HB 1457

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 1457 (Chairman, Health and Government Operations Committee)
(By Request – Departmental – Health and Mental Hygiene)

Health and Government Operations

Health Reform Act of 2004

This departmental bill permits a health insurer, nonprofit health service plan, or HMO (carrier) to offer a limited benefit plan in the small group market.

Fiscal Summary

State Effect: The Maryland Health Care Commission (MHCC) special fund expenditures and revenues could each increase by $50,000 in FY 2005. Potential minimal special fund revenue increase for the Maryland Insurance Administration (MIA) from the $125 rate and form filing fee in FY 2006. Future year estimates reflect inflation.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	$50,000	$50,500	$51,000	$51,500	$52,000
SF Expenditure	50,000	50,500	51,000	51,500	52,000
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: The Department of Health and Mental Hygiene (DHMH) has determined that this bill has minimal or no impact on small business (attached). Legislative Services disagrees with this assessment as discussed below.

Analysis

Bill Summary: MHCC must specify the benefits in the limited benefit plan (LBP) by July 1, 2005. LBP's actuarial value may not exceed 70% of the actuarial value of the Comprehensive Standard Health Benefit Plan (CSHBP) sold in the small group market.

A carrier that offers insurance in the small group market must offer CSHBP to each small employer. A carrier that offers insurance in the small group market must offer LBP, but only to those small employers: (1) that have not been covered by a health care benefit plan in the previous 12 months; and (2) for which the average annual wage of the employer's group does not exceed 75% of the average annual wage in the State. If the carrier offers LBP to a small employer, the carrier must offer the coverage to all eligible employees and dependents; and may not offer CBSBP coverage for any members of the employer's group.

A carrier may not offer additional benefits to LBP, except for additional benefits that lower the cost-sharing arrangements. Carriers must report to MHCC the number of LBP policies they have sold and the number of lives covered by those policies.

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 preexisting condition limitations. In order to maintain affordability, the average CSHBP premium rate per employee must remain below 10% 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 10% of Maryland's average annual wage, MHCC must modify CSHBP by increasing the cost-sharing arrangements or decreasing required benefits.

CSHBP has continued to stay under the affordability cap. At the end of 2002, Maryland's average annual wage was $39,360, the 10% cap was $3,960, and the average

premium rate was $3,813. However, MHCC predicts that the average premium will exceed the 10% affordability cap in calendar 2003 and 2004.

Options for Covering the Uninsured: In January 2004, MHCC reported to the General Assembly on a variety of options for covering the uninsured. One proposal included a limited benefit plan to be offered in the small group market. The primary advantage of this type of plan is its affordability. Employees who currently cannot afford to obtain and maintain health insurance coverage through CSHBP may be able to purchase a basic benefit plan. The increased access to health care could, in turn, help to improve the quality of health of these individuals. Conversely, such a plan also could be problematic. The availability of a basic benefit plan in the small group market could encourage risk segmentation. Such a plan is likely to be marketed to and chosen primarily by employers who have relatively healthy or young employees. Less healthy or older employees would need and choose CSHBP. As a result of this market segmentation, the healthier employees would no longer be part of the shared-risk pool and would no longer help subsidize the costs of less healthy or older employees. MHCC found that a basic benefit plan would need to offer substantially fewer benefits than CSHBP to discourage this type of adverse selection.

State Fiscal Effect: MHCC special fund expenditures and revenues could each increase by $50,000, beginning in fiscal 2005. MHCC must contract with an actuarial consultant to examine the mandated benefits in LBP.

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. Future year estimates reflect inflation.

Small Business Effect: In 2002, approximately 53,000 small businesses provided health insurance coverage to 448,000 covered lives in the small group market. Each policy carried an average 1.835 covered lives.

LBP could provide limited health coverage to employees, reducing the number of uninsured in the State. If used properly to access preventive care, LBP coverage could result in a healthier population.

On the other hand, if risk segmentation occurs because employers with healthy, young employees choose LBP, CSHBP premiums could increase. There are several provisions in the bill that discourage risk segmentation, including a crowd-out provision and income limitations. There are insufficient data at this time to reliably project the amount of risk segmentation, if any, that could occur in the small group market.

Additional Information

Prior Introductions: None.

Cross File: SB 907 (Chairman, Finance Committee) (By Request – Departmental – Health and Mental Hygiene) – Finance.

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

Fiscal Note History: First Reader - March 11, 2004
ncs/jr

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