

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 13, 2009
POSITION: Oppose

BILL NUMBER: SB 227
AUTHOR: E. Alquist
RELATED BILLS: AB 2 (Dymally, 2008); AB 8 (Nunez, 2007)

BILL SUMMARY: Funding for the Major Risk Medical Insurance Program

This bill would make significant modifications to the Major Risk Medical Insurance Program (MRMIP). These changes would include:

- Requiring health care plans who offer individual and group policies in the private market to elect to either accept coverage of assigned individuals or to pay a fee to support the program beginning January 1, 2010;
• Providing for the reenrollment for individuals currently in the Guaranteed Issue Pilot (GIP) Program;
• Maximizing MRMIP eligibility to qualify for federal funds;
• Eliminating the annual MRMIP coverage cap and increasing the maximum lifetime benefit from \$750,000 to \$1 million.
• Authorizing the MRMIB to obtain General Fund loans, with a defined repayment date upon approval of the Department of Finance, for expenses related to administration of the Major Risk Medical Insurance Fund (MRMIF);
• Requiring MRMIB to report to the Legislature on the implementation of this bill and its impact, as specified; and
• Requiring the MRMIB to create by February 1, 2010 an eleven member advisory panel regarding the operations and funding of the MRMIP.

FISCAL SUMMARY

MRMIP is currently funded by \$30 million in Proposition 99 funds authorized in Section 12739 of the Insurance Code and has generally received an additional \$10 million in Proposition 99 funds through the annual budget process.

Since 2002, the federal government has provided operating grants to state's with high-risk pools. In 2008, the amount of grants available was \$49 million. However, California does not qualify to receive any of the grants because of the \$75,000 annual benefit limit. SB 227 would make the program eligible; however, the availability and amount of such potential grants is unknown at this time.

Implementation costs for SB 227 are estimated at \$585,000 (MRMIF) for 2009-10, \$975,000 (MRMIF) for 2010-11, with potential annual costs of up to \$1.5 million (MRMIF) thereafter. The MRMIB estimates that it will need 4.5 ongoing full-time equivalent positions to implement the provisions of SB 227. The fiscal impact of this bill upon the health care industry within California is indeterminable at this time.

Analyst/Principal Date Program Budget Manager Date
(0562) M. Aguilera Lisa Ann L. Mangat

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

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COMMENTS

The Department of Finance opposes this bill for the following reasons:

- SB 227 is substantially similar to AB 2 (Dymally, 2008) which was vetoed because the bill was likely to increase the cost of existing private health care policies as the costs related to funding the MRMIP from the private health plans are passed onto their existing subscribers or policy holders.
- In the current, extreme fiscal situation which the state faces, any increased pressure upon the General Fund through direct expenses or loans would be unwise.
- Comprehensive health care reform that guarantees issuance of coverage to all individuals, along with an individual mandate, cost-containment, prevention measures, and shared responsibility is the only solution for the health care crisis.

ANALYSIS

A. Programmatic Analysis

Current law: MRMIP was established in 1989 and began to accept subscribers in 1991. MRMIP is a health insurance pool which provides access to comprehensive health insurance coverage for Californians who are unable to obtain coverage in the private market because they are considered medically uninsurable. MRMIP subscribers pay monthly premiums which are 125 to 137 percent higher than standard premiums. Subscriber premiums pay for approximately half of the total cost of the program. The balance is subsidized through the Cigarette and Tobacco Surtax Fund (Proposition 99) or the General Fund. Currently only three of eight major health plans (Blue Shield, Blue Cross and Kaiser Permanente) participate voluntarily in the MRMIP and serve 7,100 enrollees as of June 2009 with approximately 192 persons on a wait list as of July 25, 2009.

Chapter 794, Statutes of 2004, established the Guarantee Issue Pilot (GIP). Subscribers are limited to 36 months of MRMIP coverage, after which they "graduate" to the GIP program. The GIP expired on December 31, 2007. However, approximately 6,000 existing GIP subscribers were allowed to remain in the program until they elect to terminate coverage. Under the GIP, every health plan that sold individual policies in the private market had to offer a statutorily-defined guaranteed issue product to former MRMIP subscribers. Each GIP product was identical to the MRMIP product, except that the annual GIP benefit cap is \$200,000, rather than MRMIP's \$75,000 cap. Both MRMIP and GIP have a maximum lifetime benefit of \$750,000. In the GIP, the health plans and the state equally shared the cost of any health care costs above the amount of premiums paid by subscribers. GIP premiums were statutorily fixed at 110 percent of the premiums for comparable MRMIP products.

This bill would make significant modifications to the funding and operations of the MRMIP and have significant ramifications for the private insurance market. The bill would, among other things:

(1) Require health care plans and insurers that provide individual or group coverage to serve individuals eligible for the program, as assigned by MRMIB, regardless of health status or previous health care claims experience, or to pay a statutorily defined fee per covered life to help fund MRMIP coverage. The cost of this fee could be passed along on an equal basis to individual plans subscribers or policy holders of the health plan. (2) Require MRMIB to establish the annual fees no greater than \$1 per cover life per month which are to be paid by health plans and insurers who choose not to accept assigned coverage of eligible individuals. (3) Increase the annual MRMIP coverage cap from \$75,000 to an unlimited amount and increase the maximum lifetime benefit cap from \$750,000 to \$1.0 million. (4) Require the plans and insurers electing to cover individuals assigned to them to provide comprehensive coverage at level comparable to current MRMIP

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coverage as determined by MRMIB. (5) Authorize the MRMIB to obtain loans from the General Fund with approval of the Department of Finance for expenses related to administration of the MRMIF for the MRMIP. Any such loans are to be repaid by January 1, 2017. (6) Require the MRMIB to implement an eleven member advisory panel by February 1, 2010 regarding the operations and funding of the MRMIP. (7) Establish a process where existing GIP enrollees may transfer to the MRMIP which is a neutral funding shift within the MRMIF. (8) Require by January 1, 2011 that lower subscriber cost-sharing be set for primary, preventive, and chronic health services, than for other medical services (which is currently not differentiated). (9) Require MRMIB to establish subscriber premiums which are between 110 to 150 percent higher than standard premiums (for subscribers at or below 300 percent of the federal poverty level, a sliding scale with lower contributions is to be set). (10) Upon receipt of federal funds and contingent upon the amount and their allowable use, require MRMIB to offer enrollment to those on a program waiting list, and if none, then to lower premiums for subscribers.

Discussion: California is one of 34 states operating an insurance pool for medically high-risk persons, and is the third largest pool in the country. MRMIB is generally provided \$40 million annually to operate MRMIP (\$30 million is authorized in the Insurance Code and \$10 million through Budget Act appropriation). In 2005-06, this appropriation was temporarily reduced since MRMIB had built up a balance in the fund from prior years. Chapter 683, Statutes of 2006 (SB 1702) extended the GIP until December 31, 2007 and provided a one-time appropriation of \$4 million in Proposition 99 funds to allow MRMIP to clear a waiting list. As of June 2009, the MRMIP was serving 7,100 enrollees. Because enrollment had been lower than projected by the end of 2006-07 the MRMIF had \$18.4 million to carry-over into 2007-08. \$5.9 million was then carried forward from 2007-08 into 2008-09, and no funds were carried over into 2009-10.

SB 227 is supported by the American Federation of State, County and Municipal Employees, the California Medical Association, the Congress of California Seniors, Health Access of California, the MRMIB and other organizations. They believe the high risk medical pool needs a stable source of funding and will increase access to health care for uninsurable Californians. SB 227 is opposed by Aetna, the California Labor Federation (AFL-CIO), CIGNA, United Healthcare, the California State Employees Association, the California Association of Health Plans and the California Chamber of Commerce, among others. Opponents believe that the bill would penalize working families with group coverage, that it creates a state bureaucracy, singles out a specific industry rather create a system by which all Californians bear these costs, and since the fee will most likely be passed on to employers, it will further erode health coverage for workers.

B. Fiscal Analysis

MRMIP is currently funded by \$30 million in Proposition 99 funds authorized in Section 12739 of the Insurance Code and has generally received an additional \$10 million in Proposition 99 funds through the annual budget process, although this additional funding has been modified or eliminated when necessary. The 2009 Budget Act decreased this funding by \$6.6 million as part of a \$50 million General Fund solution.

Implementation costs for SB 227 are estimated at \$585,000 (MRMIF) for 2009-10, \$975,000 (MRMIF) for 2010-11, with potential annual costs of up to \$1.5 million (MRMIF) thereafter. The MRMIB estimates that it will need 4.5 ongoing full-time equivalent positions to implement the provisions of SB 227.

Elimination of the \$75,000 annual benefit limit would allow the MRMIB to apply for potential federal grants with the Centers for Medicare and Medicaid Services. Since 2002, the federal government has provided operating grants to state's with high-risk pools. In 2008, the amount of grants available was

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\$49 million. However, California did not qualify to receive any of the grants because of the \$75,000 annual benefit limit. SB 227 would make the MRMIP eligible; however, the availability and amount of such potential grants is unknown at this time.

The fiscal impact of this bill upon the health care industry within California is indeterminable at this time.

Related Bills

AB 2 (Dymally, 2008) would require health plans who offer individual policies in the private market to elect to either to accept coverage of assigned individuals or to pay a fee to the MRMIB to provide coverage for high-risk, uninsurable individuals. AB 2 was vetoed because the bill was likely to increase the cost of existing private health care policies as the costs of AB 2 were passed onto existing subscribers or policy holders.

AB 8 (Nunez, 2007) would establish the California Cooperative Health Insurance Purchasing Program as a state purchasing pool administered by the MRMIB, to negotiate and contract with health plans to provide health insurance for employees and their dependents of employers who elect to pay a fee to the state in lieu of makes expenditures for health care for their employees equal to a specified percent of wages paid by the employer. The bill was vetoed as not being financially sustainable, not being a comprehensive reform and placing more pressure on a failing health care system.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO RV	PROP 98	FC	2009-2010 FC	2010-2011 FC	2011-2012 FC			
1256/Othr Reg Fee	RV	No			----- indeterminable at this time -----			0313	
4280/Managed Risk	SO	No	C	\$585	C	\$975	C	\$975	0313
4280/Managed Risk	LA	No			----- indeterminable at this time -----			0313	
4280/Managed Risk	SO	No		-- See Fiscal Analysis-Could Require General Fund Loan--					0001
4280/Managed Risk	LA	No		----- No/Minor Fiscal Impact -----					0001
<u>Fund Code</u>	<u>Title</u>								
0001	General Fund								
0313	Major Risk Medical Insurance Fund								