Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 410 (Senator Neall, *et al.*)
Finance

Nonprofit Health Service Plans - Participation in the State Medical Assistance Program

This bill requires a nonprofit health service plan that insures 10,000 or more covered lives to operate a Medicaid managed care organization (MCO) that provides services to enrollees in each county of the State in order to maintain its 2% premium tax exemptions. In addition, a certificate of authority will not be granted to an entity that applies for a certificate of authority to operate as a nonprofit health service plan, unless the entity operates or plans to operate an MCO in the State.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: If a nonprofit health service plan becomes subject to the 2% premium tax, general fund revenues could increase by a significant amount in FY 2003. If a nonprofit health service plan participates in the Medicaid program as an MCO, Department of Health and Mental Hygiene (DHMH) expenditures (50% general funds, 50% federal funds) could increase in FY 2003 only.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: A nonprofit health service plan that insures 10,000 or more covered lives must file a premium tax exemption report with the Insurance Commissioner by

January 1 of each year that demonstrates that the plan operates a Medicaid MCO that provides services to enrollees in each county of the State. The Insurance Commissioner may authorize a nonprofit health service plan to file the report required by the bill with the premium tax exemption report that a nonprofit health service plan must file by March 1 each year. If a nonprofit health service plan fails to file the report in a timely manner, the plan is subject to: (1) fines that range from $100 to $150 for each day the report is late; and (2) an order requiring the plan to pay the premium tax.

Current Law: 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.

A nonprofit health service plan that insures 10,000 or more covered lives in the State must file a premium tax exemption report with the Insurance Commissioner that demonstrates that the plan has used funds equal to the value of the premium tax exemption provided to the plan in a manner that serves the public interest.

The Insurance Commissioner must issue a certificate of authority to operate as a nonprofit health service plan if the applicant has paid the applicable fee and the Commissioner is satisfied that: (1) the applicant has been organized in good faith for the purpose of establishing, maintaining, and operating a nonprofit health service plan; and (2) the applicant meets certain contractual and financial surplus requirements.

A nonprofit health service plan is not required to operate an MCO.

Background: In 2001, nine nonprofit health service plans were registered with the Maryland Insurance Administration (MIA), eight of which wrote premiums in Maryland. Four nonprofit health service plans, each with more than 10,000 covered lives, would be subject to the bill's requirement to participate in the Medicaid program or lose their tax exemption:

- CareFirst of Maryland, Inc. (wholly-owned subsidiary of CareFirst, Inc.);
- Group Hospitalization and Medical Services, Inc. (wholly-owned subsidiary of CareFirst, Inc.);
- Mid-Atlantic Vision Service Plan; and
- Pennsylvania Dental Service Corp.

Maryland's largest nonprofit health service plan, CareFirst BlueCross BlueShield, withdrew from HealthChoice, Maryland's Medicaid managed care program in April 2001. CareFirst's withdrawal affected over 100,000 HealthChoice enrollees who had to be transferred to other Medicaid managed care organizations.

State Fiscal Effect:

Premium Tax Revenue: If any of the four nonprofit health service plans required to participate in the Medicaid program fail to demonstrate their MCO participation in the required report, the plans could be subject to the 2% premium tax, and general fund revenues could increase by a significant amount.

According to MIA, CareFirst, Inc. received a premium tax exemption of $16,597,709 for calendar 2000. Information regarding CareFirst's premium tax exemption for calendar 2001 will not be available to MIA until CareFirst files its 2001 annual statement sometime in March 2002. CareFirst advises that its premium tax exemption was approximately $19 million for calendar 2001. Premium tax information on the other two carriers is not available; however, based on direct premiums written in the State, Mid-Atlantic Vision's premium tax exemption could be as high as $478,400 and Pennsylvania Dental Service Corporation's premium tax exemption could be as high as $238,600.

Medicaid Expenditures: Currently, none of the four nonprofit health service plans operates as an MCO. If any choose to provide MCO services, DHMH expenditures (50% federal funds, 50% general funds) could increase in fiscal 2003 to pay for transitional and operational costs associated with changing enrollment material, provider resource information, and programming changes to the Eligibility Verification System. There are insufficient data at this time to reliably estimate any increase.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene (Maryland Health Care Commission, Medicaid), Maryland Insurance Administration, Department of Legislative Services

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