

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 743

(Senator Van Hollen, *et al.*)

Finance

Health Insurance Expansion Initiative of 2001

This bill expands the Medicaid program eligibility criteria for certain individuals and creates the Low-Income Employee Private Insurance Assistance Program.

The bill takes effect June 1, 2001.

Fiscal Summary

State Effect: Medicaid expenditures could increase by as much as \$52.8 million (\$34.3 million federal funds, \$18.5 million general funds) in FY 2003. Future year estimates reflect annualization, inflation, increased enrollment, and the implementation of the Low-Income Employee Private Insurance Assistance Program in FY 2005. No effect on revenues.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	18.5	63.0	89.5	101.6
FF Expenditure	0	34.3	117.0	166.1	188.7
Net Effect	\$0	(\$52.8)	(\$180.1)	(\$255.6)	(\$290.3)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: This bill expands Medicaid coverage, beginning January 1, 2003, to include parents who have a dependent child living with them and whose annual household income is at or below 100% of the federal poverty level (FPL) guidelines. Medicaid coverage will expand beginning July 1, 2003 to include parents with incomes at or below 125% of FPL and, beginning July 1, 2004, to include parents with incomes at or below 150% of FPL.

The bill also creates the Low-Income Employee Private Insurance Assistance Program beginning July 1, 2004. The program provides: (1) assistance to an employee whose annual household income is at or below 200% of FPL by reducing or eliminating the employee's required contribution to his or her employer-based insurance coverage; and (2) assistance to an employer in providing or maintaining employer-based insurance coverage for employees whose annual household income is from 150% to 200% of FPL.

Current Law:

Maryland Law: An adult may qualify for Medicaid if the adult is: (1) aged, blind, or disabled; (2) in a family where one parent is absent, disabled, unemployed, or underemployed; or (3) a pregnant woman. Adults must also have very low incomes to qualify for Medicaid (32% to 51% of FPL), with the exception of pregnant women who are covered up to 200% of FPL. Maryland currently covers children either through Medicaid or the Children's Health Insurance Program (CHIP) for families that earn up to 200% of FPL. Beginning July 1, 2001, pregnant women up to 250% of FPL and children up to 300% of FPL will be eligible under the CHIP program.

Federal Law: Section 1931(b) of the Social Security Act allows Maryland to expand its Medicaid program, by amendment, to include parents. Under this option, Maryland is eligible to receive 50% matching federal funds. A Section 1115 (Social Security Act) waiver, on the other hand, allows a state to expand eligibility criteria for those who would otherwise not be eligible for the Medicaid program. Under this option, Maryland is eligible to receive 65% matching federal funds. States are eligible to receive these enhanced federal matching funds drawn from an "allotment" for state programs approved by the Secretary of Health and Human Services that expand access to targeted, low-income children under CHIP. Funds are allotted to each participating state according to its number of uninsured low-income children. Once a state's allotment cap is reached, however, the federal fund match drops back down to 50% for any new enrollees in the Section 1115 program.

Background: The Medicaid and CHIP programs cover over 500,000 individuals, primarily low-income women and children. Approximately 185,000 adults are currently

covered by the Medicaid program, 76% of whom are aged, blind, or disabled. Various other states have expanded their Medicaid programs to cover parents of covered children, including New Jersey, Wisconsin, and Rhode Island.

State Fiscal Effect:

Approval of Section 1115 Waiver: If DHMH obtains a Section 1115 waiver, Medicaid will receive a 65% federal fund match in fiscal 2003. If DHMH does not obtain a waiver, Medicaid will receive a 50% federal fund match.

DHMH must seek federal approval of a Section 1115 waiver allowing DHMH to use enhanced matching federal funds (65% federal, 35% general). A fiscal estimate of this option is provided; however, it is unlikely that DHMH will be able to obtain a Section 1115 waiver from HCFA. The federal share of current CHIP program spending is expected to exceed the fiscal 2002 federal fund allotment by more than \$40 million. The difference will be funded with surplus CHIP dollars available from prior years. Surplus funds and a federal reallocation of \$45 million from states that did not expend all their initial year's block grant amount will sustain the CHIP program until fiscal 2004. Beginning in fiscal 2004, State expenditures for CHIP will exceed the available federal funds. While CHIP will receive the federal reallocation of \$45 million in fiscal 2002 from states that have not used their CHIP allotments and could receive additional funds in the future, current federal policy prohibits using these funds for new programs such as the Medicaid expansion and Low-Income Employee Private Insurance Assistance Program because future year funding is not guaranteed. If a waiver is not approved, DHMH must submit a 1931(b) amendment to seek 50% matching federal funds for the bill's provisions.

Medicaid Expansion in Fiscal 2003: Medicaid expenditures could increase by \$52.8 million (\$34.3 million federal funds, \$18.5 million general funds assuming approval of the Section 1115 waiver) in fiscal 2003, which accounts for the January 1, 2003 start-up date for Medicaid eligibility expansion to parents whose household incomes are 100% of FPL or lower. This estimate is based on the following facts and assumptions:

- there are approximately 98,000 children currently enrolled in either Medicaid or CHIP whose household incomes are at or below 100% of FPL (see **Exhibit 1**);
- 74,000 eligible parents (0.75 parents for each enrolled child);
- 70% (or 51,800) of eligible parents will enroll in fiscal 2003;
- 25% phase-in delay enrolling all eligible parents;

- the average annual program cost per parent in fiscal 2003 is \$2,650; and
- the average annual medical inflation rate is 6% in the Medicaid program.

Administrative costs account for \$1.4 million of the \$52.8 million increase in fiscal 2003. The estimate of administrative costs reflects the cost of: (1) six program specialists to determine eligibility, manage outreach and care coordination, and staff the HealthChoice enrollee action line and provider hotlines; (2) increased enrollment broker costs to enroll an estimated 51,800 enrollees; (3) grants to local health departments for outreach, education, and care coordination; and (4) a one-time expenditure for informational brochures for new enrollees.

Future year program expenditures: (1) assume that an additional 16,100 individuals will enroll in fiscal 2004 when the income eligibility cap is increased to 125% of FPL and another 16,100 individuals will enroll in fiscal 2005 when the income eligibility cap is increased to 150% of FPL; and (2) reflect annualization, medical inflation, and assume that out-year enrollment remains constant after the total phase-in to 150% of FPL. Future year administrative expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Low-Income Employee Private Insurance Assistance Program in Fiscal 2005: Medicaid expenditures could increase by an estimated \$17.4 million (\$11.3 million federal funds, \$6.1 million general funds, assuming approval of the Section 1115 waiver) in fiscal 2005, which accounts for a 90-day start-up delay. This estimate is based on the following facts and assumptions:

- this program will cover employees who have children enrolled in Medicaid and CHIP;
- 38,000 children are enrolled in Medicaid and CHIP who have annual household incomes from 150% to 200% of FPL;
- 28,000 eligible parents (0.75 parents for each enrolled child);
- 50% (or 14,000) of eligible parents have access to employer-sponsored insurance and will enroll in fiscal 2003;
- 25% phase-in delay enrolling all eligible parents;
- the average annual employer-sponsored premium cost per parent in fiscal 2005 is \$2,978;

- the employer pays 50% of the premium and the Medicaid program pays 50%; and
- the average annual medical inflation rate is 12% in the private sector.

Administrative costs account for \$1.8 million of the \$17.4 million increase in fiscal 2005. The estimate of administrative costs reflects the cost of: (1) 24 program specialists, supervisors, and clerks to determine eligibility, manage outreach and care coordination, staff the HealthChoice enrollee action line and provider hotlines, and enroll eligible participants; and (2) increased enrollment broker costs to enroll an estimated 14,000 enrollees.

Future year program expenditures reflect medical inflation and assume that out-year enrollment remains constant. Future year administrative expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Comments:

Exhibit 1 Eligible Parents by Income Level

FPL	Children Enrolled in Medicaid or CHIP	Eligible Parents	Participating Parents
Under 75%	59,000	44,000	30,800
75 – 100%	39,000	30,000	21,000
100-150%	61,000	46,000	32,200
150-200%	38,000	28,000	14,000*
Total	197,000	148,000	98,000

**Assumes a 50% participation level.*

Exhibit 2 2001 Federal Poverty Level Guidelines*

Size of Family	100% FPL	125% FPL	150% FPL	200% FPL
1	\$8,590	10,738	\$12,885	17,180
2	\$11,610	14,513	\$17,415	23,220
3	\$14,630	17,950	\$21,945	29,260
4	\$17,650	22,063	\$26,475	35,300
5	\$20,670	25,838	\$31,005	41,340

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Additional Information

Prior Introductions: None.

Cross File: None.

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