Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 560 (Senator Madaleno)
Budget and Taxation

State Employees and Retirees - Health Insurance and Benefit Options - Coverage

This bill requires the State Employee and Retiree Health and Welfare Benefits Program (State plan) to permit an employee or retiree to enroll all dependent children and one adult member of the employee's or retiree's household.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: Potential increase in general fund revenues beginning in FY 2009 from increased State income taxes paid by State plan enrollees who add a federally ineligible adult. Revenues would be offset by increased expenditures beginning in FY 2009 from additional payroll taxes paid by the State for those enrollees. Potential significant increase in expenditures for the State plan beginning in FY 2009 to cover additional enrollees and pay increased medical claims.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Secretary of Budget and Management administers the State plan and specifies the types of benefit options included as well as the types or categories of State employees and retirees who are allowed to participate. COMAR 17.04.13.03 specifies eligible dependents under the State plan. In general, a participating State employee or retiree may enroll a spouse or dependent child. 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.

The State plan is a cafeteria plan under 26 USC § 125 which provides tax benefits to the State as well as employees who enroll. In order to keep its tax-preferred status, the State plan may not enroll any federally ineligible spouses or dependents.

Background: Some businesses and State and local governments have extended employee health insurance benefits to other members of the employee or retiree's household, including unmarried partners. A variety of studies have estimated the costs to businesses to add unmarried or domestic partners, including a Congressional Budget Office study that estimates about 2% of enrollees would enroll a domestic partner. Conversely, there are limited data on the addition of parents, grandparents, aunts, uncles, or other unrelated adult household members to an enrollee's health benefit plan. However, such individuals are anticipated to have higher medical claims than younger unmarried or domestic partners.

State Revenues:

State Income Tax: Health insurance deductions are currently withdrawn on a pretax basis, providing a significant tax benefit. However, enrollees who add a nonfederally eligible individual would have their deductions taken post-tax and therefore would incur more taxable income. To the extent current State plan enrollees add an adult member of their household who is not federally eligible, general fund revenues could increase beginning in fiscal 2009 from increased State income tax revenues. The amount of any such increase cannot be reliably estimated but could be significant.

State Expenditures:

Payroll Taxes: Any general fund revenue increase from State income tax revenues would be offset by increased expenditures beginning in fiscal 2009 for additional payroll taxes for enrollees that lose the pretax benefits of their health insurance deductions. The amount of any such increase cannot be reliably estimated but could be significant.

State Plan Impact: State plan expenditures could increase by a significant amount, beginning in fiscal 2009. For purposes of this analysis, Legislative Services assumes that the term "all dependent children" would not expand eligibility for children under the State plan. Therefore, expenditures would increase due to current State plan enrollees in the "individual" or "individual plus one" coverage levels adding a previously ineligible adult member of their household, thereby increasing the total number of individuals covered under the State plan. Additionally, as the State plan is self-insured for medical claims, expenditures would increase to the extent that newly eligible individuals, particularly adult household members such as parents or grandparents, have higher medical claims.

While it is safe to assume that about 2% of enrollees may add an unmarried or domestic partner, there are insufficient data to reliably estimate the percentage of enrollees who would add another adult household member to their coverage.

For illustrative purposes only, if 4% of enrollees in the "individual" or "individual plus one" coverage levels added one additional adult, State plan expenditures could increase by $10.5 million in fiscal 2009. The information and assumptions used in calculating the estimate are stated below:

- there are 58,247 non-Medicare eligible State plan enrollees with "individual" or "individual plus one" coverage;
- 2% or 1,165 enrollees would add an unmarried or domestic partner;
- 2% or 1,165 enrollees would add another adult household member;
- the cost for each additional adult would be $5,500 to provide medical, mental health, prescription drug, and dental coverage; and
- the State plan would pay, on average, 82% of total costs, with the remainder paid by the employee or retiree.

State plan expenditures assume a fund mix of 60% general funds, 20% federal funds, and 20% special funds; also 20% of expenditures are reimbursable through employee contributions.

Additional Comments: To the extent new State plan enrollees are currently uninsured, uncompensated care costs for hospitals and other health care providers could decrease. To the extent that federally ineligible individuals are enrolled in the State plan, the tax-preferred status of the State plan could be jeopardized.

Additional Information

Prior Introductions: This bill is identical to HB 1243 of 2005, which received an unfavorable report from the House Appropriations Committee.

Cross File: None.

Information Source(s): Department of Budget and Management, Department of Legislative Services

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Analysis by: Jennifer B. Chasse

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