HB 674

Department of Legislative Services

Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

House Bill 674 (Delegate Morhaim, *et al.*)
Health and Government Operations — Finance

Health Insurance - Small Group Market Regulation - Modifications

This bill alters the Comprehensive Standard Health Benefit Plan (CSHBP) sold in the small group health insurance market by (1) permitting preexisting condition limitations; (2) repealing the benefit floor; (3) expanding the permissible range of rates; and (4) permitting use of health status in rating.

The bill has multiple effective dates beginning with July 1, 2009. Provisions relating to permissible rates and use of health status in rating take effect on and apply to all policies, contracts, and health benefit plans issued, delivered, or renewed in the State on or after July 1, 2010. All other provisions relating to CSHBP take effect on and apply to all policies, contracts, and health benefit plans issued, delivered, or renewed in the State on or after October 1, 2009.

Fiscal Summary

State Effect: Minimal special fund revenue increase for the Maryland Insurance Administration from the $125 rate and form filing fee in FY 2010 and 2011. Maryland Health Care Commission (MHCC) expenditures increase by $100,000 in FY 2010 for one-time only contractual expenses to establish an online application for comparing premiums and to conduct the required study of value-based health care services. Future years reflect ongoing expenditures to maintain the online application.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	-	-	$0	$0	$0
SF Expenditure	$100,000	$10,000	$10,000	$10,000	$10,000
Net Effect	($100,000)	($10,000)	($10,000)	($10,000)	($10,000)

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

Local Effect: None.

Small Business Effect: Meaningful. According to MHCC, health insurance rates in the small group market are anticipated to decline by approximately 3.5% to 4.0% based on the addition of preexisting condition limitations. Alteration of rating bands is anticipated to increase rates for employers with older groups and reduce rates for employers with younger groups by about 3.0%.

Analysis

Bill Summary: The bill repeals the prohibition on preexisting condition limitations and instead subjects CSHBP to those limitations currently applicable to group and blanket health insurance. The minimum benefit floor for CSHBP is repealed. The requirement that CSHBP include uniform deductibles and cost-sharing is also repealed, and instead MHCC has to specify the deductibles and cost-sharing associated with the benefits in CSHBP.

Based on age and geography, a carrier may charge a rate that is 50% above or 50% below the community rate. The bill repeals the termination date of Chapter 600 of 2007, which will allow carriers to offer a discounted rate of up to 20% to a small employer for participation in a wellness program beyond the scheduled termination date of June 30, 2011.

A carrier may use health status as part of its community rating methodology for CSHBP under specified circumstances. Health status can only be used (1) if a small employer has not offered a health benefit plan in the 12 months prior to initial enrollment in CSHBP; and (2) for the first three years of enrollment of the small employer. Use of health status must be gradually phased out over the three years.

MHCC must maintain on its web site an application, to be updated quarterly, that small businesses may use to compare premiums, including information categorized by age bands and about riders typically purchased by small employers. MHCC has to report by January 1, 2013, on the effect of specified rate adjustments.

Uncodified language requires MHCC to study and report by December 1, 2009, on (1) options to implement the use of value-based health care services and increase efficiencies in CSHBP; (2) potential options for allowing plans with fewer benefits than CSHBP to be sold in the small group market; and (3) whether any additional authority is needed to effectively implement the web site application required under the bill.

Current Law: CSHBP is a standard health benefit package (standard plan) that carriers must sell to small businesses (2-50 employees). Carriers must offer the standard plan to

all small businesses, but may sell additional benefits or enhancements through riders. Any riders must be offered and priced separately. CSHBP includes guaranteed issuance and renewal, adjusted community rating with rate bands, and the elimination of preexisting condition limitations. CSHBP has a minimum benefit floor based on the actuarial value of a federally qualified HMO and an affordability ceiling based on the average premium of all policies expressed as a percentage of the average wage in Maryland (currently 10%). CSHBP must include uniform deductibles and cost-sharing as determined by MHCC.

Carriers must use a community rate for a health benefit plan. The community rate must be based on the experience of all risks covered by that health benefit plan without regard to health status or occupation. The rate may only be adjusted for age and geographical location. Chapter 600 of 2007 authorizes a carrier in the small group market to charge a rate that is 40% above or 50% below the community rate and offer a discounted rate of up to 20% to a small employer for participation in a wellness program. Chapter 600 took effect July 1, 2007, and terminates June 30, 2011. Prior to Chapter 600, carriers were permitted to charge a rate that is 40% above or below the community rate.

For group and blanket health insurance, carriers may impose preexisting condition limitations for conditions for which the applicant has received medical care or advice during the six months immediately preceding the date of application. Carriers may limit coverage for a preexisting condition for up to one year or 18 months in the case of a late enrollee. The 12- or 18-month exclusion period is reduced by aggregate periods of creditable coverage (the amount of time a person was previously insured). The six-month look back period and 12-month exclusion period represent the maximum preexisting condition limitations allowable in the group health insurance market under the federal Health Insurance Portability and Accountability Act (HIPAA).

Background: According to MHCC, there are 53,671 employers and 427,738 employees participating in CSHBP, though participation has declined from its peak in the late 1990s. Only eight carriers participated in 2007, with the top two insurers having a combined market share of about 86% of the small group market. The average premium in 2007 for an HMO plan with riders (the most common plan purchased) was $4,560 for employee-only coverage and $12,204 for family coverage, an increase of 17% and 19% respectively over 2006 premiums.

Chapter 243 of 2007 required MHCC to conduct a study of CSHBP and report by December 1, 2007, on options available to encourage more employers to enter the small group market. MHCC asked its actuary, Mercer, to examine the plan and make recommendations to encourage participation, retention, prudent use of benefits, maintenance of a healthy lifestyle, and the use of care management. CSHBP design options examined by Mercer included (1) minimizing or eliminating the benefit "floor"

and "ceiling"; (2) altering rating principles by broadening the rating band to better reflect age-related risk, incorporating gender, allowing a 5% to 10% rate variation based on health factors, allowing premiums for new groups to be adjusted for health factors and blended to modified community rate over three to five years; (3) increasing the small group size from 2-50 employees to 2-75 employees; and (4) allowing HIPAA compliant preexisting condition exclusions.

Additional Information

Prior Introductions: None.

Cross File: SB 637 (Senator Garagiola, *et al.*) - Finance.

Information Source(s): *Options Available to Reform the Comprehensive Standard Health Benefit Plan (CSHBP) As Required Under HB 579 (2007),* Maryland Health Care Commission, December 20, 2007; Department of Legislative Services

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