HB 1038

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1038 (Delegate Bonsack, *et al.*)
Environmental Matters

Health Maintenance Organizations - Quality of Care - Requirements

This bill modifies the quality of care standards for HMOs. Specifically, the bill requires an HMO to assure that only the attending physician or other health care provider, in consultation with the enrollee, can decide on the health care services to be provided to the enrollee. Each HMO enrollee must have the opportunity to request to receive health care services from a physician or other health care provider who is not under contract with the HMO. The non-contract health care provider who renders a health care service to the enrollee will be reimbursed under the same terms and conditions as a provider under contract with the HMO. The HMO must allow physicians and other health care providers to practice their profession as medically necessary and not interfere with the delivery of health care services. The bill also provides that the medical director of an HMO must be a physician licensed in Maryland.

Fiscal Summary

State Effect: Indeterminate but potentially significant increase in expenditures for the State employee health benefit plan. Revenues would not be affected.

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

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

Fiscal Analysis

State Expenditures: Managed care plans, such as HMO plans, are organized around the networks that are established between the health care providers and the health plans/insurers. In addition, the primary care provider in managed care plans acts as the gatekeeper who manages the patient's care and access to health care services. For these reasons, HMO plans are able to tightly control the cost of health care services through (1) negotiated payment

arrangements with in-network physicians/providers and hospitals; and (2) utilization control of health care services.

The bill allows enrollees in HMOs the opportunity to request to receive health care services from out-of-network physicians. The bill also provides that only the attending physician or other health care provider, in consultation with the patient, may decide on the type of health care services to be provided to the patient.

Under a Point-of-Service (POS) option, an enrollee is permitted to receive health care services from an out-of-network provider in accordance with the recommendations of the primary care provider within a managed care system. A Preferred Provider Organization (PPO), on the other hand, is a delivery system that allows an enrollee to receive services through a network and permits an enrollee to self-refer for services outside the network. It is unclear to what extent the provision in the bill which specifies who may make decisions about the health care services to be provided to an enrollee would undermine the utilization control aspect of a managed care system. If the provision reduces utilization controls, then an HMO plan would be similar to a PPO plan. If utilization controls remain significantly unchanged, then an HMO plan would be similar to a POS plan.

In any event, medical care costs for HMOs would increase. Since the State employee health benefit plan is insured for HMO plans, HMOs would pass on the increased costs to the State. It is estimated that expenditures for the State employee health benefit plan could increase by as much as $31.4 million in fiscal 1998 if utilization controls are reduced as a result of this bill. The estimate reflects the loss in savings from managed care for HMO plans. It is based on historic data for PPO plan expenditures through the State employee health benefit plan and assumes the approximately 20,000 State employees currently enrolled in HMO plans would receive coverage in a health benefit plan similar to a PPO plan. This estimate accounts for the October 1, 1997 effective date. If, however, utilization controls are not limited under the bill, then HMO plans would become similar to a POS plan. Expenditures for the State employee health benefit plan under this circumstance would increase by an indeterminate but potentially significant amount, although the increase would be less than $31.4 million in fiscal 1998.

This bill could indirectly affect the Medicaid program through the HMOs with which Medicaid contracts. If the bill imposes significant costs on HMOs, Medicaid expenditures could increase in the long-term if HMOs with which Medicaid contracts persuade the State to increase the reimbursement rates to HMOs to accommodate the increase in costs.

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

Small Business Effect: For the reasons indicated above, the effect of this bill on HMO costs could potentially be significant. To the extent that medical care costs increase as a result of this bill and HMOs raise premiums to cover that increase, self-employed persons and small businesses that offer health insurance could face higher health care costs. Alternatively, small businesses could pass an increase in health insurance premium costs onto their employees.

In addition, by providing enrollees in HMOs a wider selection of physicians and health care providers from whom they can receive health care services, small business health care provider groups and self-employed health care providers currently not under contract with HMO plans may experience an increase in patient load. Also, to the extent that this bill would give physicians and other health care providers increased participation in the health care decisions of patients, small businesses and self-employed health care providers would be positively impacted.

All the HMOs licensed in the State are not small businesses.

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

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