

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 1014

(Senator Middleton)

Finance

Health and Government Operations

Health Insurance - Small Group Market - Self-Employed Individuals

This bill specifies that a self-employed individual or sole proprietor is not eligible for health insurance coverage in the small group market. The bill provides that a self-employed or sole proprietor who is enrolled in the small group market on September 30, 2005 may remain covered under specified conditions.

The Maryland Insurance Administration (MIA) and the Maryland Health Insurance Plan (MHIP) must submit a report to specified committees by September 1, 2008 on the effect of excluding self-employed individuals and sole proprietors from the small group market on the availability and affordability of health insurance in the small group market and the number of self-employed individuals and sole proprietors enrolled in MHIP.

The bill's provisions related to eligibility for small group coverage terminate September 30, 2008.

Fiscal Summary

State Effect: MHIP special fund expenditures and revenues could increase beginning in FY 2006. The bill's reporting provisions could be handled with existing MIA and MHIP budgeted resources.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: A sole proprietor or self-employed individual is considered a small employer and is eligible for health insurance coverage in the small group market. An individual must work and reside in the State and be organized as a sole proprietorship or any other legally recognized manner that a self-employed individual may organize. An individual is considered a small employer if the individual is engaged in a licensed profession through a professional corporation and who received health benefits through a professional association on or before June 30, 1994.

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.

MHIP is an independent unit of the Maryland Insurance Administration whose purpose is to decrease uncompensated care costs by providing access to affordable, comprehensive health benefits for medically-uninsurable residents.

Background: Self-employed individuals currently have the choice to purchase health insurance in the individual market subject to medical underwriting, or the small group market with guaranteed issuance, regardless of health status. Individuals who are healthy and require little medical care would generally purchase less-expensive policies in the individual market. Individuals with chronic health problems would not be able to find such favorable rates in the individual market, where medical underwriting may either significantly increase premium costs, or deny coverage outright. Accordingly, self-employed individuals with chronic health problems would tend to purchase policies in the small group market, where they are guaranteed coverage. This practice increases the number of chronically ill individuals in the small group market, thereby increasing premiums for all enrollees.

State Fiscal Effect: To the extent self-employed individuals enroll in MHIP since they would no longer be eligible in the small group market, MHIP special fund premium revenues and health care expenditures would increase beginning in fiscal 2006. It is unknown how many self-employed individuals would enroll in MHIP under the bill.

Small Business Effect: In 2003, approximately 51,000 small businesses provided insurance coverage to 452,000 covered lives in the small group market. Each policy

carried an average 1.789 covered lives. It is unknown how many of those covered are self-employed as is their health status. To the extent these individuals have disproportionately worse health, premiums in the small market could decrease due to an overall healthier population. It is assumed that the number of self-employed individuals and sole proprietors constitute a small portion of the small group market.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services

Fiscal Note History: First Reader - March 29, 2005
mp/jr Revised - Senate Third Reader - April 11, 2005
Revised - Enrolled Bill - April 20, 2005

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