SB 707

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 707 (Senator Exum, *et al.*)
Finance Health and Government Operations

Maryland Medical Assistance Program - Medical Loss Ratio and Quality of Care

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This bill specifies that if the Secretary of Health and Mental Hygiene adjusts capitation payments for a Medicaid managed care organization (MCO) or a certified health maintaince organization (HMO) due to the MCO's or HMO's loss ratio, the MCO or HMO may: (1) appeal that decision to the Board of Review; and (2) take any further appeal allowed by the Administrative Procedure Act.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: To the extent MCOs appeal capitation rate adjustments to the Board of Review and prevail, DHMH revenues (50% general funds, 50% federal funds) could decrease, beginning in FY 2006. The extent of any reduction cannot be determined at this time. DHMH has only sanctioned one MCO in the past, reducing capitation payments by $845,846.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The Department of Health and Mental Hygiene (DHMH), in consultation with the Maryland Insurance Administration, must adopt regulations specifying: (1) the definition of "loss ratio" for uniform application by all MCOs; (2)

procedures requiring DHMH to consider the financial performance of an MCO; (3) standard data collection and reporting requirements for all MCOs; (4) a process for allowing an MCO to appeal DHMH's decision to adjust an MCO's capitation payments; and (5) a mechanism for, and conditions under which, an adjustment to an MCO's capitation rates are made.

DHMH may modify, enhance, or replace the Value Based Purchasing Initiative in effect on January 1, 2005, subject to certain limitations: (1) any changes must be adopted by regulation; (2) DHMH must notify MCOs of any changes at least three months prior to the calendar year in which MCOs will be held accountable for new performance measures; (3) any penalty or capitation adjustment may not be implemented as a capitation payment withhold; and (4) DHMH may modify performance measures for calendar 2005 as long as the dollar amounts for any financial rewards or disincentives are based on the Value Based Purchasing Initiative in effect on January 1, 2005.

Current Law: DHMH, in consultation with the Maryland Insurance Administration, may adjust capitation payments for an MCO or HMO in Medicaid's HealthChoice managed care program if the loss ratio is less than 85% during a calendar year.

In general, if a person has a complaint against a decision, action, or inaction taken by DHMH, the person must file a complaint first with the person responsible for the decision, action, or inaction complained of. If a satisfactory resolution is not reached, the complainant may file a statement of complaint with DHMH. Certain circumstances are specified in statute in which a complainant may circumvent these procedures and appeal directly to the Board of Review. A decision by the board is a final agency decision for purposes of judicial review under the Administrative Procedure Act.

Background: A medical loss ratio (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 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.

Any additional appeals to the Board of Review could be handled with existing DHMH budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: HB 877 (Delegate Nathan-Pulliam, *et al.*) – Health and Government Operations.

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

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