan also has two nonprofit HMO products, Kaiser Permanente HMO and George Washington University HMO.

It is unknown at this time which, if any, for-profit HMOs will discontinue doing business in Maryland as a result of the bill's requirements. If several HMOs do pull out of Maryland, the State plan would be required to solicit new proposals for HMO vendors. The State plan could be adversely impacted by limited carrier competition, which would inflate premium rates and result in the State paying higher premium subsidies for employees and retirees. In addition, State employees and retirees would have fewer provider networks from which to choose.

Small Business Effect: Small businesses (2-50 employees) purchase the Comprehensive Standard Health Benefit Plan (CSHBP). There are certain premium cost limitations placed on CSHBP rates; however, less competition in the HMO market could still artificially inflate premium rates. In addition, small business employees would be limited by fewer provider networks. Small business health insurance costs may increase if carriers increase their premiums as a result of this bill.

Additional Information

Prior Introductions: None.
Cross File: None.

Information Source(s): "For Profit vs. Non Profit," Villanova Center for Information Law and Policy; Department of Health and Mental Hygiene (Health Care Commission); Department of Budget and Management (Employee Benefits Division); Office of the Attorney General; CareFirst of Maryland; Maryland Insurance Administration; Comptroller of the Treasury; Department of Legislative Services

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