

MARTIN O'MALLEY
Governor

ANTHONY G. BROWN
Lt. Governor



RALPH S. TYLER
Commissioner

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December 5, 2008

The Honorable Thomas M. Middleton, Chairman
Senate Finance Committee
Miller Senate Office Building, 3 East Wing
11 Bladen St.
Annapolis, MD 21401

The Honorable Peter A. Hammen, Chairman
Health and Government Operations Committee
House Office Building, Room 241
6 Bladen St.
Annapolis, MD 21401

Dear Chairman Middleton and Chairman Hammen:

The Maryland Insurance Administration (MIA) and the Maryland Health Insurance Plan (MHIP) are required to report on: (1) the effect of excluding self-employed individuals and sole proprietors from the small group market on the availability and affordability of health insurance in the small group market; and (2) the number of self-employed individuals and sole proprietors enrolled in MHIP. *See Chapter 347 of the Acts of 2005*

Prior to October 1, 2005, the self-employed, unlike other small employers, could purchase health care coverage in the non-group market, the association group market or the small group market. Because only the small group market guaranteed issuance of a policy, carriers maintained there was an increased risk of adverse selection with its attendant increase in premiums for the self-employed. Data collected by the Maryland Health Care Commission (MHCC) in 1999 generally supported this conclusion.

The formation of MHIP gave the self-employed guaranteed access to coverage outside the small group market. Effective October 1, 2005, the self-employed were removed from the definition of small employer and thus excluded from the small group market.

Table 1 shows the overall experience in Maryland's small group market for the period 2004 to 2007. While the number of insured's has fluctuated year over year, there has been a slight decrease in the number of insured's from 2004 to 2007.

Conversely, earned premiums and incurred claims have continued to increase. The rate of increase in incurred claims did slow for the period 2006 to 2007 (3.5 percent) when compared to the period 2004 to 2005 (11 percent), but it is unclear that this is *primarily* attributable to the change in the definition of small employer.

MHIP began asking applicants if they are self-employed in September of 2006. In 2007, MHIP received 1,562 applications from self-employed individuals. The self-employed represented 23.8% of all applications MHIP received.

	2004	2005	2006	2007
Insured's	455,520	464,064	452,566	453,512
Earned premiums	\$1,420,494,794	\$1,534,974,713	\$1,637,336,173	\$1,668,068,541
Incurred claims	\$1,145,449,041	\$1,270,990,930	\$1,308,385,315	\$1,354,372,722
Incurred expenses	\$211,796,009	\$227,657,604	\$241,411,860	\$245,862,808
Loss ratio	80.6%	82.8%	79.9%	81.2%
Gain	4.5%	2.4%	5.3%	4.1%

Based on the information available to the MIA and MHIP, the self-employed do have access to health care coverage. The self-employed may purchase coverage through the non-group market, the association group market or, if a self-employed individual fails medical underwriting, MHIP. However, it is not possible to conclusively determine the impact on the availability and affordability of health care coverage to small employers of excluding the self-employed from the small group market.

If you have any questions or need additional information, please do not hesitate to contact me.

Sincerely,



Beth Sammis
Deputy Insurance Commissioner

BS:mmh

cc: Marie L. Grant, Committee Staff, Senate Finance Committee
Linda Stahr, Committee Staff, House Health and Government Operations Committee
Sarah T. Albert, Library Associate, Department of Legislative Services (5 copies)