

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Special Session

**FISCAL AND POLICY NOTE**

House Bill 6 (The Speaker) (By Request – Administration)  
 Health and Government Operations

**Working Families and Small Business Health Coverage**

This Administration bill • expands eligibility for Medicaid to parents and caretaker relatives with a dependent child living in the home and annual household incomes up to 116% Federal Poverty Guidelines (FPG); • incrementally expands Medicaid benefits to childless adults with annual household incomes up to 116% FPG, including current Primary Adult Care Program enrollees; and • establishes a Small Employer Health Insurance Premium Subsidy Program.

The bill takes effect January 1, 2008.

**Fiscal Summary**

**State Effect:** In FY 2008, the Department of Human Resources could incur \$3.0 million in administrative expenses (50% general funds/50% federal funds) to prepare for the Medicaid expansion. In FY 2009, Medicaid expenditures increase by \$153.3 million (48% special funds/37% federal funds/16% general funds) to expand coverage to parents and caretaker relatives. General fund expenditures increase by \$30 million to fund the Small Employer Health Insurance Program. Special fund revenues increase by \$75 million to reflect a transfer from the Maryland Health Insurance Plan Fund. Future years reflect special fund revenues and expenditures related to the hospital assessment, incremental expansion of Medicaid benefits to childless adults, enrollment growth, administrative costs, and inflation.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	\$0	\$75.0	\$51.6	\$65.5	\$123.7	\$184.5
GF Expend.	1.5	52.1	111.7	161.8	289.3	280.2
SF Expend.	0	75.0	51.6	65.5	123.7	184.5
FF Expend.	1.5	56.6	106.0	162.6	317.4	337.0
Net Effect	(\$3.0)	(\$108.7)	(\$217.7)	(\$324.4)	(\$606.7)	(\$617.2)

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

**Local Effect:** Minimal to none.

**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.

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## Analysis

### Bill Summary:

*Medicaid:* Eligibility for Medicaid is expanded to parents, caretaker relatives, and childless adults with incomes up to 116% FPG effective July 1, 2008. The current Primary Adult Care Program (PAC) is repealed as the population served by the program gains eligibility for Medicaid. Full Medicaid benefits will be provided to parents and caretaker relatives; however, the Department of Health and Mental Hygiene (DHMH) is authorized to cap enrollment and limit the benefit package for childless adults.

In fiscal 2009, benefits for childless adults must be at least equivalent to those offered under PAC. The bill provides that, to the extent funds are provided in the State budget, benefits for childless adults will be phased in as follows:

- in fiscal 2010, specialty medical care and hospital emergency department services;
- in fiscal 2011, outpatient hospital services;
- in fiscal 2012, inpatient hospital services with limits either on benefits or the number of individuals receiving benefits; and
- in fiscal 2013, full Medicaid benefits, with limits either on benefits or the number of individuals receiving benefits.

In fiscal 2010 through 2012, it is the intent of the General Assembly that benefit expansion occur upon attainment of specified combined total general fund and Education Trust Fund revenues as submitted in the Governor's proposed budget. Coverage of childless adults and the offering of a limited benefit package are also contingent upon a waiver from the federal Centers for Medicare and Medicaid Services.

*Small Employer Health Insurance Premium Subsidy Program:* The bill establishes a program administered by the Maryland Health Care Commission (MHCC), in consultation with DHMH, that will provide two forms of subsidies: one for small employers and their employees if the employer has *not* offered health insurance for at least 12 consecutive months and one for small employers that *have* offered health insurance.

To be eligible for either subsidy, a small employer must, at the time of initial application for the subsidy • have from two to nine full-time employees; • meet salary and wage requirements determined by MHCC; • establish a certain payroll deduction plan; • agree to offer a bona fide wellness program, as required by MHCC; and • meet any other requirements established by MHCC.

A subsidy may not exceed the lower of 50% of the employer contribution or an amount established by MHCC. Subsidies may be calculated on a sliding scale and altered according to the number of employees.

The total amount of subsidies provided is subject to the limitations of the State budget. It is the intent of the General Assembly that two-thirds of subsidy funding be used for small employers that have not offered health insurance and one-third for small employers who currently offer health insurance.

*Uncompensated Care Savings:* 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) • may assess an amount in hospital rates equal to a portion of the resulting savings; and • must adjust rates to return savings to payors. Each hospital must remit any assessment to the Health Care Coverage Fund. HSCRC and DHMH have to develop a mechanism to calculate the amount of averted hospital uncompensated care resulting from the expansion of health care coverage under the bill.

*Health Care Coverage Fund:* The bill establishes a Health Care Coverage Fund that may be used only for expanding Medicaid eligibility for parents, caretaker relatives, and childless adults up to 116% FPG and the Small Employer Health Insurance Premium Subsidy Program.

The fund consists of • \$75 million from the Maryland Health Insurance Plan Fund, which may be transferred to the fund by budget amendment in fiscal 2009; • moneys collected from any HSCRC hospital assessment of uncompensated care savings achieved under the bill; • investment earnings; and • any other moneys from any other source accepted for the benefit of the fund. Funds may be appropriated from the fund by budget amendment in fiscal 2009 for the expansion of Medicaid eligibility and the Small Employer Health Insurance Premium Subsidy Program. Money from the fund shall supplement and may not supplant funding for Medicaid. The fund is subject to audit by the Office of Legislative Audits.

*Insurance Producers:* The bill requires licensed insurance producers to provide, on request or whenever a small employer purchases or renews a health insurance policy, information about bona fide wellness programs, and the tax advantages of a payroll deduction plan.

*Wellness Program:* On or before March 1, 2008, MHCC must propose regulations to

- specify the components of a bona fide wellness program offered in the small group health insurance market;
- require carriers in the small group market to offer a bona fide wellness program; and
- require small employers applying for a subsidy under the Small Employer Health Insurance Premium Subsidy Program to purchase a bona fide wellness program.

### **Current Law/Background:**

*Medicaid, the Maryland Children's Health Program (MCHP), and PAC:* An adult may qualify for Medicaid if the adult is

- aged, blind, or disabled;
- in a family where one parent is absent, disabled, unemployed, or underemployed; or
- 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. PAC provides primary care, pharmacy, and outpatient mental health benefits to individuals aged 19 and over with incomes up to 116% FPG. For fiscal 2008, PAC enrollment is approximately 30,000 individuals.

*Caretaker Relatives:* A caretaker relative is defined in Maryland regulations as a parent or other person related by blood, marriage, or adoption and living with and caring for an unmarried child younger than 21 years old who is deprived of parental support due to death, continued absence from the home, incapacitation of a parent, or unemployment of the principal wage earner parent.

*Hospital Uncompensated Care:* Hospital uncompensated care is reimbursed through Maryland's all-payor system. An uncompensated care component is built into each hospital's rates. Therefore, all payors of hospital care, including Medicare, Medicaid, commercial payors, and others finance uncompensated care when they pay for hospital services. Certain hospitals with high levels of uncompensated care receive additional funding through the Uncompensated Care Fund. These funds are collected from a fee imposed on the gross profits of hospitals and redistributed to hospitals based on their proportional share of uninsured individuals treated. In fiscal 2007, hospitals received \$700 million for uncompensated care through the rate structure and \$78 million from the fund. Hospital costs are split among payors at approximately 44% commercial, 37% Medicare, and 18% Medicaid (50% general funds/50% federal funds).

*Payroll Deduction Plans:* A section 125 or "cafeteria" plan allows employees to withhold a portion of their pre-tax earnings to cover certain medical or child care expenses. Benefits are not subject to federal or State taxes, thereby reducing an employee's taxable income and increasing the percentage of their take-home pay.

*Bona Fide Wellness Programs:* Bona fide wellness programs prevent or detect disease or illness, reduce or avoid poor clinical outcomes, prevent complications from medical conditions, or promote healthy behaviors and lifestyle choices.

**State Fiscal Effect:** Exhibit 1 summarizes the projected expenditures and funding sources associated with the bill.

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**Exhibit 1**  
**Projected Expenditures and Funding Sources**  
**Fiscal 2009-2013**  
**(\$ in Thousands)\***

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>Expenditures</u></b>					
Medicaid Expansion – Parents <sup>1</sup>	\$152,691	\$168,395	\$185,555	\$204,299	\$224,764
Medicaid Expansion – Childless Adults	0	69,024	171,624	492,326	545,146
Medicaid Expansion – Administration	2,631	3,439	4,731	7,543	7,379
Small Employer Health Insurance Premium Subsidy Program	30,000	30,000	30,000	30,000	30,000
General Fund Savings <sup>2</sup>	0	(1,548)	(1,965)	(3,711)	(5,536)
<b><u>Total Expenditures</u></b>	<b>\$185,322</b>	<b>\$269,310</b>	<b>\$389,945</b>	<b>\$730,457</b>	<b>\$801,753</b>
<b><u>Funding Sources</u></b>					
MHIP Balance	\$75,000	\$0	\$0	\$0	\$0
Projected Federal Match on MHIP Balance <sup>3</sup>	33,000	0	0	0	0
Projected Hospital Uncompensated Care Savings	0	51,607	65,500	123,708	184,543
Projected Federal Match on Uncompensated Care Savings <sup>3</sup>	0	22,707	28,819	54,431	81,199
General Funds <sup>4</sup>	53,611	111,724	161,830	289,303	280,237
Federal Funds Medicaid Match	23,611	83,271	133,796	263,015	255,774
<b><u>Total Funding Sources</u></b> <sup>5</sup>	<b>\$185,322</b>	<b>\$269,310</b>	<b>\$389,945</b>	<b>\$730,457</b>	<b>\$801,753</b>

\*Exhibit does not include \$3.0 million (50% general funds/50% federal funds) in administrative expenses for the Department of Human Resources in fiscal 2008.

<sup>1</sup> Includes the cost of children who enroll with the parent or caretaker relative.

<sup>2</sup> Reflects general fund savings to Medicaid from reduced hospital rates.

<sup>3</sup> Assumes a 44% federal matching rate.

<sup>4</sup> Includes \$30 million annually for the subsidy program and the general fund share of the Medicaid expansions (\$24.9 million in fiscal 2009).

<sup>5</sup> Medicaid expansions not assumed to be funded with the typical 50% general funds/50% federal funds split due to reduced federal matching rate on MHIP fund balance and uncompensated care savings.

*Medicaid Expansion:* In fiscal 2008, the Department of Human Resources (DHR) could incur \$3.0 million (50% general funds/50% federal funds) in administrative expenditures to reprogram the Clients Automated Resource and Eligibility System (CARES) and hire and train 40 new positions (eligibility workers) in the local departments of social services to accept and process Medicaid applications from parents and caretaker relatives. DHR indicates that eligibility workers would be hired effective April 1, 2008.

Reprogramming of CARES	\$2,500,000
Salaries and Fringe Benefits	503,338
Other Operating Expenses	<u>2,100</u>
<b>Total</b>	<b>\$3,005,438</b>

Medicaid expenditures could increase by \$153.3 million (48% special funds/37% federal funds/16% general funds) in fiscal 2009 to expand Medicaid coverage to parents and caretaker relatives with household incomes up to 116% FPG. A full 50% federal match is not anticipated as \$75 million in expenditures would come from the MHIP fund balance. As the federal government already contributed to this balance through payment of hospital rates, a lower match of 44% is anticipated.

This figure includes the following administrative expenses for DHMH to pay third-party enrollment broker and pharmacy vendor costs for new enrollees.

Enrollment Broker Fees	\$319,933
Pharmacy Vendor Fees	<u>289,413</u>
<b>Total</b>	<b>\$609,346</b>

Additionally, administrative expenditures for DHR are anticipated to be \$2.0 million (50% general funds/50% federal funds) in fiscal 2009 to continue funding 40 eligibility workers in the local departments of social services hired in the last quarter of fiscal 2008.

Salaries and Fringe Benefits	2,013,353
Other Operating Expenses	<u>8,400</u>
<b>Total</b>	<b>\$2,021,753</b>

Future year estimates reflect • incremental expansion of full Medicaid benefits to childless adults through fiscal 2013, as specified under the bill; • full salaries with 4.5% annual increases and 3% employee turnover; • 1% annual increases in ongoing operating expenses; • increased enrollment (1% population growth and 2% annual increase in enrollment rate for adults); and • 6% medical inflation. While the bill authorizes DHMH to limit either benefits to childless adults or the number of childless adults receiving

benefits in fiscal 2012 and 2013, future year estimates assume full benefits without an enrollment cap.

In fiscal 2009, the Medicaid expansion is projected to cover 36,420 individuals: 16,605 previously uninsured parents and caretaker relatives, 10,609 children already eligible for, but not enrolled in the Medicaid program, and 9,206 individuals already insured at some level that would drop their coverage and enroll in Medicaid (“crowd-out”). Projected total enrollment figures under the bill are shown in **Exhibit 2**.

In future years, Medicaid expenditures increase significantly due to the expansion of additional benefits to childless adults, including the 30,000 individuals enrolled in PAC in fiscal 2008. While access to full Medicaid is expanded to only 16,605 parents and caretaker relatives in fiscal 2009, by fiscal 2013 full benefits will be available to 71,711 individuals (19,655 parents and caretaker relatives and 52,056 childless adults, including the 30,000 PAC enrollees). Full Medicaid enrollment in fiscal 2013 will also include 13,984 eligible, but not enrolled children and 20,601 “crowd-out” enrollees.

*Small Employer Health Insurance Premium Subsidy Program:* According to DHMH, general fund expenditures could increase by \$30 million beginning in fiscal 2009 to implement the program, including an estimated \$222,654 in MHCC administrative expenses for one new position (clerk), establishing and maintaining a MHCC central application registry, and performing internal and external audits. Future year estimates reflect flat funding. As shown in Exhibit 2, DHMH estimates that approximately 10,000 small business employees will gain access to health insurance annually under the bill.

As shown in **Exhibit 3**, in fiscal 2009, 38,552 currently uninsured individuals, including 28,552 parents and caretaker relatives and 10,000 small business employees, gain new access to insurance under the bill. Only an estimated 26,605 of these individuals (16,605 parents and caretaker relatives and all 10,000 small business employees) are projected to enroll. Of the total uninsured in fiscal 2009, 24,754 children already eligible for Medicaid will not enroll. An additional 10,609 children, already eligible for Medicaid, are anticipated to enroll with their newly eligible parents and caretaker relatives. Furthermore, 80,933 childless adults will be eligible for or enrolled in PAC, but receive only a limited benefit.

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**Exhibit 2**  
**Projected Total Enrollment under HB 6<sup>1</sup>**  
**Fiscal 2009-2013**

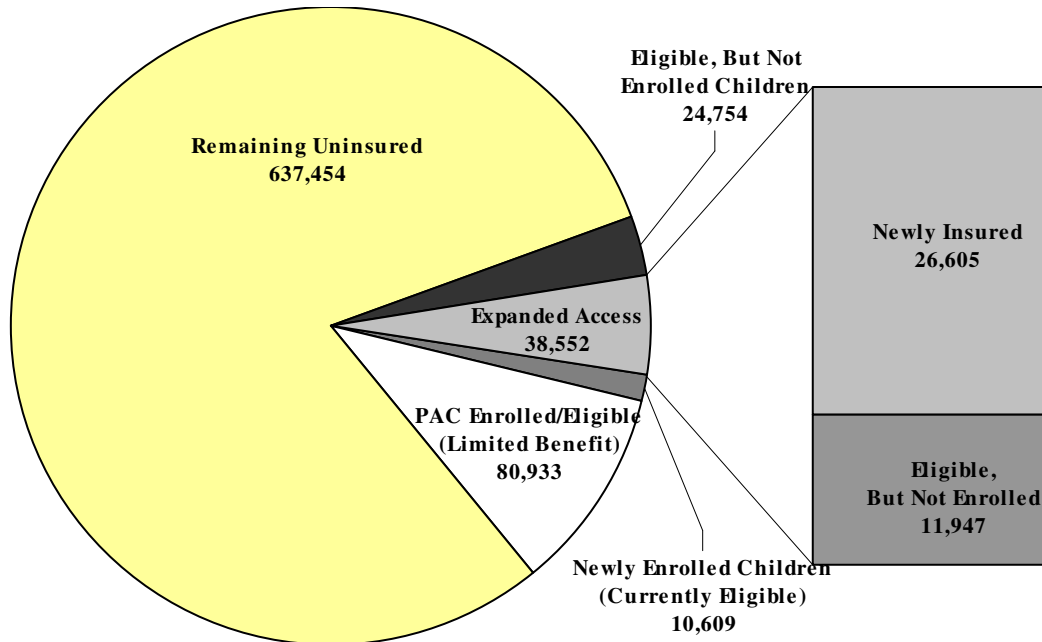
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Newly Insured Parents/Caretaker Relatives – Medicaid	16,605	17,347	18,103	18,872	19,655
Newly Insured Adults – Small Business Health Insurance Subsidy Program	10,000	10,000	10,000	10,000	10,000
Newly Enrolled Children – Medicaid (Previously Eligible for Medicaid)	10,609	11,429	12,265	13,116	13,984
Crowd-out Enrollees – Medicaid (Previously Insured) <sup>2</sup>	9,206	9,299	9,391	20,397	20,601
Childless Adults Who Gain Expanded Benefits – (Previously Eligible for PAC)	0	36,344	42,839	49,489	52,056
<b>Total Enrollment</b>	<b>46,420</b>	<b>84,509</b>	<b>92,598</b>	<b>111,874</b>	<b>116,296</b>

<sup>1</sup> Assumes take-up rates of 80% for parents with enrolled children, 30% for parents without enrolled children, and 30% for children in fiscal 2009 with an annual 2% increase thereafter; and 0%, 10%, 20%, 30%, and 32% over the five years for childless adults.

<sup>2</sup> Assumes that 10% of eligible individuals with group insurance and 15% of eligible individuals with direct purchase insurance will drop coverage and enroll.

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**Exhibit 3**  
**Projected Expanded Access and Enrollment**  
**as a Proportion of Total Uninsured**  
**Fiscal 2009**



**Uncompensated Care Savings:** As shown in Exhibit 1, a significant portion of projected funding for the bill comes from an assessment on hospitals equal to a portion of uncompensated care savings and the federal match on any savings reinvested in Medicaid.

DHMH indicates that the value of the assessment can be projected using a proxy equivalent to 50% of spending on newly insured individuals and 83% of spending on new hospital benefits for childless adults in fiscal 2010 and 2011. Legislative Services notes that the actual assessment to be captured under the bill would be based on the *resulting savings* realized in hospital uncompensated care. To the extent that actual savings are lower than projected spending, fewer special funds would be available to finance the bill.

According to DHMH, 75% of assessment revenues will be redirected toward expansion efforts the following year. The remaining 25% will be returned to payors through reduced hospital rates. **Exhibit 4** displays the anticipated amount by which hospital rates will be reduced and the proportion of savings that would accrue to payors based on their share of hospital spending. Half of Medicaid savings would accrue to the State.

**Exhibit 4**  
**Anticipated Savings from Reduction in Hospital Rates**  
**Resulting from Uncompensated Care Savings<sup>1</sup>**  
**Fiscal 2010-2013**

	<u>%</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Commercial Payors	44%	\$7,569,003	\$9,606,648	\$18,143,803	\$27,066,349
Medicare	37%	6,364,844	8,078,318	15,257,289	22,760,339
Medicaid	18%	3,096,410	3,929,993	7,422,465	11,072,597
Other	1%	172,023	218,333	412,359	615,144
<b>Total</b>	<b>100%</b>	<b>\$17,202,280</b>	<b>\$21,833,292</b>	<b>\$41,235,916</b>	<b>\$61,514,429</b>

<sup>1</sup> Figures assume that 25% of uncompensated care savings are returned to payors through reduced rates.

This 75/25 split is not specified in the bill. As shown in **Exhibit 5**, to the extent that this split changes, the amount of general funds necessary to finance the bill would change.

**Exhibit 5**  
**Potential Variation in General Fund Spending Required**  
**Based on Uncompensated Care Savings Reinvestment**  
**Fiscal 2010-2013**  
**(\$ in Thousands)**

<b>Uncompensated Care Savings Reinvested in Expansion Efforts</b>	<b>General Fund Spending</b>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
75%	\$111,723	\$161,830	\$289,303	\$280,237
50%	122,561	175,225	312,788	318,991
25%	133,398	189,340	341,261	357,745

Note: General fund expenditures reflect savings to Medicaid from reduced hospital rates.

As with the MHIP fund balance, a 44% rather than a 50% federal match is anticipated on any expenditures relating to hospital uncompensated care savings.

**Additional Comments:** Overall, the bill will have four major effects: (1) provide new access to health insurance to previously uninsured individuals (parents, caretaker relatives, and small business employees); (2) provide expanded Medicaid benefits to individuals previously served by PAC (childless adults); (3) enroll currently eligible, but not enrolled, children in Medicaid; and (4) provide a different source of insurance for some currently insured individuals who will drop their coverage and enroll in Medicaid (“crowd-out”).

By fiscal 2013, if all individuals eligible under the bill enroll, the bill could reduce the number of uninsured individuals in the State (an estimated 769,000 in 2006) by a total of 127,808 individuals (parents, caretaker relatives, and childless adults). This figure represents 16% of the total uninsured in 2006. However, while access to insurance is expanded to these individuals, Legislative Services estimates that only 81,711 individuals (64% of total eligible individuals) will enroll in coverage. The remainder of enrollment will consist of 13,984 children already eligible for Medicaid and 20,601 previously otherwise insured “crowd-out” enrollees.

**Exhibit 6** provides family income at 116% FPG by family size for 2007.

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**Exhibit 6**  
**116% Federal Poverty Guidelines**  
**2007**

<u>Family Size</u>	<u>116% FPG</u>
1	\$11,844
2	\$15,880
3	\$19,917
4	\$23,954

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 6 (The President) (By Request – Administration) – Finance and Budget and Taxation.

**Information Source(s):** Department of Human Resources, Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

**Fiscal Note History:** First Reader - October 31, 2007  
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