Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 413 (Senator Neall, *et al*.)
Finance

Health Insurance - Substantial, Available, and Affordable Coverage Products - Reform

This bill requires a nonprofit health service plan to offer a Substantial, Available, and Affordable Coverage (SAAC) product that has been approved by the Insurance Commissioner.

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 beginning in FY 2003. No effect on expenditures.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: To qualify for approval, a SAAC product must: (1) be advertised by the carrier during at least two open enrollment periods annually; (2) have age or geography banding of its community rate; and (3) comply with any regulations adopted by the Maryland Insurance Administration (MIA) and the Health Services Cost Review Commission (HSCRC). If the Insurance Commissioner has approved a carrier's SAAC product, HSCRC must grant up to a 4% differential on hospital rates to the carrier. The Maryland Health Care Commission (MHCC) must adopt a comprehensive health benefits plan for the SAAC product.

If the Short-Term Prescription Drug Subsidy Plan termination date of July 1, 2003 takes effect (Chapter 135 of 2001, Section 12), then HSCRC may only grant up to a 2% differential on hospital rates to a carrier with an approved SAAC product.

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 March 1 annually, that demonstrates the plan has an approved SAAC product. If the Insurance Commissioner determines the plan has not satisfied these requirements, the plan would be subject to the 2% premium tax for the taxable year in which the Commissioner makes the determination. In addition, the Commissioner cannot issue a certificate of authority to operate as a nonprofit health service plan to an applicant that does not offer or intend to offer a SAAC product.

The bill takes effect July 1, 2002. The bill's provisions relating to a 2% differential take effect if the termination provisions of the Short-Term Prescription Drug Subsidy plan take effect on July 1, 2003.

Current Law: Carriers that offer a SAAC product to medically-uninsurable individuals receive a 4% differential on hospital charges, allowing them to pay less for hospital charges for certain enrollees than carriers that don't offer a SAAC product. MHCC specifies a benefit plan for the SAAC product.

Background: The SAAC product was established in 1974 as a means of encouraging health insurance carriers to insure individuals with preexisting medical conditions. Insuring these individuals through the SAAC product reduces uncompensated care at hospitals and thus reduces the hospitals' overall costs.

In 2001, nine nonprofit health service plans were registered with 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 offer a SAAC product 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.

State Fiscal Effect: If any of the four nonprofit health service plans required to offer a SAAC product fail to do so, 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.

The review and approval of SAAC products could be handled with existing MIA resources.

Additional Information

Prior Introductions: HB 1199 of 2000 changed the SAAC hospital rate differential from 4% to 2%. The bill was reported unfavorably by the House Economic Matters Committee.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Budget and Management, Department of Legislative Services

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