

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 197 (Senator Hollinger)
Finance

**Health Insurance - Treatment Guidelines and Protocols -
Length of Inpatient Hospitalization Coverage**

This bill specifies that health insurers, nonprofit health service plans, and health maintenance organizations (carriers) may not deny coverage to their enrollees for a longer hospital stay if: (1) the enrollee's health plan allows for a longer hospital stay when the enrollee's attending physician has determined a longer hospital stay is necessary; (2) the treatment guideline and protocol employed by the carrier to evaluate coverage is not a generally accepted national standard of care; and (3) the treatment guideline or protocol was the sole basis for reducing hospital length of stay.

Fiscal Summary

State Effect: Assuming a significant increase in inquiries and complaints, general fund administrative expenditures could increase by \$30,900 in FY 1998. Future year expenditures reflect annualization and inflation. In addition, expenditures for the State employee health benefit plan could increase by an indeterminate amount. General fund revenues could increase by an indeterminate amount beginning in FY 1998.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	-	-	-	-	-
GF Expenditures	\$30,900	\$35,300	\$36,600	\$37,900	\$39,300
Net Effect	(\$30,900)	(\$35,300)	(\$36,600)	(\$37,900)	(\$39,300)

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Expenditures for local jurisdiction employee health benefits could increase by an indeterminate amount. Revenues would not be affected.

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

Fiscal Analysis

State Revenues: This bill would increase medical care costs to carriers as a result of having to pay for additional inpatient hospital stays. The extent of the increase in costs cannot be reliably estimated at this time because there are insufficient data on: (1) the number of treatment guidelines and protocols that do not conform to generally accepted national standard of care; (2) the extent to which they determine hospital length of stay; and (3) the number of additional hospital stays that would result due to the bill. In any event, the increase in medical care costs could cause carriers to raise premiums, meaning that 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 1998 since the bill's requirements could subject insurance companies to rate and form filings. 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. The number of insurers who will file new forms and rates as a result of the bill's requirements cannot be reliably estimated at this time, since rate and form filings often combine several rate and policy amendments at one time.

State Expenditures: General fund expenditures in the Insurance Administration could increase by an estimated \$30,904 in fiscal 1998, which reflects the bill's October 1, 1997 effective date. This estimate includes the cost of hiring one Insurance Investigator to handle the increase in consumer and health care provider inquiries and complaints about coverage for hospital length of stay and definitions of "generally accepted national standard of care". It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$25,884
Operating Expenses	- <u>5,020</u>
Total FY 1998 State Expenditures	\$30,904

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

This bill could potentially increase medical care costs for the State employee health benefit plan by eroding the ability of the health plan to monitor and control utilization. Medical care costs could increase as a result of having to pay for additional inpatient hospital stays. The

extent of the increase in medical care costs cannot be reliably estimated at this time because of insufficient data.

Local Expenditures: Expenditures for local jurisdiction employee health benefits could increase by an indeterminate amount, depending upon the current type of health care coverage offered and number of enrollees.

Small Business Effect: Most small business health plans affected by this bill are nonprofit health service plans, which are mainly dental plans and vision plans. To the extent that these plans do not generally cover inpatient hospital stays, this bill will have no impact on them. There may be some small business health plans that do provide inpatient hospital coverage and medical care costs will increase for those businesses as a result of this bill if they have to pay for additional inpatient hospital stays. It is assumed, however, that the number of affected small business health plans is very small.

In addition, this bill will adversely impact self-employed persons and small businesses that receive health coverage through the affected health plans. To the extent that administrative and medical costs increase as a result of this bill and health plans raise premiums to cover that increase, self-employed persons and small businesses could face higher health care costs.

Alternatively, small businesses could pass an increase in insurance premium costs onto their employees.

Information Source(s): Insurance Administration; Department of Health and Mental Hygiene (Medical Care Policy Administration, Health Services Cost Review Commission); Department of Budget and Management; Department of Fiscal Services

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