

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 2695-03  
BILL NO.: SB 829  
SUBJECT: Health Care; Health Care Professionals; Insurance Department; Hospitals;  
 Medical Procedures and Personnel; Physicians  
TYPE: Original  
DATE: March 10, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
All Funds	(Unknown)	(Unknown)	(Unknown)
General Revenue*	(Unknown) to Unknown	(Unknown) to Unknown	(Unknown) to Unknown
Insurance Dedicated	(\$503,074)	(\$191,177)	(\$196,025)
<b>Partial Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$503,074)</b>	<b>(\$191,177)</b>	<b>(\$196,025)</b>

\*Expected to exceed \$100,000.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Federal	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> Federal Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\*Unknown revenues and expenditures would net to \$0.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Department of Public Safety - Missouri State Highway Patrol**, the **Department of Economic Development - Division of Professional Registration**, the **Department of Conservation**, the **Department of Transportation**, and the **Department of Health** assume this proposal would not fiscally impact their agencies.

**Office of Secretary of State (SOS)** officials state the proposal would create The Patient-Physician Advocacy Act. SOS states that based on experience with other divisions, the rules, regulations, and forms issued by the Department of Insurance could require as many as approximately twelve pages in the "Code of State Regulations". SOS states that for any given rule roughly half again as many pages would be published in the "Missouri Register" as in the "Code" because cost statements, fiscal notes, and the like are not repeated in the "Code". SOS states these costs are estimated. SOS estimates the cost of a page in the "Missouri Register" to be \$22.50. SOS estimates the cost of a page in the "Code" to be \$26.50. SOS states the actual costs could be more or less than the numbers given. SOS states the impact of this proposal in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded, or withdrawn. SOS states the proposal alone does not require additional personnel but the cumulative effect of other proposals that require rulemaking activity may, in the aggregate, necessitate additional staff.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state the proposal allows competing physicians within the service area to meet and communicate for the purpose of jointly negotiating terms and conditions with the health insurance plans. Joint negotiation could affect network stability. Right now, physicians or physician offices contract directly with the plan. The contracts vary throughout the year. If the parties of the joint contract could not agree on the renewal terms, a large deficit of providers could result. Even though the proposal states the individual physicians could then negotiate with the health insurance plans in certain circumstances the individual physician may not be able to compete with the group of physicians. Since providers are not contracting on an individual basis joint negotiation could also end with higher reimbursement costs. If the group represents the lion's share of providers in the service area the group of physicians could demand higher capitation rates. Higher rates require higher premiums from the employers. However, this cost is too difficult to determine.

ASSUMPTION (continued)

**Department of Social Services (DOS)** officials state the proposal would have a fiscal impact on DOS. DOS assumes the third party acting on behalf of the physicians as a group could negotiate a higher rate from the HMOs than if each physician negotiated his own rate. Typically the physicians have a one-year contract with the HMOs and the contracts are renegotiated annually. If the physicians negotiated a significant yearly increase and the HMOs collectively had to pay more DOS may respond by increasing the capitation rate paid to the HMO for that year. This is a possibility but the scenario most likely to happen is one in which the capitation rate would be increased when the HMO contracts are rebid. During the rebid the actual experience of the health plans are considered when the upper premium limit is calculated. The higher rates paid to the physicians would be included in the actual costs of the health plans.

DOS states the fiscal impact is unknown but is expected to be greater than \$100,000. As an example, there are over 290,000 Medicaid eligibles enrolled in MC+ and an increase of \$.15 in the rate would be \$522,000 (290,000 x \$.15 x 12 months).

Officials from the **Department of Insurance (INS)** state the proposal would require a considerable expansion of the department's knowledge and regulatory activities. Approval of initial filings, supplemental filings and approval of contracts would require expertise that is currently not available within the department. INS states it is unknown how many individuals would be licensed as a third party negotiator, therefore licensing fee revenue to GR is unknown. INS states the licensing requirement would create a new licensing procedure to be developed (applications, renewals, licenses, applicant qualifications, etc.). The licensing of the third party negotiators would require at least one additional Licensing Technician II and significant modifications to the licensing database.

INS states they would also need to be able to store significant market data electronically and manipulate that data to analyze the effects on the market. INS states they would also have to develop a computer tracking system for all of the initial filings, supplemental filings and approved contract agreements. The computer hardware, software and programming changes would require at a minimum \$325,000 and could be substantially higher depending on the reporting requirements, volume, etc. INS would require an Economist to monitor impact of the proposal on physician fees statewide, review initial report filings by negotiators to determine potential impact of arrangements and proposed contracts for deficiencies, etc. INS would also require an attorney with expertise in contract law to review and approve contract arrangements for the department. INS states the staffing and expense estimates are a minimum fiscal impact and could be higher depending on the number of negotiators and volume of filings and contracts.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**ALL FUNDS**

Cost - All Funds

Medical assistance payments	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ESTIMATED NET EFFECT ON ALL FUNDS**

<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>
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**GENERAL REVENUE FUND**

Income - Department of Insurance

Filing fees	Unknown	Unknown	Unknown
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Costs - Department of Social Services

Medical assistance payments	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ESTIMATED NET EFFECT ON GENERAL REVENUE FUND\***

<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>
<u>TO</u>	<u>TO</u>	<u>TO</u>
<u>UNKNOWN</u>	<u>UNKNOWN</u>	<u>UNKNOWN</u>

\*Expected to exceed \$100,000.

**INSURANCE DEDICATED FUND**

Costs - Department of Insurance

Personal service (4 FTE)	(\$110,358)	(\$135,795)	(\$139,190)
Fringe benefits	(\$33,935)	(\$41,757)	(\$42,801)
Expense and equipment	<u>(\$358,781)</u>	<u>(\$13,625)</u>	<u>(\$14,034)</u>
Total <u>Costs</u> - Department of Insurance	<u>(\$503,074)</u>	<u>(\$191,077)</u>	<u>(\$196,025)</u>

**ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND**

<u>(\$503,074)</u>	<u>(\$191,077)</u>	<u>(\$196,025)</u>
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<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**FEDERAL FUNDS**

<u>Income - Department of Social Services</u>			
Medicaid reimbursements	Unknown	Unknown	Unknown

<u>Costs - Department of Social Services</u>			
Medical assistance payments	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

Small business would expect to be fiscally impacted to the extent that they would incur additional administrative costs as a result of the requirements of this proposal.

DESCRIPTION

This proposal would create procedures for physicians to engage in negotiations with health maintenance organizations (HMO) and certain other insurance companies. This proposal would be known as the Patient-Physician Advocacy Act. Physicians would negotiate their contracts with HMOs and certain other large insurance entities as a group or through a third party representative, which may be a member of the physicians' group or another person designated by the group to be the negotiator. Physicians within a service area of a health insurance policy would meet and discuss, for the purpose of negotiating practices and procedures that include, but would not be limited to: contract negotiations; the delivery of care and cost-efficient health management; promoting patient education; identifying fraud; administrative needs; dispute resolution; patient referral; physician reimbursement; quality assurance; utilization review; and physician selection and termination criteria. The Department of Insurance may collect annual information on the impact of this provision on state physician fees. Any person authorized as a

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DESCRIPTION (continued)

physician representative would comply with specific requirements and provide specific information to the Attorney General as outlined in subsection 9 of Section 354.526 of this proposal. After the parties have negotiated, the representative would provide a copy of the proposed contract to the Department for review and response within certain time limits.

Physicians would not jointly coordinate the cessation or limitation of health care services. They would not negotiate with the insurance company to restrict non-physician health care providers from participation in the policy simply because they are non-physicians. Finally, the physician representative would be required to pay a fee to the Department in order to act as a representative.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance  
Missouri Consolidated Health Care Plan  
Department of Social Services  
Department of Conservation  
Department of Transportation  
Department of Public Safety  
Missouri State Highway Patrol  
Department of Health  
Office of Secretary of State  
Department of Economic Development  
Division of Professional Registration



Jeanne Jarrett, CPA  
Director  
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