Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 955 (Delegates O'Donnell and Edwards)
Ways and Means

Health Insurance - Premium Tax on Health Maintenance Organizations and Managed Care Organizations - Repeal

This bill exempts premiums paid to an HMO or a managed care organization (MCO) from the 2% premium tax. The bill alters: (1) the method for funding the Maryland Medical Professional Liability Insurance Rate Stabilization Fund; and (2) the allocations to the Rate Stabilization Account and the Medical Assistance Program Account in the fund.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: Premium tax revenues would decrease by approximately $77.4 million in FY 2006. General fund revenues would increase by approximately $2.07 million and Transportation Trust Fund (TTF) revenues would increase by approximately $654,000 from the imposition of the corporate income tax on HMOs and MCOs. Special fund expenditures would decrease by $31.5 million in FY 2006, and federal Medicaid fund expenditures would decrease by $20.8 million. Out-years reflect inflation and the differences in the spending under the bill and Chapter 5 of the 2004 special session.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	$2,070,347	$2,260,816	$2,468,815	$2,695,945	$2,943,972
Premium Tax Rev.	(77,441,056)	(85,066,478)	(93,522,770)	(102,906,310)	(133,325,037)
TTF Revenue	653,794	713,943	779,626	851,351	929,676
SF Expenditure	(31,500,000)	(31,500,000)	(93,853,970)	(85,391,778)	(112,758,412)
FF Expenditure	(20,800,000)	(28,100,000)	(97,753,970)	(83,591,778)	(112,758,412)
Net Effect	($22,416,915)	($22,491,719)	$101,333,611	$69,624,542	$96,065,435

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: After the Maryland Insurance Commissioner retains the 0.5% allowed from the Maryland Medical Professional Liability Insurance Rate Stabilization Fund for administrative expenses, the allocation of remaining money is as follows:

- in fiscal 2006, 2007, and 2008, $30,000,000 to the Rate Stabilization Account; and
- in fiscal 2006 and 2007, $18,500,000 to the Medical Assistance Program Account.

The bill also repeals the 5% limit on increases on a premium increase that an insurer may impose if it agrees to accept a disbursement from the Rate Stabilization Account.

Current Law: Chapter 5 of the 2004 special session repealed the exemption to the 2% premium tax for HMOs and MCOs and exempted HMOs and MCOs from the corporate income tax. Chapter 5 dedicated the revenue from the premium tax on HMOs and MCOs to the Maryland Medical Professional Liability Insurance Rate Stabilization Fund. The commissioner may enter into four one-year agreements with a medical professional liability insurer for disbursements from the fund's Rate Stabilization Account. For an agreement covering a 12-month period initiated on or after January 1, 2005, the base premium that an insurer may charge, less the value of the guarantee provided for each specialty, may not exceed the base premium for the previous 12-month period by more than 5%. For an agreement applicable to any other year, the insurer must maintain rates allowed under an approved rate filing for that period, less the value of the guarantee provided.

Disbursements from the Medical Assistance Program Account of $15,000,000 must be made to the Maryland Medical Assistance Program to increase both the fee-for-services to physicians and capitation payments to MCOs for procedures commonly performed by obstetricians, neurosurgeons, orthopedic surgeons, and emergency medicine physicians. Additional funds from the Medical Assistance Program Account must be used to increase payments to physicians and capitation payments to MCOs.

The commissioner may retain up to 0.5% of the money collected for the fund each year for administrative costs. After that the allocation is as follows:

- In fiscal 2005, $6,000,000 to the Medical Assistance Program Account.

- In fiscal 2006, $40,700,000 to the Rate Stabilization Account to reduce medical professional liability insurance premiums for agreements for calendar 2005 and $33,300,000 to the Medical Assistance Program Account.

- In fiscal 2007, $33,400,000 to the Rate Stabilization Account and $46,600,000 to the Medical Assistance Program Account.

- In fiscal 2008, $26,100,000 to the Rate Stabilization Account and the remaining amount to the Medical Assistance Program Account.

- In fiscal 2009, $18,800,000 to the Rate Stabilization Account and the remaining amount to the Medical Assistance Program Account.

- In fiscal 2010 and thereafter, the entire amount to the Medical Assistance Program Account.

State Revenues: Special fund revenues would decrease by the amount of the premium tax that would have been paid by HMOs and MCOs. In fiscal 2006, the premium tax attributable to HMOs and MCOs is projected to be $77,441,056. This estimate is based on the following facts and assumptions:

- in calendar 2003, actual HMO premiums were $1,776,085,353 and MCO premiums were $1,280,735,839;

- HMO premiums increase 12.4% annually to reflect health insurance inflation;

- MCO premiums increase 5.8% annually to reflect medical inflation in the Medicaid program; and

- revenues were adjusted to reflect fiscal years.

Future year revenue decreases reflect annualization and inflation.

Insurers that pay the insurance premium tax are exempt from the income tax. By exempting HMOs and MCOs from the premium tax, these insurers would again be subject to the corporate income tax. Corporate income tax revenues for these insurers are estimated to be $2,724,141 in fiscal 2006. Of that, $2,070,347 would be general fund revenue, and $653,794 would be TTF revenue.

State Expenditures: Special fund expenditures would decrease by $31.5 million in fiscal 2006, the difference between the amounts dedicated for the Rate Stabilization Account and the Medical Assistance Program Account under Chapter 5 and the amounts dedicated for the two accounts under the bill. Because the bill does not specify any expenditures beyond fiscal 2008, it is assumed that no money would be dedicated to either account in fiscal 2009 and beyond. The differences between the expenditures under Chapter 5 and the bill are shown in **Exhibit 1** below.

Exhibit 1
Expenditure Comparison of Chapter 5 and HB 955

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Chapter 5	$80,000,000	$80,000,000	$123,853,970	$102,391,778	$112,758,412
HB 955	48,500,000	48,500,000	30,000,000	0	0
Difference	**$31,500,000**	**$31,500,000**	**$93,853,970**	**$102,391,778**	**$112,758,412**

It is assumed that expenditures from the Medical Assistance Program Account would be matched by federal funds. **Exhibit 2** shows a comparison of the federal matching fund expenditures. Exhibit 2, like Exhibit 1, assumes that expenditures under the bill would be $0 in fiscal 2008 and beyond because no money is allocated to the Medical Assistance Program Account after fiscal 2007 under the bill.

Exhibit 2
Federal Fund Expenditure Comparison Chapter 5 and HB 955

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Chapter 5	$39,300,000	$46,600,000	$97,753,970	$83,591,778	$112,758,412
HB 955	18,500,000	18,500,000	0	0	0
Difference	**$20,800,000**	**$28,100,000**	**$97,753,970**	**$83,591,778**	**$112,758,412**

The Governor's proposed budget for fiscal 2006 includes a $30 million general fund appropriation to the Dedicated Purpose Fund to pay the cost of subsidizing medical professional liability insurance rates for calendar 2005. The fiscal 2006 proposed budget also includes an $18.5 million general fund appropriation to the State's Medicaid program specifically for the purpose of increasing physician reimbursements.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Judiciary (Administrative Office of the Courts), Maryland Health Claims Alternative Dispute Resolution Office, Department of Health and Mental Hygiene, Comptroller's Office, Maryland Insurance Administration, Department of Legislative Services

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