HB 496

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 496 (Delegate Morhaim)
Environmental Matters and Appropriations

Maryland Medical Assistance Program - State Employee and Retiree Health and Welfare Benefits Program - Nonprofit Health Maintenance Organizations Required

This bill requires an HMO that provides health benefits under the State Employee Health Benefits Plan or the Medicaid program to be a nonprofit entity.

Fiscal Summary

State Effect: Potentially significant expenditure increase for the State Employee Health Benefits Plan. Any additional computer programming costs for the Medicaid program could be handled with existing budgeted resources. Potentially significant general fund revenue reduction resulting from loss of corporate income taxes.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: An HMO that provides benefits under the State Employee Health Benefits Plan or the Medicaid program may be either a for-profit or a nonprofit entity.

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 nonprofit 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. 75% of corporate income taxes are paid to the general fund and 25% are paid to the Transportation Trust Fund. The amount that for-profit HMOs pay in corporate income taxes cannot be quantified at this time. HMOs are not subject to the 2% premium tax imposed on other insurance carriers.

State Expenditures:

State Employee Health Benefits Plan

Expenditures for the State plan could increase significantly in fiscal 2001 for several reasons. Under the bill's requirements, for-profit HMOs under the State plan must choose either to convert to nonprofit status or to discontinue offering health benefits to State employees and retirees. Currently, the State plan contracts with six HMOs, four of which are for-profit. There are approximately 150,000 individuals covered under the for-profit HMOs. If for-profit HMOs choose not to participate in the State plan, the State 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's paying higher premium subsidies for employees and retirees. If the State plan cannot contract with additional nonprofit HMOs, employees and retirees enrolled in HMO plans would be forced to enroll in the more expensive preferred provider organization (PPO) medical plans. In addition, employees and retirees would have fewer provider networks from which to choose.

Medicaid

Medicaid's managed care product, HealthChoice, uses eight managed care organizations (MCOs) to provide health benefits to enrollees. Of these eight MCOs, two are certified to operate as HMOs in Maryland. Medicaid advises that the bill's requirements would have no fiscal impact on the program, other than a one-time cost of $48,000 in computer programming fees to switch affected enrollees to other MCOs. Legislative Services advises that these computer programming fees can be handled with existing budgeted resources.

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 Budget and Management (Employee Benefits Division); Department of Health and Mental Hygiene (Office of Health Care Quality, Medicaid); Department of Legislative Services

Fiscal Note History: First Reader - February 29, 2000
cm/jr

Analysis by: Susan D. John

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510