



CALIFORNIA HEALTH BENEFITS REVIEW PROGRAM

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Memorandum

To: Senator Jackie Speier, Chair, California Senate Committee on Insurance

From: Michael E. Gluck, Director, California Health Benefits Review Program
MEG

Date: April 1, 2004

cc: Senator Deborah Ortiz, Chair, Senate Health Committee
Assemblymember Rebecca Cohn, Chair, California Assembly Committee on Health
Assemblymember Juan Vargas, Chair, Assembly Committee on Insurance
Terry Boughton, Chief Consultant, Assembly Health Committee
Soren Tjernell, Consultant, Senate Insurance Committee
Elise Thurau, Consultant, Office of Senator Jackie Speier
Scott Bain, Principal Consultant, Assembly Appropriations Committee
George F. Cate, Consultant, Senate Appropriations Committee
Donald Moulds, Senate Office of Research
Jennifer Fitzgerald, Deputy for Health Legislation, Office of Governor Schwarzenegger
Sherri Lowenstein, Senior Supervising Counsel/Legislative Coordinator, California Department of Managed Health Care
Susan Dentzer, CHBRP National Advisory Council Chair
President Robert C. Dynes
Senior Vice President Bruce B. Darling
Assistant Vice President Stephen A. Arditti
Vice President Michael V. Drake

Re: **Analysis of SB 1555**

This memorandum provides estimates of the financial impact of Senate Bill (SB) 1555, updating a previous analysis by the California Health Benefits Review Program (CHBRP) of the impacts of SB 897. Like SB 1555, SB 897 proposed mandatory maternity services coverage. However,

SB 897 applied to plans and policies regulated by Knox-Keene¹ and the California Department of Insurance, whereas SB 1555 applies only to plans regulated by the Department of Insurance. As indicated by your committee's staff in recent conversations, 100 percent of enrollees in Knox-Keene plans are already covered for maternity services because Knox-Keene regulations are assumed to require health maintenance organizations to cover maternity services through both basic (prenatal) and emergency (delivery and immediate postpartum) care.

The analysis herein provides estimates of cost impacts of SB 1555, reflecting the fact that this bill affects a smaller portion of the California health insurance market than did SB 897. This analysis does not consider the medical effectiveness and public health impacts of SB 1555, because the health care services mandated in both bills are identical.

The analytic methods, review standards, and groups of experts and staff used to create this memorandum were the same as those used for all CHBRP products, including CHBRP's full analysis of SB 897 transmitted to the State Legislature on February 9, 2004. A more complete description of how CHBRP does its work may be found in its report on SB 897, which is available at http://www.chbrp.org/documents/sb_897anal.pdf.

As with SB 897, the cost analysis of SB 1555 suggests that the largest impact of this bill would be on individuals who purchase their own insurance. Table 1 summarizes the differences in CHBRP's estimates of the cost and coverage impacts of SB 897 and SB 1555. Tables 2, 3, and 4 provide greater detail about the impacts of SB 1555 and can be compared with Appendices A, B, and C in CHBRP's analysis of SB 897.

Utilization, Cost, and Coverage Impacts

Results of the CHBRP cost analysis reported below are based on data from Milliman USA. In accordance with the legislation authorizing CHBRP to conduct analyses of mandates (AB 1996), cost impacts are reported in two ways: in relation to the entire private health insurance market for the working-age population and in relation to specific groups. Therefore, although SB 1555 only directly affects *some* people who have health insurance (those in Department of Insurance-regulated plans), CHBRP reports cost and coverage changes for the entire private-insurance market and the potential impact on public payers and the number of uninsured.

The effects on the market are summarized as follows:

- Most Californians with private insurance (98.0%) already have coverage for prenatal care and maternity services. Within small firms (up to 50 employees), about 74,000 adults (1.7% of people employed in small firms that provide employee health benefits) lack coverage for maternity benefits, and within large firms, about 18,000 adults (0.2% of people employed in large firms that provide employee health benefits) lack this coverage. In the market for individual coverage, approximately 12% of adults lack maternity benefits, or about 192,000 people. Statewide, an estimated 284,000 privately insured individuals do not have maternity benefits.

¹ Health maintenance organizations in California are licensed under the Knox-Keene Health Care Services Plan Act, which is part of the California Health and Safety Code.

- Total expenditures (including total premiums and out-of-pocket spending for copayments and noncovered benefits) by or on behalf of *all* commercially insured individuals in California are estimated to increase 0.01% as a result of this mandate (or \$0.03 per member per month). This does not mean that everyone's cost increases would be the same. Virtually all of the impact would be concentrated in the individual insurance market, where total expenditures (including total premiums and out-of-pocket spending for copayments and noncovered benefits) are estimated to increase by 0.10% as a percentage of health care costs in the individual market (or \$0.23 per member per month). Total expenditures in the employer-purchased group market, for both small and large firms, are estimated to increase by less than 0.01% or \$0.03 per member per month because most large firms already provide maternity coverage.
- Public or private insurance already covers 96% of deliveries. Specific components of prenatal care may change. The utilization of prenatal care visits may increase due to the mandate, but the amount of the increase is difficult to estimate. Even if the mandate resulted in an increase in the use of prenatal care, changes in utilization would not affect expenditures, because prenatal care is usually paid for as a single lump-sum fee to physicians.
- Premium expenditures may not increase in all markets at the same rate, because people without coverage at the present time are likely to see higher increases in their premiums than those already buying maternity coverage. In the individual market, premiums are estimated to increase by 13% among people aged 25 to 39 years who currently purchase policies without maternity benefits. The specific dollar increase in premium expenditures for this market segment is difficult to estimate, because premiums depend on a number of market factors, including but not limited to changes in actuarial costs. However, if premiums increase by the same amount as the actuarial costs of providing maternity services, a 13% premium increase could result in an increase of almost 1,900 additional uninsured individuals, about 12% of whom (227) are estimated to be eligible for Medi-Cal. The increase in premiums in this market would be *offset* by a reduction in out-of-pocket expenditures for maternity services presently paid by women and families who do not have coverage.
- Coverage would be available for 2.0% of people with private insurance whose coverage currently does not include maternity benefits. An estimated 284,000 adults statewide (2.0% of those with private insurance) who currently lack maternity benefits would be eligible under the mandate.
- If the mandate is not enacted, more commercial insurers in the individual and group insurance markets could potentially drop maternity benefits as a cost-saving strategy to lower premiums and increase market share. This market segmentation could drive up the premiums for insurers who continue to offer maternity benefits and lead to more individuals with private insurance moving to the Medi-Cal program to pay for their prenatal and delivery care.

I hope this provides useful information for your consideration of SB 1555. If you have any questions, please do not hesitate to contact me at your convenience.

Table 1 Cost and Coverage Effects of Senate Bill 897 and Senate Bill 1555 Using New Coverage Data

Estimate	Senate Bill 897	Senate Bill 1555
Adults with private insurance who have coverage for maternity services	97.6%	98.0%
Adults who work for small firms and have health insurance but no maternity coverage	144,000 people (3.4%)	74,000 people (1.7%)
Adults in California who work for large firms and have health insurance but no maternity coverage	18,000 people (0.2%)	18,000 people (0.2%)
Number of people who purchase health insurance themselves but have no maternity coverage	192,000	192,000
Total number of people with private health insurance who lack maternity coverage	354,000	284,000
Total health expenditure increase among the privately insured population	0.01%	0.01%
Health expenditure increase among the individually insured population	0.10%	0.10 %
<u>Total</u> per member per month health expenditure increase among the privately insured population.	\$0.027	\$0.030
Expected premium increases for individually insured persons who do not have maternity coverage	13%	13%
Increase in the number of uninsured people within the individual market who presently lack maternity coverage, if premiums increase by 13%	1,900, with 227 likely to be eligible for Medi-Cal	1,900, with 227 likely to be eligible for Medi-Cal
Number of privately insured adults who would gain maternity benefits under the legislation	354,000 (2.4%)	284,000 (2.0%)

Source: California Health Benefits Review Program, 2004.

Table 2 Estimated Utilization and Per Member Per Month Costs of Mandated Maternity Services in the Private Group and Individual Health Insurance Market in California, Under 65 Years, Calendar Year 2004

	Large Group				Small Group				Individual
	HMO	PPO	POS	FFS	HMO	PPO	POS	FFS	
Maternity deliveries per 1000 members with maternity benefit	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	12.9
Assumed cost per delivery									
Inpatient (mother, well newborn, nondeliveries)	\$4,270	\$4,270	\$4,270	\$4,270	\$4,270	\$4,270	\$4,270	\$4,270	\$4,270
Professional	\$1,824	\$1,824	\$1,824	\$1,824	\$1,824	\$1,824	\$1,824	\$1,824	\$1,824
Total	\$6,094	\$6,094	\$6,094	\$6,094	\$6,094	\$6,094	\$6,094	\$6,094	\$6,094
Per member per month cost	\$7.36	\$7.36	\$7.36	\$7.36	\$7.36	\$7.36	\$7.36	\$7.36	\$6.54

Source: California Health Benefits Review Program, 2004.

Key: FFS = fee for service; HMO = health maintenance organization; POS = point of service; PPO = preferred provider organization.

Table 3 Baseline (Premandate) Per Member Per Month Premium and Total Expenses, California, Calendar Year 2004

	Large Group				Small Group				Individual	Total
	HMO	PPO	POS	FFS	HMO	PPO	POS	FFS	Individual	
Population younger than 65 years currently covered (excluding self-insured firms)	5,692,000	1,538,000	1,433,000	54,000	2,325,000	1,103,000	775,000	40,000	1,602,000	14,562,000
Baseline per member per month costs										
A. Insured premiums										
Average portion of premium paid by employer	\$169.13	\$256.17	\$185.92	\$276.33	\$168.18	\$269.65	\$194.56	\$276.96	\$0.00	\$2,488,310,000
Average portion of premium paid by employee	\$48.87	\$58.56	\$65.80	\$43.37	\$57.71	\$48.11	\$52.01	\$54.63	\$188.19	\$996,060,000
Total premium	\$218.00	\$314.73	\$251.73	\$319.70	\$225.89	\$317.75	\$246.57	\$331.59	\$188.19	\$3,484,370,000
B. Covered benefits paid by member (deductibles, copays, etc.)	\$7.72	\$42.52	\$15.92	\$70.54	\$11.53	\$47.21	\$19.26	\$77.26	\$32.93	\$285,630,000
C. Total cost of covered benefits	\$225.72	\$357.25	\$267.64	\$390.24	\$237.42	\$364.96	\$265.83	\$408.85	\$221.12	\$3,770,010,000
D. Benefits not covered	\$0.00	\$0.00	\$0.09	\$0.60	\$0.00	\$0.52	\$0.09	\$0.00	\$0.83	\$2,120,000
E. Total expenditures	\$225.72	\$357.25	\$267.73	\$390.84	\$237.42	\$365.48	\$265.92	\$408.85	\$221.95	\$3,772,130,000
Covered benefit dollars that already include the mandated provisions	100%	100%	99%	93%	100%	94%	99%	100%	88%	

Source: California Health Benefits Review Program, 2004.

Key: FFS = fee for service; HMO = health maintenance organization; POS = point of service; PPO = preferred provider organization.

Table 4 Postmandate Impacts on Per Member Per Month and Total Expenses, California, Calendar Year 2004

	Large Group				Small Group				Individual	
	HMO	PPO	POS	FFS	HMO	PPO	POS	FFS	Individual	Total
Population younger than 65 years currently covered (excluding self-insured firms)	5,692,000	1,538,000	1,433,000	54,000	2,325,000	1,103,000	775,000	40,000	1,602,000	14,562,000
Per member per month impact of mandate										
A. Insured premiums										
Average portion of premium paid by employer	\$0.00	\$0.00	\$0.06	\$0.42	\$0.00	\$0.40	\$0.07	\$0.00	\$0.00	\$610,000
Average portion of premium paid by employee	\$0.00	\$0.00	\$0.02	\$0.07	\$0.00	\$0.07	\$0.02	\$0.00	\$0.90	\$1,570,000
Total premium	\$0.00	\$0.00	\$0.08	\$0.49	\$0.00	\$0.48	\$0.08	\$0.00	\$0.90	\$2,170,000
B. Covered benefits paid by member (deductibles, co-pays, etc.)	\$0.00	\$0.00	\$0.01	\$0.11	\$0.00	\$0.07	\$0.01	\$0.00	\$0.16	\$350,000
C. Total cost of covered benefits	\$0.00	\$0.00	\$0.09	\$0.60	\$0.00	\$0.55	\$0.09	\$0.00	\$1.06	\$2,520,000
D. Benefits not covered	\$0.00	\$0.00	-\$0.09	-\$0.60	\$0.00	-\$0.52	-\$0.09	\$0.00	-\$0.83	(\$2,120,000)
E. Total expenditures	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.03	\$0.01	\$0.00	\$0.23	\$400,000
Percentage impact of mandate										
A. Insured premiums	0.00%	0.00%	0.03%	0.15%	0.00%	0.15%	0.03%	0.00%	0.48%	0.06%
E. Total expenditures	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.10%	0.01%

Source: California Health Benefits Review Program, 2004.

Key: FFS = fee for service; HMO = health maintenance organization; POS = point of service; PPO = preferred provider organization.