Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 54 (Chairman, Finance Committee)
(Departmental - Health and Mental Hygiene)
Finance

Maryland Medical Assistance Program - Managed Care Organizations - Administrative Service Provider Contracts

This departmental bill requires Medicaid managed care organizations (MCOs) to comply with administrative service provider contract provisions currently applicable to commercial HMOs.

This bill takes effect July 1, 2000.

Fiscal Summary

State Effect: A $64,100 special fund expenditure increase for the Maryland Insurance Administration (MIA) in FY 2001. Future year expenditures reflect annualiztion and inflation. No effect on revenues.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
SF Revenues	0	0	0	0	0
SF Expenditures	$64,100	$82,700	$86,700	$90,800	$95,100
Net Effect	($64,100)	($82,700)	($86,700)	($90,800)	($95,100)

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

Local Effect: None.

Small Business Effect: The Department of Health and Mental Hygiene (DHMH) has determined that this bill has minimal or no impact on small business (attached). Legislative Services disagrees with this assessment as discussed below. (The attached assessment does not reflect amendments to the bill).

Analysis

Bill Summary: This bill requires an MCO to ensure appropriate payment to its contracting providers and to any external providers to which a contracting provider may refer an MCO enrollee. To do so, an MCO must create a "plan" requiring a contracting provider to: (1) provide the MCO with regular reports that identify payments made or owed to external providers; (2) provide the MCO with its current annual financial statement; (3) create a segregated fund that is sufficient to satisfy the contracting provider's obligations to external providers for services rendered to MCO enrollees; (4) substantiate that this fund is sufficient to pay the contracting provider's obligations to external providers; and (5) permit the MCO to audit and inspect the contracting provider's records and operations relevant to the provider's contract.

The MCO must file this plan with the Insurance Commissioner and must comply with the plan as approved by the Insurance Commissioner. If a contracting provider fails to comply with the plan's requirements, or if the administrative service contract is terminated, the MCO must assume the administration of any payments due from the provider to external providers. The Insurance Commissioner must consult with the Secretary of DHMH before taking any action regarding MCOs and administrative service provider contracts.

Current Law: Commercial HMOs must comply with these provisions.

Background: The bill's requirements stem from recommendations outlined in the MIA's "Summary Report of Limited-Scope Examinations of Certain Managed Care Organizations as of June 30, 1998." DHMH wants to hold MCOs to the same provider contractual standards as commercial HMOs.

This bill attempts to reduce or eliminate unpaid claims to providers as a result of "downstream risk." Many HMOs contract with other provider organizations to provide benefits to the HMOs' enrollees. HMOs pay capitated fees to these provider organizations, who then manage an enrollee's health care. In effect, the HMO has shifted its financial risk on the enrollee to the provider organization. If a provider organization becomes insolvent and cannot pay its external providers, claims often go unpaid.

State Effect: MIA special fund expenditures could increase by an estimated $64,067 in fiscal 2001, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring a full-time MIA Technician IV and a part-time MIA Technician III to review and approve additional plan filings from MCOs and to conduct field audits of provider organizations to ensure plan compliance. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses. No effect on revenues.

Small Business Effect: Potential minimal. This bill ensures that external providers, many of whom are small businesses, will be paid for services rendered to MCO enrollees in the event a contracting provider becomes insolvent and cannot pay its claims. This protection does not currently exist.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene (Medical Care Administration), Maryland Insurance Administration, Department of Legislative Services

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