HB 32

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 32 (Delegate Kach)
Health and Government Operations

Health Insurance - Small Group Market - Cap on Comprehensive Standard Health Benefit Plan

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This bill repeals the authority of the Maryland Health Care Commission (MHCC) to adjust cost sharing for the Comprehensive Standard Health Benefit Plan (CSHBP) in the small group market if the plan exceeds the statutory cap of 10% of the average annual wage in the State. Thus, MHCC would only be able to adjust benefits to keep the plan under the cap.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: The bill does not affect governmental finances.

Local Effect: None.

Small Business Effect: Potential minimal impact on small businesses if MHCC reduces benefits to remain under the cap rather than increasing cost sharing requirements.

Analysis

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.

CSHBP has an affordability ceiling based on the average premium of all policies expressed as a percentage of the average wage in Maryland (currently 10%). If MHCC finds the average rate for the standard plan across all carriers and delivery systems exceeds 10% of Maryland's average annual wage (estimated at $49,497 in calendar 2008), MHCC must modify CSHBP by either increasing the cost sharing arrangements (*e.g.*, deductibles, coinsurance rates, copays) or decreasing required benefits.

Chapters 577 and 578 of 2009 altered regulation of the small group market by permitting preexisting condition limitations, repealing the minimum benefit floor on CSHBP, and changing the rating of health benefit plans. Certain carriers in the small group market may now exclude coverage for a preexisting condition revealed in the initial application for which care was received in the five years immediately preceding the date of application or for medical conditions not revealed in the initial application if they meet certain criteria. Health maintenance organizations (HMOs) are prohibited from imposing preexisting condition provisions in this market.

Chapters 577 and 578 authorize the use of health status in rating upon entry of a small employer into the small group market beginning July 1, 2010, phased out over a period of three years. A carrier may charge based on this adjustment for health status an additional 10% above or below the community rate in the first year of enrollment, 5% above or below the community rate in the second year of enrollment, and 2% above or below the community rate in the third year of enrollment. Carriers may also vary a rate charged for a health benefit plan in the small group market up to 50% above or below the community rate based on age and geography.

Background: CSHBP was established in 1994 as a result of health care reforms adopted by the General Assembly to provide better access to coverage in the small group market. The Maryland Insurance Administration and MHCC have joint responsibility for administering CSHBP.

In 2008, 51,283 employer groups (an estimated 39.6% of Maryland small businesses) purchased CSHBP, covering a total of 407,983 lives. Nearly all employers selected an HMO plan (68%) or a preferred provider organization (PPO) plan (30%), either with or without a health savings account (HSA). Examples of average plan premiums in 2008 include:

- core HMO plan with no deductible: $3,444 for an individual and $9,130 for a family;
- HMO with riders (additional benefits): $4,993 for an individual and $13,235 for a family;
- core PPO with a $2,500/$5,000 separate medical and prescription deductible: $2,874 for an individual and $7,882 for a family; and

- PPO with riders: $6,743 for an individual and $18,492 for a family.

In 2004 and 2005, the cost of CSHBP (without riders) hovered just above the 10% affordability ceiling. However, since that time, the cost of CSHBP has decreased in relation to the ceiling, dropping to 85% of the ceiling in 2008.

Small Business Effect: Potential minimal impact on small businesses if MHCC reduces benefits in order to stay under the 10% ceiling. Under current law, MHCC can reduce benefits *or* increase cost sharing to stay under the ceiling. However, under the bill, MHCC will no longer have the authority to increase cost sharing. Thus, if the cost of CSHBP approaches the ceiling, MHCC will have to reduce benefits. This may lead businesses to buy riders to expand covered services, which may be more expensive than riders that lower cost sharing arrangements. However, Legislative Services does not estimate a substantial overall impact on small business.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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