

Department of Legislative Services

Maryland General Assembly

2002 Session

FISCAL NOTE**Revised**

Senate Bill 10

(Senator Kasemeyer, *et al.*)

Finance and Budget and Taxation

Ways and Means

**Insurance Premiums Tax - Health Maintenance Organizations - Funding of
Public Mental Health System Services**

This bill imposes the 2% insurance premium tax on HMOs beginning after December 31, 2002 and ending June 30, 2006. It creates the special, nonlapsing Maryland Public Mental Health System Fund administered by the Department of Health and Mental Hygiene (DHMH) to hold the premium tax revenue. The fund may only be used by the Mental Hygiene Administration (MHA) to pay for: (1) the public mental health system deficit incurred prior to fiscal 2003; the annual fee adjustments for community mental health services providers; and any additional changes made by the General Assembly with respect to off-site community-based mental health centers. This bill also ties the reimbursement rates for community mental health services providers to the Consumer Price Index for All Urban Consumers.

The bill is effective July 1, 2002. The special fund remains effective through June 30, 2006, after which any unspent funds revert to the general fund.

Fiscal Summary

State Effect: Special fund revenues and expenditures could each increase by \$20.2 million in FY 2003 from the imposition of the 2% premium tax on HMOs, which accounts for a January 1, 2003 implementation date. Future year estimates reflect inflation, annualization, and the assumption that all special fund revenues will be spent each fiscal year until the special fund sunsets at the end of FY 2006. Assuming the current level of community mental health services is maintained, federal fund expenditures for provider reimbursement would increase by \$3.6 million in FY 2004. Future year federal fund expenditures reflect cumulative increases in expenditures over the FY 2003 base amount and general fund expenditures would increase by \$22.4 million

beginning in FY 2007 once special fund revenues are no longer available. To the extent the premium tax imposes additional costs on HMOs and HMOs raise premiums to cover that increase, expenditures for the State Employee Health Benefits Plan could increase.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
SF Revenue	\$20.2	\$45.3	\$50.8	\$56.9	\$0
GF Expenditure	0	0	0	0	22.4
SF Expenditure	20.2	45.3	50.8	56.9	0
FF Expenditure	0	3.6	7.3	11.1	14.9
GF/SF/FF Exp.	-	-	-	-	-
Net Effect	\$0	(\$3.6)	(\$7.3)	(\$11.1)	(\$37.4)

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

Local Effect: To the extent HMOs increase premiums as a result of the premium tax exemption repeal, expenditures for local jurisdiction employee health benefits could increase.

Small Business Effect: Minimal. Health insurance costs for small businesses could increase if HMOs increase premiums as a result of the premium tax exemption repeal. Mental health providers that are considered small businesses would experience minimal savings in administrative costs due to reduced staff turnover as a result of the increased payments for services.

Analysis

Bill Summary: Beginning in fiscal 2004 and each year thereafter, the fees that DHMH pays to reimburse community mental health service providers for services rendered to an eligible individual are to be adjusted annually by the rate of change in the medical component of the Washington-Baltimore metropolitan area Consumer Price Index for All Urban Consumers, calculated by the U.S. Department of Labor, up to a maximum of 5%.

HMO premiums to be taxed include subscription charges or other amounts paid to an HMO on a predetermined periodic rate basis by a person as compensation for providing health care services to HMO members. This bill applies to premiums written for all policies, contracts, and health benefit plans issued, delivered, or renewed in the State on or after July 1, 2002. Any health benefit plan in effect before July 1, 2002 must comply with this bill's provisions by July 1, 2003.

Current Law: DHMH rates for mental health services are set in State regulations. A 2% premium tax is imposed on all gross direct insurance premiums derived from

business in Maryland. All health insurers, other than nonprofit health service plans, fraternal benefit societies, and HMOs, are subject to the premium tax.

Background: DHMH reports that salary and benefit gaps exist between front-line community workers and State employees in similar positions, and that low wages have resulted in staff recruitment and retention crises in the field of caring for the mentally ill, the developmentally disabled, and those suffering with substance abuse addiction.

Medicaid pays nearly all the cost of patients' services for a 15-minute medication consultation and an hour-long individual therapy session, according to an analysis by the Affiliated Sante Group published in *The Washington Post*. For a medication consultation, the cost is \$64 per patient, with Medicaid paying \$53. An hour-long individual therapy session costs \$83 per patient, Medicaid pays \$79. An hour-long group therapy session also costs \$83 per patient, but Medicaid pays \$34.

State Revenues: There are currently 14 HMOs operating in Maryland. In calendar 2001, HMO premiums that would be subject to the 2% premium tax totaled \$1,705,238,812, which would have resulted in a potential premium tax of \$34,104,776. Assuming 12% annual health care inflation, HMO premiums could total approximately \$2,024,459,517 in fiscal 2003, which would generate \$20,244,596 in special fund tax revenues for the last six months of the fiscal year. Future year revenue estimates assume 12% health care inflation and annualization.

State Expenditures: The Department of Legislative Services (DLS) estimates MHA's deficit at \$50 million prior to fiscal 2003. DLS assumes that all special fund revenues will be spent in the fiscal year they are collected.

Increasing community mental health provider reimbursements could increase special fund expenditures by an estimated \$5,400,000 (60%) and federal fund expenditures by an estimated \$3,600,000 (40%) in fiscal 2004. This estimate reflects the MHA fiscal 2003 projected fee for service expenditures of \$360 million and a 2.5% increase in the *Consumer Price Index for All Urban Consumers, Medical Care Component* for the Washington-Baltimore area, as published by the U.S. Department of Labor Bureau of Labor Statistics. The 2.5% increase is the average of the annual increases in the index for fiscal 2000 and 1999, the latest years for which information is available. Out-years reflect a 2.5% increase per year plus the prior annual increases. This analysis assumes no change in the number of eligible individuals.

MHA covers Medicaid eligible and Medicaid ineligible individuals. The rate increase applies to services received by both groups. The Governor could choose to minimize the

fiscal impact in fiscal 2004 and the following years by reducing the services Medicaid ineligible individuals receive.

A portion of the special fund revenues also may be used for any additional changes made by the General Assembly to Maryland Medical Assistance Program reimbursement procedures. DLS cannot reliably estimate the extent of any costs at this time because the General Assembly has not made the changes.

To the extent the premium tax imposes additional costs on HMOs and HMOs raise premiums to cover that increase, expenditures for the State Employee Health Benefits Plan could increase. State plan expenditures assume a fund mix of 60% general funds, 20% federal funds, and 20% special funds; 20% of expenditures are reimbursable through employee contributions.

Additional Information

Prior Introductions: This bill was introduced as HB 1247 in the 2001 session and received an unfavorable report by the House Appropriations Committee. The cross file bill, SB 328, was not reported out of the Senate Finance Committee.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene; The Math on Mental Health, *The Washington Post*, January 15, 2002; Maryland Insurance Administration; Department of Legislative Services

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