

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

Senate Bill 71
 Finance

(Senator Van Hollen, *et al.*)

Health Insurance Expansion Initiative of 2002

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, 2002.

Fiscal Summary

State Effect: Maryland Health Care Commission special fund expenditures could increase by \$789,700 in FY 2003. Medicaid expenditures could increase by as much as \$56.08 million (50% federal funds, 50% general funds) in FY 2004. Future year estimates reflect annualization, inflation, increased enrollment, and the implementation of the Low-Income Employee Private Insurance Assistance Program in FY 2006. No effect on revenues.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	28.04	138.09	201.88	231.62
SF Expenditure	.79	.11	.61	.12	.62
FF Expenditure	0	28.04	138.09	201.88	231.62
Net Effect	(\$.79)	(\$56.18)	(\$276.80)	(\$403.87)	(\$463.87)

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, 2004, 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 (see **Exhibit 1**). Medicaid coverage will expand beginning July 1, 2004 to include parents with incomes at or below 125% of FPL and, beginning July 1, 2005, 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, 2005. The program provides: (1) assistance to an employee whose annual household income is above 150% and 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 Maryland Children's Health Program (MCHP) 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 became eligible under the MCHP 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 MCHP. 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 MCHP programs cover over 550,000 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 the Department of Health and Mental Hygiene (DHMH) obtains a Section 1115 waiver, Medicaid will receive a 65% federal fund match in fiscal 2004. 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). It is unlikely that DHMH will be able to obtain a Section 1115 waiver from the federal Centers of Medicare and Medicaid Services (CMS). The federal share of current MCHP program spending is expected to exceed the fiscal 2003 federal fund allotment by more than \$90 million. The difference will be funded with surplus MCHP dollars available from prior years. Surplus funds and federal reallocations of \$182 million from states that did not expend all their block grant amounts in the first two years of the program will sustain the MCHP program until fiscal 2004. Beginning in fiscal 2004, State expenditures for MCHP will exceed the available federal funds. While MCHP did receive the federal reallocation in fiscal 2002 from states that had not used their MCHP 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 Expenditures: Medicaid expenditures could increase by \$56.08 million (50% federal funds, 50% general funds) beginning in fiscal 2004, which accounts for the January 1, 2004 start-up date for Medicaid eligibility expansion to parents whose household incomes are 100% of FPL or lower. If DHMH does receive the waiver, Medicaid would receive the enhanced federal fund match (\$36.05 million federal funds, \$19.03 million general funds) in fiscal 2004. This estimate is based on the following facts and assumptions:

- there are approximately 114,000 children currently enrolled in either Medicaid or MCHP whose household incomes are at or below 100% of FPL (see **Exhibit 2**);

- 86,000 eligible parents (0.75 parents for each enrolled child);
- 90% (or 77,000) of eligible parents will enroll in the program;
- 25% (or 19,300) of participating parents will enroll in fiscal 2004 and the remaining 57,700 will enroll in fiscal 2005;
- the average annual Medicaid cost per parent in fiscal 2004 is \$2,700; and
- the average annual Medicaid medical inflation rate is 7% in the Medicaid program.

Administrative costs account for \$3.97 million of the \$56.08 million increase in fiscal 2004. The estimate of administrative costs reflects the cost of: (1) six program specialists and two case managers 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 19,300 enrollees; (3) statewide outreach initiatives; (4) qualitative analysis and benchmark plans contractual services; (5) grants to local health departments for outreach, education, and care coordination; and (6) a one-time expenditure for mainframe programming costs to add the new coverage groups.

Future year program expenditures: (1) assume 75% of eligible parents with incomes between 100% and 200% of FPL will participate (see Exhibit 2); (2) assume, beginning fiscal 2005, that 75% of each new group will enroll in the first fiscal year of eligibility and the remaining 25% will enroll the next fiscal year; (3) reflect the implementation of the Low-Income Employee Private Insurance Assistance Program in fiscal 2006 (see **Exhibit 3**); (4) assume Medicaid costs for the private insurance assistance program are \$2,100 per enrollee beginning in fiscal 2006 and the medical inflation rate for this program is 12% annually; and (5) reflect annualization, medical inflation, and assume that out-year enrollment remains constant after the total phase-in to 200% of FPL. Future year administrative expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Maryland Health Care Commission Expenditures: Maryland Health Care Commission (MHCC) special fund expenditures could increase by \$789,739 in fiscal 2003. This estimate reflects the cost of contracting with a vendor to conduct the requisite biennial studies of the demographics of the uninsured in the State and compile an inventory of the public and private programs and initiatives designed to enhance access for the uninsured to medically necessary health care service and health insurance coverage. It also reflects

the cost of hiring two health policy analysts to manage the contract and maintain the inventory. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$79,913
Contract to Conduct Requisite Studies	700,000
Other Operating Expenses	<u>9,826</u>
Total FY 2003 State Expenditures	\$789,739

Future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Comments:

**Exhibit 1
2001 Federal Poverty Level Guidelines***

<u>Size of Family</u>	<u>100% FPL</u>	<u>125% FPL</u>	<u>150% FPL</u>	<u>200% FPL</u>
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

*Federal Register, Vol. 66, No. 33, February 16, 2001, pp. 10695-10697. 2002 federal poverty level guidelines are expected to be issued as early as mid-February 2002.

**Exhibit 2
Eligible Parents by Income Level**

<u>FPL</u>	<u>Children Enrolled in Medicaid or MCHP</u>	<u>Eligible Parents</u>	<u>Participating Parents</u>
Under 100%	114,000	86,000	77,000 *
100 – 125%	41,000	31,000	23,300 **
125 – 150%	36,000	27,000	20,300 **
150 – 200%	65,000	35,100	26,300 **
Total	256,000	179,000	146,900

*Assumes 90% participation rate.

**Assumes 75% participation rate.

Exhibit 3
Projected Enrollment by Fiscal Year

<u>Fiscal Year</u>	<u>New Enrollees in Medicaid Expansion</u>	<u>New Enrollees in Low-Income Employee Private Insurance Assist. Program</u>	<u>Total Enrollment</u>
2003	0	0	0
2004	19,300	0	19,300
2005	75,200	0	94,500
2006	21,000	26,300	141,800
2007	5,100	0	146,900

Additional Information

Prior Introductions: A similar bill, SB 743, was introduced in the 2001 session. It was reported unfavorably by the Senate Finance Committee.

Cross File: None.

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

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