HB 86

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 86 (Delegate Bonsack)
Environmental Matters

Utilization Review - Health Benefits and Hospitals - Prohibition

This bill prohibits health insurers, health maintenance organizations, and hospitals from using utilization review to make payment decisions, except as required under federal law. It also repeals current law requiring: (1) certification of private review agents by the Department of Health and Mental Hygiene; and (2) hospitals to establish a utilization review program as a condition of licensure.

Fiscal Summary

State Effect: Expenditures could increase by $24.6 million in FY 1997, with the possibility of additional indeterminate but significant expenditure growth in Medicaid. Future year expenditures increase with annualization, inflation, and utilization. General fund revenues would decrease by $140,600 but could be offset by an indeterminate but significant revenue increase. Future year revenues increase with annualization.

($ in thous.)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	($140.6)	($187.5)	($187.5)	($187.5)	($187.5)
GF Expend.*	24,575.6	36,033.0	39,633.8	43,594.6	47,951.4
Net Effect*	($24,716.2)	($36,220.5)	($39,821.3)	($43,782.1)	($48,138.9)

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds
*assumes a mix of 60% general funds, 20% special funds, and 20% federal funds

Local Effect: Expenditures could increase by an indeterminate but significant amount in FY 1997. Revenues would not be affected.

Fiscal Analysis

Background: Utilization review is a system for reviewing the appropriate and efficient allocation of hospital resources and services given or proposed to be given to a patient. A private review agent performs utilization review but is affiliated with a health insurer, health maintenance organization, or third-party administrator rather than a hospital.

State Revenues: Due to repeal of private review agent certification, the Department of Health and Mental Hygiene would lose an estimated $140,625 in fiscal 1997 general fund revenues. This estimate reflects: (1) the bill's October 1, 1996 effective date; and (2) 125 applicants paying the $1,500 certification fee. Fee revenues currently subsidize other program activities in the Office of Licensing and Certification because while the office certifies private review agents, it is not required to conduct inspections.

General fund revenues could increase by an indeterminate but significant amount as a result of the State's 2% insurance premium tax that applies 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. For illustrative purposes, general fund insurance tax revenues could increase by $2 million for every $100 million increase realized in premiums.

In addition, general fund revenues could increase by an indeterminate moderate amount in fiscal 1997 since insurance companies (with the exception of health maintenance organizations) that do not already provide the coverage mandated by the bill's requirements will be subject to rate and form filing fees. Each insurer that amends its insurance policy must submit the proposed change to the Insurance Administration and pay a $100 form filing fee. Further, each insurer 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: Elimination of utilization review could result in unnecessary hospital admissions, increases in hospital length of stay, and over utilization of health care resources. As a result, general, special, and federal fund expenditures for State employee health benefit premiums could increase by an estimated $24.5 million in fiscal 1997 (or $32.7 million on an annualized basis). This estimate reflects: (1) an October 1, 1996 effective date; and (2) an increase of 10% in premiums due to elimination of utilization review. Future year expenditures reflect an annual 10% increase in costs, composed of 5.5% medical inflation and 4.5% utilization.

The bill prohibits utilization review except as required under federal law. Current federal law requires states to conduct utilization review in the Medicaid program; pending federal legislation removes the utilization review requirement. Therefore, if both federal legislation and this bill were enacted, expenditures could increase by an indeterminate amount. It is not possible at this time to reliably estimate the magnitude of increase in Medicaid program expenditures resulting from the bill's requirements, although it could be significant. Fifty percent of additional Medicaid expenditures would be reimbursed by federal funds. However, Congress is considering legislation that may cap the amount of funds that states receive under Medicaid. As a result, it's possible that additional expenditures need to be supported primarily by general funds.

The bill could also have an indirect effect on Medicaid expenditures. If insurance premiums increase and, as a result, some businesses are priced out of the market, the number of uninsured persons in Maryland could increase, thereby driving up the cost of uncompensated care and Medicaid costs.

General fund expenditures in the Insurance Administration could increase by an estimated $34,382 in fiscal 1997, which reflects the bill's October 1, 1996 effective date. This estimate reflects the cost of hiring a Technician position to review additional health insurance contracts. It includes salaries of $20,528, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$27,868
Office Equipment	5,215
Other Operating Expenses	1,299
Total FY 1997 State Administrative Expenditures	**$34,382**

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.

Current law requires a hospital to submit a utilization review program to the Department of Health and Mental Hygiene (DHMH) as a condition of licensure and authorizes DHMH to evaluate the effectiveness of hospitals' utilization review programs. The bill repeals these requirements, thereby relieving the Office of Licensing and Certification of the responsibility of monitoring hospital utilization review programs. Accredited hospitals are automatically deemed to meet State licensure requirements and are inspected by the State only in the event of complaints, to review compliance with licensure requirement for risk management, utilization review, and physician credentialing, and reviewing compliance with progress reports submitted by the hospital to the accreditation organization. Since utilization review is only one of several hospital licensing criteria that the office must evaluate, the Department of Fiscal Services assumes that any resulting savings would be minimal and would be transferred within the office to cover other licensure functions.

Local Expenditures: Expenditures for local jurisdiction employee health benefits could increase by an indeterminate but significant amount, depending on the extent to which local health benefit plans cover hospital care.

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

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