

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1159 (Delegate Redmer)
Economic Matters

Small Group Health Insurance - Community Rate Adjustment - Small Employer
Group Experience

This bill amends the community rate setting methodology for the small group health insurance market by permitting an insurer, nonprofit health service plan, or HMO (carrier) to adjust the community rate up to 15% based on a particular small employer group's loss or expense experience. In addition, the bill increases the allowable community rate adjustment cap from 40% to 50%.

Fiscal Summary

State Effect: Potential minimal increase in Maryland Insurance Administration (MIA) special fund revenues from the \$125 rate and form filing fee in FY 2003. No effect on expenditures.

Local Effect: None.

Small Business Effect: Meaningful. Small businesses with healthier and younger employees would experience lower premium rates, while older and less healthy groups would experience higher rates.

Analysis

Current Law: A carrier must sell the Comprehensive Standard Health Benefit Plan (CSHBP) in the small group market (businesses with 50 or fewer employees). Carriers cannot determine premiums based on the claims experience or employee health status of any particular small employer. Instead, a carrier pools the claims experience of all its

small businesses, and determines the community rate based on this pool. The only factors for which a carrier may adjust its rate are employees' average age and the geographical location of the business. Carriers can only adjust the rate 40% above or below the community rate.

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.

Chapter 671 of 1999 changed the community rate adjustment cap from 33% to 40%. Chapter 388 of 2001 required an independent evaluation of Maryland's small group market. This study required an examination of the existing delivery system as well as a comparison of CSHBP to similar small group markets in other states. The report was issued on February 19, 2002.

State regulators, insurance agents and brokers, and health plan executives were interviewed for this report. The report states that some of the individuals interviewed expressed "mild support for relaxing elements of the rating rules, but no one expressed confidence that such a change would result in greatly increased coverage."

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): *Small-Group Health Insurance Market Reforms in Maryland* (February 19, 2002), Health Management Associates; Maryland Insurance Administration; Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2002
ncs/cer

Analysis by: Susan D. John

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510

