

**Department of Legislative Services**  
Maryland General Assembly  
2009 Session

**FISCAL AND POLICY NOTE**

Senate Bill 135

(Senator Klausmeier, *et al.*)

Finance

**Maryland Health Insurance Plan - Preexisting Condition Limitation**

This bill prohibits the Board of the Maryland Health Insurance Plan (MHIP) from applying a preexisting condition limitation on plan coverage.

The bill takes effect July 1, 2009.

**Fiscal Summary**

**State Effect:** MHIP special fund revenues decrease by \$1.4 million, while special fund expenditures increase by \$4.6 million beginning in FY 2010. A portion of the \$1.4 million in reduced revenues is federal fund expenditures made to MHIP by the AIDS Administration on behalf of MHIP enrollees. Therefore, a corresponding minimal decrease in federal fund expenditures for the AIDS Administration is anticipated beginning in FY 2010. Future years reflect inflation.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	(\$1.4)	(\$1.5)	(\$1.6)	(\$1.7)	(\$1.8)
SF Expenditure	\$4.6	\$4.8	\$5.1	\$5.3	\$5.6
FF Expenditure	(-)	(-)	(-)	(-)	(-)
Net Effect	(\$6.0)	(\$6.3)	(\$6.7)	(\$7.0)	(\$7.4)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** Chapter 467 of 2007 authorized the MHIP Board, if it implemented a preexisting condition limitation, to offer members an optional endorsement to remove the limitation and to charge an actuarially justified additional premium amount for the endorsement, subject to approval by the Insurance Commissioner. The MHIP Board may not apply preexisting condition exclusions to eligible individuals who apply for coverage within 63 days of terminating prior creditable coverage.

In the individual market, carriers may medically underwrite policies. The carrier may inquire about conditions for which the applicant has received medical care or advice during the seven years immediately preceding the date of application. This is known as the “look back” period. An insurer or nonprofit health service plan must cover any condition revealed in the application or add an exclusionary rider for that particular condition. However, the insurer or nonprofit health service plan may exclude coverage for a preexisting condition identified in the look back period that is *not* revealed in the initial application for up to two years.

For group and blanket health insurance, the look back period is six months and 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).

Health maintenance organizations (HMOs) may not impose any preexisting condition limitations. There are no preexisting limitations in the small group market due to the requirement of guaranteed issue. There are also no preexisting condition limitations in the State Employee and Retiree Health and Welfare Benefits Plan.

**Background:** MHIP is an independent unit of State government. The purpose of MHIP is to decrease uncompensated care costs by providing access to affordable, comprehensive health benefits for medically uninsurable residents. Medical eligibility for the program requires that applicants have been denied individual coverage, have been offered coverage that excludes or limits coverage for a medical condition, or have specific health conditions. Approximately 900 MHIP enrollees have their premiums paid for by the Maryland AIDS Drug Assistance Program (MADAP-Plus), which provides health insurance assistance to individuals with HIV/AIDS at risk of losing private health insurance.

The purpose of preexisting condition limitations is to discourage adverse selection that would result from applicants foregoing the purchase of health insurance coverage until medical services are necessary. Preexisting condition limitations lower insurers' losses on new applicants when the exclusion is imposed.

The MHIP Board first implemented a six-month preexisting condition limitation in fiscal 2004 (from October 2003 through June 2004) for new applicants lacking prior coverage. The limitation was removed for fiscal 2005 due to slow initial enrollment growth. In fiscal 2008, the board implemented a two-month preexisting condition limitation and in fiscal 2009, lengthened that limitation to six months in an attempt to reduce plan costs and preserve enrollment capacity.

The preexisting condition limitation may be reduced by aggregate periods of creditable coverage. Individuals may purchase an endorsement to remove the limitation by paying a premium surcharge of 50% for standard MHIP members and 30% for MHIP+ members. This "buy down" increases monthly premium costs by between \$90 and \$1,000 depending on age, family size, and the level of coverage selected. As of December 2008, MHIP had 15,180 enrollees, of which 654 (4.3%) were purchasing the preexisting condition limitation buy down.

For fiscal 2009, MHIP offers two preferred provider organization (PPO) plans, a high deductible plan (HDP), and an HMO plan. Premiums range from \$90 (for an individual younger than age 30 in the HDP) to \$2,009 (for family coverage with an individual older than age 65 in the HMO) per month depending on age, family size, plan, and choice of deductible. MHIP also offers discounted premiums and enhanced benefits to members with incomes below 300% of federal poverty guidelines through the MHIP+ Program. The Governor's proposed fiscal 2010 budget includes \$111.2 million for MHIP, a 21% increase over the fiscal 2009 appropriation of \$91.6 million. As of November 2008, the MHIP Fund had a cash balance of \$100.3 million.

**State Fiscal Effect:** MHIP special fund revenues decline under the bill by an estimated \$1.4 million in fiscal 2010 due to lost premium revenues from the 654 individuals currently purchasing the preexisting condition limitation buy down.

MHIP special fund expenditures increase by an estimated \$4.6 million in fiscal 2010 for medical expenses associated with preexisting conditions that would have been excluded from coverage for the first six months of enrollment. This figure reflects a projection by MHIP's actuary based on per member per month costs of new medically eligible applicants in the first six months following enrollment and a comparison of cost experience differentials of other plans with and without preexisting condition limitations.

Federal fund expenditures for the AIDS Administration decline by a minimal amount beginning in fiscal 2010 due to a reduction in premium assistance currently provided by MADAP-Plus to buy down the preexisting condition limitation for MHIP enrollees.

Future years reflect 7% inflation for premium revenues and 5% inflation for medical expenses.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 75 (Delegate Nathan-Pulliam, *et al.*) - Health and Government Operations.

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

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