Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 651 (Senator Astle)
Finance

Health Insurance - Small Group Market - Health Reimbursement Arrangements

This bill requires the Maryland Health Care Commission (MHCC) to adopt regulations that specify a modified health benefit plan that qualifies as a health reimbursement arrangement as provided for by the federal Internal Revenue Services (IRS), including a menu of deductibles to include a deductible of at least $5,000.

Fiscal Summary

State Effect: The adoption of regulations for health reimbursement arrangements (HRAs) could be handled with existing MHCC resources. Premium tax revenues could increase if premiums in the small group market increase.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Two products may be offered in the small group market, the Comprehensive Standard Health Benefit Plan (CSHBP) and a modified health benefit plan for medical savings accounts that qualify under the federal Health Insurance Portability and Accountability Act of 1996.

CSHBP is subject to a community rate premium that is based on all risks covered in a health benefit plan without regard to health status or occupation or any other factor not specifically authorized by law. The premium rate may only be adjusted for age and

geographic location. Based on these adjustments, a carrier may charge a rate that is 40% above or below the community rate.

Background: HRAs, authorized by the IRS in June 2002, permit an employee to use a predetermined amount of an employer's money solely for medical expenses. Employers may fund personal accounts that reimburse workers for out-of-pocket medical expenses, including premiums and deductibles. The funds are owned by the employer, not the employee, and they may not be withdrawn for nonmedical expenditures. Unspent HRA balances may accumulate from year to year, and employers may or may not allow departing employees access to the balances after they have left employment.

The HRA model that many employers appear to be currently attracted to combines a personal account with a high-deductible medical insurance plan. Under this arrangement, an employer could offer the lower-cost, high-deductible plan and the personal account, which the employee could use to pay the deductible and other costs not covered by insurance.

HRAs are not medical savings accounts (MSAs) or flexible spending accounts (FSAs).

MSAs, authorized by federal law in 1996, are health plans that combine a high-deductible health insurance policy with a savings account. The policy protects the employee from the cost of a catastrophic illness and the savings account, controlled by the employee, is used to pay for routine health care. Only self-employed and small business employees can have a tax-free MSA. MSA funds not spent by year's end may be rolled over to the next year.

FSAs were authorized by federal law in 1978 and allow employees to contribute some of their own salary to an account to pay for health care expenses or their share of health insurance premiums. Contributions to an FSA are exempt from both income and payroll taxes. While employees contribute the money, employers may keep any unspent balance at year's end.

Small Business Effect: If younger, healthier small employer groups provide HRAs to their employees and choose CSHBP insurance coverage with very high deductibles, risk sharing in the small group market could be eroded since minimal users of health care services are not subsidizing high users of health care. Accordingly, premiums for CSHBP could increase, although any increase would be limited by community rate bands and the affordability cap.

Additional Information

Prior Introductions: None.

Cross File: HB 1085 (Delegate Hammen) – Health and Government Operations.

Information Source(s): *An Evaluation of Florida's Small Group Health Insurance Reform Laws*, Wake Forest University School of Medicine, 1998; National Association of Insurance Commissioners; Kaiser Family Foundation; Department of Health and Mental Hygiene; Maryland Insurance Administration; Department of Legislative Services

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