HB 854

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 854 (Delegate Elliott, et al.)
Economic Matters

Health Care Providers - Reasonable Reimbursement for Health Care Services

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This bill requires the reasonable reimbursement of health care providers by health insurers, health maintenance organizations (HMOs), the Medical Assistance Program, and the State employee health benefit plan.

Fiscal Summary

State Effect: Assuming the State currently does not provide reasonable reimbursement to its health care providers, State expenditures could increase by an indeterminate amount due to higher rates for health care providers under State contract. General fund administrative expenditures could increase by an estimated $72,500 in FY 1997, assuming a significant increase in complaints and rate filings. General fund revenues could increase by an indeterminate amount.

(in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	----	----	-----	----	----
GF Expendit.*	$72,500	$83,500	$86,800	$90,200	$93,800
Net Effect*	($72,500)	($83,500)	($86,800)	($90,200)	($93,800)

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds
*Additional indeterminate increase in expenditures is possible

Local Effect: Expenditures could increase by an indeterminate amount. Revenues would not be affected.

Fiscal Analysis

State Revenues: The bill's impact depends upon the interpretation of "reasonable reimbursement" and whether the State currently provides reasonable reimbursement to its health care providers. General fund revenues could increase by an indeterminate amount as a result of the State's 2% insurance premium tax that would apply to any increased health insurance premiums resulting from the bill's requirements. The State's premium tax is only applicable to "for-profit" insurance carriers.

In addition, general fund revenues could increase by an indeterminate amount in fiscal 1997 since insurance companies could be subject to rate and form filing fees as a result of the bill's requirements. Each insurer (with the exception of health maintenance organizations) that amends its insurance policy must submit the proposed change to the Insurance Administration and pay a $100 form filing fee. Further, each insurer (with the exception of health maintenance organizations) that revises its rates must submit the proposed rate change to the Insurance Administration and pay a $100 rate filing fee. It is not possible to reliably estimate the number of insurers who will file new forms and rates as a result of the bill's requirements, since rate and form filings often combine several rate and policy amendments at one time.

State Expenditures: The bill's impact depends upon the interpretation of "reasonable reimbursement" and whether the State currently provides reasonable reimbursement to its health care providers. The Department of Health and Mental Hygiene advises that reasonable provider payments are currently employed in the Medicaid program, so the bill would have no fiscal impact on Medicaid expenditures. The Department of Budget and Fiscal Planning advises that under the bill's requirements, the State competitive bidding process would need to include criteria and contractual language to ensure that the State contract provides reasonable reimbursement to health care providers. Reasonable reimbursement is assumed to depend on marketplace competition among providers and economic conditions.

The Department of Fiscal Services advises that State expenditures could increase by an indeterminate amount to the extent that the bill's requirements (1) provide a legal basis for providers to challenge rates; and (2) result in higher reimbursements to health care providers under State contract, which could encompass the State employee health benefit plan; the Medicaid program; State psychiatric hospitals; residential centers for developmentally disabled individuals; correctional facilities; and community services for mental health, developmental disabilities, and alcohol and drug abuse services.

The Insurance Administration advises that general fund expenditures could increase by an estimated $130,438 in fiscal 1997, which reflects the bill's October 1, 1996 effective date. This estimate reflects the cost of hiring two Technicians to handle complaint investigations and two Technicians to review new rate filings. The Insurance Administration further advises that complaints increased significantly as a result of Chapter 121 of the Acts of 1991, which requires an HMO to pay providers not under contract to the HMO at the reasonable and customary rate. The bill's requirements are broader than those of Chapter 121 since it applies to all health insurers and could include providers under contract with a health insurer.

The Department of Fiscal Services (DFS) advises, however, that although workload could certainly increase as a result of the bill's requirements, the administration has not provided sufficient justification (such as the number of additional complaints generated by Chapter 121, the number estimated as a result of this bill, and the number that can be handled per position) to assume that four positions are needed. As a result, Fiscal Services estimates that only two positions will be needed initially, which could increase general fund expenditures by $72,500 in fiscal 1997. Additional positions could be needed in future years once the additional workload is assessed. The estimate includes salaries of $39,400, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$ 61,028
Other Operating Expenses	11,480
Total FY 1997 State Administrative Expenditures	**$ 72,508**

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses.

Local Expenditures: Expenditures for local jurisdiction employee health benefits and local health departments could increase by an indeterminate amount, depending upon the number of health care providers under contract.

Information Source(s): Department of Budget and Fiscal Planning; Insurance Administration; Department of Health and Mental Hygiene (Medical Care Programs Administration, Health Care Access and Cost Commission); Department of Fiscal Services

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