

Department of Legislative Services
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FISCAL AND POLICY NOTE

House Bill 132 (The Speaker, *et al.*) (By Request – Administration)
 Health and Government Operations

Maryland Health Care Access Act of 2007

This Administration bill establishes a Maryland Health Insurance Exchange and a Maryland Institute for Health Care Quality, requires certain employers to offer cafeteria plans, requires health benefit plans to allow a child to remain on a parent’s plan beyond the limiting age of the plan, and expands eligibility for the Maryland Children’s Health Program (MCHP).

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Expenditures (all funds) could increase by \$6.1 million in FY 2008. Maryland Insurance Administration (MIA) expenditures for the Maryland Health Insurance Plan (MHIP) of \$84.9 million and the \$125.5 million MHIP fund balance will transfer to the new exchange. No effect on revenues. Future years reflect inflation.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	3,586,700	3,726,100	4,036,200	4,368,900	4,726,000
SF Expenditure	787,700	858,600	935,900	1,020,100	1,111,900
FF Expenditure	1,683,500	1,812,600	1,951,900	2,102,100	2,264,300
Net Effect	(\$6,057,900)	(\$6,397,300)	(\$6,924,000)	(\$7,491,100)	(\$8,102,200)

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

Local Effect: Potentially significant increase in health insurance expenditures to cover dependents beyond the limiting age of the plan.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Analysis

Bill Summary:

Maryland Health Insurance Exchange: The exchange is intended to facilitate the availability, choice, and purchase of private health insurance by individuals and small employers. The exchange is governed by a board of directors appointed by the Governor with the advice and consent of the Senate. The board's duties include developing eligibility and enrollment policies, a health insurance service center, and a system for collecting and remitting premium payments. The board is authorized to establish and collect fees from enrollees and carriers to support the costs of administering the exchange, including surcharges on health benefit plans offered through the exchange.

Beginning July 1, 2008, the exchange must offer health benefit plans to individuals and small employers. To participate, a small employer must enter into a binding agreement with the exchange that includes a provision that the employer will not offer any other health benefit plan to its employees outside of the exchange. Individuals must be Maryland residents and not enrolled in Medicare to purchase a nongroup plan through the exchange.

Health benefit plans offered by the exchange must be authorized by the Maryland Insurance Commissioner, be underwritten by a carrier, offer high quality services, provide good value, and contain a detailed description of benefits, including any limitations, exclusions, and maximum benefits.

Carriers are required to renew a health benefit plan offered through the exchange at the option of the individual or small employer and must pay commissions, established by the exchange, to producers that enroll individuals and small businesses in their health benefit plans.

The exchange is exempt from State and local taxation and general State procurement law, with the exception of minority business participation. The board must submit an annual report beginning on or before January 1, 2008. The accounts of the exchange are not accounts of the State and must be audited annually. In addition, the Office of Legislative Audits may audit the financial transactions of the exchange.

Maryland Institute for Health Care Quality: The bill establishes a Maryland Institute for Health Care Quality to promote health care quality and accelerate improvement in the value of health care delivered in Maryland. The duties of the institute include:

- facilitating collaboration on health care quality improvement;
- providing scientific appraisals of the safety and efficacy of emerging and leading edge medical technology;
- evaluating the impact of health information technology products and systems on health care quality; and
- providing quality improvement education and training.

Institute membership must comprise health care facilities, provider groups, insurers, health maintenance organizations, and individuals. Funding for the institute must come from member dues.

Cafeteria Plans: The bill requires each employer with more than 10 employees in the State to adopt and maintain a cafeteria plan and file a copy of the plan with the exchange. An employee may submit a written complaint to the exchange or seek injunctive relief, damages, or other relief if an employer fails to establish a cafeteria plan.

Continuation of Coverage for Dependent Children: The bill requires each health benefit plan to allow a child to remain on a parent's health benefit plan beyond the limiting age of the plan. To remain on the plan, a child must have had continuous coverage for at least two years immediately prior to reaching the limiting age. A child is permitted to remain on the policy until the earlier of the date on which:

- the child turns 25;
- the child accepts coverage under another health benefit plan;
- the child becomes eligible for employer-sponsored coverage other than as a dependent child;
- a parent elects to terminate coverage for the child; or
- a parent terminates coverage.

Maryland Children's Health Program: The bill expands eligibility for MCHP premium plan to 400% of federal poverty guidelines (FPG). The bill removes the current requirement that families contribute an annual premium of 2% of annual income and requires the Department of Health and Mental Hygiene (DHMH) to establish an annual family contribution that is reasonable, according to family income, and encourages enrollment of all eligible individuals. DHMH is authorized to provide incentives to families of eligible children to enroll the child in available employer-sponsored health insurance.

Maryland Health Insurance Plan: The bill moves MHIP to the exchange and terminates the MHIP board of directors. All functions of the MHIP board are transferred to the board of directors of the exchange. The exchange board is required to submit an annual report by December 1, 2008 on the enrollment, costs, and activities of MHIP.

Hospital Pay-for-performance: The bill requires the Health Services Cost Review Commission (HSCRC), on or before July 1, 2008, to adopt regulations that provide incentives within hospital payment standards for adherence to quality standards and achievement of performance benchmarks. HSCRC is also required to report on a plan to analyze data collected under the commission's quality-based reimbursement project that indicates whether there are racial and ethnic disparities in adherence to quality standards and performance benchmarks. HSCRC must establish quality standards and performance benchmarks in conjunction with the Maryland Health Care Commission (MHCC), the Office of Health Care Quality, and the institute.

Wellness Promotion: The bill authorizes health insurance carriers to offer a discounted rate for participation in wellness activities such as smoking cessation, weight reduction, or nutrition education.

Uncodified language requires the Department of Budget and Management and DHMH to develop a wellness incentive pilot for State employees to provide incentives for employees and their dependents to maintain their health and prevent chronic illness. The departments are required to report on the components of and implementation plans for the program by January 1, 2008. The plan must be implemented beginning July 1, 2008.

Chronic Care Management: Uncodified language, effective July 1, 2008, requires the Secretary of Health and Mental Hygiene to develop a statewide plan to improve the quality and cost-effectiveness of care for individuals with, and at risk for, chronic health care conditions. The secretary is required to report on the plan by January 1, 2008.

Regional Health Information Exchange: Uncodified language requires MHCC and HSCRC to collaborate in seeking a proposal or proposals leading to the establishment of a regional health information exchange and a unique patient identifier for electronic medical records in the State.

Task Force on Expanding Access to Affordable Health Care: Uncodified language establishes a Task Force on Expanding Access to Affordable Health Care to study and make recommendations regarding expanding access to health insurance and reducing the amount of uncompensated care in the State. The task force must report its findings and recommendations by December 31, 2007. The task force terminates June 30, 2008.

Current Law:

Coverage for Dependent Children: Notwithstanding any limiting age stated in a health benefit policy, a child, grandchild, or individual for whom guardianship is granted must continue to be covered under the policy as a dependent of a covered individual if the child, grandchild, or individual under guardianship is unmarried, chiefly dependent for support on the covered individual, and is incapable of self-support because of a mental or physical incapacity. Generally, children are allowed to remain on the policy of a parent until age 19 or until age 23 if the child is a full-time student.

The Secretary of Budget and Management administers the State employee and retiree health insurance plan and specifies the types of benefits as well as the types or categories of State employees and retirees who may participate. The enrollment of dependent children is limited by specified factors including age and marital status of the child, legal guardianship, college enrollment status, or disability. State regulations cover dependent children through the end of the year in which they turn age 19. Thereafter, the dependent child may continue coverage through age 23 as long as they are a full-time student, or continue coverage indefinitely if they are certified as disabled.

Maryland Children's Health Program: Eligibility for MCHP currently extends to individuals under the age of 19 with family incomes up to 300% FPG. Children in families with incomes above 200% but at or below 300% FPG are enrolled in the MCHP Premium Plan. These families pay a family contribution toward the cost of the program equal to 2% of the annual income for: (1) a family of 2 at 200% FPG (about \$548 per year), for families earning up to 250% FPG; or (2) a family of 2 at 250% FPG (about \$685 per year), for families earning up to 300% FPG. In 2006, the cost per family for the MCHP premium plan was \$44 to \$55 per month. Individuals who have been eligible for employer-sponsored health insurance in the previous six months are ineligible for MCHP.

Background:

Maryland Health Insurance Exchange: Legislation enacted in Massachusetts in April 2006 established the Commonwealth Health Insurance Connector to facilitate health coverage to small businesses and individuals. Eligible workers will be able to buy coverage with pre-tax dollars and multiple employers may contribute to an employee's premium through the Connector. The Connector program is expected to facilitate portability of coverage, permit multiple source payments for premiums, and make premiums pre-tax.

Cafeteria Plans: Massachusetts health care reform plan also includes a mandate on employers with 10 or more employees to establish cafeteria plans that allow employees to

purchase health insurance coverage with pre-tax dollars or face a surcharge if their employees access certain thresholds of state-funded care.

Continuation of Coverage for Dependent Children: Young adults, ages 19 to 29, have the highest risk of being uninsured in Maryland, in part because they are the least likely to have access to employer sponsored health insurance. In 2004-2005, 28% of individuals in this age group (about 110,000 individuals) did not have health insurance coverage.

Health Care Quality Initiatives: In 2004, MHCC designated the Maryland Patient Safety Center to bring together health care providers to study the causes of unsafe practices and put practical improvements in place to prevent errors in hospitals and nursing homes.

Maryland Health Insurance Plan: MHIP is a State-administered health insurance program operated by an independent unit within MIA. The plan is governed by a board of directors and financed through an assessment on hospital rates. Board members are entitled to reimbursement for expenses as provided in the State budget. Fiscal 2008 enrollment in MHIP is projected to be 9,000 at a cost of \$145.5 million.

Wellness Promotion: In an effort to stem increasing health insurance and medical costs, many employers offer health insurance premium discounts to enrollees who participate in wellness programs. In 1998, the U.S. Department of Labor estimated that premium discounts associated with wellness programs ranged from \$60 to \$500 and averaged \$240 per participant. Wellness programs include such things as smoking cessation, weight management, stress management, nutrition education, and prenatal education.

Other states have enacted legislation to provide wellness incentives. In 2006, Michigan enacted legislation requiring health insurance carriers to provide premium rebates to group health plans in which a majority of employees or members enroll and maintain participation in group wellness programs. The rebates apply to the individual policies of those who participate in the wellness programs. In 2004, New Hampshire authorized insurers in the small group and individual market to use a rating factor to discount premium rates for plans, giving monetary incentives for participants in wellness or disease management programs.

Task Force on Expanding Access to Affordable Health Care: Chapter 290 of 2005, as amended by Chapter 21 of 2006 established the Joint Legislative Task Force on Universal Access to Quality and Affordable Health Care. The task force is scheduled to terminate effective June 30, 2007.

State Fiscal Effect:

Coverage for Dependent Children: Expenditures for the State employee and retiree health insurance plan could increase by as much as \$3.9 million in fiscal 2008 (60% general funds, 20% federal funds, 20% special funds) to extend coverage to dependents beyond the current limiting age of the State plan (age 19 or age 23 if a full-time student). The information and assumptions used in calculating the estimate are stated below:

- DBM estimates that 9,966 dependents would be eligible to remain on the plan in fiscal 2008;
- approximately 75% of eligible individuals (7,475) will gain coverage elsewhere (i.e., marriage or employment);
- 2,492 individuals will remain on the plan at a total annual cost of \$1,976 per individual; and
- the State will pay 80% of the cost (\$1,581) for each individual, while employees will pay 20% of the cost (\$395).

Future year expenditures reflect 9% inflation.

Potential minimal special fund revenue increase for MIA from the \$125 rate and form filing fee in fiscal 2008. Additional resources may be required to review forms and ensure compliance with the mandate, depending on the volume of forms received for review.

Maryland Children's Health Program: DHMH expenditures could increase by \$1.9 million (50% general funds, 50% federal funds) in fiscal 2008 to expand eligibility for the MCHP premium plan to 400% FPG, which accounts for the bills July 1, 2007 effective date. The information and assumptions used in calculating the estimate are stated below:

- in 2008, approximately 5,871 uninsured Maryland children are in families with incomes between 301% and 400% FPG;
- 1,761 uninsured children (30%) will enroll in the MCHP premium plan;
- each newly enrolled child will have a total annual cost of \$1,907;
- the family of each newly enrolled child will pay an average annual family contribution of \$890;
- the federal match on these expenditures will be 50% rather than 65% as the State will exhaust its federal MCHP block grant by the end of fiscal 2007; and

- DHMH will incur the following personnel expenses to hire four full-time positions because existing resources are inadequate to handle an additional 1,761 enrollees annually.

Salaries and Fringe Benefits	\$161,503
Other Operating Expenses	<u>16,418</u>
Total	\$177,921

This estimate does not anticipate crowd out from families dropping private health insurance and enrolling their children in the MCHP premium plan as a child who has been eligible for employer-sponsored health insurance in the previous six months is ineligible for MCHP. To the extent that crowd out occurs in future years and additional children enroll in the program, the cost to the State will increase. Experience with the MCHP premium plan for families with incomes between 200% and 300% FPG suggests that crowd out will be minimal. The premium plan has been available since 2000 and current enrollment is only 11,000.

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; (3) 2% annual increases in enrollment; and (4) 6.5% inflation.

Maryland Health Insurance Exchange: MHIP will transfer from MIA to the exchange. Accordingly, MIA special fund expenditures will decrease by \$84.9 million in fiscal 2008 and exchange expenditures will increase by a corresponding amount. The MHIP fund balance, estimated to be \$125.5 million at the end of fiscal 2007, will also transfer to the exchange. The exchange will incur administrative expenditures; however, expenditures would not be paid by the State, but with revenues from fees on enrollees and carriers, including surcharges on health benefit plans offered through the exchange.

Maryland Institute for Health Care Quality: The bill specifies that funding for the Institute must come from member dues.

Hospital Pay-for-performance: HSCRC indicates that the commission could adopt hospital pay-for-performance regulations, establish quality standards and benchmarks, submit a report on a plan to identify whether there are racial and ethnic disparities in quality standards and performance benchmarks, and collaborate in seeking a proposal or proposals leading to the establishment of a regional health information exchange using existing resources.

Wellness Promotion: To the extent carriers provide incentives for participation in wellness programs and members subsequently participate, health care-related expenditures in the State could decrease. DBM indicates that it could develop and implement a wellness incentive pilot for State employees within existing budgeted resources.

Regional Health Information Exchange: The Governor's proposed fiscal 2008 budget for MHCC includes \$150,000 for MHCC and HSCRC to seek a proposal leading to the establishment of a regional health information exchange.

Task Force on Expanding Access to Affordable Health Care: DHMH could handle the requirements for staffing the task force with existing budgeted resources.

Additional Comments: HSCRC indicates that expansion of MCHP to 1,761 previously uninsured children could result in as much as \$573,000 in reduced hospital uncompensated care by fiscal 2010. This savings could be used to fund expansion of health insurance coverage or reduce hospital rates, which in turn reduces the cost of health insurance for all payors.

To the extent adult children remain covered under their parents' health insurance policies and avoid becoming uninsured, uncompensated care costs to hospitals and other health care providers could decrease.

Exhibit 1 displays the 2007 federal poverty guidelines by family size for 400% FPG.

Exhibit 1
2007 Federal Poverty Guidelines

<u>Family Size</u>	<u>400% FPG</u>
1	\$40,840
2	\$54,760
3	\$68,680
4	\$82,600

Additional Information

Prior Introductions: HB 882 of 2006, which was withdrawn, would have required insurers to permit a child to continue to be covered under a parent's policy after the child meets the limiting age specified in the contract up to the age of 30, if the child has had continuous coverage for at least two years prior to reaching the limiting age. SB 530 of 2006 would have created the Maryland Health Insurance Exchange within MHCC to provide a choice of health insurance plans to participating individuals and employer groups. SB 530 received an unfavorable report from the Senate Finance Committee.

Cross File: SB 149 (The President, *et al.*) (By Request – Administration) – Finance.

Information Source(s): Department of Health and Mental Hygiene; Maryland Insurance Administration; Department of Budget and Management; *Health Insurance Coverage in Maryland Through 2005*, Maryland Health Care Commission, January 2007; Department of Legislative Services.

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