HB 636

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 636 (Delegate Hixson, *et al.*)
Ways and Means

Insurance Premiums Tax - Health Maintenance Organizations

This bill imposes the 2% insurance premium tax on HMOs. HMO premiums to be taxed include subscription charges or other amounts paid to an HMO on a predetermined periodic rate basis by a person as compensation for providing health care services to HMO members.

The bill's provisions apply to premiums written for all policies, contracts, and health benefit plans, issued, delivered, or renewed in the State on or after July 1, 2003. Any health benefit plan in effect before July 1, 2003 must comply with the bill's provisions by July 1, 2004. The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: General fund revenues could increase by $43.3 million in FY 2004 from the imposition of the 2% premium tax on HMOs. Future year estimates reflect inflation. Maryland Insurance Administration (MIA) special fund expenditures could increase by $185,000 in FY 2004. To the extent the premium tax imposes additional costs on HMOs and HMOs raise premiums to cover that increase, expenditures for the State Employee Health Benefits Plan could increase.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	$43,317,500	$48,818,800	$55,018,800	$62,006,200	$69,880,900
SF Expenditure	185,000	0	0	0	0
GF/SF/FF Exp.	-	-	-	-	-
Net Effect	$43,132,500	$48,818,800	$55,018,800	$62,006,200	$69,880,900

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: To the extent HMOs increase premiums as a result of the premium tax exemption repeal, expenditures for local jurisdiction employee health benefits could increase.

Small Business Effect: Minimal. Health insurance costs for small businesses could increase if HMOs increase premiums as a result of the premium tax exemption repeal.

Analysis

Current Law: A 2% premium tax is imposed on all gross direct insurance premiums derived from business in Maryland. All health insurers, other than nonprofit health service plans, fraternal benefit societies, and HMOs, are subject to the premium tax.

State Revenues: There are currently 14 HMOs operating in Maryland. In calendar 2001, HMO premiums that would be subject to the 2% premium tax totaled $1,705,238,812, which would have resulted in a potential premium tax of $34,104,776. Assuming 12.7% annual health care inflation, HMO premiums could total approximately $2,165,873,264 in fiscal 2004, which would generate $43,317,465 in general fund tax revenues. Future year revenue estimates assume 12.7% health care inflation.

State Expenditures: MIA special fund expenditures could increase by approximately $185,000 in fiscal 2004 only. This estimate reflects contracting with a consultant to make programming changes to two computer systems to be able to input, process, and audit premium taxes paid by HMOs.

To the extent the premium tax imposes additional costs on HMOs and HMOs raise premiums to cover that increase, expenditures for the State Employee and Retiree Health and Welfare Benefits Plan could increase. State health plan expenditures assume a fund mix of 60% general funds, 20% federal funds, and 20% special funds; and 20% of expenditures are reimbursable through employee contributions.

Additional Information

Prior Introductions: An identical bill, HB 1449, was introduced in the 2002 session. It was not reported by the House Ways and Means Committee. A similar bill, HB 510, was introduced in the 1997 session. The bill was not reported from the House Ways and Means 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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mdf/jr

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