Department of Legislative Services
Maryland General Assembly
2007 Special Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 6 (The President) (By Request – Administration)
Finance Health and Government Operations

Working Families and Small Business Health Coverage Act

This emergency Administration bill • expands eligibility for Medicaid to parents and caretaker relatives with a dependent child living in the home and annual household incomes up to 116% Federal Poverty Guidelines (FPG); • incrementally expands eligibility for Medicaid benefits to childless adults with annual household incomes up to 116% FPG, including current Primary Adult Care Program enrollees; • establishes a Small Employer Health Benefit Plan Premium Subsidy Program; and • provides funding for the provision of health care services in Prince George's County under specified circumstances.

Fiscal Summary

State Effect: In FY 2008, the Department of Human Resources could incur $3.0 million in administrative expenses (50% general funds/50% federal funds) to prepare for the Medicaid expansion. In FY 2009, Medicaid expenditures increase by $153.3 million (45% federal funds/30% special funds/25% general funds) to expand coverage to parents and caretaker relatives. Special fund expenditures include $30 million annually to fund the Small Employer Health Benefit Plan Program. Special fund revenues increase by $75 million to reflect a transfer from the Maryland Health Insurance Plan Fund. Future years reflect special fund revenues and expenditures related to the hospital assessment, incremental expansion of Medicaid benefits to childless adults, enrollment growth, administrative costs, and inflation.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	$0	$75.0	$55.5	$69.4	$127.6	$188.4
GF Expend.	1.5	38.7	109.7	155.0	283.3	275.2
SF Expend.	0	75.0	55.5	69.4	127.6	188.4
FF Expend.	1.5	71.7	119.1	175.5	329.5	348.1
Net Effect	($3.0)	($110.4)	($228.7)	($330.5)	($612.7)	($623.2)

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

Local Effect: Minimal to none.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Analysis

Bill Summary:

Medicaid: Eligibility for Medicaid is expanded to parents, caretaker relatives, and childless adults with incomes up to 116% FPG effective July 1, 2008. The current Primary Adult Care Program (PAC) is repealed as the population served by the program gains eligibility for Medicaid. Full Medicaid benefits will be provided to parents and caretaker relatives; however, the Department of Health and Mental Hygiene is authorized to cap enrollment and limit the benefit package for childless adults.

In fiscal 2009, benefits for childless adults must be at least equivalent to those offered under PAC. The bill provides that, to the extent funds are provided in the State budget, benefits for childless adults will be phased in as follows:

- in fiscal 2010, specialty medical care and hospital emergency department services;
- in fiscal 2011, outpatient hospital services;
- in fiscal 2012, inpatient hospital services with limits either on benefits or the number of individuals receiving benefits; and
- in fiscal 2013, full Medicaid benefits, with limits either on benefits or the number of individuals receiving benefits.

In fiscal 2010 through 2012, it is the intent of the General Assembly that benefit expansion occur upon attainment of specified combined total general fund and Education Trust Fund revenues as submitted in the Governor's proposed budget. Coverage of childless adults and the offering of a limited benefit package are also contingent upon a waiver from the federal Centers for Medicare and Medicaid Services.

Small Employer Health Benefit Plan Premium Subsidy Program: The bill establishes a program administered by the Maryland Health Care Commission, in consultation with DHMH, that will provide subsidies to small employers and their employees if the employer has *not* offered a small employer health benefit plan for at least 12 consecutive months.

To be eligible for the subsidy, a small employer must, at the time of initial application for the subsidy • have from two to nine eligible employees; • meet salary and wage requirements determined by MHCC; • offer a small employer health benefit plan to its employees; • establish a certain payroll deduction plan; • agree to offer a wellness benefit, as required by MHCC; and • meet any other requirements established by MHCC.

A subsidy may not exceed the lower of 50% of the employer or employee contribution or an amount established by MHCC. Subsidies may be calculated on a sliding scale and altered according to the number of employees. A small employer that provides a small employer health benefit plan that is compatible with a health savings account may be eligible for a subsidy under specified circumstances. The total amount of subsidies provided is subject to the limitations of the State budget.

Uncompensated Care Savings: On or after July 1, 2009, if the expansion of health care coverage under the bill reduces hospital uncompensated care, the Health Services Cost Review Commission • shall determine the savings realized in averted uncompensated care for each hospital individually; and • may assess an amount in each hospital's rates equal to a portion of the savings realized for that hospital. Each hospital must remit any assessment to the Health Care Coverage Fund. HSCRC and DHMH have to develop a mechanism to calculate the amount of averted hospital uncompensated care. HSCRC must ensure that any savings not subject to the assessment be shared equitably among purchasers of hospital services.

Health Care Coverage Fund: The bill establishes a Health Care Coverage Fund to be used only for expanding Medicaid eligibility for parents, caretaker relatives, and childless adults up to 116% FPG, the Small Employer Health Benefit Plan Premium Subsidy Program, and supporting health care services in Prince George's County.

The fund consists of • $75 million from the Maryland Health Insurance Plan Fund, which may be transferred to the fund by budget amendment in fiscal 2009; • monies collected from any HSCRC hospital assessment of uncompensated care savings achieved under the bill; • investment earnings; and • any other monies from any other source accepted for the benefit of the fund. Funds may be appropriated from the fund by budget amendment in fiscal 2009 for the expansion of Medicaid eligibility and the Small Employer Health Benefit Plan Premium Subsidy Program. In fiscal 2011 through 2013, up to $10.0 million per year may be transferred from the fund to support health care services in Prince George's County. Money from the fund shall supplement and may not supplant funding for Medicaid. The fund is subject to audit by the Office of Legislative Audits.

Health Care Services in Prince George's County: The bill authorizes the provision of an annual operating grant of up to $10.0 million to an independent entity with authority over

the facilities currently operated by and services currently provided by Dimensions Healthcare System in fiscal 2011 through 2013. Monies transferred from the MHIP fund or collected from an assessment by HSCRC on hospitals may not be used for the grants. The grants may only be provided under specified circumstances.

Insurance Producers: The bill requires licensed insurance producers, in connection with the sale, solicitation, or negotiation of a health benefit plan to a small employer, to provide information about wellness benefits and advise the small employer to consult a tax advisor about the tax advantages of a payroll deduction plan.

Wellness Benefits: By March 1, 2008, MHCC must propose regulations to • specify the components of wellness benefits offered under Title 15, Subtitle 12 of the Insurance Article that include incentives or differential cost sharing; and • require small employers receiving a subsidy under the Small Employer Health Benefit Plan Premium Subsidy Program to purchase a wellness benefit. The bill requires prominent carriers and permits other carriers to offer a wellness benefit in the small group market.

Access to Long-term Care Services: The bill states that it is the intent of the General Assembly, as part of the overall expansion of Medicaid eligibility, to increase access to long-term care services for certain financially eligible individuals who currently do not meet the Medicaid standard of care requirement.

Current Law/Background:

Medicaid, the Maryland Children's Health Program (MCHP), and PAC: An adult may qualify for Medicaid if the adult is • aged, blind, or disabled; • in a family where one parent is absent, disabled, unemployed, or underemployed; or • 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. PAC provides primary care, pharmacy, and outpatient mental health benefits to individuals aged 19 and over with incomes up to 116% FPG. For fiscal 2008, PAC enrollment is approximately 30,000 individuals.

Caretaker Relatives: A caretaker relative is defined in Maryland regulations as a parent or other person related by blood, marriage, or adoption and living with and caring for an unmarried child younger than 21 years old who is deprived of parental support due to death, continued absence from the home, incapacitation of a parent, or unemployment of the principal wage earner parent.

Hospital Uncompensated Care: Hospital uncompensated care is reimbursed through Maryland's all-payor system. An uncompensated care component is built into each hospital's rates. Therefore, all payors of hospital care, including Medicare, Medicaid,

commercial payors, and others finance uncompensated care when they pay for hospital services. Certain hospitals with high levels of uncompensated care receive additional funding through the Uncompensated Care Fund. These funds are collected from a revenue neutral assessment imposed on top of hospital rates and redistributed to hospitals based on their proportional share of uninsured individuals treated. In fiscal 2007, hospitals received $700 million for uncompensated care through the rate structure and $78 million from the fund. Hospital costs are split among payors at approximately 44% commercial, 37% Medicare, and 18% Medicaid (50% general funds/50% federal funds).

Payroll Deduction Plans: A section 125 or "cafeteria" plan allows employees to withhold a portion of their pre-tax earnings to cover certain medical or child care expenses. Benefits are not subject to federal or State taxes, thereby reducing an employee's taxable income and increasing the percentage of their take-home pay.

State Fiscal Effect: Appendix 1 summarizes the projected expenditures and funding sources associated with the bill.

Medicaid Expansion: In fiscal 2008, the Department of Human Resources could incur $3.0 million (50% general funds/50% federal funds) in administrative expenditures to reprogram the Clients Automated Resource and Eligibility System (CARES) and hire and train 40 new positions (eligibility workers) in the local departments of social services to accept and process Medicaid applications from parents and caretaker relatives. DHR indicates that eligibility workers would be hired effective April 1, 2008.

Reprogramming of CARES	$2,500,000
Salaries and Fringe Benefits	503,338
Other Operating Expenses	2,100
Total	**$3,005,438**

Medicaid expenditures could increase by $153.3 million (45% federal funds/30% special funds/25% general funds) in fiscal 2009 to expand Medicaid coverage to parents and caretaker relatives with household incomes up to 116% FPG. A full 50% federal match is not anticipated as $75 million in expenditures would come from the MHIP fund balance. As the federal government already contributed to this balance through payment of hospital rates, a lower match of 44% is anticipated.

This figure includes the following administrative expenses for DHMH to pay third-party enrollment broker and pharmacy vendor costs for new enrollees.

Enrollment Broker Fees	$319,933
Pharmacy Vendor Fees	289,413
Total	**$609,346**

Additionally, administrative expenditures for DHR are anticipated to be $2.0 million (50% general funds/50% federal funds) in fiscal 2009 to continue funding 40 eligibility workers in the local departments of social services hired in the last quarter of fiscal 2008.

Salaries and Fringe Benefits	2,013,353
Other Operating Expenses	8,400
Total	**$2,021,753**

Future year estimates reflect • incremental expansion of full Medicaid benefits to childless adults through fiscal 2013, as specified under the bill; • full salaries with 4.5% annual increases and 3% employee turnover; • 1% annual increases in ongoing operating expenses; • increased enrollment (1% population growth and 2% annual increase in enrollment rate for adults); and • 6% medical inflation. While the bill authorizes DHMH to limit either benefits to childless adults or the number of childless adults receiving benefits in fiscal 2012 and 2013, future year estimates assume full benefits without an enrollment cap.

In fiscal 2009, the Medicaid expansion is projected to cover 36,420 individuals: • 16,605 previously uninsured parents and caretaker relatives; • 10,609 children already eligible for, but not enrolled in the Medicaid program; and • 9,206 individuals already insured at some level that would drop their coverage and enroll in Medicaid ("crowd-out"). Projected total enrollment figures under the bill are shown in **Exhibit 1**.

In future years, Medicaid expenditures increase significantly due to the expansion of additional benefits to childless adults, including the 30,000 individuals enrolled in PAC in fiscal 2008. While access to full Medicaid is expanded to only 16,605 parents and caretaker relatives in fiscal 2009, by fiscal 2013 full benefits will be available to 71,711 individuals (19,655 parents and caretaker relatives and 52,056 childless adults, including the 30,000 PAC enrollees). Full Medicaid enrollment in fiscal 2013 will also include 13,984 eligible, but not enrolled children and 20,601 "crowd-out" enrollees.

Small Employer Health Benefit Plan Premium Subsidy Program: According to DHMH, general fund expenditures could increase by $30 million beginning in fiscal 2009 to implement the program, including an estimated $222,654 in MHCC administrative expenses for one new position (clerk), establishing and maintaining a MHCC central

application registry, and performing internal and external audits. Future year estimates reflect flat funding. As shown in Exhibit 1, DHMH estimates that approximately 15,000 small business employees will gain access to a health benefit plan annually under the bill.

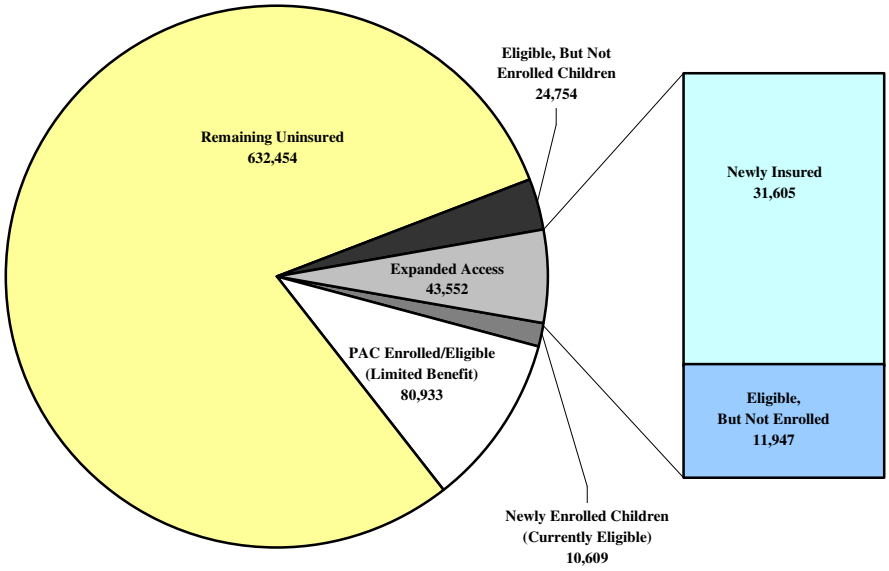
Exhibit 1
Projected Total Enrollment under SB 6[1]
Fiscal 2009-2013

	2009	2010	2011	2012	2013
Newly Insured Parents/Caretaker Relatives – Medicaid	16,605	17,347	18,103	18,872	19,655
Newly Insured Adults – Small Business Health Benefit Plan Subsidy Program	15,000	15,000	15,000	15,000	15,000
Newly Enrolled Children – Medicaid (Previously Eligible for Medicaid)	10,609	11,429	12,265	13,116	13,984
Crowd-out Enrollees – Medicaid (Previously Insured)[2]	9,206	9,299	9,391	20,397	20,601
Childless Adults Who Gain Expanded Benefits – (Previously Eligible for PAC)	0	36,344	42,839	49,489	52,056
Total Enrollment	**51,420**	**89,419**	**97,598**	**116,874**	**121,296**

[1] Assumes take-up rates of 80% for parents with enrolled children, 30% for parents without enrolled children, and 30% for children in fiscal 2009 with an annual 2% increase thereafter; and 0%, 10%, 20%, 30%, and 32% over the five years for childless adults.
[2] Assumes that 10% of eligible individuals with group insurance and 15% of eligible individuals with direct purchase insurance will drop coverage and enroll.

As shown in **Exhibit 2**, in fiscal 2009, 43,552 currently uninsured individuals, including 28,552 parents and caretaker relatives and 15,000 small business employees, gain new access to insurance under the bill. Only an estimated 31,605 of these individuals (16,605 parents and caretaker relatives and all 15,000 small business employees) are projected to enroll. Of the total uninsured in fiscal 2009, 24,754 children already eligible for Medicaid will not enroll. An additional 10,609 Medicaid-eligible children are anticipated to enroll with their newly eligible parents and caretaker relatives. Furthermore, 80,933 childless adults will be eligible for or enrolled in PAC, but receive only a limited benefit.

Exhibit 2
Projected Expanded Access and Enrollment as a Proportion of Total Uninsured
Fiscal 2009



Uncompensated Care Savings: As shown in Appendix 1, a significant portion of projected funding for the bill comes from an assessment on hospitals equal to a portion of uncompensated care savings and the federal match on any savings reinvested in Medicaid.

DHMH indicates that the value of the assessment can be projected using a proxy equivalent to 50% of spending on newly insured individuals and 83% of spending on new hospital benefits for childless adults in fiscal 2010 and 2011. Legislative Services notes that the actual assessment to be captured under the bill would be based on the *resulting savings* realized in hospital uncompensated care. To the extent that actual savings are lower than projected spending, fewer special funds would be available to finance the bill.

According to DHMH, 75% of assessment revenues will be redirected toward expansion efforts the following year. The remaining 25% will be returned to payors through reduced hospital rates. **Exhibit 3** displays the anticipated amount by which hospital rates will be reduced and the proportion of savings that would accrue to payors based on their share of hospital spending. Half of Medicaid savings would accrue to the State.

Exhibit 3
Anticipated Savings from Reduction in Hospital Rates
Resulting from Uncompensated Care Savings[1]
Fiscal 2010-2013

	%	2010	2011	2012	2013
Commercial Payors	44%	$8,135,504	$10,173,148	$18,710,327	$27,632,849
Medicare	37%	6,841,219	8,554,693	15,733,684	23,236,714
Medicaid	18%	3,328,161	4,161,743	7,654,225	11,304,347
Other	1%	184,898	231,208	425,235	628,019
Total	**100%**	**$18,489,781**	**$23,120,792**	**$42,523,471**	**$62,801,929**

[1] Figures assume that 25% of uncompensated care savings are returned to payors through reduced rates.

This 75/25 split is not specified in the bill. As shown in **Exhibit 4,** to the extent that this split changes, the amount of general funds necessary to finance the bill would change.

Exhibit 4
Potential Variation in General Fund Spending Required
Based on Uncompensated Care Savings Reinvestment
Fiscal 2010-2013
($ in Thousands)

Uncompensated Care Savings Reinvested in Expansion Efforts	*General Fund Spending* 2010	2011	2012	2013
75%	$109,659	$154,974	$283,320	$275,166
50%	122,617	173,673	313,937	320,384
25%	130,752	196,794	344,554	365,601

Note: General fund expenditures reflect savings to Medicaid from reduced hospital rates.

As with the MHIP fund balance, a 44% rather than a 50% federal match is anticipated on any expenditures relating to hospital uncompensated care savings.

Health Care Services in Prince George's County: If all contingencies are met, general fund expenditures could increase by $10.0 million per year in fiscal 2011 through 2013 to provide an operating grant to an independent entity with authority over the facilities currently operated by and services currently provided by Dimensions Healthcare System. Because the bill specifies that up to $10.0 million may be transferred from the Health Care Coverage Fund and prohibits use of special funds derived from the MHIP fund balance and hospital uncompensated care savings for this purpose, Legislative Services assumes that general funds would be transferred to the fund for these grants.

Access to Long-term Care Services: To the extent funding is provided to increase access to long-term care services for specified individuals who are financially eligible for Medicaid but do not meet the standard of care requirement, Medicaid expenditures could increase significantly. *For illustrative purposes only*, to provide increased access to adult medical day care only for approximately 700 individuals meeting these criteria would cost $19.4 million (50% general funds, 50% federal funds) in fiscal 2009.

Additional Comments: Overall, the bill will have four major effects: (1) provide new access to health insurance to previously uninsured individuals – parents, caretaker relatives, and small business employees; (2) provide expanded Medicaid benefits to childless adults previously served by PAC; (3) enroll currently eligible, but not enrolled, children in Medicaid; and (4) provide a different source of insurance for some currently insured individuals who will drop their coverage and enroll in Medicaid.

By fiscal 2013, if all individuals eligible under the bill enroll, the bill could reduce the number of uninsured individuals in the State (an estimated 769,000 in 2006) by a total of 132,809 individuals (parents, caretaker relatives, childless adults, and small business employees). This figure represents 17.3% of the total uninsured in 2006. However, while access to insurance is expanded to these individuals, Legislative Services estimates that only 86,711 of these individuals (65% of total eligible individuals) will enroll in coverage. The remainder of enrollment will consist of 13,984 children already eligible for Medicaid and 20,601 previously otherwise insured "crowd-out" enrollees.

Exhibit 5 provides family income at 116% FPG by family size for 2007.

Exhibit 5
116% Federal Poverty Guidelines
2007

Family Size	116% FPG
1	$11,844
2	$15,880
3	$19,917
4	$23,954

Additional Information

Prior Introductions: None.

Cross File: HB 6 (The Speaker) (By Request – Administration) – Health and Government Operations.

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

Fiscal Note History: First Reader - October 31, 2007
mll/ljm Revised - Senate Third Reader - November 12, 2007
Revised - Enrolled Bill - November 29, 2007

Analysis by: Jennifer B. Chasse

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

Appendix 1
Projected Expenditures and Funding Sources[1]
Fiscal 2009-2013
($ in Thousands)

	2009	2010	2011	2012	2013
Expenditures					
Medicaid Expansion – Parents[2]	$152,691	$168,395	$185,555	$204,299	$224,764
Medicaid Expansion – Childless Adults	0	69,024	171,624	492,326	545,146
Medicaid Expansion – Administration	2,631	3,439	4,731	7,543	7,379
Small Employer Health Benefit Plan Premium Subsidy Program	30,000	30,000	30,000	30,000	30,000
Grants to Prince George's County[3]	0	0	10,000	10,000	10,000
General Fund Savings[4]	0	(1,664)	(2,081)	(3,827)	(5,652)
Total Expenditures	**$185,322**	**$269,194**	**$399,829**	**$740,341**	**$811,637**
Funding Sources					
Special Funds					
MHIP Balance	$75,000	$0	$0	$0	$0
Uncompensated Care Savings	0	55,469	69,362	127,570	188,406
Federal Funds					
Projected Match – MHIP Balance[5]	33,000	0	0	0	0
Projected Match – Uncompensated Care Savings[5]	0	24,406	30,519	56,131	82,899
Medicaid[6]	38,661	94,659	144,974	273,320	265,166
Total Federal Funds	***71,661***	***119,066***	***175,493***	***329,451***	***348,065***
General Funds[7]	38,661	109,659	154,974	283,320	275,166
Total Funding Sources	**$185,322**	**$269,194**	**$399,829**	**$740,341**	**$811,637**

[1] Exhibit does not include $3.0 million (50% general funds/50% federal funds) in administrative expenses for the Department of Human Resources in fiscal 2008.
[2] Includes the cost of children who enroll with the parent or caretaker relative.
[3] Assumes all contingencies are met and a general fund grant of $10 million is provided in fiscal 2011 though 2013.
[4] Reflects general fund savings to Medicaid from reduced hospital rates.
[5] Assumes a 44% federal matching rate.
[6] Assumes a 50% federal matching rate.
[7] Figure includes $10 million grant to Prince George's in fiscal 2011 though 2013.