

Department of Legislative Services  
Maryland General Assembly  
2003 Session

FISCAL AND POLICY NOTE

Revised

House Bill 2 (Delegate Busch, *et al.*)

Health and Government Operations

Finance

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Small Business Health Insurance Affordability Act

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This bill changes certain provisions relating to the Comprehensive Standard Health Benefit Plan (CSHBP) that an insurer, nonprofit health service plan, or HMO (carrier) must offer to small businesses.

The bill takes effect July 1, 2003.

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Fiscal Summary

**State Effect:** The reports required by the bill could be handled with existing Maryland Health Care Commission (MHCC) and Maryland Insurance Administration (MIA) budgeted resources. No effect on revenues.

**Local Effect:** None.

**Small Business Effect:** Potential minimal.

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Analysis

**Bill Summary:** The bill specifies that a carrier must, when offering CSHBP to small businesses: (1) clearly distinguish the standard plan from other offerings of the carrier; (2) indicate the standard plan is the only plan required by State law; and (3) specify that all enhancements to the standard plan are not required by State law. In addition, the bill reduces the premium rate affordability cap for the standard plan from 12% to 10% of the average annual wage in Maryland.

By December 1, 2003, MHCC must prepare a report on: (1) the methodology used by MHCC in developing CSHBP in the small group market; and (2) the feasibility of creating a basic plan in addition to the standard plan in the small group market. MHCC must submit its report to the Senate Finance and House Health and Government Operations committees.

By January 1, 2004, MHCC, in consultation with MIA, must conduct an analysis of and make recommendations on the administrative cost of health plans in the small group market, including: (1) the total amount and distribution of administrative costs; (2) the strategies for lowering administrative costs; and (3) the appropriateness of the medical loss ratios specified in law.

**Current Law:** CSHBP is a standard health benefit package (standard plan) that carriers must sell to small businesses (50 or fewer employees). Carriers must offer the standard plan to all small businesses, but may sell additional benefits or enhancements through riders. Any riders must be offered and priced separately.

CSHBP includes guaranteed issuance and renewal, 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 annual wage.

**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. MIA and MHCC have joint responsibility for administering CSHBP. MIA must approve contracts, rates, and forms, as well as monitor carrier marketing. MHCC is responsible for the design and annual review of CSHBP.

MHCC's annual review of CSHBP includes determining the affordability of CSHBP in the small group market. If MHCC finds the average rate for the standard plan across all carriers and delivery systems exceeds 12% of Maryland's average annual wage, MHCC must modify CSHBP by increasing the cost sharing arrangements or decreasing required benefits. In 2001, Maryland's average annual wage was \$38,329.

CSHBP has continued to stay under the affordability cap. In 2001, the average premium of the standard plan (excluding riders) was only 77.5% of the cap (see **Exhibit 1**). With riders, the average premium was 95.4% of the affordability cap.

Chapter 388 of 2001 required MHCC to conduct a study of the State's small group insurance market, comparing CSHBP to small group insurance laws in other states. The report, issued in 2002, indicates that the vast majority of policies issued in Maryland's

small group market include riders that enhance the benefits of the standard plan. In fact, one large small group carrier reported that less than 1% of its small group policies were sold without riders.

This bill addresses two of the report's recommendations: (1) carriers must effectively inform employers about the standard plan; and (2) the affordability cap should be reduced from 12% to 10% of the State's average annual wage, which leaves room for both future cost escalation and permits employers to add riders and still keep the total average premium cost within the existing 12% limit.

**Small Business Effect:** Reducing CSHBP's affordability cap from 12% to 10% would help keep CSHBP affordable for small businesses and permit them to continue purchasing riders for additional benefits at an affordable rate. If the average premium reaches 10%, however, MHCC may be required to change the CSHBP benefit package, increasing out-of-pocket expenses such as deductibles and copayments, or eliminating certain benefits.

**Additional Comments:**

**Exhibit 1**

**Affordability Cap on the CSHBP Standard Plan – 2000 and 2001**

	<u>12/31/00</u>	<u>12/31/01</u>
Maryland Average Wage	\$36,380	\$38,329
12% of Wage (Affordability Cap)	\$4,366	\$4,599
Average Standard Plan Premium Cost per Employee (without riders)	\$3,244	\$3,565
Percentage of Average Wage	8.9%	9.3%
Percentage of Affordability Cap	77.4%	77.5%

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** *Annual Review of the Comprehensive Standard Health Benefit Plan, November 26, 2002*, Maryland Health Care Commission; Department of Health and Mental Hygiene; Maryland Insurance Administration; Department of Legislative Services

**Fiscal Note History:** First Reader - January 28, 2003  
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