HB 627

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 627 (Delegate Redmer, *et al.*)
Health and Government Operations

Health Insurance - Small Group Market - Basic Health Benefit Plan

This bill requires the Maryland Health Care Commission (MHCC) to develop a basic health benefit plan to be sold in the small group market. MHCC must exclude or limit benefits or adjust cost-sharing arrangements in the basic plan if the average rate for the basic plan exceeds 6% of the average annual wage in Maryland.

Fiscal Summary

State Effect: MHCC special fund expenditures and revenues could each increase by $75,600 in FY 2004. Future year estimates reflect annualization and inflation. Potential minimal special fund revenue increase for the Maryland Insurance Administration (MIA) from the $125 rate and form filing fee in FY 2004. Potential minimal general fund revenue increase or reduction from the State's 2% insurance premium tax on for-profit carriers, beginning FY 2004.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	-	-	-	-	-
SF Revenue	75,600	28,100	29,800	31,700	33,600
SF Expenditure	75,600	28,100	29,800	31,700	33,600
Net Effect	$0	$0	$0	$0	$0

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The Comprehensive Standard Health Benefit Plan (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 preexisting 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. With riders, the average premium was 95.4% of the affordability cap.

State Fiscal Effect:

Maryland Health Care Commission: MHCC special fund expenditures and revenues could each increase by $75,554 in fiscal 2004, which reflects the bill's October 1, 2003 effective date. This estimate reflects the one-time cost of $50,000 to hire a consultant to assist in designing the basic plan. It also reflects the cost of hiring one part-time health policy analyst to work with the consultant developing the basic plan, collect and maintain premium information for the basic plan, and assist in annual reporting requirements. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$20,270
Contractual Fee for Actuarial Consultant	50,000
Other Operating Expenses	5,284
Total FY 2004 State Expenditures	**$75,554**

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.

MHCC is specially funded through fees imposed on payors and providers. As a result of the increase in expenditures, MHCC would raise provider fees by an amount to exactly offset the increase in expenditures.

Maryland Insurance Administration: General fund revenues from the 2% premium tax imposed on for-profit carriers could either increase or decrease by a minimal amount, beginning fiscal 2004. If offering the basic plan in the small group market results in more policies being written, general fund tax revenues could increase. If offering the basic plan results in small employers dropping CSHBP for the less-expensive basic plan, premium revenues would decrease, resulting in a reduction in general fund revenues from the premium tax.

Small Business Effect: If the basic plan consists of fewer benefits than the standard plan, the addition of a basic plan to the small group market would benefit small employers with younger, healthier employees and hurt those with older, sicker employees. Employers with younger, healthier workers would tend to choose the basic plan with fewer benefits and less expensive premiums while employers with workers more likely to need extensive services would choose the more comprehensive coverage offered under the CSHBP's standard plan. Risk spreading across small group employers could be reduced, and the cost of the standard plan could increase much more rapidly than the cost of the basic plan.

If the basic plan offers similar benefits to the standard plan, but offers different employee cost-sharing requirements, the basic plan could benefit small group employers unwilling or unable to carry health insurance for their employees by offering a less expensive product. More employees would be covered by an insurance policy, thus reducing the number of uninsured in the small group market. Depending on the level of cost sharing required, however, some employees still may not be able to afford health care services.

Risk spreading across small group employers could be reduced in this scenario as well, although not to the extent that a different benefit package could cause.

Additional Information

Prior Introductions: None.

Cross File: SB 382 is listed as a cross file, but it is not identical.

Information Source(s): Department of Health and Mental Hygiene (Maryland Health Care Commission), Maryland Insurance Administration, Department of Legislative Services

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mdf/jr

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