

**D79Z02**  
**Maryland Health Insurance Plan**

***Operating Budget Data***

(\$ in Thousands)

|                                      | <b>FY 08</b><br><b><u>Actual</u></b> | <b>FY 09</b><br><b><u>Working</u></b> | <b>FY 10</b><br><b><u>Allowance</u></b> | <b>FY 09-10</b><br><b><u>Change</u></b> | <b>% Change</b><br><b><u>Prior Year</u></b> |
|--------------------------------------|--------------------------------------|---------------------------------------|---|---|---|
| Special Fund                         | \$83,321                             | \$105,625                             | \$129,515                               | \$23,890                                | 22.6%                                       |
| Contingent & Back of Bill Reductions | 0                                    | 0                                     | -4,503                                  | -4,503                                  |   |
| <b>Adjusted Special Fund</b>         | <b>\$83,321</b>                      | <b>\$105,625</b>                      | <b>\$125,012</b>                        | <b>\$19,387</b>                         | <b>18.4%</b>                                |
| Federal Fund                         | \$0                                  | \$0                                   | \$0                                     | \$0                                     |   |
| Contingent & Back of Bill Reductions | 0                                    | 0                                     | 4,500                                   | 4,500                                   |   |
| <b>Adjusted Federal Fund</b>         | <b>\$0</b>                           | <b>\$0</b>                            | <b>\$4,500</b>                          | <b>\$4,500</b>                          |   |
| <b>Adjusted Grand Total</b>          | <b>\$83,321</b>                      | <b>\$105,625</b>                      | <b>\$129,512</b>                        | <b>\$23,887</b>                         | <b>22.6%</b>                                |

- The fiscal 2010 allowance for the agency is growing by \$23.9 million, or 22.6%, over the fiscal 2009 working appropriation.
- Most of the increase (\$18.2 million) is attributed to growth in Maryland Health Insurance Plan (MHIP) medical claims due to increased enrollment. Also, the financial assistance provided through the Senior Prescription Drug Assistance Program (SPDAP) grows by \$6.3 million in the fiscal 2010 allowance due to the new coverage gap subsidy.
- The contingent reductions shown in the chart above are the result of contingent language related to actions in the Budget Reconciliation and Financing Act of 2009 establishing a MHIP Medicaid waiver and the elimination of deferred compensation in fiscal 2010.

Note: Numbers may not sum to total due to rounding.

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***Personnel Data***

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|                        | <b><u>FY 08</u></b><br><b><u>Actual</u></b> | <b><u>FY 09</u></b><br><b><u>Working</u></b> | <b><u>FY 10</u></b><br><b><u>Allowance</u></b> | <b><u>FY 09-10</u></b><br><b><u>Change</u></b> |
|------------------------|---|--|--|--|
| Regular Positions      | 9.00  | 9.00   | 12.00  | 3.00   |
| Contractual FTEs       | <u>2.00</u>                                 | <u>2.00</u>                                  | <u>2.00</u>                                    | <u>0.00</u>                                    |
| <b>Total Personnel</b> | <b>11.00</b>                                | <b>11.00</b>                                 | <b>14.00</b>                                   | <b>3.00</b>                                    |

***Vacancy Data: Regular Positions***

|   |      |        |
|---|------|--------|
| Turnover and Necessary Vacancies, Excluding New Positions | 0.49 | 4.09%  |
| Positions and Percentage Vacant as of 12/31/08            | 2.00 | 22.22% |

- The agency receives three new positions in the fiscal 2010 allowance to assist with the transition of becoming an independent agency.
- As of December 31, 2008, the agency had a vacancy rate of 22.2%, which is significantly higher than the budgeted turnover provided in the fiscal 2010 allowance. However, the agency only had two vacant positions, one of which has been vacant for more than a year.

## ***Analysis in Brief***

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### **Major Trends**

***MHIP Applications:*** MHIP received applications from roughly 40% of those individuals that have been denied coverage or offered substandard insurance coverage by other carriers, which is an indication of the population eligible for MHIP.

***MHIP Covered Medical Costs:*** In fiscal 2008, MHIP covered 52% of medical costs incurred by the enrollees, which were up from 44% in fiscal 2007.

***SPDAP Membership:*** Membership in the Senior Prescription Drug Assistance Program fell from fiscal 2007 to 2008. SPDAP expects that membership in the program will reach 98% of program capacity in fiscal 2008 and 2009.

***SPDAP Payment Processing:*** SPDAP has been extremely inefficient at paying Medicare Part D Plans by the month after SPDAP receives the file from Medicare.

### **Issues**

***Hospital Assessment Revenue Prevents Enrollment Cap:*** Last year, it was estimated that expenditures for MHIP would exceed revenues, which would have forced MHIP to cap enrollment. However, Chapter 245 of 2008 increased MHIP revenue from the hospital assessment. For the time being, this added revenue has prevented MHIP expenditures from exceeding revenues, but MHIP enrollment continues to increase at a significant rate.

***Implementation of SPDAP Coverage Gap:*** Beginning on January 1, 2009, SPDAP will begin providing an added benefit to subsidize the cost of the Medicare Part D coverage gap. The added benefit increases the maximum per participant annual subsidy from \$300 to \$1,500, which is expected to increase demand for participation in SPDAP.

***The Independence of MHIP:*** Chapter 259 of 2008 removed MHIP from the Maryland Insurance Administration, making MHIP an independent unit of State government. Along with the independence, MHIP gained more administrative responsibility, which necessitates three new employees.

*D79Z02 – Maryland Health Insurance Plan*

**Recommended Actions**

|   | <b><u>Funds</u></b> | <b><u>Position</u></b> |
|---|---------------------|------------------------|
| 1. Delete one vacant position that has been vacant for over a year.   | \$ 62,766           | 1.0                    |
| 2. Adopt committee narrative requesting reports on the Maryland Health Insurance Plan financial and enrollment information. |                     |                        |
| <b>Total Reductions</b>   | <b>\$ 62,766</b>    | <b>1.0</b>             |

**D79Z02**  
**Maryland Health Insurance Plan**

***Operating Budget Analysis***

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**Program Description**

As of October 1, 2008, the Health Insurance Safety Net Program became an independent State agency. Prior to that, the Health Insurance Safety Net Program was organizationally part of the Maryland Insurance Administration but managed independently. The program is governed by a board.

The Health Insurance Safety Net Program includes the Maryland Health Insurance Program (MHIP) and the Senior Prescription Drug Assistance Program (SPDAP). MHIP is the State's high-risk health insurance pool, whose purpose is to provide access to affordable, comprehensive health benefits for the medically uninsurable. SPDAP provides Medicare Part D premium and coverage gap assistance to moderate-income (at or below 300% of the federal poverty level) Maryland residents for the purchase of outpatient prescription drugs and who are eligible for Medicare and are enrolled in a Medicare Part D prescription drug plan.

Both programs are funded with a majority of special funds with sporadic federal support. Specifically, MHIP is funded with premiums paid by enrollees and hospital assessment revenues. The special funds for SPDAP are provided from a portion of the value of CareFirst's premium tax exemption.

**Performance Analysis: Managing for Results**

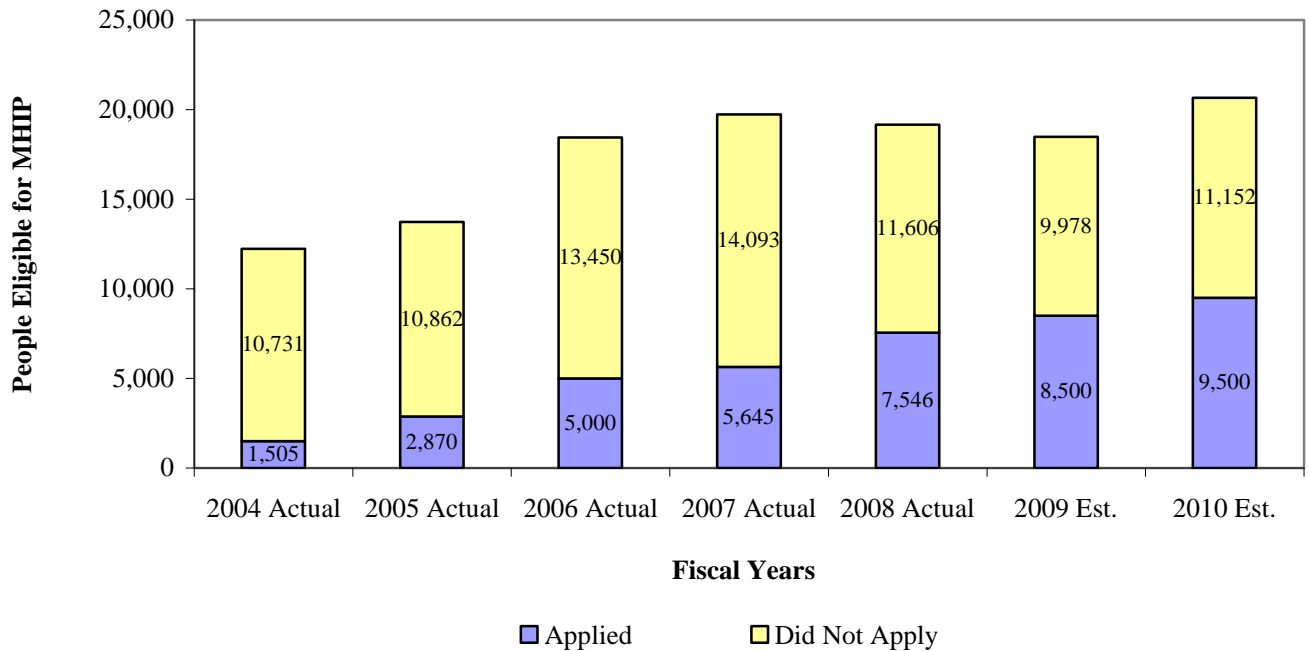
**MHIP Applications**

Medical eligibility for the program requires that applicants have been denied individual coverage, have been offered coverage that excludes or limits coverage for a medical condition, or have specific health conditions. The number of individuals that have been denied or offered substandard insurance coverage by other carriers is an indication of the universe eligible for MHIP.

**Exhibit 1** shows the number of individuals that have been denied or offered substandard health insurance coverage, and the exhibit shows how many of those individuals apply for MHIP coverage. The proportion of those applying for MHIP coverage has increased by an average of 6.8 percentage points annually over the past five years, which suggest MHIP's outreach efforts have been and continue to be successful.

Demand for MHIP should expand over the next year for two reasons. First, MHIP recently gained federal approval to implement Chapter 242 of 2006, which requires health insurance carriers to provide MHIP with the contact information of individuals denied coverage. Also, in fiscal 2010, MHIP plans to implement a direct mail initiative to provide risk pool applications to individuals whose individual applications are denied in the commercial market.

**Exhibit 1**  
**MHIP Applications Received from**  
**Individuals That Have Been Denied or Offered Substandard Insurance**  
**Fiscal 2004-2010**



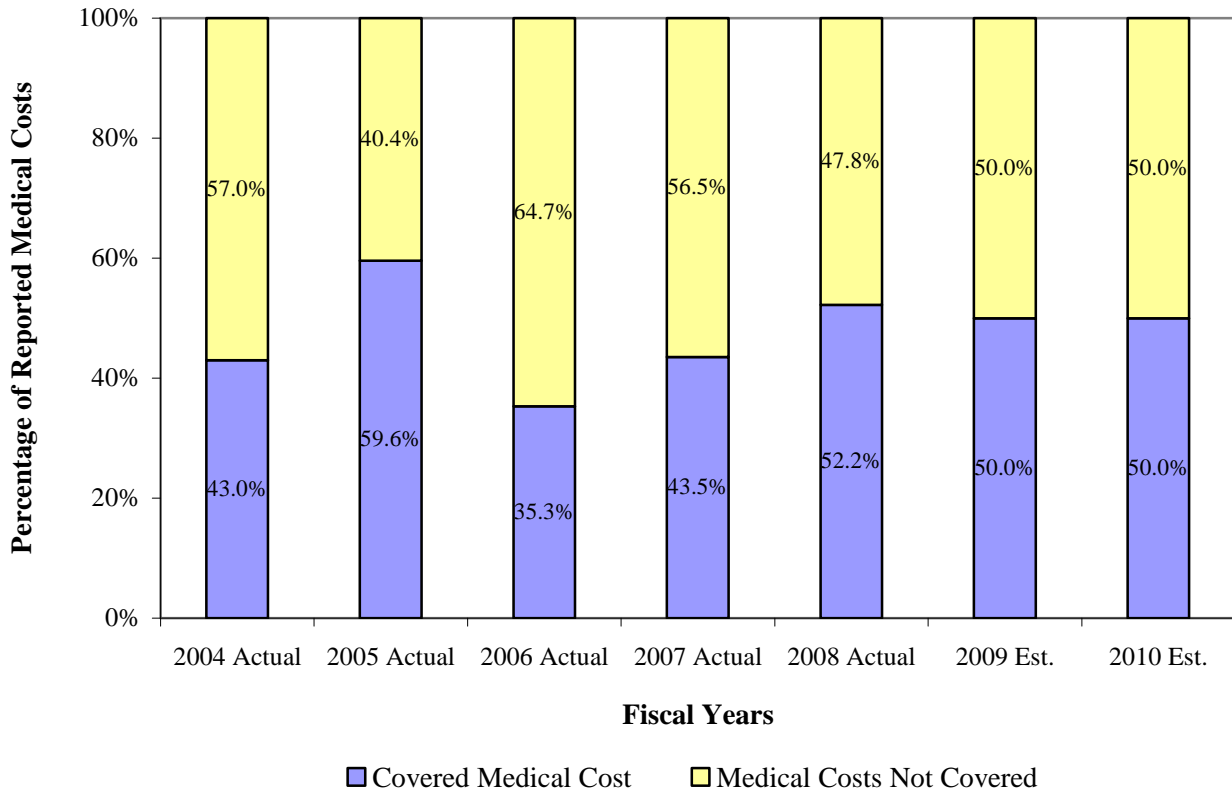
MHIP: Maryland Health Insurance Program

Source: Maryland Health Insurance Program

**MHIP Covered Medical Costs**

The amount of uncompensated care avoided through MHIP is the sum of the medical costs covered and funded because, absent MHIP, most of the medical and behavior services covered by MHIP would otherwise accumulate as uncompensated care. **Exhibit 2** shows the proportion of MHIP enrollees' medical costs that are covered by MHIP. The proportion that is not covered by MHIP is the responsibility of the MHIP enrollees to cover. Even with MHIP covering roughly half of MHIP enrollees' medical expenses, on average \$7,300 of medical expenses were not covered in fiscal 2008, and the enrollees are responsible for paying a portion of those uncovered expenses.

**Exhibit 2**  
**Proportion of Medical Costs Covered by MHIP**  
**Fiscal 2004-2010**



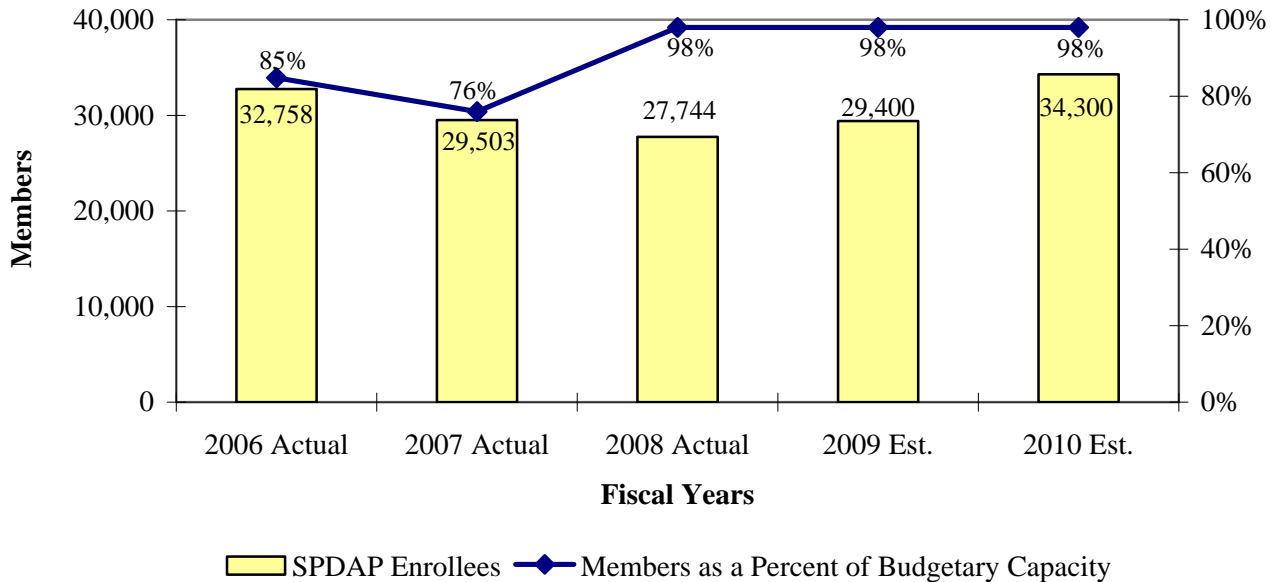
MHIP: Maryland Health Insurance Plan

Source: Maryland Health Insurance Program

**SPDAP Membership**

**Exhibit 3** shows the number of SPDAP members and the members as a percent of program capacity. Membership in the program fell from fiscal 2006 to 2007 because SPDAP was effective at getting seniors enrolled in federally subsidized assistance programs. SPDAP expects that membership in the program will reach 98% of program capacity in fiscal 2009 and 2010 because SPDAP is offering the new coverage gap subsidy, which increases the total assistance available from \$300 to \$1,500.

**Exhibit 3  
SPDAP Enrollment and Enrollees as a Percentage of Budgetary Capacity  
Fiscal 2006-2010**



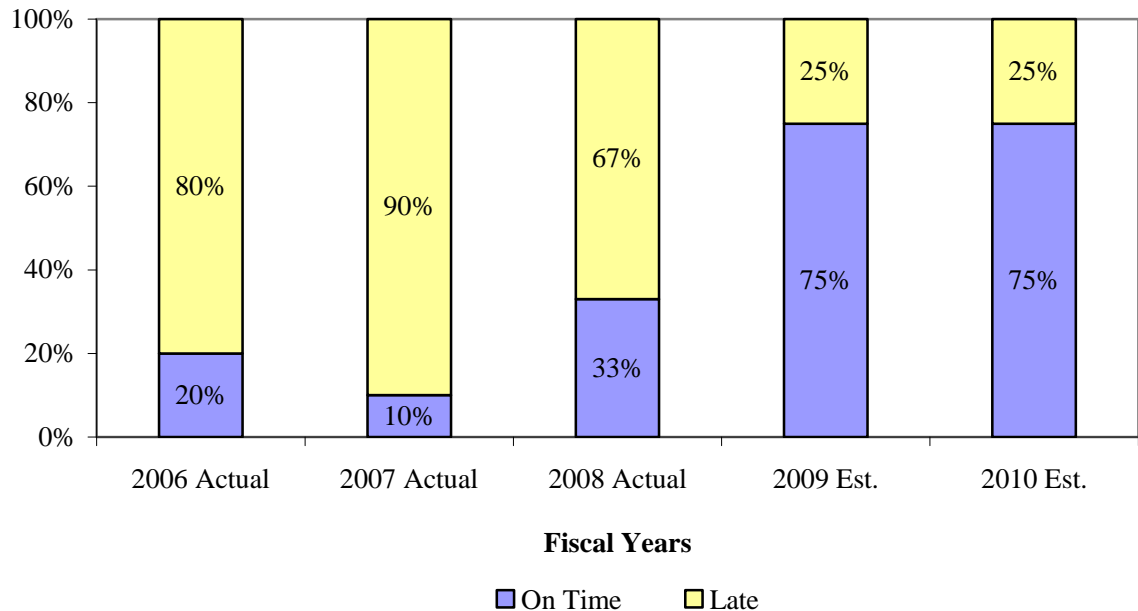
SPDAP: Senior Prescription Drug Assistance Program

Source: Maryland Senior Prescription Drug Assistance Plan

**SPDAP Payment Processing**

SPDAP receives a data file from Medicare once a month, which provides the program with the information necessary to make premium subsidy payments to the individual drug plans. **Exhibit 4** shows that SPDAP has been extremely inefficient at paying Medicare Part D Plans by the month after SPDAP receives the file from Medicare. However, the program expects to be able to significantly improve the number of payments made on time each month in fiscal 2009 and 2010. **The agency should explain how SPDAP will improve on this measure to pay 75% of Medicare Part D plans by the month after receiving the file from Medicare.**

**Exhibit 4**  
**Efficiency of SPDAP Payments to Plans**  
**Fiscal 2006-2010**



SPDAP: Senior Prescription Drug Assistance Program

Source: Maryland Senior Prescription Drug Assistance Plan

**Fiscal 2009 Actions**

**Proposed Deficiency**

MHIP received a fiscal 2009 deficiency appropriation of \$2.3 million in federal funds. The high-risk pool has sporadically received a federal allocation from the Federal Operational Grant to State High Risk Pools programs over the past few years. Specifically, MHIP received federal funding from this grant twice before. In fiscal 2006, MHIP received \$3.2 million from the Federal Operational Grant to State High Risk Pools, and, in fiscal 2007, MHIP received \$3.0 million.

**Impact of Cost Containment**

In fiscal 2009, MHIP had cost containment reductions to salaries and fringe benefits in the amount of \$3,868.

As proposed, the fiscal 2010 allowance is balanced assuming various fund transfers to the general fund in fiscal 2009. One provision of the Budget Reconciliation and Financing Act of 2009 transfers all the funds remaining in the Senior Prescription Drug Program fund, which is the predecessor of the Senior Prescription Drug Assistance Program, to the general fund in fiscal 2009. The fund balance of the Senior Prescription Drug Program is expected to be \$2.6 million by the end of fiscal 2009.

## **Proposed Budget**

As shown in **Exhibit 5**, the fiscal 2010 allowance for the agency is growing by \$23.9 million, or 22.6%, over the fiscal 2009 working appropriation.

Most of the increase is attributed to growth in MHIP claims, which accounts for \$18.2 million of the increase. Also, the financial assistance provided through SPDAP grows by \$6.3 million in the fiscal 2010 allowance due to the new coverage gap subsidy.

The contingent reductions shown in the chart above are the result of contingent language related to actions in the Budget Reconciliation and Financing Act of 2009 establishing a MHIP Medicaid waiver and the elimination of deferred compensation in fiscal 2010.

## **Personnel**

MHIP receives three new positions in the fiscal 2010 allowance to assist with the transition of becoming an independent agency. Specifically, the fiscal note establishing MHIP as an independent agency estimated MHIP would need to hire three new positions in fiscal 2010: a budget and procurement officer, a human resources specialist, and an administrative assistant. The fiscal 2010 allowance does include three new positions at a total cost of \$178,324. The new positions are a fiscal services administrator and two administrative positions.

As of December 31, 2008, MHIP had a vacancy rate of 22.2%, which is significantly higher than the budgeted turnover provided in the fiscal 2010 allowance. However, MHIP only had two vacant positions, one of which has been vacant for over a year. **The Department of Legislative Services recommends deleting this vacant position.**

## **MHIP Medical Claims**

MHIP enrollment is undoubtedly increasing at a significant rate, but the fiscal 2009 estimate of expenditures assumes a 13.9% increase in enrollment and a 13.6% increase in the cost per member per month. The assumption of 13.6% is significantly higher than the anticipated medical inflation rate and the benefit package has not changed significantly from fiscal 2008 to 2009. **Since the fiscal 2009 estimates are the base for the fiscal 2010 estimates, MHIP should explain the rationale for assuming MHIP costs per member per month will increase 13.6%. Also, if 13.6% is a valid assumption for the growth in cost in fiscal 2009, why would the trend not continue through fiscal 2010 when per member per month costs are expected to increase by only 3.4%?**

**Exhibit 5**  
**Proposed Budget**  
**Maryland Health Insurance Plan**  
**(\$ in Thousands)**

| <b>How Much It Grows:</b>  | <b><u>Special</u><br/><u>Fund</u></b> | <b><u>Federal</u><br/><u>Fund</u></b> | <b><u>Total</u></b> |
|----------------------------|---------------------------------------|---------------------------------------|---------------------|
| 2009 Working Appropriation | \$105,625                             | \$0                                   | \$105,625           |
| 2010 Allowance             | <u>129,515</u>                        | 0                                     | <u>129,515</u>      |
| Amount Change              | \$23,890                              | \$0                                   | \$23,890            |
| Percent Change             | 22.6%                                 | 0.0%                                  | 22.6%               |
| Contingent Reductions      | -\$4,503                              | \$4,500                               | -\$3                |
| Adjusted Change            | \$19,387                              | \$4,500                               | \$23,887            |
| Adjusted Percent Change    | 18.4%                                 | n/a                                   | 22.6%               |

**Where It Goes:**

**Personnel Expenses**

|  |       |
|--|-------|
| Three new positions due to the Maryland Health Insurance Plan becoming an independent agency ....                      | \$178 |
| Employee and retiree health insurance pay-as-you-go costs (after reducing fiscal 2010 for contingent reductions) ..... | 13    |
| Retirement contribution.....   | 8     |
| Other fringe benefit adjustments.....  | 4     |
| Deferred compensation (after reducing fiscal 2010 for contingent reductions) .....                                     | -3    |
| Reduced Other Post Employment Benefits' unfunded liability.....  | -14   |

**Maryland Health Insurance Plan**

|   |        |
|---|--------|
| Estimated 22% increase in medical claims expenditures.....                                    | 18,243 |
| Increased third party administrator fees associated with estimated increased enrollment ..... | 1,760  |
| Printing costs overbudgeted in fiscal 2009 working appropriation .....                        | -52    |
| Reduced advertising costs .....   | -297   |

**Senior Prescription Drug Assistance Program**

|   |        |
|---|--------|
| Annualized cost of coverage gap subsidy.....  | 6,335  |
| Postage costs underfunded in fiscal 2010 allowance .....  | -196   |
| Change in third party administrator contract with significantly lower administrative fees ..... | -2,054 |
| Other .....   | -37    |

**Total** **\$23,887**

Note: Numbers may not sum to total due to rounding.

## **MHIP Medicaid Waiver**

The Budget Reconciliation and Financing Act of 2009 includes a provision to amend the definition of “medically uninsurable individual” to allow individuals to be eligible for MHIP even if they are eligible for Medicaid under a new Medicaid waiver. The Department of Health and Mental Hygiene plans to apply to the federal government for a Medicaid waiver to allow some MHIP enrollees to be eligible for federal Medicaid matching funds.

Essentially, in fiscal 2010, MHIP will transfer \$9.0 million to the Medicaid program, and Medicaid will transfer \$9.0 million back to MHIP. However, MHIP is transferring special funds to Medicaid, and Medicaid is transferring back \$4.5 million in special funds and \$4.5 million in federal funds. The other \$4.5 million in special funds transferred to Medicaid will be used to reduce the general fund support for Medicaid.

The Department of Health and Mental Hygiene indicates this practice will be an ongoing occurrence. In fiscal 2011, the dollar figures will be annualized due to the January 1, 2010 estimated start date.

## ***Issues***

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### **1. Hospital Assessment Revenue Prevents Enrollment Cap**

MHIP, the State's high-risk pool for medically uninsurable individuals, became operational in July 2003. Funded through an assessment on hospitals, MHIP as originally implemented had the capacity to serve approximately 15,000 enrollees based on fiscal 2004 medical cost projections. For years, MHIP enrollment had never approached this level. From an initial level of 7,300, enrollment fell steadily throughout fiscal 2003 and 2004. Higher premiums and a small health care provider network contributed to the decline. The MHIP Board of directors took several steps to make the plan more attractive, and the decline reversed in fiscal 2005. These steps included:

- expanding the provider network;
- lifting the ban on coverage of preexisting conditions;
- enhancing the benefit package;
- reducing premiums;
- increasing the referral fee paid to insurance producers;
- increasing the premium subsidy for low-income enrollees;
- instituting a mass marketing campaign; and
- marketing the plan to providers, insurance producers, hospitals, and local health departments.

A particularly effective strategy was to work with CareFirst, the State's largest carrier in the individual health insurance market, to enclose a "mini-application" for MHIP with all CareFirst denial notices. From a low of 5,291 participants in fiscal 2005, enrollment has increased steadily and reached 13,322 in fiscal 2008.

From its inception, MHIP had been funded with a mixture of hospital assessment revenue and premium revenue (which does not flow through the State budget process). The MHIP hospital assessment had been equal to the percentage of the value of MHIP's predecessor: Substantial, Affordable, and Available Coverage (SAAC). Before MHIP, the State provided a 4% differential in hospital rates for the three insurance carriers that provided SAAC, which amounted to 0.8128% of total hospital revenue.

Due to lower than anticipated enrollment in the early years, MHIP accumulated a large fund balance as expenditures were significantly below revenues. However, in fiscal 2008 the expenditures were relatively level with the revenues, and MHIP expenditures were projected to surpass revenues in fiscal 2009. At this point, MHIP would have been reliant on the fund balance, and it would have taken a couple of years for MHIP to deplete the fund balance.

### **Additional Hospital Assessment Revenue**

MHIP's revenue situation became an immediate problem after the 2007 special session because the General Assembly dedicated \$75 million of the MHIP fund balance to the new Health Care Coverage Fund to pay for the Medicaid expansion and the Health Insurance Partnership. With the \$75 million transferred out of MHIP, the program was forecasted to deplete the fund balance by the end of fiscal 2010.

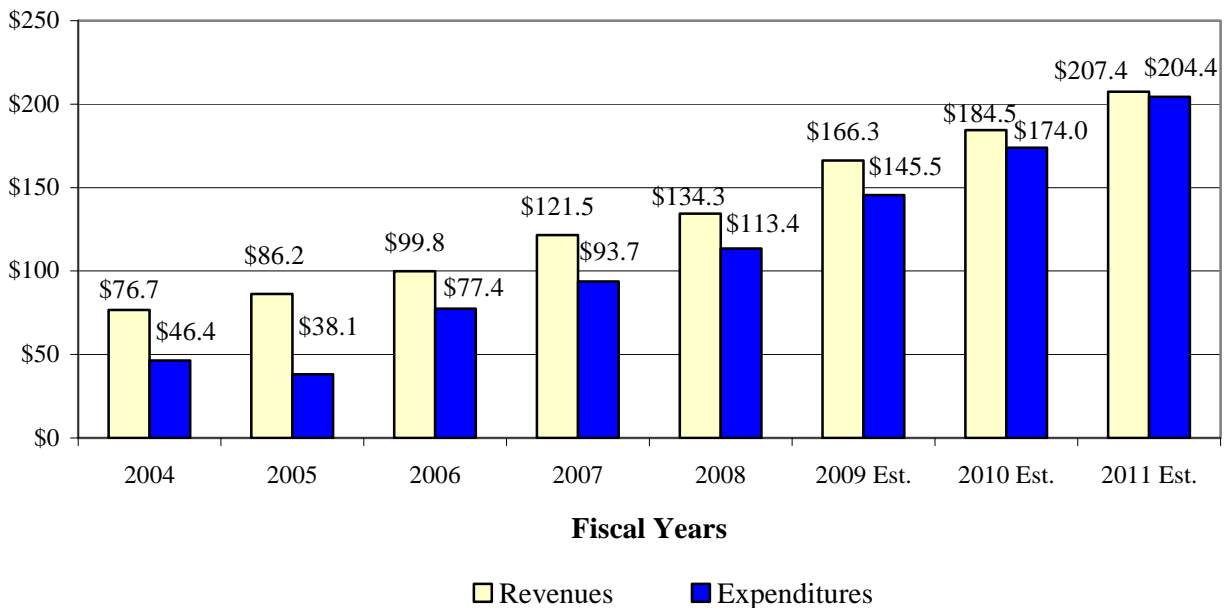
During the 2008 legislative session, MHIP indicated to the General Assembly that the situation would likely force MHIP to cap enrollment at between 13,000 and 14,000 members in the near future. As a result, the General Assembly added an MHIP provision to the bill revamping the funding mechanism of the Medicaid expansion and the Health Insurance Partnership, which is also funded through hospital revenue.

For the portion of the assessment relating to MHIP, the Health Services Cost Review Commission (HSCRC) must ensure that the assessment is included in the reasonable costs of each hospital when establishing the hospital's rates; may not be considered in determining the reasonableness of rates or hospital financial performance; and may not be less than the assessment of 0.8128% that was in existence on July 1, 2007. Each hospital must remit one-twelfth of the MHIP portion of the assessment to MHIP each month.

In fiscal 2009, the HSCRC increased the hospital assessment for MHIP from 0.8128% to 1.0%, which increased revenue for MHIP by \$20.1 million. MHIP's portion of the hospital assessment is expected to remain at 1% in fiscal 2010.

**Exhibit 6** shows the cash flow for MHIP from fiscal 2004 through 2011. If the hospital assessment remains at the 1%, according to MHIP’s forecast, the additional hospital assessment revenue will keep revenues above MHIP’s expenditures through fiscal 2011.

**Exhibit 6**  
**MHIP Revenues versus Expenditures and**  
**Cash Flow Activity**  
**Fiscal 2004-2011**  
**(\$ in Millions)**



|                                 | <u>2004</u>   | <u>2005</u>   | <u>2006</u>    | <u>2007</u>    | <u>2008</u>    | <u>2009 Est.</u> | <u>2010 Est.</u> | <u>2011 Est.</u> |
|---------------------------------|---------------|---------------|----------------|----------------|----------------|------------------|------------------|------------------|
| Revenues                        | \$76.7        | \$86.2        | \$99.8         | \$121.5        | \$134.3        | \$166.3          | \$180.0          | \$198.4          |
| Federal Funds – Medicaid        |               |               |                |                |                |                  | 4.5              | 9.0              |
| Expenditures                    | -46.4         | -38.1         | -77.4          | -93.7          | -113.4         | -145.5           | -174.0           | -204.4           |
| Net Transfer to DHMH            |               |               |                |                |                | -75.0            | -4.5             | -9.0             |
| <b>End of Year Fund Balance</b> | <b>\$38.3</b> | <b>\$89.1</b> | <b>\$111.5</b> | <b>\$139.3</b> | <b>\$160.3</b> | <b>\$106.0</b>   | <b>\$112.0</b>   | <b>\$106.0</b>   |
| Capital Adequacy Requirement    | 16.1          | 13.2          | 27.3           | 32.2           | 40.5           | 52.5             | 62.9             | 73.6             |

DHMH: Department of Health and Mental Hygiene  
 MHIP: Maryland Health Insurance Plan

Note: Capital Adequacy Requirement is the amount MHIP is required to maintain in order to cover outstanding medical claims.

Source: Maryland Health Insurance Plan; Maryland State Budget; Department of Legislative Services

## **Continued Concern Regarding Program’s Longevity**

Even with the additional revenue provided for MHIP through the hospital assessment, MHIP staff continue to be concerned about the program’s longevity. MHIP staff estimate that the \$20 million in additional revenue would accommodate approximately 2,350 additional members. The MHIP forecast predict enrollment growth would reach that level within a year. Thus, MHIP staff predict the additional hospital assessment revenue delayed MHIP’s consideration of an enrollment cap by just one year.

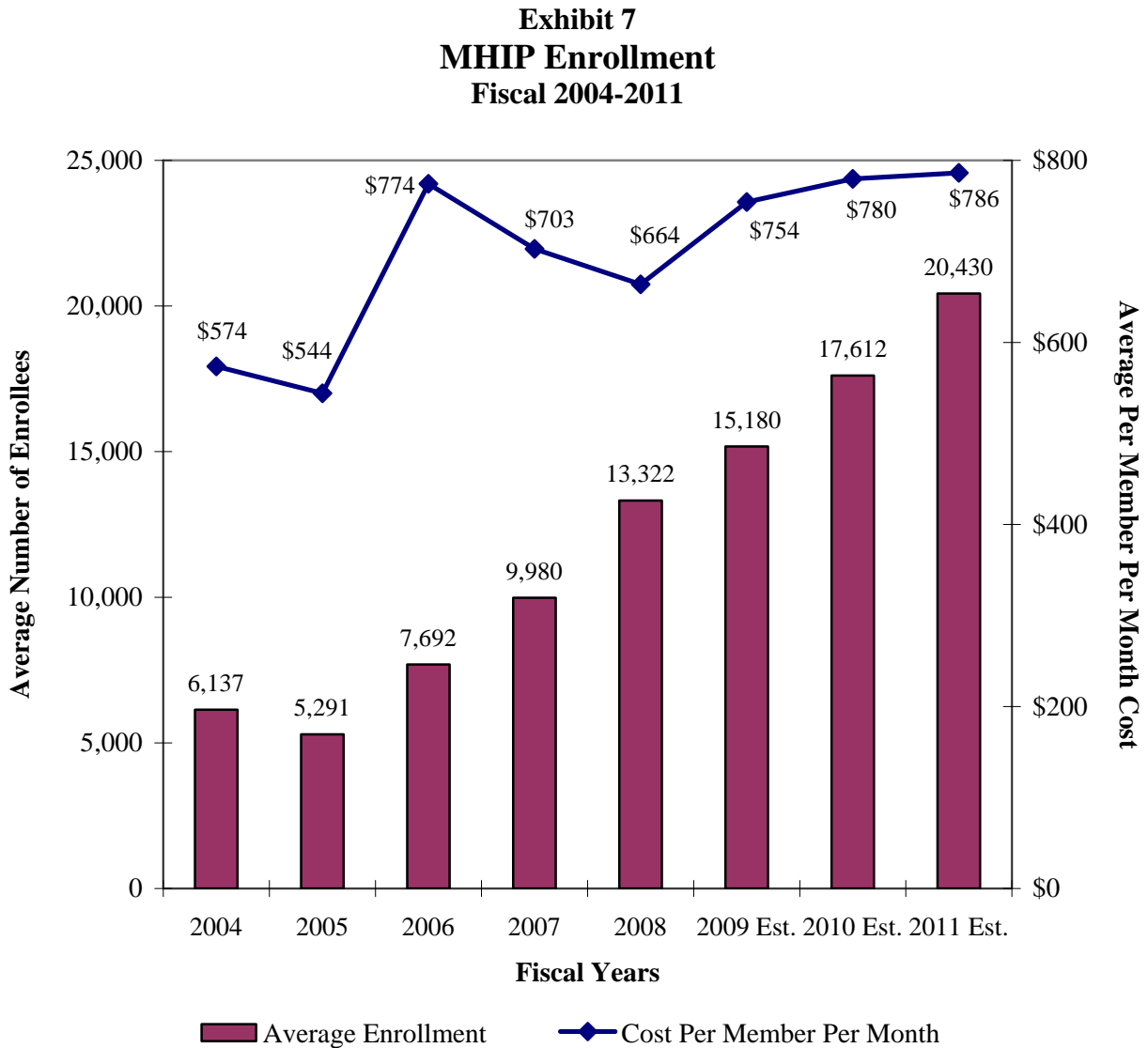
In order to stave off the enrollment cap decision, at the April 2008 MHIP Board meeting, staff presented options to the board regarding increasing premiums and making the pre-existing condition exclusion provisions more stringent. Of the options presented to the MHIP Board, the board voted to increase premiums in fiscal 2009 by 12 to 20% (depending on the MHIP option) and extend the pre-existing condition exclusion from two to six months.

## **With Slow Economy Enrollment Has Decreased**

Eight months later, at the December MHIP Board meeting, staff informed the board that MHIP enrollment had been decreasing in recent months. In April, the MHIP take-up rate began to decrease, and, in August, the number of terminations began to increase.

MHIP staff interpreted this as a byproduct of the economic downturn. While there is more need for MHIP coverage during a recession because people are losing jobs with employer-sponsored coverage, MHIP coverage is expensive so people are not able to afford it during a recession.

At the same meeting, MHIP staff recommended the board react to this decrease in enrollment by decreasing premiums effective February 1, 2009. The board adopted this proposal. However, since the December meeting, MHIP enrollment has been increasing. **Exhibit 7** shows MHIP enrollment with updated estimates for average annual enrollment for fiscal 2009 through 2011.



MHIP: Maryland Health Insurance Plan

Source: Maryland Health Insurance Plan; Department of Legislative Services

**MHIP should explain to the budget committees any possible reasons for the fluctuation in enrollment and what impact current enrollment trends might have on MHIP expenditures.**

## **2. Implementation of SPDAP Coverage Gap**

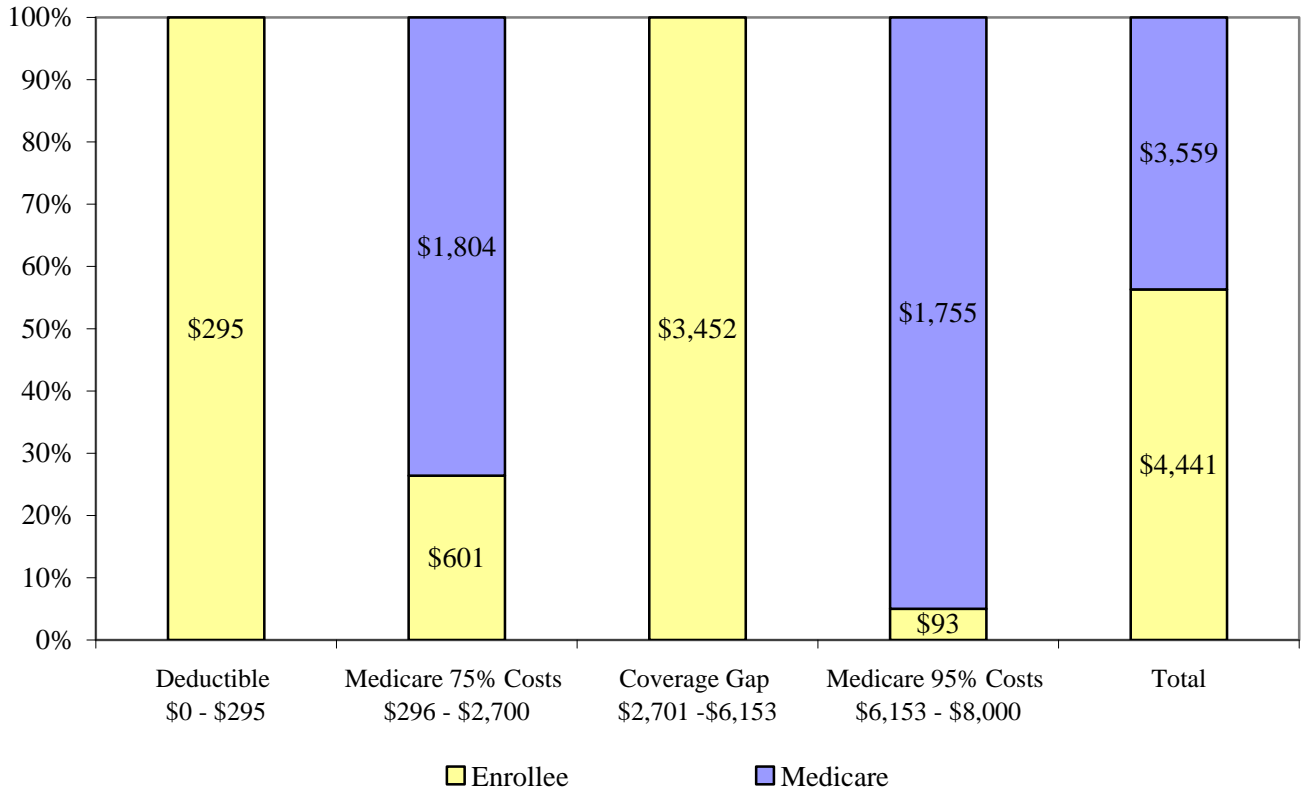
Chapter 557 of 2008 added a benefit to SPDAP by providing a subsidy for the Medicare Part D Coverage Gap (also referred to as the “Donut Hole”). Prior to the implementation of the coverage gap subsidy, SPDAP provided Maryland Medicare Part D enrollees with incomes less than 300% of the federal poverty level a \$25 per month subsidy to assist with the premium expenses for Medicare Part D.

### **Coverage Gap**

When the Medicare Part D drug benefit was established, the cost of providing continuous coverage would have exceeded the budgetary limit imposed by legislation, and Congress amended the Medicare Part D benefit package in order to make the dollars go further by providing added financial support to those individuals with excessive prescription drug costs. As a result, the Medicare Part D benefit is extremely confusing with the cost-sharing arrangements changing as the enrollee’s prescription drug expenditures increase, and the benefit includes a coverage gap.

In calendar 2009, Medicare Part D enrollees pay a monthly premium, and the enrollee must pay a \$295 deductible. After the enrollee has spent their deductible, Medicare pays 75% of the enrollee’s prescription drug expenses until the enrollee’s total prescription drug expenditures for the year have amounted to \$2,700. At this point, the enrollee has reached the coverage gap where the enrollee is responsible for 100% of the prescription drug costs. The enrollee is in the coverage gap until total prescription drug expenditures for the year have amounted to \$6,153. At which point, the enrollee has reached catastrophic coverage and Medicare covers 95% of the enrollee’s prescription drug costs. **Exhibit 8** illustrates the cost-sharing for a Medicare Part D enrollee that has a total of \$8,000 in prescription drug costs in calendar 2009.

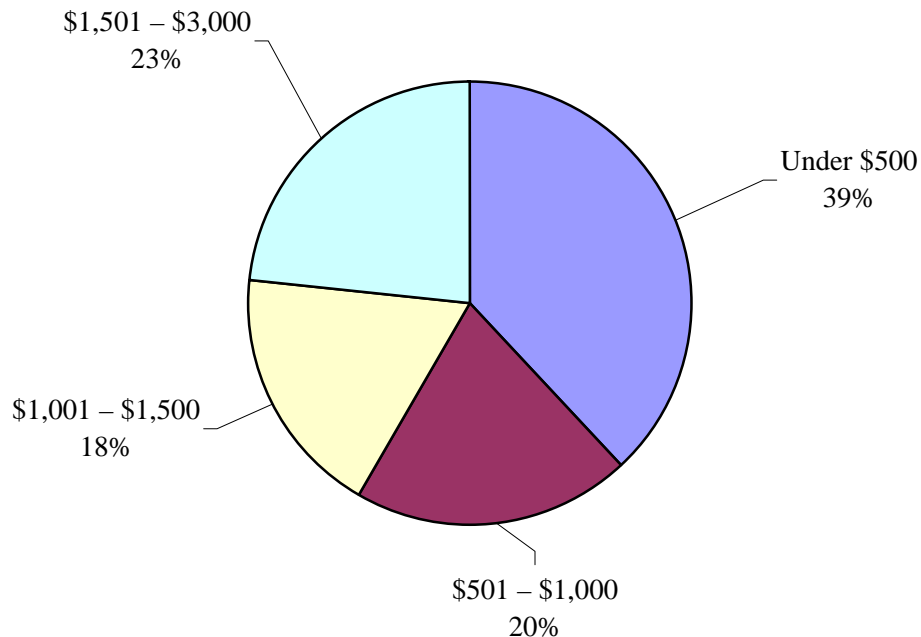
**Exhibit 8  
Medicare Part D Cost Sharing  
For an Enrollee with Annual Prescription Drug Costs of \$8,000  
Calendar 2009**



Source: Centers for Medicare and Medicaid Services

In 2007, 8,523, or 29%, of the 29,390 SPDAP enrollees had prescription drug assistance expenses in the Medicare Part D coverage gap. **Exhibit 9** shows how much those 7,500 that entered the coverage gap spent in the coverage gap in calendar 2007. Roughly 40% of the 7,500 SPDAP enrollees spent \$500 or less in the coverage gap, while 23% of the SPDAP enrollees that reached the coverage gap spent \$1,501 to \$3,000 in the coverage gap. Roughly 3% of all SPDAP enrollees, or 10% of SPDAP enrollees that enter the coverage gap, reached the catastrophic coverage threshold in calendar 2007.

**Exhibit 9**  
**SPDAP Enrollee's**  
**Spending in the Medicare Part D Coverage Gap\***  
**Calendar 2007**



\* Estimate based on data from the three largest SPDAP drug plans.

SPDAP: Senior Prescription Drug Assistance Program

Source: Maryland Health Insurance Plan

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### **Structure of the Coverage Gap Subsidy**

MHIP received approval from the federal Centers for Medicare and Medicaid Services to provide the coverage gap subsidy. The subsidy will be provided through a fund agreement with Medicare prescription drug plans that will invoice SPDAP monthly for the coverage gap drug claim expenses incurred by SPDAP participants enrolled in their plan.

SPDAP will provide a subsidy up to \$1,200 for each individual with expenditures in the coverage gap. SPDAP enrollees have a 25% cost sharing requirement while they are receiving the coverage gap subsidy. As a result, the SPDAP coverage gap subsidy delays enrollees' entry into the coverage gap until prescription drugs costs have totaled \$4,300. According to the information in Exhibit 9, the new coverage gap subsidy will prevent roughly 75% of those who had previously incurred coverage gap expenses from being responsible for 100% of prescription drug costs at any point throughout the year.

In calendar 2009, 11 drug plans and 22 plan options have agreed to provide the coverage gap subsidy to SPDAP enrollees. Leading up to the implementation of the new coverage gap subsidy, MHIP did 33 outreach events throughout the State to inform SPDAP enrollees of the coverage gap subsidy and to explain which drug plans would be providing the benefit.

### **Funding for the Coverage Gap Subsidy**

The premium assistance provided through SPDAP is funded with \$14 million from CareFirst, which provides approximately \$25 million annually to assist health care programs in Maryland. The \$25 million is equal to the CareFirst's exemption from the 2% premium tax paid by other health insurance companies.

In February 2008, CareFirst announced that it had agreed to contribute up to \$4 million annually to fund the prescription drug coverage of individuals enrolled in SPDAP, and MHIP indicated that money would be used to fund the coverage gap assistance. This funding source was assumed in the fiscal note establishing the coverage gap subsidy. However, the payment of \$4 million from CareFirst is contingent on the extent to which CareFirst's surplus exceeds 800% of the consolidated risk-based capital for the preceding year. If this is not achieved, no payment would be made to SPDAP.

Last year, CareFirst indicated that while their surplus fluctuates annually, it has been well above the 800% level in recent years. The calendar 2008 information will not be officially submitted to the Maryland Insurance Administration until March, but preliminary information indicates that CareFirst did not exceed 800% of the consolidated risk-based capital in calendar 2008. However, CareFirst has indicated that it will honor this commitment in fiscal 2009, but the fiscal 2010 contribution is uncertain.

The coverage gap subsidy is expected to cost roughly \$7 million annually. SPDAP should be able to cover the cost of the coverage gap subsidy with funds from the program's fund balance in fiscal 2010. The fund balance at the end of fiscal 2008 was \$11 million.

A complicating factor to this logic is that under statute no funding is provided for SPDAP after fiscal 2010, but the program is not set to terminate until December 31, 2010. The bill establishing the coverage gap subsidy extended the termination date of SPDAP until December 31, 2010. However, the section of statute providing funding for SPDAP was not amended to reflect this change.

**The agency should update the budget committees on the implementation of the coverage gap subsidy by providing enrollment numbers and sharing any administrative hurdles.**

**Also, the agency should share with the budget committees the plan for funding the coverage gap subsidy without the \$4 million from CareFirst and funding SPDAP after fiscal 2010.**

### **3. The Independence of MHIP**

Chapter 259 of 2008 organizationally removed MHIP from the Maryland Insurance Administration (MIA), making MHIP an independent unit of State government, and the law made a number of other administrative changes to MHIP. The bill became effective October 1, 2008.

There was a need to remove MHIP from MIA because prior to the law change the Insurance Commissioner was a member of the MHIP Board, while at the same time having regulatory oversight of MHIP. This was viewed as a conflict of interest because the situation made it difficult for the Insurance Commissioner to fully execute his duties in both roles.

#### **Changes to MHIP**

The bill removed the Insurance Commissioner from the MHIP Board, and two members were added to the MHIP Board: the Secretary of the Department of Health and Mental Hygiene and a hospital representative. In addition, the State agency board members were permitted to have designees serve on the board.

MHIP is regulated by the Insurance Commissioner; however, it is not subject to State insurance laws other than those related to MIA examinations; provider panels and provider reimbursement; continuation coverage provisions; specialist referrals; prescription drug coverage; utilization review; the complaint process for adverse decisions or grievances; private review agents; the complaint process for coverage decisions; and unfair trade practices.

These exclusions from State insurance law do not limit the authority of the Insurance Commissioner to impose authorized penalties on a private review agent conducting utilization review on behalf of MHIP. The Insurance Commissioner may not impose a fine or administrative penalty on MHIP. Instead, if the Insurance Commissioner finds that MHIP has violated specified provisions, the Insurance Commissioner may require MHIP to make restitution to each claimant who has suffered actual economic damages.

The board has to develop a master plan document that sets forth in detail all the terms and conditions of the standard benefit package, including the types of benefits provided, any exclusions, and other specified conditions of coverage. The board must file the master plan with the Insurance Commissioner. The board must develop a certificate of coverage informing members of their rights and obligations under the standard benefit package and provide it to members. The bill specifies requirements the board has to meet to change the standard benefit package, including the effective dates of any changes.

The board must report to specified legislative committees by September 1 of each year on the current standard benefit package and any changes to the package implemented during the previous fiscal year. The bill states that if there is any conflict between a provision in the master plan document and a provision in the certificate of coverage, the provision that is most beneficial to the member will control.

In addition, the bill repeals the MHIP Board's current exemption from State personnel and pensions requirements. Also, MHIP is required to ensure that any entity with which it has contracted complies with the bill when performing services for MHIP that are subject to the bill.

### **Budgetary Impact**

The bill required MIA to continue providing fiscal and personnel assistance to MHIP through fiscal 2009 free of charge. Then, in fiscal 2010, MHIP will be officially independent with regard to all administrative functions.

The fiscal note for the bill estimated that making MHIP an independent agency would have a budgetary impact because a number of administrative tasks had previously been handled by MIA. Specifically, the fiscal note estimated MHIP would need to hire three new positions in fiscal 2010: a budget and procurement officer, a human resources specialist, and an administrative assistant. The fiscal 2010 allowance does include three new positions at a total cost of \$178,324. The new positions are a fiscal services administrator and two administrative positions.

**The agency should provide the budget committees with a status of how MHIP is managing the added independence assumed as of October 1, 2008, and how MHIP is preparing for the additional level of independence that will be effective July 1, 2009.**

## ***Recommended Actions***

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|   | <b><u>Amount<br/>Reduction</u></b> | <b><u>Position<br/>Reduction</u></b> |
|---|------------------------------------|--------------------------------------|
| 1. Delete one vacant position that has been vacant for more than a year consistent with the significant position and general fund reductions included in Section 18 of the budget bill. | \$ 62,766 SF                       | 1.0                                  |

2. Adopt the following narrative:

**Updated Maryland Health Insurance Plan Financial and Enrollment Information:** The committees would like to monitor the status of the Maryland Health Insurance Plan’s (MHIP’s) financial and enrollment information throughout the year because this information changes on a regular basis. The Maryland Health Insurance Plan should submit two reports to the committees.

The first report should update the committees with information about actual fiscal 2009 medical claims expenditures, enrollment, and fund balance.

The second report should also inform the committees regarding the cost of medical claims, enrollment trends, and any modifications to benefits or eligibility requirements. In addition, the second report should include updated expenditure estimates for the fiscal 2010 and forecasts for fiscal 2011 and 2012.

| <b>Information Request</b>  | <b>Author</b> | <b>Due Date</b>                      |
|---|---------------|--------------------------------------|
| Updated Maryland Health Insurance Plan Financial and Enrollment Information | MHIP          | August 31, 2009<br>December 31, 2009 |
| <b>Total Special Fund Reductions</b>  |               | <b>\$ 62,766</b> <b>1.0</b>          |

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets Maryland Health Insurance Plan (\$ in Thousands)**

|                                  | <b><u>General<br/>Fund</u></b> | <b><u>Special<br/>Fund</u></b> | <b><u>Federal<br/>Fund</u></b> | <b><u>Reimb.<br/>Fund</u></b> | <b><u>Total</u></b> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| <b>Fiscal 2008</b>               |                                |                                |                                |                               |                     |
| Legislative<br>Appropriation     | \$0                            | \$113,982                      | \$0                            | \$0                           | \$113,982           |
| Deficiency<br>Appropriation      | 0                              | 0                              | 0                              | 0                             | 0                   |
| Budget<br>Amendments             | 0                              | 12                             | 0                              | 0                             | 12                  |
| Cost Containment                 | 0                              | 0                              | 0                              | 0                             | 0                   |
| Reversions and<br>Cancellations  | 0                              | -30,673                        | 0                              | 0                             | -30,673             |
| <b>Actual<br/>Expenditures</b>   | <b>\$0</b>                     | <b>\$83,321</b>                | <b>\$0</b>                     | <b>\$0</b>                    | <b>\$83,321</b>     |
| <b>Fiscal 2009</b>               |                                |                                |                                |                               |                     |
| Legislative<br>Appropriation     | \$0                            | \$105,616                      | \$0                            | \$0                           | \$105,616           |
| Cost Containment                 | 0                              | -4                             | 0                              | 0                             | -4                  |
| Budget<br>Amendments             | 0                              | 13                             | 0                              | 0                             | 13                  |
| <b>Working<br/>Appropriation</b> | <b>\$0</b>                     | <b>\$105,625</b>               | <b>\$0</b>                     | <b>\$0</b>                    | <b>\$105,625</b>    |

Note: Numbers may not sum to total due to rounding.

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*D79Z02 – Maryland Health Insurance Plan*

Chapter 259 of 2008 removed the Maryland Health Insurance Plan from the Maryland Insurance Administration beginning October 1, 2008. For this analysis of the current and prior year budgets, MHIP budget data has been pulled out of the Maryland Insurance Administration fiscal 2008 budget data to provide an accurate year-over-year comparison.

**Fiscal 2008**

MHIP received a fiscal 2008 legislative appropriation of \$114.0 million, but the actual fiscal 2008 expenditures were \$83.3 million. Throughout the year, the special fund appropriation increased by \$11,801 due to cost-of-living adjustments.

At the end of fiscal 2008, MHIP canceled \$30.7 million in special funds. Most of the canceled funds (\$28.1 million) were caused by lower than anticipated enrollment and claims expenditures in MHIP. Also, the Senior Prescription Drug Assistance Program cancelled \$2.6 million due to lower than anticipated claims expenditures.

**Fiscal 2009**

The fiscal 2009 legislative appropriation for MIA was \$105.6 in special funds, and the working appropriation has increased \$12,000 due to cost-of-living adjustments. This increase was slightly offset by cost containment reductions to salaries and fringe benefits.

## ***Audit Findings***

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|                              |                                       |
|------------------------------|---------------------------------------|
| Audit Period for Last Audit: | December 21, 2004 - December 31, 2007 |
| Issue Date:                  | December 2008                         |
| Number of Findings:          | 3                                     |
| Number of Repeat Findings:   | 0                                     |
| % of Repeat Findings:        | 0%                                    |
| Rating: (if applicable)      | n/a                                   |

During the audit period, MHIP was a unit of MIA. Effective October 1, 2008, MHIP was separated from MIA, and now operates as an independent agency.

***Finding 1:*** The third party administrator did not implement a pharmacy benefit exclusion as dictated by MHIP. Consequently, MHIP did not achieve cost savings which it estimated could have totaled as much as \$300,000.

***Finding 2:*** MHIP did not verify that certain performance standards required by its contract with the third party administrator were met.

***Finding 3:*** A claim totaling approximately \$1.4 million made by MHIP against its former third party administrator is in dispute.

\*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report  
Maryland Health Insurance Plan**

| <u>Object/Fund</u>          | <u>FY08<br/>Actual</u> | <u>FY09<br/>Working<br/>Appropriation</u> | <u>FY10<br/>Allowance</u> | <u>FY09 - FY10<br/>Amount Change</u> | <u>Percent<br/>Change</u> |
|-----------------------------|------------------------|---|---------------------------|--------------------------------------|---------------------------|
| <b>Positions</b>            |                        |   |                           |                                      |                           |
| 01 Regular                  | 9.00                   | 9.00                                      | 12.00                     | 3.00                                 | 33.3%                     |
| 02 Contractual              | 2.00                   | 2.00                                      | 2.00                      | 0                                    | 0%                        |
| <b>Total Positions</b>      | <b>11.00</b>           | <b>11.00</b>                              | <b>14.00</b>              | <b>3.00</b>                          | <b>27.3%</b>              |
| <b>Objects</b>              |                        |   |                           |                                      |                           |
| 01 Salaries and Wages       | \$ 581,451             | \$ 748,345                                | \$ 937,393                | \$ 189,048                           | 25.3%                     |
| 02 Technical and Spec. Fees | 137,814                | 158,665                                   | 152,251                   | -6,414                               | -4.0%                     |
| 03 Communication            | 23,869                 | 225,048                                   | 30,664                    | -194,384                             | -86.4%                    |
| 04 Travel                   | 17,170                 | 12,970                                    | 18,114                    | 5,144                                | 39.7%                     |
| 07 Motor Vehicles           | 22,018                 | 20,500                                    | 29,296                    | 8,796                                | 42.9%                     |
| 08 Contractual Services     | 82,432,942             | 104,295,202                               | 128,120,525               | 23,825,323                           | 22.8%                     |
| 09 Supplies and Materials   | 42,490                 | 83,000                                    | 135,278                   | 52,278                               | 63.0%                     |
| 10 Equipment – Replacement  | 436                    | 0   | 0                         | 0                                    | 0.0%                      |
| 11 Equipment – Additional   | 3,532                  | 9,000                                     | 23,751                    | 14,751                               | 163.9%                    |
| 13 Fixed Charges            | 58,985                 | 71,820                                    | 67,689                    | -4,131                               | -5.8%                     |
| <b>Total Objects</b>        | <b>\$ 83,320,707</b>   | <b>\$ 105,624,550</b>                     | <b>\$ 129,514,961</b>     | <b>\$ 23,890,411</b>                 | <b>22.6%</b>              |
| <b>Funds</b>                |                        |   |                           |                                      |                           |
| 03 Special Fund             | \$ 83,320,707          | \$ 105,624,550                            | \$ 129,514,961            | \$ 23,890,411                        | 22.6%                     |
| <b>Total Funds</b>          | <b>\$ 83,320,707</b>   | <b>\$ 105,624,550</b>                     | <b>\$ 129,514,961</b>     | <b>\$ 23,890,411</b>                 | <b>22.6%</b>              |

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

**Fiscal Summary  
Maryland Health Insurance Plan**

| <u>Program/Unit</u>                            | <u>FY08<br/>Actual</u> | <u>FY09<br/>Wrk Approp</u> | <u>FY10<br/>Allowance</u> | <u>Change</u>        | <u>FY09 - FY10<br/>% Change</u> |
|--|------------------------|----------------------------|---------------------------|----------------------|---------------------------------|
| 01 Maryland Health Insurance Program           | \$ 71,935,942          | \$ 91,624,550              | \$ 111,166,975            | \$ 19,542,425        | 21.3%                           |
| 02 Senior Prescription Drug Assistance Program | 11,384,765             | 14,000,000                 | 18,347,986                | 4,347,986            | 31.1%                           |
| <b>Total Expenditures</b>                      | <b>\$ 83,320,707</b>   | <b>\$ 105,624,550</b>      | <b>\$ 129,514,961</b>     | <b>\$ 23,890,411</b> | <b>22.6%</b>                    |
| Special Fund                                   | \$ 83,320,707          | \$ 105,624,550             | \$ 129,514,961            | \$ 23,890,411        | 22.6%                           |
| <b>Total Appropriations</b>                    | <b>\$ 83,320,707</b>   | <b>\$ 105,624,550</b>      | <b>\$ 129,514,961</b>     | <b>\$ 23,890,411</b> | <b>22.6%</b>                    |

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.