

Date: March 17, 2026
Position: Information Only

Testimony on House Bill 1126
Health Insurance and Managed Care Organizations – Laboratory Services – Contract Providers

House Health Committee
Hearing: March 19, 2026 at 1:00 PM

Dear Chair Bagnall and Members of the Committee:

I am a health economist with a PhD in economics and health services organization and policy. I have been a faculty member at Johns Hopkins University for nearly 30 years, with primary appointments at the Bloomberg School of Public Health at one point and the Carey Business School now. I would like to state for the record that the views expressed are my own and do not necessarily reflect the views or positions of the Johns Hopkins University or the Johns Hopkins Health System.

I have read the proposed House Bill 1126. The bill is designed to make it easier for small, independent medical testing labs in Maryland to obtain contracts with insurers so that they can be used by the insurers' enrollees and eventually reimbursed by the insurers. As a first principle in economics, removing a barrier to entry is expected to increase the number of firms in the market; this, in turn, would drive competition and innovation, with the expectation that prices (at least for the same goods) would come down, more of the benefits of the market would go to consumers rather than producers, and the only negatively impacted stakeholders would be the firms who had been capturing excess economic profits when the market was less competitive. Those large laboratories likely have economies of scale and scope that will keep them competitive. Even the large laboratories have incentives to invest in increasing efficiency and innovation for their own future, also benefiting the market.

Given the complexity of the market for laboratory services, specifically, and the healthcare system, more generally, the actual impacts are likely to be much more complex and vary by stakeholder.

First, the bill is similar, but not identical, to any willing provider legislation that has had an impact on other healthcare stakeholders—particularly, physicians and pharmacies. Any willing provider (or, in this case, any qualifying laboratory) legislation removes a barrier to entry. For many healthcare payers, when the payer is contracting with a laboratory so that enrollees can receive services and anticipate the services being covered, the fact that another laboratory is available will have little impact. The new laboratory can be reimbursed at the existing rate—so there is no change in price. Perhaps, enrollees who find laboratories more geographically accessible will utilize more laboratory services, although that seems unlikely as the labs are always ordered by providers and geographic accessibility to labs is not a huge issue in this state. Any small to moderate change in expenditures for laboratory tests will not translate into a large overall shift in expenditures as expenditures on laboratory tests are only a relatively small

fraction of overall healthcare spending. In addition, payers would have to spend a larger amount of time than they did previously on developing and negotiating contracts. So, even a second glance may suggest that the largest impact could be on patients who have access to more and more accessible labs that may have specialized or innovative approaches.

However, there are other potential impacts on the market. For the insurers, if they have not been spending time negotiating contracts with small labs, opening the door to every small lab potentially wanting to meet to discuss a contract is a potential cost increase. For any insurers that are also providers and choose to perform tests using “in-house” facilities, that decision is presumably driven by the fact that the internal lab costs are lower than if the lab tests were outsourced. Thus, even an increase to the minimum specified reimbursement would represent an increase in costs. If the insurers are working on a very thin margin (whether they are for-profit or not-for-profit), a decrease in margin could impact the insurer’s economic viability. If the costs to the insurer increase, that could result in higher premiums or out-of-pocket costs for enrollees.

A key question is whether there will be sufficient business development from changing the laws to allow any independent lab to insist on a contract (within specified bounds) with any insurer to offset the potential costs already mentioned. In the same way that independent laboratories can grow, provide jobs, and pay taxes on their profits, pushing up costs to insurers could have negative consequences.

In summary, it is important for legislators to consider whether the long-term costs of decreased business development from laboratories that cannot enter a market for lack of a contract with an insurer will more than offset the potential costs to insurers and enrollees of having to pay what could be a higher amount. Of course, there are moral, ethical, and political considerations along with the economic ones. Regardless, a key to decision-making is an understanding of the list of relevant potential economic impacts that should be considered.

Sincerely,
KD Frick, PhD