

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 231
Economic Matters

(Delegate Pendergrass, *et al.*)

Health Insurance - Nonprofit Health Service Plans - Premium Tax

This emergency bill requires a nonprofit health service plan to participate in the Maryland Medicaid program as a managed care organization (MCO) in order to satisfy the public service requirement necessary under the premium tax exemption.

Fiscal Summary

State Effect: If a nonprofit health service plan becomes subject to the 2% premium tax, general fund revenues could increase by a significant amount in FY 2003. If a nonprofit health service plan participates in the Medicaid program as an MCO, Department of Health and Mental Hygiene (DHMH) expenditures (50% general funds, 50% federal funds) could increase.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill also repeals the one-year time period given to a nonprofit health service plan to comply with the public service requirement after the Insurance Commissioner determines the plan has not met the specified requirements. If the Insurance Commissioner determines that a plan has not satisfied the public service requirement, the plan would be subject to the premium tax without any further action by the Commissioner or the General Assembly. Any tax revenues collected from a nonprofit health service plan that has not complied with the public service requirement must be used to fund the short-term prescription drug subsidy plan.

Current Law: A 2% premium tax is imposed on all gross direct insurance premiums derived from business in Maryland. All health insurers, other than nonprofit health service plans, fraternal benefit societies, and HMOs, are subject to the premium tax.

A nonprofit health service plan that insures 10,000 or more covered lives in the State must file a premium tax exemption report with the Insurance Commissioner that demonstrates that the plan has used funds equal to the value of the premium tax exemption provided to the plan in a manner that serves the public interest.

The Short-Term Prescription Drug Subsidy Plan (Chapter 565 of 2000) provides Medicare-eligible individuals with prescription drug coverage. It is funded with 37.5% of the value of the Substantial, Available, and Affordable Coverage (SAAC) differential as of January 1, 2001. The plan terminates June 30, 2003.

Background: Nonprofit health service plans benefit from an exemption from the State's 2% premium tax that most other insurers, including the Maryland Automobile Insurance Fund, are required to pay. Historically, nonprofit health service plans assisted medically-needy individuals but increasingly, many of the business practices of nonprofit service plans operating nationally more closely resemble those of commercial insurers. In order to ensure that nonprofit health service plans fulfill their public purpose for which they receive a tax exemption, Chapter 178 of 2001 requires nonprofit health service plans to report annually and demonstrate that the plan has used funds equal to the value of the premium tax exemption in a manner that serves the public interest.

In 2001, nine nonprofit health service plans were registered with the Maryland Insurance Administration (MIA), eight of which wrote premiums in Maryland. Four nonprofit health service plans, each with more than 10,000 covered lives, would be subject to the bill's requirement to participate in the Medicaid program or lose their tax exemption:

- CareFirst of Maryland, Inc. (wholly-owned subsidiary of CareFirst, Inc.);
- Group Hospitalization and Medical Services, Inc. (wholly-owned subsidiary of CareFirst, Inc.);
- Mid-Atlantic Vision Service Plan; and
- Pennsylvania Dental Service Corp.

Maryland's largest nonprofit health service plan, CareFirst BlueCross BlueShield, withdrew from HealthChoice, Maryland's Medicaid managed care program in April 2001. CareFirst's withdrawal affected over 100,000 HealthChoice enrollees who had to be transferred to other Medicaid managed care organizations.

State Fiscal Effect:

Premium Tax Revenue: If any of the four nonprofit health service plans required to participate in the Medicaid program fail to do so, general fund revenues and expenditures could both increase by a significant amount.

According to the Maryland Insurance Administration (MIA), CareFirst, Inc. received a premium tax exemption of \$16,597,709 for calendar 2000. Information regarding CareFirst's premium tax exemption for calendar 2001 will not be available to MIA until CareFirst files its 2001 annual statement on March 1, 2002. CareFirst advises that its premium tax exemption was approximately \$19 million for calendar 2001. Premium tax information on the other two carriers is not available; however, based on direct premiums written in the State, Mid-Atlantic Vision's premium tax exemption could be as high as \$478,400 and Pennsylvania Dental Service Corporation's premium tax exemption could be as high as \$238,600. All funds collected from premium tax imposed on nonprofit health service plans that fail to participate in the Medicaid program must be used to fund the Short-Term Prescription Drug Subsidy Program.

Medicaid Expenditures: If any of the four nonprofit health service plans choose to provide MCO services, DHMH expenditures (50% federal, 50% general funds) could increase to pay for transitional and operational costs associated with changing enrollment material, provider resource information, and programming changes to the Eligibility Verification System. There are insufficient data at this time to reliably estimate any increase.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Department of Health and Mental Hygiene, Office of the Attorney General, Department of Legislative Services

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