



Maryland HMO Premium Tax Would Leave 10,000 Uninsured

January 11, 2005

Last month, Governor Robert Ehrlich called a special session of the Maryland Legislature to consider the state's malpractice premium crisis. However, legislators added a "poison pill" to their version of the tort reform bill -- a 2 percent tax on the premiums of employers or individuals who purchase health insurance through an HMO. As a result, the governor vetoed the bill on January 10.

In the short run, the new Maryland tax is intended to fund reductions in the growth of malpractice insurance premiums for physicians. In the longer run, the tax revenues would flow to the state's Medicaid program.

For many years, economists have estimated that health insurance premium increases cause companies and individuals to drop coverage. All other things equal, for every percentage increase in premiums, economists estimate a reduction in coverage ranging between about 0.2 percent and 0.6 percent.¹

Maryland has approximately 3.7 million people with employer-based or individual health coverage. About one-third of Maryland residents with health coverage are in HMOs. Therefore, approximately 1.2 million people would pay the new 2 percent tax, either directly or through their employer.

Using a mid-point estimate of 0.4 percent for the reduction in coverage associated with a one percent increase in health premiums, we estimate that approximately 10,000 Marylanders would lose their health coverage as a result of the new 2 percent tax.

¹ This mid-point estimate encompasses two types of response rates or "elasticities:" employers' decisions to offer coverage in response to a relative price increase, and the response of individuals who are not offered employer-based coverage to the relative price of purchasing coverage individually. For firms with 100 or fewer employees, Gruber and Lettau estimate a 0.7 percent reduction in the propensity of employers to offer coverage in response to a percentage increase in premiums. For firms with between 100 and 1,000 workers, the reduction is estimated to be 0.2 percent; for firms with more than 1,000 employees, the reduction is 0.1 percent. See Gruber, Jonathan and Michael Lettau, "How Elastic is the Firm's Demand for Health Insurance?" *Journal of Public Economics*, 88, 1273-1294 (2004).

There is a long history of estimates of the reduction in demand for individual insurance based on a percentage increase in its relative price: Marquis, Buntin et al (2004), 0.2 to 0.45 percent; Long and Marquis (2002), 0.3 to 0.7 percent; Pauly and Herring (2001), 0.3 to 0.4 percent; Marquis and Long (1995), 0.3 to 0.6 percent; Gruber and Poterba, (1994) 0.5 to 1.0 percent; Marquis and Buchanan (1992), 0.5 percent. A reference table displaying these estimates appears in Marquis, Susan M., Melinda Beeuwkes, Buntin et al., "Subsidies and the Demand for Individual Health Insurance in California HSR: *Health Services Research* 39:5 (October 2004).

Over time, if Maryland's health care providers reduce their rates as a result of the subsidies for their liability coverage, or if the tax is used to expand Medicaid coverage, this effect could be reduced. However, such offsetting effects are uncertain -- much less certain than the reaction employers and consumers, who will drop health coverage in response to the new tax.

Links:

Fiscal Group Summary of the Bill [http://mlis.state.md.us/2004s1/fnotes/bil_0002/hb0002.pdf]

Governor's Veto Message [http://www.gov.state.md.us/pdfs/011005_VetoLetter.pdf]



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