

Department of Legislative Services

Maryland General Assembly

2001 Session

FISCAL NOTE

House Bill 516 (Delegate Donoghue)

Economic Matters

Small Group Health Insurance - Premium Rates for Health Benefit Plans

This bill changes the community rate setting requirements for the Comprehensive Standard Health Benefit Plan (CSHBP) sold to small businesses. An insurer, nonprofit health service plan, or HMO (carrier) may provide a discount to a small business based on reduced claim expenses that result from lower-than-average tobacco use or any other behavior that has been demonstrated to reduce the frequency or complexity of medical care. A rate discount must be supported by actuarial principles and approved by the Maryland Insurance Commissioner.

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: Meaningful.

Analysis

Current Law: A carrier may adjust the community rate only for: (1) age; and (2) geography based on the following regions of the State: (a) the Baltimore metropolitan area; (b) the District of Columbia metropolitan area; (c) Western Maryland; and (d) the Eastern Shore and Southern Maryland. Any adjustment must stay within a rate that is 40% above or below the community rate.

Background: The CSHBP was established in 1994 as a result of health care reforms enacted by the General Assembly to provide better access to coverage in the small group market. The CSHBP is a standard health benefit package that carriers must sell to small businesses (fewer than 50 employees). The CSHBP includes guaranteed issuance and renewability, adjusted community rating with rate bands, and the elimination of pre-existing condition limitations. In order to maintain affordability, the average CSHBP premium rate per employee must remain below 12% of Maryland's average wage. In 1999, Maryland's average was \$34,470, resulting in a premium affordability cap of \$4,136 per employee. In 1999, the average cost per employee was \$3,648, or 88.19% of the affordability cap.

An actuarial report on the CSHBP estimates that premiums will continue to rise significantly faster than wages in 2000 and 2001. Projected 2001 financial results indicate that the average premium will hit 97.5% of the affordability cap. In anticipation of increasing premium rates, the MHCC has revised the standard benefit structure of the CSHBP to make it more affordable to small group employers. After the changes to the CSHBP have been implemented on July 1, 2001, the MHCC projects that 2001 average premium rates should be approximately 89.4% of the affordability cap.

Small Business Effect: The bill's provisions could make insurance coverage more affordable for small businesses with lower-than-average tobacco use or other high-risk behavior and less affordable for other small businesses. Discounts would be subject to approval by the Maryland Insurance Commissioner.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): *Annual Review of the Comprehensive Standard Health Benefit Plan* (October 25, 2000), Maryland Health Care Commission, Department of Legislative Services

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