

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 352 (Delegate Hurson)
Health and Government Operations

Nonprofit Health Service Plans - Submission of Premium Tax Exemption Reports

This bill requires a nonprofit health service plan that insures more than 10,000 covered lives and issues contracts for only one of type of health care service to demonstrate that the plan has used funds equal to the value of its premium tax exemption by participating in an activity that is intended to address community needs and priorities primarily through disease prevention and improvement of health status.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: If nonprofit health service plans fail to comply with the bill's requirements, Maryland Health Insurance Plan (MHIP) special fund revenues could increase by as much as \$333,797 in FY 2005. Future year estimates assume noncompliance and would reflect 14% annual health insurance inflation. No effect on expenditures.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: A nonprofit health service plan that insures more than 10,000 covered lives and provides only one of six specified services must file a premium tax exemption report with the Insurance Commissioner that demonstrates the plan has used funds equal

to the value of the premium tax exemption in a manner that services the public interest. The plan may demonstrate such service by: (1) providing health services to vulnerable or underserved populations such as Medicaid, Medicare, or Maryland Children's Health Program (MCHP) enrollees; (2) providing financial or in-kind support for public health programs; (3) employing underwriting standards in a manner that increases the availability of one or more health care services or products; (4) employing pricing policies that enhance the affordability of health care services and result in a higher medical loss ratio than that established by a comparable for-profit health insurer; (5) making donations of funds, property, or other resources that contribute to a community priority; (6) participating in health care cost containment activities; (7) offering health education, screening, and prevention services; or (8) serving the public interest by any method or practice approved by the Commissioner.

A nonprofit health service plan that insures more than 10,000 covered lives *and* provides two or more types of health care services must use the value of its premium tax exemption to provide the same types of services, to the extent the value of the premium tax exemption exceeds the subsidy required to fund the Senior Prescription Drug Program.

Current Law: A 2% tax is imposed on all direct insurance premiums written in the State. An exemption is given to certain types of carriers. In order for a nonprofit health service plan to be and remain exempt from the 2% premium tax, it must meet certain public service requirements. A nonprofit health service plan that insures fewer than 10,000 covered lives *or* issues contracts for only one type of health care service is exempt from the public service requirements. A nonprofit health service plan must file a premium tax exemption report each March 1 with the Insurance Commissioner outlining how the plan has used funds equal to the value of the tax exemption to provide public services. If the Commissioner determines that a nonprofit health service plan has not satisfied the public service requirements, the Commissioner must issue an order requiring the nonprofit health service plan to pay the premium tax. Any tax revenue collected as a result of this order must be deposited in the MHIP fund.

Background: The bill's provisions could subject two additional nonprofit health service plans to the premium tax exemption reporting and public service requirements: (1) Mid-Atlantic Vision Service Plan; and (2) Pennsylvania Dental Service Corporation (Delta Dental). In calendar 2002, the value of Mid-Atlantic Vision Service Plan's exemption was \$184,168, and the value of Delta Dental's exemption was \$72,678.

MHIP provides health insurance to medically-uninsurable individuals. It is funded primarily through premiums and an assessment on base hospital rates.

State Fiscal Effect: MHIP special fund revenues could increase by as much as \$333,797 in fiscal 2005 if the Insurance Commissioner determines that a nonprofit health service plan has not complied with public service requirements and orders the plan to pay its applicable premium tax. The combined value of the premium tax exemption for the two nonprofit health service plans that would be required to comply with public service requirements was \$256,846 in calendar 2002. If both plans failed to meet service requirements and were taxed on their premiums, MHIP special fund revenues could increase by as much as \$333,797 in fiscal 2005. This estimate is based on health care inflation since 2002. Future year estimates assume noncompliance and would reflect 14% annual health insurance inflation.

Additional Information

Prior Introductions: None.

Cross File: SB 96 (Senator Middleton) – Finance.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Budget and Management (Employee Benefits Division), Department of Legislative Services

Fiscal Note History: First Reader - February 3, 2004
ncs/jr

Analysis by: Susan D. John

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