

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 537

(Senator Astle)

Finance

Health Insurance - Small Group Market - Premium Rates

This bill modifies the community rating methodology for the small group market.

The bill applies to health benefit plans that are issued, delivered, or renewed in the State on or after October 1, 2004.

Fiscal Summary

State Effect: Minimal special fund revenue increase for the Maryland Insurance Administration (MIA) from the \$125 rate and form filing fee in FY 2005 only. No effect on expenditures.

Local Effect: None.

Small Business Effect: Meaningful. A small business' insurance premiums could significantly increase or decrease, depending on the health status of its employees and dependents.

Analysis

Bill Summary: The bill permits the community rating to be based on health status or tobacco use, and specifies the age brackets a carrier must use when determining rates based on age. Based on the age adjustment, a carrier may charge a rate that is 60% above or below the community rate. Based on the adjustments for health status or tobacco use, a carrier may charge a rate that is 25% above or below the community rate. A carrier

may not adjust the community rate for a health benefit plan based on changes in health status that occur after the health benefit plan is issued by the carrier.

A carrier may not limit or deny coverage based on a health status-related factor. A carrier may not knowingly provide coverage that discriminates against an employee or applicant for employment, based on the health status of the employee, applicant, or a dependent. A carrier may use standardized health statements, health screenings, and prior claims history to establish or modify premium rates.

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 10% of Maryland's average annual wage.

Carriers must use a community rate for a health benefit plan. The community rate must be based on the experience of all risks covered by that health benefit plan without regard to health status or occupation or any other factor not specifically authorized by law. The rate may only be adjusted for age and geographical location. Based on these adjustments, a carrier may charge a rate that is 40% above or below the community rate.

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 the Maryland Health Care Commission (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 average premium will exceed the 10% affordability cap in calendar 2003 and 2004.

Additional Information

Prior Introductions: HB 516 of 2001 would have permitted carriers to offer discounts to small groups for employees who did not use tobacco. The bill was reported unfavorably by the House Economic Matters Committee.

Cross File: HB 845 (Delegate Kach, *et al.*) – Health and Government Operations.

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

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ncs/jr

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