SB 651

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 651 (Senator Edwards)
Finance Economic Matters

Medical Malpractice Liability Insurance - Garrett County Memorial Hospital - Subsidy for Family Practitioners Who Also Perform Obstetrical Services

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This bill increases the subsidy from the Rate Stabilization Account for medical professional liability insurance policies issued to family practitioners who have staff privileges and provide obstetrical services at Garrett County Memorial Hospital. The amount of the increase is 75% of the difference between the policyholder's premium for calendar 2007, 2008, and 2009 and the premium that otherwise would be payable in those years if the policyholder was not providing obstetrical services. The bill requires that money necessary to pay for the increased subsidies to remain in the Rate Stabilization Account.

The bill takes effect July 1, 2007 and terminates June 30, 2010.

Fiscal Summary

State Effect: The bill reallocates money that would have been allocated to Maryland Medical Assistance Program (Medicaid) payments in FY 2010 to pay for medical professional liability insurance subsidies in approximately the following amounts: $176,000 in FY 2008, $176,000 in FY 2009, and $428,000 in FY 2010.

Local Effect: The bill would not affect the finances or operations of Garrett County.

Small Business Effect: None.

Analysis

Current Law: Money is allocated from the Rate Stabilization Fund to the Rate Stabilization Account to pay for rate reductions, credits, or refunds to health care providers for their medical professional liability insurance in the following amounts: $52 million for calendar 2005, $45 million for calendar 2006, $35 million for calendar 2007, and $25 million for calendar 2008.

The subsidy provided to each policyholder is the amount of a premium increase that is greater than 5% of the approved rates in effect one year before the policy's effective date for policies that took effect on or after January 1, 2005 but before January 1, 2006.

For policies that took effect after January 1, 2006, the amount of the subsidy is calculated by a rate stabilization factor. The factor is a percentage of the policyholder's premium for the prior year that equals the quotient, measured as a percentage of the balance of the Rate Stabilization Account for the current calendar year divided by the aggregate amount of premiums for medical professional liability insurance that would have been paid by health care providers at the approved rate during the prior calendar year. Premium amounts that result from surcharges, discounts, or the absence of surcharges or discounts are not part of the subsidy calculation.

For the 2006 policy year, the rate stabilization factor was 25%. For the 2007 policy year, the rate stabilization factor is 17%.

Background: In a bulletin issued in December 2006, the Maryland Insurance Administration (MIA) gave the following instructions for insurers to follow in calculating the subsidy amount for each policyholder:

1. Determine the rating factors applicable to the policyholder at the time that the 2007 Subsidy Year policy was issued (*e.g.*, medical specialty, applicability of discounts, etc., exclusive of those factors related to loss experience). These are the *2007 Subsidy Year Rating Factors*.

2. Calculate the amount of premium that would have been charged to the policyholder in the current year (Subsidy Year 2007) by applying the policyholder's *2007 Subsidy Year Rating Factors* to the approved rates in effect in 2006. This is the *2006 Rate Premium*.

   Please note that the *2006 Rate Premium* may be different than the actual premium charged to the policyholder in 2006. This is because the *2006 Rate Premium* should be computed using the policyholder's *2007 Subsidy Year Rating Factors*, which may have changed since the time the previous policy was issued. For example, a policyholder may have changed from working part time to full time, or may have changed specialties.

3. Premiums resulting from the imposition of a surcharge due to the policyholder's loss experience are not included in the *2006 Rate Premium*, since these amounts are not subject to the State Subsidy.

4. Premium increases resulting from a change in any discount due to the policyholder's loss are eliminated from the *2006 Rate Premium* by including any discounts on the *2006 Rate Premium* at the loss-related discounts in effect during *Subsidy Year 2006*, rather than those in effect during Subsidy Year 2007. Any changes in premium as the result of increases in discounts due to the policyholder's loss experience would be included in the *2007 Subsidy Year Rating Factors*.

5. Multiply the *2006 Rate Premium* by the *2007 Subsidy Factor*. This is the *2007 State Subsidy*.

6. Subtract the *2007 State Subsidy* from the 2007 premium that would have been billed to the policyholder, calculated in accordance with the 2007 rates and 2007 rating factors. This is the *2007 Subsidized Premium*.

State Expenditures: The Rate Stabilization Fund was established to retain health care providers in the State by allowing insurers to charge lower premium rates for medical professional liability insurance and increasing Medicaid payment rates for physicians.

Money in the fund is then transferred to one of two accounts: the Rate Stabilization Account and the Medical Assistance Program Account. Money in the Rate Stabilization Account is used to pay insurers for subsidies to health care providers. Money in the Medical Assistance Program Account is used to increase Medicaid payments to health care providers.

The Rate Stabilization Account is projected to have a balance of $14.2 million at the end of fiscal 2007 after the payment of 2006 subsidies, which will carry forward into fiscal 2008 for 2007 subsidies. If not needed for 2007 subsidies, the money could be used in fiscal 2009 for 2008 subsidies. Any money remaining in the Rate Stabilization Account after fiscal 2009 is slated to be transferred to the Medical Assistance Program Account for Medicaid payments.

MIA advises that there are currently two medical professionals who would qualify for the enhanced subsidy and that two more may also decide to provide the service and become eligible. The average difference between the enhanced subsidy under the bill and the existing subsidy is assumed to be $44,000 for each provider annually. Under this assumption, special fund expenditures for subsidies could increase by $176,000 in fiscal 2008 and 2009 for enhanced subsidies in calendar 2007 and 2008.

The bill requires money sufficient to pay for full subsidies for these medical professionals in 2009 to stay in the Rate Stabilization Account notwithstanding its prior allocation to the Medical Assistance Program Account. Based on current premium levels, the difference between a premium for a professional providing obstetrical services and one who does not is approximately $107,000. Based on this, special fund expenditures to pay subsidies could be approximately $428,000 in fiscal 2010 for four providers.

Additional Information

Prior Introductions: None.

Cross File: HB 372 (Delegates Beitzel and Hammen) – Economic Matters.

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

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