SB 342

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 342 (Senator Kelley, *et al.*)
Finance

Health Maintenance Organizations - Rate Increases - Disapproval by Insurance Commissioner

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This emergency bill requires the Insurance Commissioner to disapprove a rate increase for an HMO unless: (1) the HMO submits a rate filing to the Commissioner; (2) the Commissioner considers specified financial factors; and (3) the Commissioner holds a public hearing on the increase. The Commissioner must reconsider any rate increase not disapproved by the Commissioner on or after January 1, 2005 unless the Commissioner considered the following factors in determining not to disapprove the rate filing. An HMO rate increase must be based on: (1) the HMO's reported claims and other costs; (2) the HMO's surplus; (3) any of the HMO's capital projects; and (4) the compensation packages of the HMO executives.

Fiscal Summary

State Effect: The bill's requirements could be handled with existing Maryland Insurance Administration (MIA) budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: An HMO must file its rates and pay the applicable filing fee to the Insurance Commissioner. HMO rates may not be excessive, inadequate, or unfairly discriminatory in relation to the services offered. The Commissioner must disapprove any rates filed, or withdraw any previous approval, if the rates do not meet specified criteria. If the Commissioner does not disapprove a rate filing, the filing becomes effective 60 days after the Commissioner receives the filing.

Background: In January 2005, the General Assembly overrode Governor Ehrlich's veto of HB 2 of 2004, a medical malpractice bill which, in part, repealed the 2% premium tax exemption for HMOs and Medicaid managed care organizations (MCOs). The repeal is projected to increase general fund revenues by approximately $35.3 million in fiscal 2005 and $77.4 in fiscal 2006 to fund medical malpractice initiatives. Two days after the veto override, the Insurance Commissioner informed health insurers that they could pass the 2% tax on to their customers without getting customary prior approval of MIA simply by sending the Commissioner a letter. According to the January 13, 2005 bulletin released by MIA, the letter submitted to MIA would constitute a rate filing, which would be deemed approved upon receipt by MIA. MIA later indicated the rate filing would not be approved without a written response from MIA approving the rate filing.

As of January 27, 2005, three HMOs – MAMSI, Aetna, and Kaiser Permanente, planned to raise their rates either on March 1 or April 1. CareFirst BlueCross BlueShield had not filed notice of an increase.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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