HB 1199

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1199 (Delegate Redmer)
Economic Matters

Health Insurance - Substantial, Available, and Affordable Coverage Products

This bill modifies the Substantial, Available, and Affordable Coverage (SAAC) Products that health insurance carriers may offer to individuals who have preexisting medical conditions. It establishes a 2% differential on hospital charges and imposes certain financial requirements on carriers in order to maintain the differential.

The bill takes effect January 1, 2001.

Fiscal Summary

State Effect: Minimal special fund revenue increase for the Maryland Insurance Administration (MIA) from the $125 rate and form filing fee. No effect on expenditures.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The Health Services Cost Review Commission (HSCRC) must grant up to a 2% differential to a carrier that has an approved SAAC product. The 2% differential must be equal to less than two times the subsidy for the carrier to continue to receive the differential. A subsidy means the amount of the carrier's health care expenditures that exceeds 70% of the premium earned for the SAAC product. If the differential is greater than two times the subsidy, the carrier must submit a corrective plan to the HSCRC for approval. The corrective plan may provide for: (1) payment by the carrier to the HSCRC in the amount that the differential exceeds two times the subsidy; (2) a reduction in the carrier's differential; or (3) any other action approved by the HSCRC, in conjunction with the Insurance Commissioner.

If a carrier stops offering a SAAC product, the carrier must pay the HSCRC the amount by which the differential exceeds two times the subsidy. The HSCRC may adopt regulations to implement the bill's requirements.

The bill also requires a carrier that offers medically underwritten health insurance to individuals and that turns down an individual for health insurance coverage to send the individual a letter advising of the availability of SAAC products in the nongroup market.
To apply for approval of a SAAC product, a carrier must submit an application to the MIA giving evidence that the SAAC product complies with the certain requirements, which include: (1) that the SAAC product must be advertised by the carrier during at least two one-month open enrollment periods per year; (2) that age or geography banding of its community rate is consistent with current law; and (3) compliance with any regulations adopted by the HSCRC or the Insurance Commissioner. The MIA must inform the HSCRC when a carrier applies for or obtains approval for a SAAC product.

Current Law: Carriers that offer a SAAC product to medically-uninsurable individuals receive a 4% differential on hospital charges.

Background: The SAAC product was established in 1974 as a means of encouraging health insurance carriers to insure individuals with preexisting medical conditions. Insuring these individuals through the SAAC product reduces uncompensated care at hospitals and thus reduces the hospitals' costs.

Chapter 602 of 1999 established a task force to study the nongroup insurance market to examine how well the market is working in terms of access, availability, and quality of coverage. Part of the task force's study focused on the SAAC product health insurance carriers may offer to a medically uninsurable individual. Carriers who offer the SAAC product currently receive a 4% differential on regulated hospital charges. The SAAC product is budget-neutral for a hospital, because a carrier who offers the SAAC product is allowed to pay 2% less on its hospital charges for its entire enrolled population (i.e., not just on SAAC enrollees). Carriers who do not offer a SAAC product are charged 2% more for hospital charges. In 1998, the HSCRC raised serious concerns about whether the SAAC product's reduction of uncompensated hospital care was commensurate with the differential earned by carriers. For example, CareFirst earned $31 million as a result of the 4% differential; however, HSCRC determined that CareFirst only averted $3.9 million in uncompensated hospital care costs.

This bill implements the task force's recommendations to revise the SAAC product to better balance the public policy goal of ensuring public access to health care coverage for the medically uninsurable with the goal of maintaining affordable hospital costs for all carriers.

Additional Comments: Hospitals charge approximately $5.74 billion annually. Currently, about 23% of these hospital charges are eligible for the 4% SAAC differential. Thus, hospital charges have been increased by about $52.8 million to maintain budget-neutrality for the hospitals (.23 x .04 x $5.74 billion = $52.8 million). If the bill's 2% SAAC differential and other requirements are implemented, HSCRC would reduce hospital charges by approximately $26.4 million to all patients. HSCRC would spread these savings equally across all other carriers that do not offer SAAC products.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): *Task Force to Study the Nongroup Health Insurance Market, Interim Report to the Legislature (December 15, 1999)*; Department of Health and Mental Hygiene (Health Services Cost Review Commission); Maryland Insurance Administration; Department of Legislative Services

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Analysis by: Susan D. John

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