HB 1386

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1386 (Delegate Mizeur)
Health and Government Operations

Disclosure of Health Premium Expenditures Act

This bill requires carriers to disclose specified loss ratio information in the enrollment sales materials and in each statement of benefits provided to an enrollee or annually to each contract holder.

The bill takes effect July 1, 2010, and applies to all policies, contracts, certificates, and health benefit plans issued, delivered, or renewed on or after January 1, 2011. The bill terminates 10 days after the Maryland Insurance Administration (MIA) notifies the Department of Legislative Services that federal or State legislation has been enacted establishing medical loss ratio requirements at or above 80% in the individual, small group, and large group markets.

Fiscal Summary

State Effect: Expenditures for the State Employee and Retiree Health and Welfare Benefits Program (State plan) may increase by an indeterminate amount beginning in FY 2012 to provide the additional information required under the bill to consumers. No effect on revenues.

Local Effect: Expenditures may increase for some local governments to provide the additional information required under the bill to consumers.

Small Business Effect: None. The bill does not apply to the small group health insurance market.

Analysis

Current Law/Background: Loss ratios are the ratios of incurred claims to premiums earned (the share of premium revenues spent on medical care). Carriers must include loss ratios for all health benefit plans specific to the State in their required annual reports to the Insurance Commissioner. Regulators consider the medical loss ratio when evaluating rates to make sure a reasonable amount of the premium dollar is allocated to the cost of benefits. Thirteen states, including Maryland, have established minimum loss ratios that carriers must meet in the individual or small group market. In Maryland, medical loss ratio requirements are 60% in the individual market and 75% in the small group market.

Chapter 509 of 2009 required MIA to study and report on options to raise or define medical loss ratios in the individual, small group, and large group health insurance markets that incentivize reduction of health care costs and improvement of health care quality. MIA issued a report in December 2009 that noted that states do not use medical loss ratios as a tool to modify plan behavior as it is not an appropriate use of the measure. Based on its review, MIA did not recommend modifying the use of the medical loss ratio in Maryland. The report concluded the medical loss ratio should remain a tool used by MIA to assess premium rate filings and should continue to be publicly disclosed to allow consumers to consider whether a reasonable amount of the premium dollar is allocated to the cost of benefits.

State Expenditures: The Department of Budget and Management (DBM) advises that the additional information required under the bill falls under the category of administrative costs, which are included in contracts DBM negotiates with third-party plan administrators. DBM's current contract was negotiated in July 2009, extends for five years, and would not typically be adjusted for any additional administrative fees incurred by the plan under the current contract. However, if the plan administrator found the bill's requirements to be particularly burdensome, it could impose additional costs on the State plan before the contract is renegotiated in fiscal 2015. Even so, since the State plan contract runs on a fiscal-year basis, any costs incurred under the bill would not be included until the fiscal 2012 plan year.

Therefore, expenditures for the State plan may increase by an indeterminate amount beginning in fiscal 2012 to provide the additional information required under the bill to consumers. Absent any actual experience under the bill, it is difficult to determine the amount of the increase. However, Legislative Services assumes that any increase is likely to be relatively modest.

State plan expenditures are split 59% general funds, 30% special funds, and 11% federal funds.

Local Expenditures: Local government expenditures may increase for some local governments beginning in fiscal 2012 to provide the additional information under the bill.

Additional Comments: CareFirst BlueCross/BlueShield advises that, under the bill, annual costs could increase by about $1.5 million. This estimate is based on the expectation that each of the 30 million explanation of benefits statements sent to enrollees will include an additional page of information to meet the bill's requirements, and that customer service costs will increase due to additional explanation of benefit inquiries.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): CareFirst Blue Cross/Blue Shield, Department of Budget and Management, Maryland Health Insurance Plan, Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

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mlm/mwc

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