

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 407

(Senator Astle)

Finance

Health Insurance - Small Employer Groups - Health Benefit Plans

This bill exempts a professional employer organization (PEO), coemployer, or other organization engaged in employee leasing from the small group market for health insurance coverage if: (1) the health benefit plan issued by a carrier is a fully-insured plan; (2) the health benefit plan complies with all provisions of State law relating to large group health plans; and (3) the PEO, coemployer, or other organization does not use the health status of one or more individuals or dependents as a factor for determining eligibility of the entity to participate in the health benefit plan.

Fiscal Summary

State Effect: None. The bill pertains exclusively to private sector activities.

Local Effect: None.

Small Business Effect: Potential minimal.

Analysis

Current Law: Health insurance carriers that issue policies to small employers (fewer than 50 employees) must issue a standard benefit package called the Comprehensive Standard Health Benefit Plan (CSHBP). A carrier also must issue CSHBP to eligible employees if it is issued through a PEO, coemployer, or other organization that engages in employee leasing.

Background: CSHBP was established in 1994 as a result of health care reforms adopted by the General Assembly to provide better access to coverage in the small group market. CSHBP is a standard health benefit package that carriers must sell to small businesses

(fewer than 50 employees). CSHBP includes guaranteed issuance and renewability, adjusted community rating with rate bands, and the elimination of pre-existing condition limitations. In order to maintain affordability, the average CSHBP premium rate per employee must remain below 12% of Maryland's average wage.

Professional Employer Organizations: PEOs attempt to maximize the operational efficiency of small and mid-sized businesses by taking over a substantial portion of a company's human resource functions, permitting a company to focus on the revenue generating side of its business. For a fee, a company's employees are transferred to a PEO's payroll and Federal Tax ID number and leased back to the company. The PEO assumes responsibility for such employment functions as payroll, workers' compensation insurance, payroll tax compliance, health insurance, and unemployment insurance claims.

Small Business Effect: A small business that contracts with a PEO to handle employment services could participate in the PEO's large group health benefit plan. The small business could benefit from lower premiums in a large group plan, and the small business' overall health benefit expenditures could decrease.

In addition, the elimination of certain small businesses from the small group market could cause premiums in the small group market to increase. If a disproportionate number of small employers with healthy employee populations elect to receive health benefits in the large group market, premiums could increase for the remaining pool of higher-risk individuals in the small group market. The bill prohibits a PEO from using employees' health status as an eligibility factor. Accordingly, any disproportionate migration of healthy employees to large group policies is assumed to be minimal.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): National Association of Professional Employer Organizations, Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2002
ncs/jr

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