

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

**L.R. NO.:** 3479-02  
**BILL NO.:** SB 794  
**SUBJECT:** Health Care; Health Care Professionals; Insurance - Medical; Medical Procedures and Personnel; Physicians  
**TYPE:** Original  
**DATE:** January 28, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
All funds	\$0 to (\$12,295,401)	\$0 to (\$15,639,750)	\$0 to (\$16,578,1350)
General Revenue*	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>(UNKNOWN)</b>	<b>(UNKNOWN)</b>	<b>(UNKNOWN)</b>

\*Expected to exceed \$100,000 annually.

<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>

\*Revenues and expenditures are expected to exceed \$100,000 annually and 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 TO (\$7,847,998)</b>	<b>\$0 TO (\$9,982,653)</b>	<b>\$0 TO (\$10,581,612)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Conservation**, the **Department of Transportation**, the **Department of Insurance**, and the **Department of Public Safety - Missouri State Highway Patrol** assume this proposal would not fiscally impact their agencies.

**Missouri Consolidated Health Care Plan (HCP)** officials state that competition fuels the contract negotiations between a physician and a medical plan. Typically, providers give discounts in exchange for patient volume. If everyone participates and the volume is no longer guaranteed they may no longer participate and the prices would start to escalate. This would result in significant cost to the plans that would recoup these costs through increased premiums. A couple of years ago, several studies were done on this issue with a wide range of impacts. A study by the Barents Group, LLC of KPMG Peat Marwick, LLP for the Alliance for Managed Care states the impact to be about 15 percent. Another study done by Atkinson and Company estimates the impact to be between 9.1 and 28.7 percent. In this response, HCP has is taking a rather conservative approach on the fiscal impact of this proposal and use 10 percent.

In 2000 managed care is expected to cost a total of \$204,923,350 for the state members and \$94,175,971 for the Public Entities. Currently, the state contributes approximately 72% towards the state member's premium. Therefore, the fiscal impact for the first year could be \$15,639,750 for the state and \$9,982,653 for the Public Entities.

	<b><u>MCHCP</u></b>	<b><u>Public Entities</u></b>
<b>Fiscal Impact First 10 Months:</b>	\$ 12,295,401	\$ 7,847,998
<b>Fiscal Impact First Year:</b>	\$ 15,639,750	\$ 9,982,653
<b>Fiscal Impact Second Year:</b>	\$ 16,578,135	\$10,581,612

Officials from the **Department of Social Services - Division of Medical Services (DMS)** state the proposal affects them because DMS administers a managed care program which contracts with health maintenance organizations (HMO) for the purpose of providing health care services through capitated rates. These HMOs would be subject to the regulations in this proposal.

DMS states the proposal mandates that plans cannot prohibit or limit a health care provider willing to accept the plan's operating terms and conditions, its schedule of fees, covered expenses, utilization regulations and quality standards, from the opportunity to participate in that plan. DMS states this is essentially "any willing provider" language. "Any willing provider" language reduces a plan's ability to negotiate aggressive rates based on guaranteed volume because the potential for guaranteed volume is reduced when the number of providers cannot be

**ASSUMPTION** (continued)

strictly controlled. This affects the entity paying the plans to operate the program which in the case of the managed care program is DMS.

DMS estimates there would be fiscal impact to DMS because of this proposal. The proposal affects the shape of the plans' networks and also reduces the ability of the plans to negotiate terms. DMS states it is not possible to estimate the amount of the impact at this time. The cost impact would be incurred when bids are made by the plans because they would include the increased cost in their bid. Capitation payments to managed care plans in FY99 were over \$355 million. For the sake of perspective, an increase of just one percent in the cap rate would result in an additional annual cost of \$3.6 million.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<b>ALL FUNDS</b>			
<u>Costs - All Funds</u>			
Increased state contributions	\$0 to <u>(\$12,295,401)</u>	\$0 to <u>(\$15,639,750)</u>	\$0 to <u>(\$16,578,135)</u>
<b>ESTIMATED NET EFFECT ON ALL FUNDS</b>	<b><u>\$0 TO</u></b> <b><u>(\$12,295,401)</u></b>	<b><u>\$0 TO</u></b> <b><u>(\$15,639,750)</u></b>	<b><u>\$0 TO</u></b> <b><u>(\$16,578,135)</u></b>
<b>GENERAL REVENUE FUND</b>			
<u>Costs - Department of Social Services</u>			
Medical assistance payments*	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*</b>	<b><u>(UNKNOWN)</u></b>	<b><u>(UNKNOWN)</u></b>	<b><u>(UNKNOWN)</u></b>

\*Expected to exceed \$100,000 annually.

**FEDERAL FUNDS**

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

\*Expected to exceed \$100,000 annually.

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**POLITICAL SUBDIVISIONS**

<u>Costs - Political Subdivisions</u>			
Increased local contributions	\$0 to <u>(\$7,847,998)</u>	\$0 to <u>(\$9,982,653)</u>	\$0 to <u>(\$10,581,612)</u>

ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<b><u>\$0 TO</u></b> <b><u>(\$7,847,998)</u></b>	<b><u>\$0 TO</u></b> <b><u>(\$9,982,653)</u></b>	<b><u>\$0 TO</u></b> <b><u>(\$10,581,612)</u></b>
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FISCAL IMPACT - Small Business

Small business practices would expect to be fiscally impacted to the extent they would be able to participate in more health plans.

DESCRIPTION

This proposal would require a health carrier to allow any willing provider to participate in its network if that person satisfies all of the selection standards and would be known as the "Patient

L.R. NO. 3479-02  
BILL NO. SB 794  
PAGE 5 OF 5  
January 28, 2000

Freedom Act of 2000". Currently, Section 354.606, RSMo, deals with contracts between health carriers and health care professionals. This proposal states that health carriers may not develop selection criteria in such a way that it would deny a health care professional the opportunity to become a participating provider if that professional meets all of the selection criteria and would be willing to abide by all other terms and conditions.

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 Transportation  
Department of Conservation  
Department of Social Services  
Department of Public Safety  
Missouri State Highway Patrol



Jeanne Jarrett, CPA  
Director  
January 28, 2000