

Department of Legislative Services  
Maryland General Assembly  
2000 Session

FISCAL NOTE

House Bill 297 (Delegate Mitchell)

Economic Matters

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Health Insurance - Small Group Market - Modifications

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This bill modifies several provisions relating to the small group health insurance market. It changes the criteria necessary to be considered a small business by excluding sole proprietors and self-employed individuals from being eligible for participation in the Comprehensive Standard Health Benefit Plan (CSHBP) available to small businesses. In addition, the bill changes the size of a small business from 1 - 50 employees to 2 - 100 employees. The bill also imposes a \$4,000 prescription drug benefit limit on each covered individual and increases the allowable community rate adjustment cap from 40% to 50%.

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Fiscal Summary

**State Effect:** Minimal general fund revenue increase from the State's 2% insurance premium tax on for-profit carriers. Minimal special fund revenue increase for the Maryland Insurance Administration from the \$125 rate and form filing fee. No effect on expenditures.

**Local Effect:** None.

**Small Business Effect:** Meaningful.

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Analysis

**Current Law:** A small business includes 1 - 50 employees. Currently, there is a 40% cap on the community rate adjustment limit, and there is no limit on prescription drug benefits under the CSHBP.

**Background:** Under the CSHBP, carriers are not allowed to determine premiums based on the claims experience or employee health status of any particular small employer. Instead, carriers pool the claims experience of all their small businesses, and the carriers determine

the “community” rate based on this pool. The only factors for which a carrier may adjust its rate are employees’ average age and the geographical location of the business. The bill changes the cap on this adjustment from 40% to 50% above or below the community rate.

**Small Business Effect:** Self-employed individuals will no longer be eligible for the CSHBP plan offered to small businesses. This change will negatively impact self-employed individuals who will be required to obtain insurance on the open market. There are currently few premium limit protections in place for individuals. Carriers must file their rates for individual policies with the Maryland Insurance Administration (MIA). The rates are subject to MIA approval and must be actuarially sound.

Small businesses will benefit from the increased number of employees, allowing more small businesses to participate in the CSHBP. However, increasing the community rate adjustment cap from 40% to 50% allows carriers to increase premiums. Any increase is expected to be minimal. The Maryland Health Care Commission’s figures for 1995-1997 show that carriers are not setting premiums at the maximum allowed amount (currently 40% over their community rate). Carriers are not expected to increase rates significantly because other factors, such as attempting to gain more market share at the expense of profitability, will help keep premium rates down.

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### **Additional Information**

**Prior Introductions:** Chapter 671 of 1999 changed the community rate adjustment cap from 33% to 40%.

**Cross File:** None.

**Information Source(s):** Department of Health and Mental Hygiene (Maryland Health Care Commission), Maryland Insurance Administration, Department of Legislative Services

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