HB 726

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 726 (Delegate Hubbard, *et al.*)
Health and Government Operations

Public-Private Partnership for Health Coverage for All Marylanders

This bill provides universal health care coverage for State residents by changing eligibility requirements in the Medicaid program, the Maryland Children's Health Program (MCHP), the Maryland Pharmacy Discount Program (MPDP), the Maryland Health Insurance Plan (MHIP), and the small group health insurance market.

Fiscal Summary

State Effect: General fund revenues from the 2% premium tax imposed on HMOs increase by $43.3 million in FY 2004. General fund revenues from the cigarette tax increase by $85.0 million in FY 2004. General fund revenues from income taxes increase significantly beginning FY 2004. Medicaid expenditures (35% federal, 65% general) increase by $333.8 million in FY 2004. Maryland Insurance Administration (MIA) special fund expenditures increase by $185,000 in FY 2004 only. Maryland Health Care Commission (MHCC) special fund expenditures increase by $126,000 in FY 2004. MDCare revenues and expenditures increase significantly beginning FY 2004. Future year estimates reflect annualization, increased enrollment, and inflation.

($ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	$128.34	$122.39	$127.63	$133.67	$140.62
GF Expenditure	204.98	362.90	468.81	522.34	543.86
SF Expenditure	.31	.08	.08	.08	.09
FF Expenditure	116.83	195.41	252.44	281.26	292.85
GF/SF/FF Exp.	-	-	-	-	-
Net Effect	($193.78)	($435.99)	($593.70)	($670.01)	($696.18)

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

Local Effect: None.

Small Business Effect: Meaningful. A larger enrolled population in the small group market would spread risk sharing and stabilize health care costs.

Analysis

Bill Summary: The bill requires the Department of Health and Mental Hygiene (DHMH), subject to limitations in the budget, to provide Medicaid coverage for all parents whose annual household income is at or below 100% of the federal poverty level guidelines (FPG) (see **Exhibit 1**), beginning upon waiver approval by the federal Centers for Medicare and Medicaid Services (CMS). Coverage will be extended to 150% FPG on July 1, 2004, and to 200% FPG on July 1, 2005. DHMH: (1) may not require an asset test for parents and children; (2) must allow self-declaration of income and eligibility information except where the State has reason to question the information provided; (3) must establish renewal procedures that allow enrollees to verify information by mail; and (4) must guarantee an enrollment period for 12 months, except in cases of fraud or misrepresentation.

The bill changes MPDP to permit any individual who lacks drug coverage to enroll. The bill removes the income limitation in MCHP to permit any child under age 19 to enroll, subject to certain premium requirements. A parent of an eligible child whose family income is above 350% of FPG must pay an actuarially fair premium determined by DHMH. The bill amends eligibility requirements in the small group market to include: (1) an individual under an individual policy; and (2) an individual whose annual family income is above 350% FPG and who does not accept employer-sponsored insurance. The bill also expands the definition of small group employer from one who has 50 employees or fewer to one who has 100 employees or fewer.

The bill renames MHIP to MDCare and repeals coverage provisions for medically uninsurable persons. Instead, MDCare provides health insurance coverage to an uninsured individual who: (1) is a resident of the State; (2) whose annual family income is, in fiscal 2005, below 150% FPG, and in fiscal 2006 and each year thereafter, below 350% FPG; and (3) whose employer offers health insurance coverage that: (a) does not offer comparable benefits to the Comprehensive Standard Health Benefit Plan (CSHBP); or (b) costs more than 3% of the individual's income for individual coverage or more than 6% of the individual's income for family coverage. In fiscal 2005, the MDCare board cannot charge a premium for an uninsured person. The board cannot impose cost sharing requirements on an individual at or below 100% FPG. For an uninsured individual above 100% but below 150% FPG, the board cannot require a deductible and must require a $10 copayment and 10% coinsurance on prescription drugs and services. Beginning in fiscal 2006, the board may impose higher cost sharing requirements.

MDCare must develop a state-of-the-art Internet based "electronic-Care Management" (e-CM) system. The e-CM system's functions must include eligibility verification, referral management, automatic claims submission, and direct deposit to provider accounts.

The bill establishes the Maryland Quality Institute to: (1) focus on improving the quality of health care for State residents; and (2) develop standardized clinical practice guidelines to be distributed to private and public health plans and provider organizations.

The bill establishes the MDCare Universal Coverage Oversight Commission to study the implementation of universal health coverage.

The bill repeals the 2% premium tax exemption given to HMOs and increases the tobacco tax rate for cigarettes from: (1) 50 to 68 cents for each package of 10 or fewer cigarettes; (2) $1.00 to $1.36 for each package of at least 11 and not more than 20 cigarettes; (3) 5 to 6.8 cents for each cigarette in a package of more than 20 cigarettes; and (4) 5 to 6.8 cents for each cigarette in a package of free sample cigarettes.

The bill also requires all employers other than the federal government, the State, another state, or a political subdivision of the State or of another state, to pay to DHMH an annual payroll tax: (1) equal to 5% of the total wages paid to employees in the State during each calendar year, if the employer has fewer than 1,000 employees; or (2) equal to 8% of the total wages paid to employees in the State during each calendar year, if the employer has more than 1,000 employees. An employer may claim a credit against the payroll tax, up to the amount of the tax imposed, in an amount equal to the amount of the employer's expenditures during the calendar year to provide health insurance to employees in the State if the employer's health insurance costs are deductible under federal tax law. An employer may not deduct the payroll tax from an employee's wages.

For an individual who cannot prove health insurance coverage comparable to the CSHBP, and whose federal adjusted gross income is equal to or greater than 350% of the applicable poverty income level, the individual must pay as additional State income tax an amount equal to the hospital share of CSHBP for the taxable year, as established by MHCC.

If an individual's federal adjusted gross income is less than 350% of the applicable poverty income level and the individual is eligible for MDCare, the individual must be enrolled in MDCare and pay as additional State income tax the applicable MDCare premium. If an individual is eligible for MDCare, Medicaid, or MCHP, the individual must be automatically enrolled and assessed a three-month premium by the Comptroller.

DHMH must seek approval from the federal CMS for appropriate waivers and amendments to the State Medicaid plan, MCHP, and MPDP that would permit the State to phase-in coverage expansion.

The bill specifies DHMH will only provide mental health care services to: (1) an uninsured person; (2) a person enrolled in Medicaid; or (3) a person who has health coverage in a public or private program, if the individual is charged at full cost for mental health services. The bill also repeals the Substance Abuse Treatment Outcomes Partnership Fund.

Current Law: An adult may qualify for Medicaid if the adult is: (1) aged, blind, or disabled; (2) in a family where one parent is absent, disabled, unemployed, or underemployed; or (3) a pregnant woman. Adults must also have very low incomes to qualify for Medicaid (32% to 51% of FPL), with the exception of pregnant women who are covered up to 250% FPG. MCHP covers children with family incomes up to 300% FPG and pregnant women with incomes up to 250% FPG.

MPDP covers Medicare enrollees without other public or private prescription drug coverage. Enrollees can purchase medically necessary prescription drugs from any pharmacy that participates in the Maryland Medicaid Program at a price that is equivalent to the price reimbursed by Medicaid, including the benefit of any federally mandated manufacturers' rebates.

MHIP is a high-risk pool, slated to begin coverage on July 1, 2003, that will cover medically uninsurable individuals in the State.

Background: The Maryland Citizens' Health Initiative established the Maryland Health Care for All Coalition in 1998. The coalition is comprised of 2,000 diverse organizations, including religious, health, community, labor, and business groups from across the State. The coalition seeks to provide all State citizens with access to comprehensive, affordable health care. In September 2001, the coalition released a draft plan for achieving "health care for all" in Maryland. Since then it has revised the draft based on hundreds of comments sent by coalition members and the general public. On December 9, 2002, the coalition released its final plan. This bill reflects many of the recommendations made by the coalition.

State Revenues:

Premium Tax on HMOs: 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.

Cigarette Tax: Tax revenues could increase by a total of $85.0 million in fiscal 2004. This estimate reflects the following facts and assumptions:

- a 36-cent excise tax on cigarettes generates $73.4 million additional revenue;
- a 36-cent floor tax on existing cigarette inventory generates $10.5 million; and
- the excise tax increases sales tax on cigarettes by $1.1 million.

Future year estimates assume a 1.3% trend decline due to fewer cigarettes sold.

Payroll Tax: The bill requires an employer with fewer than 1,000 employees to pay a 5% payroll tax on its employees' gross premiums if the employer does not offer health insurance to its employees. An employer with 1,000 or more employees must pay an 8% payroll tax if it does not offer health insurance. It is assumed that a large number of businesses that do not offer health insurance will do so to avoid paying the payroll tax. There are insufficient data at this time, however, to reliably estimate general fund revenues from this payroll tax.

Income Tax: The bill requires an uninsured individual who earns more than 350% FPG to pay as additional State income tax an amount equal to the hospital share under CSHBP. There are insufficient data at this time to reliably estimate revenues generated from this tax.

State Expenditures:

Medicaid: Medicaid expenditures could increase by an estimated $333,807,903 in fiscal 2004, which assumes an October 1, 2003 effective date. This estimate reflects covering up to 196,907 individuals by fiscal 2006 under Medicaid and MCHP. The estimate reflects the following facts and assumptions:

- Medicaid expansion covers 92,220 new individuals at $2,800 per enrollee in fiscal 2004;
- Medicaid expansion covers 150,372 individuals in fiscal 2005 and 187,456 in fiscal 2006 and each year thereafter;
- MCHP expansion covers 5,671 new kids in fiscal 2004 at $1,200 per HealthChoice enrollee and $1,134 in the Employer Sponsored Insurance program;

- MCHP expansion covers 8,506 total in fiscal 2005 and 9,451 in fiscal 2006 and each year thereafter;
- MPDP program covers 43,910 new individuals in fiscal 2004 at $1,820 per enrollee;
- MPDP program covers 58,542 new individuals in fiscal 2005, 59,342 in fiscal 2006, 60,142 in fiscal 2007, and 60,942 in fiscal 2008;
- Medicaid enrollees do not have cost sharing;
- MCHP enrollees pay premiums ranging from $480 to $1,091 annually, depending on income;
- Maryland Pharmacy Assistance Program (MPAP) expenditures decrease by $15,055,495 in fiscal 2004 from reduced enrollment; and
- administrative costs increase by $7,702,535 in fiscal 2004 for 51 new positions to process new enrollees, programming and maintenance changes to the MMIS database, enrollment broker costs, and ongoing operating expenses.

Future year estimates reflect annualization, 6.7% medical inflation in the Medicaid program, and 12% prescription drug inflation in MPDP and MPAP.

Maryland Health Care Commission: MHCC special fund expenditures could increase by an estimated $125,991 in fiscal 2004, which accounts for the bill's October 1, 2003 effective date. This estimate reflects the cost of contracting with a consultant to assist with data collection and hiring one part-time policy analyst to staff the MDCare Oversight Committee. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$20,270
Consultant Contract for Data Collection	100,000
Operating Expenses	5,721
Total FY 2004 State Expenditures	**$125,991**

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

MIA: 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.

State Employee and Retiree Health and Welfare Benefits Plan: 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.

Substance Abuse Treatment Outcomes Partnership: The General Assembly established the Substance Abuse Treatment Outcomes Partnership to make substance abuse treatment funding available to local jurisdictions that provide a direct or in-kind match. Fiscal 2004 funding for the partnership is $12 million. Repealing the program would reduce general fund expenditures by $12 million in fiscal 2004.

Department of Human Resources: General and federal fund expenditures would increase by a significant amount, beginning fiscal 2004, to enroll new individuals in the Medicaid and MCHP programs. There are insufficient data to reliably estimate enrollment costs.

Other Expenditures: MDCare must provide health insurance coverage to an uninsured individual under certain circumstances. In addition, MDCare must develop a state-of-the-art Internet based e-CM system. There are insufficient data to reliably estimate premium revenues or health care and administrative expenditures under MDCare.

Additional Comments:

Exhibit 1

2003 Federal Poverty Guidelines for One Person*	
100% FPG	$ 8,980
150% FPG	$13,470
200% FPG	$17,960
250% FPG	$22,450
300% FPG	$26,940
350% FPG	$31,430
400% FPG	$35,920

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Additional Information

Prior Introductions: None.

Cross File: SB 557 (Senator Pinsky, *et al.*) – Finance.

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Analysis by: Susan D. John

Direct Inquiries to:
(410) 946-5510
(301) 970-5510