HB 5

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

House Bill 5 (Delegate Hurson, *et al.*)
Environmental Matters and Economic Matters

Low-Income Working Parents Health Care Program

This bill expands the Medicaid program eligibility criteria for certain individuals and creates the Low–Income Working Parents Health Care Program.

The bill's provisions creating the Low-Income Working Parents Health Care Program and expanding Medicaid to include parents up to 75% of the federal poverty level (FPL) take effect July 1, 2001. The bill's provisions expanding Medicaid to include parents up to 100% of the FPL take effect July 1, 2002. The bill's requirements that the Department of Health and Mental Hygiene (DHMH) seek appropriate waivers and amendments from the federal government to expand coverage take effect June 1, 2001.

Fiscal Summary

State Effect: Assuming that DHMH obtains federal approval of a Section 1115 waiver and the Low-Income Working Parents Health Care Program is implemented, Medicaid expenditures could increase by as much as $159 million (65% federal funds, 35% general funds) in FY 2002. If DHMH cannot obtain a waiver, Medicaid expenditures could increase by as much as $59 million (50% federal funds, 50% general funds) in FY 2002. Future year estimates reflect annualization and inflation. No effect on revenues.

($ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$0	$0	$0	$0	$0
GF Expenditure	55.65	78.40	83.10	88.00	93.20
FF Expenditure	103.35	145.50	154.10	163.50	173.20
Net Effect	($159.00)	($223.90)	($237.20)	($251.50)	($266.40)

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 July 1, 2001, to include parents who have a dependent child living with them and whose annual household income is at or below 75% of the FPL. Medicaid coverage will be expanded, beginning July 1, 2002, to include parents with incomes at or below 100% of FPL. The Medicaid expansion is contingent upon DHMH obtaining an amendment to the existing State Medicaid plan from the federal Health Care Financing Administration (HCFA), thus allowing the State to use federal matching funds for the program. If the amendment is granted, the Medicaid expansion would be funded with 50% federal funds and 50% general funds.

This bill also creates the Low-Income Working Parents Program. The program provides, beginning July 1, 2001, comprehensive health insurance coverage for parents who have a dependent child enrolled in either the Maryland Children's Health Insurance Program (CHIP) or Medicaid, and whose annual household income is at or below 150% of FPL, including individuals under 100% of FPL who would be covered by a Medicaid amendment. The program is contingent upon DHMH obtaining a Section 1115 waiver from HCFA that would allow the State to use enhanced federal matching funds to implement the program. If the waiver is granted, the program would be funded with 65% federal funds and 35% general funds.

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 Expenditures: If DHMH obtains a Section 1115 waiver and the Low-Income Working Parents Health Care Program is implemented July 1, 2001, total Medicaid expenditures could increase by an estimated $159 million (65% federal funds, 35% general funds) in fiscal 2002, which accounts for a 90-day administrative start-up delay. If DHMH cannot obtain a waiver and the Low-Income Working Parents Health Care Program cannot be implemented, total Medicaid expenditures could increase by an estimated $59 million (50% federal, 50% general) in fiscal 2002, which accounts for a 90-day administrative start-up delay.

Approval of Section 1115 Waiver: Implementation of the Low-Income Working Parents Health Care Program is contingent upon federal approval of a Section 1115 waiver allowing DHMH to use enhanced matching federal funds (65% federal, 35% general) for enrollees whose annual family income is at or below 150% FPL. 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 Low-Income Working Parents Health Care Program since future year funding is not guaranteed.

If the waiver is approved, expenditures could increase by $159 million in fiscal 2002, which accounts for a 90-day start-up delay. This estimate is based on the following facts and assumptions:

- there are approximately 160,000 children currently enrolled in either Medicaid or CHIP whose family incomes are at or below 150% FPL (see Exhibit 1);
- 120,000 eligible parents (0.75 parents for each enrolled child);
- 70% (or 84,000) of eligible parents will enroll in fiscal 2002;
- the average annual program cost per parent is $2,500; and
- the annual medical inflation rate is 6%.

Medicaid program expenditures would increase by an estimated $157.5 million ($102 million federal funds, $55 million general funds) in fiscal 2002 and administrative costs would increase by $1.3 million ($845,000 federal funds and $455,000 general funds). 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 84,000 new 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 reflect inflation and assume that enrollment remains constant, and future year administrative expenditures reflect: (1) full salaries with a 6.5% annual increase in fiscal 2003, 4.5% annual increases each year thereafter, and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Section 1931(b) Amendment: If a Section 1115 waiver is not obtained, then Medicaid coverage would be expanded to include only parents whose family incomes are at or below 75% FPL in fiscal 2002 and to 100% FPL in fiscal 2003. Under this scenario, Medicaid expenditures could increase by an estimated $59 million (50% federal, 50% general) in fiscal 2002, which accounts for a 90-day start-up delay. This estimate is based on the following facts and assumptions:

- there are 59,000 children enrolled in Medicaid or CHIP whose annual family incomes are at or below 75% of the FPL (see Exhibit 1);
- 44,000 eligible parents (0.75 parents for each enrolled child);

- 70% (or 30,800) of eligible parents will enroll in fiscal 2002;

- an additional 21,000 parents will enroll in fiscal 2003 when eligibility is expanded to 100% FPL;

- the average annual program cost per parent is $2,500; and

- the annual medical inflation rate is 6%.

Program costs would increase by an estimated $58 million in fiscal 2002, and administrative costs would increase by $1 million (50% federal, 50% general). 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 30,800 new 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 reflect the additional 21,000 enrollees in fiscal 2003, medical inflation, and assume out-year enrollment remains constant. Future year administrative expenditures reflect: (1) full salaries with a 6.5% annual increase in fiscal 2003, 4.5% annual increases each year thereafter, and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

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
Total	159,000	120,000	84,000

Estimates Cited in Study by Kenneth E. Thorpe, PH.D.:

In December 2000, Professor Kenneth E. Thorpe (Emory University) conducted an independent study of a Medicaid and CHIP expansion to cover parents of covered children in Maryland. This study estimated total program expenditures at $114 million

(65% federal, 35% general). This estimate is based on the following facts and assumptions:

- 59,429 uninsured parents in Maryland whose annual family incomes are at or below 150% FPL (based on the March 2000 Current Population Survey);
- 42,395 parents under 150% FPL would enroll in fiscal 2002;
- the average annual program cost per parent (under 75% FPL) is $2,678; and
- the average annual program cost per parent (75% to 150% FPL) is $2,688.

The Department of Legislative Services (DLS) used DHMH enrollment data based upon the number of children currently enrolled in Medicaid and CHIP rather than data gathered from the Current Population Survey (CPS), because the DHMH data represent a larger and therefore statistically more accurate group. Opinions vary widely on the percentage of eligible parents that would enroll. Dr. Thorpe's estimate reflects approximately 70% enrollment rates and DHMH's estimate provided to DLS reflects approximately 83% enrollment rates. Both Dr. Thorpe and DHMH assume different participation rates based on current insurance coverage, income levels, and crowd-out provisions. DLS uses a 70% enrollment rate which is more in line with other states' experience and federal studies conducted on Medicaid expansion projects.

Exhibit 2

2001 Federal Poverty Level Guidelines*			
Size of Family	**75% FPL**	**100% FPL**	**150% FPL**
1	$6,442	$8,590	$12,885
2	$8,707	$11,610	$17,415
3	$10,972	$14,630	$21,945
4	$13,237	$17,650	$26,475
5	$15,502	$20,670	$31,005

**Federal Register,* Vol. 66, No. 33, February 16, 2001, pp. 10695-10697.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): *"The Importance of Family-Based Insurance Expansions,"* The Center on Budget and Policy Priorities; *Expanding Medicaid Coverage to Parents of Children Currently Eligible for Medicaid or the State-Children's Health Insurance Program (S-CHIP) in Maryland (December 11, 2000)*, Kenneth E. Thorpe; The Henry J. Kaiser Family Foundation; U.S. Heath Care Financing Administration; Department of Health and Mental Hygiene (Medicaid); Department of Legislative Services

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