HB 877

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 877 (Delegate Nathan-Pulliam, *et al.*)
Health and Government Operations

Medicaid Quality Improvement Act of 2005

This bill specifies the methodology by which the Secretary of Health and Mental Hygiene, in consultation with the Insurance Commissioner, may adjust capitation payments for a Medicaid managed care organization (MCO) if the MCO's loss ratio is less than 85%.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: Medicaid expenditures could increase by $483,000 (50% general funds, 50% federal funds), beginning in FY 2006. Future year estimates reflect inflation. No effect on revenues.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	$0	$0	$0	$0	$0
GF Expenditure	241,500	243,900	246,400	248,800	251,300
FF Expenditure	241,500	243,900	246,400	248,800	251,300
Net Effect	($483,000)	($487,800)	($492,800)	($497,600)	($502,600)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: If the Secretary chooses to make a capitation adjustment as a result of an MCO's medical loss ratio (MLR), the bill specifies limits on any adjustment made. The Secretary must calculate the MLR: (1) based on the audited HealthChoice financial monitoring report filed by the MCO; (2) in an manner that includes the MCO's medical administrative expenses as an element of the MLR expenses; and (3) on a three-year average loss ratio based on MLRs of the preceding three calendar years. The Department of Health and Mental Hygiene (DHMH) must provide notice as specified in the bill to an MCO if DHMH chooses to adjust capitation rates. An MCO is entitled to a hearing regarding rate adjustments.

The Secretary, in consultation with the Insurance Commissioner, may adjust capitation payments as part of a quality performance initiative. The initiative must: (1) be based on a core set of performance standards and measures; (2) provide a system of financial incentives and disincentives; (3) service as the single comprehensive quality measurement and improvement initiative; and (4) be adopted by regulation. The bill's requirements may not be implemented until the Secretary adopts regulations, which must be adopted by December 31, 2005.

Current Law: The Secretary, in consultation with the Insurance Commissioner, may adjust an MCO's capitation rates if the loss ratio is less than 85%.

Background: An MLR is the percentage of MCO revenues actually used to provide medical services. According to a market update report issued by the federal Centers for Medicare and Medicaid Services (CMS) in 2003, the average Medicaid MCO medical loss ratio was about 81.5%, slightly lower than the 82% MLR for publicly-traded managed care companies.

In fiscal 2005, DHMH sanctioned one MCO $845,846 based on its MLR, reducing their capitation payments accordingly.

State Fiscal Effect: Medicaid expenditures (50% general funds, 50% federal funds) could increase by $483,000 in fiscal 2006. Currently, DHMH pays contractors to conduct the Consumer Assessment of Health Plan Survey (CAHPS) and Health Plan Employer Data and Information Set (HEDIS) assessments on each of the seven MCOs. Each CAHPS assessment is $46,000 and each HEDIS assessment is $23,000. It is estimated that, in order to accommodate for MCO plan differences, an additional CAHPS and HEDIS assessment would be required for each MCO to capture accurate quality performance data, since the MCOs currently differ in structure, health care delivery, and population characteristics. Future year estimates reflect 1% inflation.

Any adjustments to MCO capitation rates cannot be reliably estimated at this time. Rates could either be increased or reduced, depending on quality assessment.

Additional Information

Prior Introductions: None.

Cross File: SB 707 (Senator Exum, *et al.*) – Finance.

Information Source(s): Department of Health and Mental Hygiene (Medicaid), Department of Legislative Services

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mp/jr

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