

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 1057

(Delegate Mizeur, *et al.*)

Health and Government Operations

Finance

Health Insurance - Family Coverage Expansion Act

This bill requires individual and group health insurance policies and contracts that allow family coverage to provide, at the request of an insured or group policy holder, the same benefits and eligibility guidelines that apply to other covered dependents for a domestic partner or the child dependent of a domestic partner of the insured.

The bill also requires insurers, nonprofit health service plans, and HMOs (carriers) to allow a child dependent to remain on an insured's plan until age 25.

The bill takes effect June 1, 2007 and applies to all policies, contracts, and health benefit plans issued, delivered, or renewed on or after January 1, 2008.

Fiscal Summary

State Effect: Expenditures for the State employee and retiree health insurance program (State plan) could increase by \$4.3 million in FY 2009 (60% general funds, 20% federal funds, 20% special funds) to extend coverage for child dependents. Future years reflect inflation. To the extent the Department of Budget and Management (DBM) extends coverage to domestic partners and the child dependents of domestic partners, expenditures for the State plan could further increase by a significant amount. Potential minimal increase in special fund revenues for the Maryland Insurance Administration (MIA) from the \$125 rate and form filing fee in FY 2008.

| (\$ in millions) | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|------------------|---------|---------|---------|---------|---------|
| SF Revenue | - | - | - | - | - |
| GF Expenditure | 0 | 2.6 | 2.8 | 3.1 | 3.3 |
| SF Expenditure | 0 | .9 | .9 | 1.0 | 1.1 |
| FF Expenditure | 0 | .9 | .9 | 1.0 | 1.1 |
| Net Effect | \$0 | (\$4.3) | (\$4.7) | (\$5.1) | (\$5.6) |

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

Local Effect: Potentially significant increase in health insurance expenditures to cover child dependents under the bill.

Small Business Effect: Potentially significant increase in health insurance expenditures to cover child dependents under the bill.

Analysis

Bill Summary:

Domestic Partner Coverage: An insurer, nonprofit health service plan, or HMO may require a group policy holder that requests coverage for a domestic partner or the child dependent of a domestic partner to provide proof of eligibility for coverage. The Insurance Commissioner must adopt regulations to implement the bill's requirements regarding coverage of domestic partners and their children.

Continuation of Coverage for Child Dependents: A "child dependent" means an unmarried child, stepchild, adopted child, grandchild, child placed for legal adoption, or other child entitled to dependent coverage who is under the age of 25, unmarried, and meets the definition of a dependent under federal law and regulation. Each health insurance policy or contract issued in Maryland that provides coverage for dependents must (1) include coverage for a child dependent; (2) provide the same benefits to a child dependent that are available to any other covered dependent; and (3) provide benefits to a child dependent at the same rate or premium applicable to any other covered dependent. The bill does not limit or alter any right to dependent coverage or continuation of coverage otherwise provided under law.

Carriers must notify a parent, at least 60 days before a child covered under the parent's policy turns 18 years of age, of the criteria under which a child may remain eligible for coverage as a child dependent. The Insurance Commissioner must establish and publish by bulletin the notice to be given.

The bill further requires the Maryland Health Care Commission (MHCC), in consultation with the Department of Health and Mental Hygiene and MIA, to study the high rate of uninsurance among young adults ages 19 to 29 and recommend ways to increase health insurance coverage for this population. MHCC must report to specified committees of the General Assembly by November 1, 2007.

The bill may not be construed in any way that conflicts with the public policy of the state that recognizes a valid marriage to be only a marriage between a man and a woman or to establish a civil union in this State.

Current Law: Notwithstanding any limiting age stated in a health benefit policy, a child, grandchild, or individual for whom guardianship is granted must continue to be covered under the policy as a dependent of a covered individual if the child, grandchild, or individual under guardianship is unmarried, chiefly dependent for support on the covered individual, and is incapable of self-support because of a mental or physical incapacity. Generally, children are allowed to remain on the policy of a parent until age 19 or until age 23 if the child is a full-time student.

The Secretary of Budget and Management administers the State plan and specifies the types of benefits as well as the types or categories of State employees and retirees who may participate. The enrollment of dependent children is limited by specified factors including age and marital status of the child, legal guardianship, college enrollment status, or disability. State regulations cover dependent children through the end of the year in which they turn age 19. Thereafter, the dependent child may continue coverage through age 23 as long as she/he is a full-time student, or continue coverage indefinitely if certified as disabled.

Employers that provide health benefits to employees, their spouses, and certain dependents may provide such benefits on a tax-free basis. To provide tax-favored health benefits, qualifying dependents must meet certain requirements as specified in federal law and regulation. A number of employers, including the State of Maryland, provide or sponsor health benefits plans only to the extent that such plans are tax-favored and do not result in taxable income for the employer and employee. Adding individuals who do not meet federal requirements can result in the loss of tax-favored status for a plan, which means that all participants would have taxable income on amounts contributed to the plan on a pre-tax basis.

Background: The State plan currently covers 100,000 State employees and retirees and an additional 150,000 spouses and dependent children.

State Fiscal Effect:

Domestic Partner Coverage: Coverage for domestic partners and the child dependents of domestic partners under the bill is at the request of the insured or the group policy holder of a group policy or contract. Accordingly, this provision would have no fiscal impact on the State plan, unless the State opted to provide these benefits. DBM has not yet calculated the costs of adding this group of dependents to the State plan. An actuarial evaluation would be required to determine the cost, which is anticipated to be significant.

Continuation of Coverage for Child Dependents: Expenditures for the State plan could increase by as much as \$4.3 million in fiscal 2009 (60% general funds, 20% federal funds, 20% special funds) to extend coverage to child dependents beyond the current limiting age of the State plan (age 19 or age 23 if a full-time student), which accounts for the January 1, 2008 effective date of this provision. Policies under the State plan are written on a fiscal year basis meaning that the bill would not affect the State plan until July 1, 2008 (fiscal 2009). The information and assumptions used in calculating the estimate are stated below:

- DBM estimates that 9,966 child dependents would be eligible to remain on the plan in fiscal 2008;
- approximately 75% of eligible child dependents (7,475) will gain coverage elsewhere (*i.e.*, marriage or employment);
- 2,492 eligible child dependents will remain on the plan at a total annual cost of \$2,154 per individual; and
- the State will pay 80% of the cost (\$1,723) for each child dependent, while employees will pay 20% of the cost (\$431).

Future year expenditures reflect 9% inflation.

Potential minimal special fund revenue increase for MIA from the \$125 rate and form filing fee in fiscal 2008. Additional resources may be required to review forms and ensure compliance with the mandate, depending on the volume of forms received for review.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 14, 2007
mll/jr Revised - House Third Reader - April 3, 2007
Revised - Correction - April 5, 2007
Revised - Enrolled Bill - May 8, 2007

Analysis by: Jennifer B. Chasse

Direct Inquiries to:
(410) 946-5510
(301) 970-5510