HB 1366

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 1366 (Delegates Frank and Boteler)
Health and Government Operations

Managed Care Organizations - Adjustment to Capitation Payments - Quality Improvement Incentive

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This bill changes the criteria for which the Secretary of Health and Mental Hygiene, in consultation with the Insurance Commissioner, may adjust a Medicaid managed care organization (MCO) capitation rates. Instead of making adjustments based on medical loss ratios, the Secretary may adjust rates as a quality improvement incentive. The bill requires the Secretary to establish by regulation: (1) a core set of performance measures for MCOs, including quality measures and performance targets; and (2) a methodology for withholding capitation payments from MCOs and distributing withheld capitation payments based on MCO performance.

The bill takes effect July 1, 2005. The Secretary must adopt regulations by December 31, 2005, and the bill's requirements may not be implemented until regulations have been promulgated.

Fiscal Summary

State Effect: The implementation of a quality improvement incentive program could be handled with existing budgeted Department of Health and Mental Hygiene (DHMH) resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Secretary, in consultation with the Insurance Commissioner, may adjust an MCO's capitation rate if its loss ratio is less than 85%.

Background: A medical loss ratio (MLR) is the percentage of MCO revenues actually used to provide medical services. According to a market update report issued by the federal Centers for Medicare and Medicaid Services in 2003, the average Medicaid MCO medical loss ratio was about 81.5%, slightly lower than the 82% MLR for publicly-traded managed care companies.

In fiscal 2005, DHMH sanctioned one MCO $845,846 based on its MLR, reducing its capitation payments accordingly.

State Fiscal Effect: The quality improvement incentive program is expected to be budget-neutral for DHMH. Medicaid would withhold a certain amount of capitation payments from all MCOs at the beginning of a plan year. Depending on the performance of any particular MCO, Medicaid could withhold more capitation payments if the MCO does not meet minimum standards, or pay back higher capitation payments if the MCO exceeds standards. The adoption of regulations could be handled with existing DHMH budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: SB 835 (Senator Astle) – Finance.

Information Source(s): Department of Health and Mental Hygiene (Medicaid), Maryland Insurance Administration, Department of Legislative Services

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