

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**

House Bill 1093 (Delegate Morhaim)  
 Ways and Means and Health and Government Operations

**Health Care Coverage Fund - Tax on Health Insurance Premiums - Access to Health Care**

This bill increases the premium tax on health insurance from 2% to 3% and requires that, beginning January 1, 2009, one-third of health insurance premium tax revenues be distributed to the Health Care Coverage Fund.

**Fiscal Summary**

**State Effect:** Revenues could increase by an estimated \$20.3 million in FY 2009, including \$6.6 million to the general fund and \$13.7 million to the Health Care Coverage Fund. The availability of additional revenues to the Health Care Coverage Fund could reduce general fund expenditures by a corresponding amount as special funds are used instead. To the extent health insurance carriers pass on the cost of the increased tax through higher premiums, expenditures for the State Employee and Retirees Health Benefits Program could increase. Future years reflect inflation.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	\$6.6	\$0	\$0	\$0	\$0
SF Revenue	13.7	27.7	28.5	29.4	30.3
GF Expenditure	(13.7)	(27.7)	(28.5)	(29.4)	(30.3)
SF Expenditure	13.7	27.7	28.5	29.4	30.3
Net Effect	\$20.3	\$27.7	\$28.5	\$29.4	\$30.3

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

**Local Effect:** To the extent health insurance carriers pass on the cost of the increased tax through higher premiums, health insurance costs for local jurisdictions could increase.

**Small Business Effect:** To the extent health insurance carriers pass on the cost of the increased tax through higher premiums, health insurance costs for small businesses could increase.

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## Analysis

**Bill Summary:** The premium tax remains 2% for HMOs and Medicaid managed care organizations. The value of the premium tax exemption granted to a nonprofit health service plan must still be calculated using a rate of 2%.

**Current Law:** All insurers are assessed taxes and fees collected by the Maryland Insurance Administration. A 2% premium tax is imposed on almost all policy premiums written by authorized insurers. A 3% tax is imposed on all premiums placed by licensed surplus lines brokers and unauthorized insurers. A retaliatory tax is imposed on foreign insurers whose home state or charter requires the payment of a higher rate than that levied by Maryland. Revenues from these taxes, with the exception of premium tax revenues from HMOs and MCOs, are deposited in the State's general fund. Premium tax revenues from HMOs and MCOs fund the Maryland Health Care Provider Rate Stabilization Fund.

### Background:

*Maryland Health Care Provider Rate Stabilization Fund:* The Maryland Health Care Provider Rate Stabilization Fund receives money from the 2% premium tax on HMOs and MCOs. The 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.

*Health Care Coverage Fund:* Chapter 7 of the 2007 special session established the Health Care Coverage Fund to • expand Medicaid eligibility for parents, caretaker relatives, and childless adults with household incomes up to 116% of federal poverty guidelines; • establish a Small Employer Health Benefit Plan Premium Subsidy Program; and • support health care services in Prince George's County. The fund consists of • \$75 million from the Maryland Health Insurance Plan Fund, to be transferred on July 1, 2008; • monies collected from any Health Services Cost Review Commission hospital assessment of uncompensated care savings achieved under Chapter 7; • investment earnings; and • any other monies from any other source accepted for the benefit of the fund. 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.

**State Revenues:** Revenues could increase by an estimated \$20.3 million in fiscal 2009, which accounts for the bill's October 1, 2008 effective date. The information and assumptions used in calculating the estimate are stated below:

- total taxable direct written premiums for health insurance (excluding HMOs, MCOs, and Medicare) were \$2.5 billion in calendar 2006;
- assuming 3% inflation, these premiums are estimated to be \$2.7 billion in calendar 2008 and \$2.8 billion in calendar 2009;
- a 3% tax on these premiums would generate additional revenues above the current 2% tax of \$6.6 million for calendar 2008 and \$27.3 million for calendar 2009; and
- all additional revenues from calendar 2008 and half of additional revenues from calendar 2009 (\$13.7 million) will be received in fiscal 2009.

As the tax increase is effective October 1, 2008, but funds are not directed to the Health Care Coverage Fund until January 1, 2009, Legislative Services assumes that in fiscal 2009 \$6.6 million will accrue to the general fund and \$13.7 million will accrue to the Health Care Coverage Fund.

**State Expenditures:** The bill would provide an additional revenue source for the Health Care Coverage Fund. Total expenditures for the Medicaid expansion and Small Employer Health Benefit Plan Premium Subsidy Program are projected to be \$269.2 million in fiscal 2010, and general funds are expected to support \$109.7 million of the total costs. The availability of additional revenues to the Health Care Coverage Fund could reduce the amount of general funds required by a corresponding amount as the additional special funds would be used instead.

**Additional Comments:** The increased premium tax could be passed on to consumers in the form of higher health insurance premiums. Furthermore, HMOs may gain a competitive advantage in pricing their products as their premium tax will remain 2%.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

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

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