Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1121 (Delegate Elliott, *et al.*)
Health and Government Operations

Health Insurance Premium Subsidy Program

This bill creates a Health Insurance Premium Subsidy Program in the Department of Health and Mental Hygiene (DHMH) to provide a subsidy for eligible lower-income individuals and families to assist with the purchase of health insurance coverage. The bill also imposes a $1,000 State tax surcharge on individuals and couples who earn more than 500% of the federal poverty guidelines (FPG) and who do not have health care coverage. Monies raised from the surcharge are used to fund the subsidy for lower-income, uninsured individuals and families.

The bill takes effect July 1, 2006. The subsidy program and tax surcharge take effect January 1, 2007.

Fiscal Summary

State Effect: Special fund revenues from the tax surcharge could be $19.5 million in FY 2008. Health Insurance Premium Subsidy Fund expenditures could be $19.5 million in FY 2008. Maryland Children's Health Program (MCHP) expenditures could increase by $10.8 million (50% general funds, 50% federal funds) in FY 2008 to enroll children of eligible subsidy program enrollees. Future year estimates reflect annualization, inflation, and a decline in tax surcharge revenues.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	$0	$19.5	$19.3	$19.1	$18.9
GF Expenditure	0	5.4	11.5	12.2	13.0
SF Expenditure	0	19.5	19.3	19.1	18.9
FF Expenditure	0	5.4	11.5	12.2	13.0
Net Effect	$0	($10.8)	($22.9)	($24.4)	($26.0)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill establishes a Health Insurance Premium Subsidy Fund. The fund consists of (1) monies collected from the $1,000 State tax surcharge on higher-income, uninsured individuals and couples; (2) money appropriated in the State budget; (3) investment earnings; and (4) any other money from any other source accepted for the benefit of the fund. The fund may be used for: (1) health insurance premium subsidies; and (2) the direct costs of administering the program. The fund is subject to audit by the Office of Legislative Audits.

Subsidy Program: The purpose of the program is to (1) provide an incentive for individuals and families with moderate income to purchase health insurance; (2) assist individuals and families with moderate income to afford health insurance; (3) promote access to health care services, particularly preventive health care services that might reduce the need for emergency room care and other acute care services; and (4) reduce uncompensated care in hospitals and other health care settings.

To be eligible for the program, an individual: (1) must have a household income at or below 300% of FPG; (2) may not have access to an employer-sponsored plan or group health insurance plan, except under a continuation of benefits provision; (3) may not have been covered by health insurance, except as a dependent, for at least six consecutive months at the time of application; (4) must be a State resident; (5) must agree to pay insurance premiums and adhere to other required provisions of a health insurance policy; and (6) must satisfy any other eligibility requirements established by DHMH. An individual is eligible to participate for up to 24 months.

Beginning January 2008, DHMH must provide a subsidy for a health insurance policy purchased by an eligible individual. The subsidy is to be provided through a voucher. For the first 12 months of participation, the subsidy is equal to the lesser of 40% of the health insurance premium or $100 for individual coverage or $200 for family coverage. For the last 12 months of participation, the subsidy is equal to the lesser of 20% of the health insurance premium or $50 for individual coverage or $100 for family coverage.

DHMH must also enroll the children of an eligible individual in MCHP, to the extent that children meet eligibility requirements, and resources are available through the annual State budget.

Tax Surcharge: If the federal adjusted gross income of an individual exceeds 500% of the FPG applicable to the individual's family size, the individual is subject to a surcharge of $1,000, unless the individual and each dependent child had health care coverage for at least six months of the taxable year and on December 31 of the taxable year. For a married couple filing a joint return, if the joint federal adjusted gross income of the couple exceeds 500% of FPG, the married couple is subject to a surcharge of $2,000, unless each spouse and each dependent child of the married couple had health care coverage for at least six months of the taxable year and on December 31 of the taxable year. If only one spouse in a married couple and each dependent child had health care coverage for at least six months of the taxable year and on December 31 of the taxable year, the couple is subject to a $1,000 surcharge. The surcharge is applicable to tax year 2007 and beyond.

The surcharges do not apply to a nonresident, including a nonresident spouse or a nonresident dependent. The Comptroller must provide exceptions for individuals: (1) just entering the workforce; (2) recently moving into the State; or (3) who are unemployed for four or more consecutive weeks. The Comptroller must distribute these surcharge revenues to the Health Insurance Premium Subsidy Fund.

An employer must base withholding for an employee on zero exemptions if the compensation of the employee is expected to exceed 500% of the applicable FPG level in any tax year and the employee does not have health care coverage from the employer or has not presented the employer with a certification of other health care coverage. The Comptroller must widely publicize the tax surcharge requirements to provide an adequate opportunity for individuals to obtain health care coverage and avoid a surcharge.

Current Law: There is no subsidy program to assist lower-income individuals with obtaining health insurance.

There are several State-run programs that assist lower-income individuals with obtaining health care. An adult may qualify for Medicaid if the adult is: (1) aged, blind, or disabled; (2) in a family where one parent is absent, disabled, unemployed, or underemployed; or (3) a pregnant woman. Adults must also have very low incomes to qualify for Medicaid (about 46% FPG). MCHP covers children with family incomes up to 300% FPG and pregnant women with incomes up to 250% FPG.

State Revenues: Special fund revenues could increase by an estimated $19,500,000 in fiscal 2008 from the tax surcharge imposed on individuals and married couples with adjusted gross incomes of 500% FPG or higher. This estimate is based on the following facts and assumptions:

- about 129,000 individuals and couples with incomes 500% FPG or more do not have health insurance;
- 103,000 (75%) will obtain health insurance to avoid the surcharge;
- 26,000 will be obligated to pay the $1,000 surcharge; and
- 19,500 will actually pay the surcharge (75% compliance with new law).

The bill also imposes a $1,000 surcharge on married couples with adjusted gross income at 500% FPG or more and where only one spouse has insurance coverage. There are insufficient data to reliably estimate the number of couples to whom this surcharge could apply; however, it is expected to increase revenues by a significant amount.

Future year estimates reflect a 1% reduction in revenues as taxpayers become aware of the surcharge and either purchase health insurance to avoid the surcharge or employ other tax avoidance strategies.

State Expenditures: Total State expenditures increase by $30.3 million in fiscal 2008 from the subsidy program and the enrollment of eligible children in MCHP.

Health Insurance Premium Subsidy Fund: Special fund expenditures increase by at least $19,500,000 in fiscal 2008 to provide subsidies to lower-income individuals. It is assumed that the fund would expend all monies received to provide subsidies. If half the individuals who applied were married and half were single, $19.5 million could provide insurance subsidies for approximately 10,833 individuals and couples. Future year estimates reflect a 1% reduction in subsidy amounts as the tax surcharge brings in less money.

MCHP Enrollment: Expenditures could increase by $10,758,960 (50% general funds, 50% special funds), beginning in fiscal 2008, from the enrollment of eligible children in the MCHP program. This estimate assumes:

- 11,720 children enroll in MCHP as a result of their parents' participation in the subsidy program;
- each child costs $1,836 to cover; and
- enrollment begins January 1, 2007.

Future year estimates reflect annualization and 6.5% medical inflation in the Medicaid program.

The Office of Legislative Audits could audit the Health Insurance Premium Subsidy Fund once every three years using existing budgeted resources.

Additional Comments:

Exhibit 1
2006 Federal Poverty Guidelines

Family Size	300% FPG	500% FPG
1	$29,400	$49,000
2	$39,600	$66,000
3	$49,800	$83,000

Additional Information

Prior Introductions: None.

Cross File: None.

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

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