Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 754 (Delegate Hammen, *et al.*)

Health and Government Operations and Ways and Means | Finance and Budget and Taxation

---

Children and Working Families Health Care Act of 2007

This bill expands eligibility for Medicaid and the Maryland Children's Health Program (MCHP) and requires each health insurance policy or contract issued in the State to allow an insured to elect to continue coverage for a "child dependent" beyond the limiting age of the plan. These efforts are funded primarily by a $1.00 increase in the tobacco tax.

The bill takes effect June 1, 2007.

Fiscal Summary

State Effect: Tobacco tax revenues increase by a total of $220.6 million in FY 2008 from raising the tax on cigarettes. Tobacco tax revenues of $219.9 million go to the Health Care Coverage Fund in FY 2008. General fund revenues from tobacco taxes increase by $815,000 in FY 2008 due to mandated funding required by the bill. Future year estimates reflect a decline in tobacco tax revenues from fewer sales and inflation. Medicaid and MCHP expenditures from the fund would be $79.3 million (50% special funds, 50% federal funds) in FY 2008. Coverage for child dependents and administrative and personnel costs are included in the amounts below.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	$.8	($.5)	($1.8)	($3.2)	($4.6)
SF Revenue	219.9	160.4	150.4	140.8	131.4
GF Expenditure	2.7	3.0	3.3	3.5	3.8
SF Expenditure	50.1	197.9	257.7	286.8	318.8
FF Expenditure	40.4	188.3	248.2	277.3	309.3
Net Effect	$127.5	($229.2)	($360.6)	($430.0)	($505.1)

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

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

Small Business Effect: Meaningful. Potential significant increase in health expenditures to cover child dependents beyond the limiting age of the plan.

Analysis

Bill Summary:

Tobacco Tax: The bill doubles the tobacco tax from $1.00 to $2.00 per pack of 20 cigarettes, from $0.50 to $1.00 per pack of 10 cigarettes, from $0.05 to $0.10 for each cigarette in a package over 20, and from $0.05 to $0.10 for each cigarette in a free sample. The bill includes a floor tax.

Other Funding Provisions: On or after July 1, 2009, if the expansion of health care coverage under the bill reduces hospital uncompensated care, the Health Services Cost Review Commission (HSCRC) (1) may assess an amount in hospital rates equal to a portion of the savings; and (2) must adjust rates to return savings to payors. HSCRC must determine the savings in averted uncompensated care for each hospital individually. Each hospital must remit any assessment to the Health Care Coverage Fund. HSCRC and the Department of Health and Mental Hygiene (DHMH) must also develop a mechanism to calculate the amount of averted hospital uncompensated care resulting from the expansion of Medicaid and MCHP under the bill. The bill specifies that if the State's Medicare waiver terminates, the rate assessment under the bill terminates.

The bill authorizes the Maryland Health Insurance Plan Board to transfer monies received from the assessment on hospitals to the Health Care Coverage Fund to be used for any purpose eligible for support by the fund.

The bill requires any unspent amounts remaining in the Maryland Health Care Provider Rate Stabilization Account at the end of fiscal 2007 to be transferred to the Health Care Coverage Account and authorizes monies from the Maryland Health Care Provider Rate Stabilization Fund to be used to expand health care coverage of low- and moderate-income individuals. The bill authorizes any balance remaining in the fund at the end of fiscal 2007 or 2008 to be transferred to the Health Care Coverage Fund. The bill specifies that only $15.0 million in the Rate Stabilization Account must be used for medical malpractice rate reductions, credits or refunds in calendar 2008, and that $10.0 million must be paid to the Health Care Coverage Fund.

Health Care Coverage Fund: The fund consists of:

- monies generated from the increased tobacco tax;
- $75.0 million transferred from the Maryland Health Insurance Plan (MHIP);
- monies transferred from the Maryland Health Care Provider Rate Stabilization Account;
- monies transferred from the Maryland Health Care Provider Rate Stabilization Fund;
- monies collected from any assessment by HSCRC on hospitals; and
- investment earnings.

The fund may be used only for:

- expanding Medicaid eligibility to parents with incomes up to 116% FPG;
- expanding Medicaid eligibility to childless adults with incomes up to 116% FPG;
- expanding MCHP eligibility to individuals with incomes above 300% FPG but at or below 400% FPG; and
- providing an operating grant appropriation to the Prince George's County Hospital Authority.

The fund is subject to audit by the Office of Legislative Audits.

The bill further authorizes that in fiscal 2008 through 2012, up to $10.0 million annually may be transferred from the Health Care Coverage Fund to DHMH to provide a special fund operating grant to the Prince George's Hospital Authority. This provision is contingent on the passage of HB 510 of 2007, which would establish the authority.

Medicaid: The bill expands Medicaid coverage to parents with a dependent child living with them and childless adults with annual household incomes up to 116% FPG. Coverage for parents takes effect January 1, 2008, while coverage for childless adults takes effect October 1, 2008. DHMH may limit the benefit package offered to adults who do not meet requirements for a federal category of eligibility for Medicaid. Coverage of childless adults and the offering of a limited benefit package are contingent upon approval of a Medicaid waiver amendment by the federal Centers for Medicare and Medicaid Services (CMS).

Maryland Children's Health Program: Eligibility for the MCHP premium plan is expanded to all income levels. The bill repeals the current requirement that families contribute an annual premium of 2% of annual income and requires DHMH to establish an annual family contribution that is reasonable, according to family income, and encourages enrollment of all eligible individuals. Eligible individuals with a family income over 400% FPG must pay the full benefit cost. DHMH is authorized to provide incentives to families of eligible children to enroll the child in available employer-sponsored health insurance.

Continuation of Coverage for Dependent Children: The bill requires each health insurance policy or contract issued in the State to allow an insured to elect to continue coverage for a child dependent beyond the limiting age of the plan. A child dependent is permitted to remain on the policy or contract until the earliest of:

- the end of the month in which the child dependent turns 25;
- the child dependent accepts coverage under another health benefit plan;
- the child dependent becomes eligible for employer-sponsored coverage other than as a child dependent;
- a parent elects to terminate coverage for the child dependent; or
- a parent's coverage is terminated.

Any premium charged for the continuation of coverage of a child dependent under the bill may not exceed the amount charged for a dependent of the insured who has not reached the limiting age.

Hospital Pay-for-performance: By July 1, 2008, HSCRC must adopt regulations that provide incentives within hospital payment standards for adherence to quality standards and achievement of performance benchmarks. HSCRC must 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) and the Office of Health Care Quality.

Wellness Promotion: Uncodified language requires the Department of Budget and Management (DBM) 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 implementation plan for the pilot program by January 1, 2008 and implement the plan beginning July 1, 2008.

Chronic Care Management: Uncodified language 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.

Health Insurance Exchange Study: Uncodified language requires MHCC in consultation with the Maryland Insurance Administration to conduct a study of the feasibility and desirability of establishing a health insurance exchange to promote expansion of affordable health care coverage in the State. MHCC must report by January 1, 2008 on the results of its study.

Current Law:

Medicaid, MCHP, and the Maryland Primary Adult Care (MPAC) Program: An adult may qualify for Medicaid if the adult is: (1) aged, blind, or disabled; (2) in a family where one parent is absent, disabled, unemployed, or underemployed; or (3) a pregnant woman. Adults must also have very low incomes to qualify for Medicaid (about 46% FPG). MCHP covers children with family incomes up to 300% FPG and pregnant women with incomes up to 250% FPG. MPAC provides primary care, pharmacy, and outpatient mental health benefits to individuals aged 19 and over with incomes up to 116% FPG. MPAC does not cover inpatient hospital, emergency room, or specialty care services.

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.

Background:

Medicaid: The Kaiser Commission on Medicaid and the Uninsured reports that the national median income threshold for parents applying for Medicaid is 42% FPG for nonworking parents and 65% FPG for working parents, while income thresholds in Maryland are 31% FPG and 38% FPG, respectively. In contrast, most states cover children whose family income is up to 200% FPG.

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 two at 200% FPG (about $548 per year), for families earning up to 250% FPG; or (2) a family of two 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.

Continuation of Coverage for Dependent Children: Young adults, ages 19-24, have one of the highest risks of being uninsured in Maryland, primarily because they are the least likely to have access to employer sponsored health insurance coverage. In 2004-2005, 26% of individuals in this age group (about 110,000 individuals) did not have health insurance coverage.

State Fiscal Effect: **Appendix 1** summarizes the revenues and expenditures associated with the bill.

Tobacco Tax: The bill increases the tobacco tax on cigarettes from $1.00 to $2.00 a pack. The State imposes a 5% sales tax on the price (including stamp tax) of cigarettes. Any excise tax increase will increase sales and use tax revenues as well. These sales and use tax revenues will be deposited into the State's general fund as provided under current law.

As shown in **Exhibit 1**, tobacco tax revenues increase by a total of $220.7 million in fiscal 2008, which accounts for the June 1, 2007 effective date. This figure includes $111,400 in additional sales tax revenues – the sales tax revenue from the higher price is almost entirely offset by lower cigarettes sales volume resulting from the price increase. This estimate includes $16.6 million in revenues from a floor tax and $14.3 million from the tobacco tax increase in June 2007.

Exhibit 1
Revenue Increase from a $1.00 Increase in the Tobacco Tax
Fiscal 2008

Tobacco Tax	$204.0 million
Floor Tax	16.6 million
Sales Tax	0.1 million
Total	**$220.7 million**

The bill requires that $289 million of tobacco tax revenues be distributed to the general fund. This is about $700,000 more than the current estimates for fiscal 2008 under the existing tobacco tax rate. In future years, the net impact of the bill on the general fund is negative due to a reduction in sales tax revenues from the decline in cigarette sales.

Special fund revenues for the Health Care Coverage Fund would be $219.9 million in fiscal 2008 from the increase in tobacco taxes. This estimate assumes that cigarette consumption would decline by 19% due to the $1.05 price increase per pack of cigarettes. Future years assume the tobacco tax is $161.0 million in fiscal 2009 and then declines by about 2.5% annually.

Medicaid Expansion: Assuming CMS waiver approval, Medicaid expenditures could increase by $76.6 million (50% special funds, 50% federal funds) in fiscal 2008 to expand Medicaid coverage to parents with household incomes up to 116% FPG, effective January 1, 2008. The information and assumptions used in calculating the estimate are stated below:

- an estimated 189,122 Marylanders with incomes up to 116% FPG will be uninsured in 2008, of whom 40,163 are parents;
- 12,049 uninsured parents will enroll in Medicaid;
- 11,481 individuals will drop their private health insurance and enroll in Medicaid (“crowd-out effect”);
- 75% of newly enrolled parents will have an annual cost of $4,775;
- 25% of newly enrolled parents will have an annual cost of $6,197;
- 5,198 children, already eligible for Medicaid, will enroll (“woodwork effect”) at an annual cost of $1,907 per child;

- approximately 7,200 parents currently covered in the MPAC program (one-third of MPAC enrollees) will receive full benefits, but are already included in the numbers of new enrollees;
- expenditures would be offset by $24.6 million, one-third of the Governor's proposed fiscal 2008 budget for MPAC; and
- DHMH will incur the following personnel expenses to hire four full-time data processing program analysts to modify reporting requirements, eligibility, claims, and computer subsystems. Legislative Services assumes that these individuals would be hired July 1, 2007 to make the required changes by January 1, 2008.

Salaries and Fringe Benefits	$258,904
Other Operating Expenses	27,900
Total	**$286,804**

Additionally, administrative expenditures for the Department of Human Resources are anticipated to increase by approximately $677,483 (50% special funds/50% federal funds) in fiscal 2008 to hire 18.2 full-time equivalent staff to conduct Medicaid eligibility determination at local departments of human services. Legislative Services assumes that these individuals would be hired October 1, 2007 in order to be trained and ready to conduct eligibility determinations for parents beginning January 1, 2008.

Salaries and Fringe Benefits	$595,733
Other Operating Expenses	81,749
Total	**$677,483**

Future year estimates reflect (1) implementation of Medicaid coverage for childless adults with household incomes up to 116% FPG effective October 1, 2008; (2) full salaries with 4.5% annual increases and 3% employee turnover; (3) 1% annual increases in ongoing operating expenses; (4) increased enrollment (1% population growth and 2% annual increase in enrollment rate for adults); and (5) 6.5% medical inflation in the Medicaid program. Future year expenditures are offset by savings from discontinuation of the MPAC program.

Maryland Children's Health Program: DHMH expenditures could increase by $1.9 million (50% special funds, 50% federal funds) in fiscal 2008 to expand eligibility for the MCHP premium plan to 400% FPG, which accounts for the bill's June 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	16,418
Total	**$177,921**

To the extent the number of eligible enrollees is higher than this estimate or the family contribution imposed by DHMH is lower, the fiscal effect could be higher.

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.

The Governor's proposed fiscal 2008 Supplemental Budget No. 2 includes $6.0 million (65% federal funds, 35% general funds) to fund expansion of MCHP eligibility to 400% FPG, including four new positions. This funding is contingent upon legislation to expand eligibility from 300% to 400% FPG.

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.

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 child 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 child dependents would be eligible to remain on the plan in fiscal 2008;
- approximately 75% of eligible child dependents (7,475) will gain coverage elsewhere (*i.e.*, marriage or employment);
- 2,492 child dependents 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 child dependent, while employees will pay 20% of the cost ($395).

Future year expenditures reflect 9% inflation.

Potential minimal special fund revenue increase for Maryland Insurance Administration (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.

Hospital Pay-for-performance: HSCRC indicates that the commission could adopt hospital pay-for-performance regulations, establish quality standards and benchmarks, and submit a report on a plan to identify whether there are racial and ethnic disparities in quality standards and performance benchmarks.

Wellness Promotion: DBM indicates that it could develop and implement a wellness incentive pilot for State employees within existing budgeted resources.

Health Insurance Exchange Study: MHCC special fund revenues and expenditures would increase by $200,000 in fiscal 2008 to hire a contractor for data collection and analysis for the study required under the bill.

Exhibits 2 and 3 display the projected number of individuals who would gain access to health insurance upon full implementation of the bill, the corresponding proportion of uninsured, and the anticipated number of individuals who would enroll in available insurance options.

Exhibit 2
Projected Access and Enrollment
Expansion of Medicaid Eligibility to 116% FPG[1]

Access Expanded To	154,472 adults
Percentage of Uninsured	19.2%
New Enrollees	69,821 adults (45,724 childless adults 24,098 parents)
Crowd-out Enrollees	16,151 adults 7,766 children
"Woodwork" Effect Enrollees	10,395 children
Total Enrollees	85,973 adults 18,161 children

[1]Estimates reflect access and enrollment for a full year; however, the bill expands access to parents effective January 1, 2008 and childless adults effective October 1, 2008.

Exhibit 3
Projected Access and Enrollment
Expansion of MCHP to All Incomes[1]

Access Expanded To	33,372 children[2]
Percentage of Uninsured	4.2%
New Enrollees at 300-400% FPG	5,871 children[3]

[1] Enrollees with household incomes over 400% FPG pay the full-cost of the program.
[2] Estimated number of uninsured children over 300% FPG in 2008.
[3] There are an estimated 27,501 uninsured children in families with incomes over 400% FPG, but it is not known how many will choose to purchase MHCP.

Additional Comments: HSCRC indicates that full implementation of the expansion of Medicaid and MCHP under the bill could result in $145.0 million per year in reduced hospital uncompensated care. The total amount of savings achieved will depend upon program enrollment, including whether DHMH can secure a waiver from CMS to cover childless adults. A portion of the savings would be returned through reduced hospital rates to payors as required by the bill, resulting in an overall reduction in health insurance costs. Additional funds would be paid to the Health Care Coverage Fund to support funding of the Medicaid and MCHP expansion in future years. As shown in **Appendix 1**, Legislative Service assumes that half of the anticipated savings would accrue to the Health Care Coverage Fund.

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.

The bill requires $75 million from the MHIP Fund and any fiscal 2007 balance in the Maryland Health Care Provider Rate Stabilization Account to be transferred to the Health Care Coverage Fund. The MHIP fund balance is anticipated to be $125.5 million at the end of fiscal 2007. According to MIA, the current fund balance for the account is $14.2 million. In addition, the bill authorizes the transfer of any balance in the Maryland Health Care Provider Rate Stabilization Fund at the end of fiscal 2007 and 2008 to be transferred to the Health Care Coverage Fund. The current balance is $22.3 million. However, due to projected revenue shortfalls in fiscal 2007 and 2008, MIA anticipates the available fund balance to be only $9.65 million.

Exhibit 4 displays 2007 FPG's by family size.

Exhibit 4
2007 Federal Poverty Guidelines

Family Size	116% FPG	300% FPG	400% FPG	500% FPG
1	$11,844	$30,630	$40,840	$51,050
2	$15,880	$41,070	$54,760	$68,450
3	$19,917	$51,510	$68,680	$85,850
4	$23,954	$61,950	$82,600	$103,250

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): *Health Insurance Coverage in Maryland Through 2005*, Maryland Health Care Commission, January 2007, *Resuming the Path to Health Coverage for Children and Parents: A 50 State Update on Eligibility Rules, Enrollment and Renewal Procedures, and Cost-Sharing Practices in Medicaid and SCHIP in 2006,* Kaiser Commission on Medicaid and the Uninsured, January 2007, Comptroller's Office, Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

Fiscal Note History: First Reader - February 16, 2007
mll/jr Revised - Correction - February 22, 2007
Revised - House Third Reader - March 28, 2007

Analysis by: Jennifer B. Chasse

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix 1
Revenues and Expenditures under HB 754
Fiscal 2008-2012
($ in Thousands)

	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
State Revenues					
Tobacco Tax to Health Care Coverage Fund	$219,869	$160,431	$150,429	$140,788	$131,410
Net Impact of Tobacco Tax on General Fund	815	(512)	(1,850)	(3,208)	(4,607)
Federal Revenues					
Federal Matching Funds[1]	40,425	188,293	248,201	277,257	309,291
Potential Other Revenues					
MHIP Balance	75,000	0	0	0	0
Hospital Uncompensated Care Savings[2]	0	0	72,500	72,500	72,500
Maryland Health Care Provider Rate Stabilization Fund[3]	23,850	10,000	0	0	0
Expenditures					
Medicaid Expansion[4]	77,305	372,754	492,266	550,058	613,788
MCHP Expansion[4]	1,969	2,115	2,264	2,416	2,571
Grant to Prince George's Hospital Authority[5]	10,000	10,000	10,000	10,000	10,000
State Plan Cost to Cover Dependents to Age 25[6]	3,939	4,293	4,679	5,101	5,560
Balance of the Health Care Coverage Fund[7]	**$269,082**	**$242,078**	**$207,742**	**$134,793**	**$20,523**

[1] Includes matching for all programs.
[2] Estimates assume a 50/50 split of savings between the fund and hospital rate payors.
[3] Includes $14.2 million from the Rate Stabilization Account and an estimated $9.65 million from the fund.
[4] Total funds including administrative costs and federal match.
[5] Funding is contingent upon the passage of HB 510 of 2007.
[6] Total funds including special, general, and federal funds.
[7] Fiscal 2008 balance of $269 million. Future years represent surplus funds after spending, including any prior year balance. Figures do not include net impact on general fund or revenues or expenditures associated with the State plan.