

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 724 (Delegate Fulton)
Economic Matters

Insurance - Workers' Compensation - Rate Credits

This bill allows a workers' compensation insurer or the Injured Workers' Insurance Fund (IWIF) to offer prospective rate credits to employers that agree to use a managed care plan offered by the insurer. The bill requires the insurer to file these rate credits with the Insurance Commissioner. The proposal would not limit the right of an injured employee to seek treatment from a medical care provider of the employee's choice, and the employer would be required to provide written notice to the insured employee of the employees' right under workers' compensation law to seek treatment from a doctor of their choice. The bill also requires that the Insurance Commissioner prepare a report to the General Assembly on the availability and use of managed care by workers' compensation insurers by October 1, 2001.

Fiscal Summary

State Effect: Increase of \$12,500 in general fund revenues in FY 1998 due to rate credit filing fees. No effect on State workers' compensation expenditures, as discussed below.

Local Effect: Potential indeterminate reduction in workers' compensation costs for local governments that provide coverage through insurance, as discussed below.

Small Business Effect: Potential minimal effect on small businesses as discussed below.

Fiscal Analysis

State Revenues: It is estimated that 125 insurers (or approximately half of the insurers providing workers' compensation coverage in 1995) would file rate credits with the Maryland Insurance Administration in fiscal 1998. At \$100 per filing, the filing requirement is expected to generate \$12,500 in revenue in fiscal 1998. Rate credits do not need to be re-

filed unless altered, so there is no projected out-year revenue.

State Expenditures: Because the bill would affect workers' compensation insurance rates -- by providing a rate credit, or discount -- it only applies to employers that purchase workers' compensation insurance. As an employer, the State provides workers' compensation coverage on a reimbursement basis, rather than on an insurance basis; hence, the bill would not offset State finances. The preparation of the report on managed care by the Insurance Commissioner could be absorbed within existing budgeted resources.

Local Expenditures: The bill could generate an indeterminate reduction in workers' compensation expenditures for local governments that purchase workers' compensation insurance. By participating in managed care and receiving a prospective rate credit from its insurer or IWIF, an employer may be able to reduce its premium costs. On the other hand, employers that use managed care currently are eligible for merit ratings (premium reductions) if the managed care results in lower claims. Thus, the positive effect of the prospective rate credit may be offset by reduction or elimination of the merit rating programs because insurers will have already taken into account potential savings from managed care in the rate credits. Whether the potential benefits from rate credits will exceed existing benefits from merit ratings cannot be determined at this time.

Finally, under the workers' compensation law an injured employee is still eligible to seek treatment from his or her doctor of choice, which would reduce the potential claims' savings, which in turn would likely reduce the generosity of the merit rating.

Small Business Effect: Employers' workers' compensation costs, whether paid to a private insurer, the Injured Workers' Insurance Fund, or through self-insurance, are based on the claims experience of covered employees. To the extent that the total cost of claims is increased or decreased, employers, including small businesses, absorb these increases or decreases either directly or via their premiums. As discussed above, use of managed care by employers for workers' compensation, and the accompanying rate credit, could reduce premiums for such coverage, less any reductions in merit rating and the effects of the use of out-of-network doctors.

Information Source(s): Injured Workers' Insurance Fund, Maryland Insurance Administration, Subsequent Injury Fund, Uninsured Employers' Fund, Workers'

Compensation Commission, Department of Fiscal Services

Fiscal Note History: First Reader - March 3, 1997

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Analysis by: Matthew D. Riven

Reviewed by: John Rixey

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 841-3710

(301) 858-3710