

Department of Legislative Services  
Maryland General Assembly  
2002 Session

FISCAL NOTE  
Revised

Senate Bill 411

(Senator Neall, *et al.*)

Finance

Economic Matters

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Nonprofit Health Service Plans - Financial Audit to Determine Value of Public Benefits

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This bill requires the Insurance Commissioner, in consultation with the Legislative Auditor, to contract by August 1, 2002 with an independent consultant that has expertise in health care economics to perform a five-year retrospective financial audit to determine the value of public benefits received by certain nonprofit health service plans in the State.

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Fiscal Summary

**State Effect:** Maryland Insurance Administration (MIA) special fund expenditures could increase significantly in FY 2003. The cost of an audit could range from \$100,000 to \$300,000. No effect on revenues.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Bill Summary:** The audits must be performed on nonprofit health service plans that insure 10,000 or more covered lives. The audit must provide a five-year: (1) valuation of the annual financial benefit of any subsidies of Substantial, Available, and Affordable Coverage (SAAC) product premiums provided to enrollees; (2) calculation of any tax liability that would be owed by a nonprofit health service plan as the result of not meeting the definition of "nonprofit health service plan corporation;" and (3) calculation of any

State income tax liability that would be owed by a nonprofit health service plan as a result of being subject to the State income tax as it was subject to the federal income tax.

The independent consultant must report by December 1, 2002 the findings of the financial audits to the Insurance Commissioner, the Legislative Auditor, and the Governor and General Assembly.

**Current Law:** A nonprofit health service plan must file an annual statement with MIA that provides a complete statement of the plan's financial condition, transactions, and affairs for the immediately preceding calendar year. The statement must be certified by an independent certified public accountant. MIA may also inspect and examine the affairs of the plan. In addition, a nonprofit health service plan must file an annual premium tax exemption report with MIA. The report must demonstrate 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.

If a nonprofit health service plan files its intent to convert to or be acquired by a for-profit entity, MIA must determine the fair value of the plan's public or charitable assets.

**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, could be subject to the bill's financial audit requirement:

- 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.

On January 29, 2002, MIA issued a request for proposals (RFP) to contract with an entity to perform four analyses of CareFirst, Inc., which has filed its intent to convert to a for-profit entity. The four analyses include: (1) due diligence analysis; (2) fairness analysis; (3) valuation; and (4) foundation analysis.

**State Fiscal Effect:** MIA special fund expenditures could increase by an indeterminate amount in fiscal 2003. The bill requires financial audits of nonprofit health services plans that insure 10,000 or more covered lives. MIA is already seeking to contract with a consultant to perform a financial audit of CareFirst, Inc., which has filed its intent to convert. MIA must contract with consultants to perform financial audits on the other two nonprofit health service plans in Maryland, meaning special fund expenditures could

increase by a significant amount. Financial audits for each plan could range from \$100,000 to \$300,000 in fiscal 2003.

A review of the independent consultant's audits could be handled with existing budgeted Legislative Auditor resources.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services (Office of Legislative Audits)

**Fiscal Note History:** First Reader - March 11, 2002  
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