Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 619 (Senators Pipkin and Jacobs)
Finance

Health Insurance - Low-Income Health Insurance Premium Support Fund

This bill establishes a Low-Income Health Insurance Premium Support Fund in the Maryland Health Care Commission (MHCC) to assist low-income citizens purchase health insurance. The bill requires the Health Services Cost Review Commission (HSCRC) to establish a methodology to transfer 85% of the funds provided in hospital rates for the cost of uncompensated care to the fund.

Fiscal Summary

State Effect: MHCC special fund expenditures and revenues could increase by $292,500 in FY 2008 for administrative costs. The bill's requirements on HSCRC could be handled with existing budgeted resources. No effect on revenues. Future years reflect inflation.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	$292,500	$350,600	$368,800	$388,200	$408,800
SF Expenditure	292,500	350,600	368,800	388,200	408,800
Net Effect	$0	$0	$0	$0	$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 fund is a special, nonlapsing fund consisting of moneys from hospital rates. An individual is eligible for a subsidy from the fund if the individual: (1) has a family income below 300% of federal poverty guidelines (FPG); and (2) is not eligible for the Medicaid program. Subsidies are provided on a sliding scale based on income. By January 1 of each year, MHCC must report on: (1) the methodology used to distribute subsidies from the fund during the previous fiscal year; (2) the number of individuals who received subsidies from the fund and the amount of the subsidy received; and (3) any recommendations to alter the administration of the fund, including recommendations to modify funding.

The bill repeals the requirement that HSCRC assess the underlying causes of hospital uncompensated care and make related recommendations to the General Assembly. The bill further repeals HSCRC's authority to establish alternative methods for financing the reasonable total costs of hospital uncompensated care.

Current Law/Background:

Uncompensated Care Funding in Hospital Rates: HSCRC administers an uncompensated care fund that makes payments to acute care hospitals to defray their share of uncompensated care. The fiscal 2008 budget for the fund is $82 million. These funds are collected from a fee imposed on the gross profits of hospitals and redistributed through rates to hospitals based on their proportional share of uninsured individuals treated. In addition, HSCRC builds an uncompensated care component into all hospital rates. This includes both charity care and bad debt. For fiscal 2007, hospitals received $701 million for uncompensated care through the rate structure.

Reimbursement for uncompensated care is made possible through Maryland's all-payor rate setting system. This system is based on a federal waiver that permits Medicare participation. It is unclear whether diverting funds from the hospital rate setting system would be permissible under the waiver. It is assumed that HSCRC would require approval from the federal Centers for Medicare and Medicaid Services to redirect any funds from the system.

Medicaid: 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). The Maryland Children's Health Program (MCHP) covers children with family incomes up to 300% of FPG and pregnant women with incomes up to 250% FPG.

The Insured and Uninsured Under 300% FPG: In 2008, approximately 412,000 uninsured adults in Maryland will have incomes below 300% FPG. Children in families at this income are eligible for the MCHP program. An additional 841,000 Marylanders with incomes below 300% FPG have private health insurance coverage.

Subsidized Insurance: Massachusetts health care reform plan included a subsidized health insurance component. Premiums subsidies are not provided directly to individuals, but rather individuals "buy-in" to a health insurance program that is substantially subsidized by the State. The Commonwealth Care Health Insurance Program, launched in October 2006, provides subsidized coverage for uninsured individuals with incomes below 300% FPG. Premiums are on a sliding scale based on income, with no deductibles. As of January 2007, the lowest available monthly premiums per adult enrollee range from $18 to $106 based on income. The program is expected to provide subsidized coverage to 207,500 residents. As of December 2006, 47,000 individuals have been determined eligible and 28,875 individuals have enrolled.

A substantial portion of funding for Massachusetts' plan comes from the state's uncompensated care pool, which pays hospitals and community health centers for eligible services provided to low-income uninsured and underinsured individuals. The value of the fund is approximately $1 billion, including about $385 million in federal matching funds. On October 1, 2007, the uncompensated care pool will become the Massachusetts Health Safety Net Care Fund, administered by the state's Office of Medicaid. As more uninsured individuals become covered through the state's reforms and uncompensated care drops, these funds will be shifted into the health insurance subsidy program.

State Fiscal Impact: Legislative Services estimates that MHCC will incur the following personnel expenses beginning in fiscal 2008 for seven new full-time positions to administer the fund and distribute the subsidies, accounting for the bill's October 1, 2007 effective date. The bill does not specifically authorize administrative expenses to be paid from the fund; therefore, it is assumed that the expenses would be covered with MHCC special fund revenues.

Salaries and Fringe Benefits	$236,199
Other Operating Expenses	56,258
Total	**$292,457**

This estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Comments: To the extent that low-income uninsured individuals receive subsidies from the fund and purchase health insurance, the number of uninsured in the State and uncompensated care expenses would decrease.

The Maryland hospital industry could face substantial loss of revenues due to the redirection of 85% of funds provided in hospital rates for the cost of uncompensated care to the fund. The amount of lost revenues depends upon the amount of uncompensated care savings that results from subsidies provided from the fund. To the extent that uncompensated care savings are less than 85% of uncompensated care funds provided in hospital rates, the hospital industry could face a net loss of as much as $600 to $700 million annually.

Exhibit 1 displays the 2007 federal poverty guidelines by family size for 300% FPG.

Exhibit 1
2007 Federal Poverty Guidelines for 300% FPG

Family Size	300% FPG
1	$30,630
2	$41,070
3	$51,510
4	$61,950

Additional Information

Prior Introductions: None.

Cross File: HB 1076 (Delegates Eckardt, *et al.*) – Health and Government Operations.

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

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