

Department of Legislative Services  
 Maryland General Assembly  
 2009 Session

FISCAL AND POLICY NOTE  
 Revised

House Bill 4 (Delegate Manno, *et al.*)

Health and Government Operations

Finance

Small Business Health Insurance Expansion Act

This bill expands eligibility for the Small Employer Health Benefit Plan Premium Subsidy Program to include small employers (that have not previously offered a small employer health benefit plan) with up to 19 eligible employees. The bill also clarifies which employees must be excluded from consideration when determining whether a small employer has met a carrier’s minimum participation level in the small group health insurance market.

The bill takes effect June 1, 2009.

Fiscal Summary

**State Effect:** Special fund expenditures for the Maryland Health Care Commission (MHCC) increase by an estimated \$641,900 in FY 2010 to expand the subsidy program. Future years reflect inflation and increased employer participation.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	641,900	678,900	1,375,000	1,457,700	1,545,500
Net Effect	(\$641,900)	(\$678,900)	(\$1,375,000)	(\$1,457,700)	(\$1,545,500)

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

**Local Effect:** None.

**Small Business Effect:** Meaningful. Health insurance expenditures decrease for those additional small businesses eligible for State subsidy under the bill.

## Analysis

**Current Law:** Chapter 7 of the special session of 2007 established the Small Employer Health Benefit Plan Premium Subsidy Program to 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.

Chapter 7 also established the Health Care Coverage Fund to (1) expand Medicaid eligibility for parents, caretaker relatives, and childless adults with household incomes up to 116% of federal poverty guidelines; (2) fund the Small Employer Health Benefit Plan Premium Subsidy Program; and (3) support health care services in Prince George's County. The fund consists primarily of hospital uncompensated care savings achieved under the health care expansion efforts enacted by Chapter 7. Funding for the Small Employer Health Benefit Plan Premium Subsidy Program may be provided by the Health Care Coverage Fund or general funds.

To be eligible for a subsidy, a small employer must, at the time of initial application for the subsidy, (1) have from two to nine eligible employees; (2) meet salary and wage requirements determined by MHCC; (3) offer a small employer health benefit plan to its employees; (4) establish a certain payroll deduction plan; (5) agree to offer a wellness benefit, as required by MHCC; and (6) meet any other MHCC requirements.

A subsidy must offset a portion of the small employer health benefit plan premium contributions made by a small employer, but 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.

MHCC regulations provide for a subsidy program cap or dollar amount that represents the estimated total annual subsidy that is sustainable. The executive director may close the program to new businesses if and when the subsidies for the coming year are projected to reach or exceed the subsidy program cap.

**Background:** Enrollment in the Small Employer Health Benefit Plan Premium Subsidy Program (now known as the Health Insurance Partnership) began in September 2008. To qualify, the average wage of full-time employees must be less than \$50,000. A maximum subsidy of \$2,000 per employee or \$4,000 for family coverage is provided.

As of March 2009, 150 employers have enrolled, with 703 covered lives. Enrolled businesses have an average group size of 4.3 full-time employees, with an average wage of \$28,197. The average annual premium subsidy per covered employee is \$1,884, and the average annual premium subsidy per covered life is \$1,129. Despite vigorous outreach, take up for the partnership has been slow, due at least in part to the current economy.

The Governor’s proposed fiscal 2010 budget includes \$15.0 million in special funds for the partnership; however, as part of its budget analysis, Legislative Services has recommended that this appropriation be reduced by \$13.0 million. Current enrollment in the partnership is not anticipated to cost more than \$1.0 million in fiscal 2010.

The 2006 Medical Expenditure Panel Survey reports that there are 8,563 Maryland business establishments with between 10 and 19 employees, of which 2,415 establishments (28.2%) *do not* offer health insurance and thus may be eligible for the subsidy. The average wage of these firms is not known, but in 2007, the average annual wage for all firms statewide was \$48,239.

**State Fiscal Effect:** Special fund expenditures for MHCC increase by an estimated \$641,918 in fiscal 2010, which accounts for the bill’s June 1, 2009 effective date and assumes enrollment begins with the new fiscal year on July 1. This estimate reflects the cost of providing subsidies to additional small businesses, the hiring of one part-time administrative officer to process and maintain enrollment, and one-time contractual expenses for auditing. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- of the 2,415 Maryland business establishments that may be eligible for a subsidy, 1,207 (50%) will be eligible under the wage requirements;
- 60 establishments (5%) will enroll in the partnership in fiscal 2010;
- each of these establishments will have an estimated 7.5 covered lives;
- 453 covered lives will be subsidized by the expanded partnership; and
- an average subsidy of \$1,340 per covered life will be provided.

Position	0.5
Subsidy for Small Employers	\$606,710
Salary and Fringe Benefits	25,936
Operating Expenses	<u>9,272</u>
<b>Total FY 2010 State Expenditures</b>	<b>\$641,918</b>

Future years reflect (1) 6% employer participation in fiscal 2011; (2) 10% employer participation per year beginning in fiscal 2012; (3) 5% annual increases in the average subsidy per covered life provided; (4) a part-time salary with 4.4% annual increases and 3% employee turnover; and (5) 1% annual increases in operating expenses.

**Small Business Effect:** Health insurance expenditures decrease by as much as 50% per employee for eligible small businesses that enroll in the Health Insurance Partnership and receive a subsidy.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Agency for Healthcare Research and Quality, *2006 Medical Expenditure Panel Survey*; Department of Health and Mental Hygiene; Maryland Insurance Administration; Department of Legislative Services

**Fiscal Note History:** First Reader - February 4, 2009  
ncs/mwc Revised - House Third Reader - March 25, 2009

---

Analysis by: Jennifer B. Chasse

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