

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0363-01
Bill No.: SB 121
Subject: Health Care; Health Care Professionals; Insurance - Medical; Medical Procedures and Personnel; Physicians
Type: Original
Date: January 23, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
All funds	\$0 to (\$15,105,067)	\$0 to (\$19,938,688)	\$0 to (\$21,932,557)
General Revenue*	(Unknown)	(Unknown)	(Unknown)
Insurance Dedicated	\$1,450	\$0	\$0
Total Estimated Net Effect on All State Funds*	(UNKNOWN)	(UNKNOWN)	(UNKNOWN)

*Could exceed \$20 million annually.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Federal*	\$0	\$0	\$0
Total Estimated Net Effect on All Federal Funds*	\$0	\$0	\$0

*Revenues and expenditures are expected to exceed \$100,000 annually and would net to \$0.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0 TO (\$2,925,960)	\$0 to (\$3,862,267)	\$0 to (\$4,248,494)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

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

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 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 FY2000 were over \$386 million. For the sake of perspective, an increase of just one percent in the cap rate would result in an additional annual cost of \$3.9 million.

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 2001 managed care is expected to cost a total of \$271,759,520 for the state members and \$35,111,520 for the Public Entities. Currently, the state contributes approximately 72% towards

ASSUMPTION (continued)

the state member's premium. Therefore, the fiscal impact for the first year could be \$18,126,080 for the state and \$3,511,152 for the Public Entities.

Oversight assumes a ten percent increase per year.

Department of Insurance (INS) officials state that health insurers and HMOs would be required to amend policy forms in order to comply with this proposal. INS states that they anticipate that current appropriations and staff would be able to absorb the work for implementation of this proposal. However, if additional proposals are approved during the legislative session, INS may need to request an increase in appropriations due to the combined effect of multiple proposals.

INS states there are 29 HMOs may be required to file amendments to their policy form to comply with this proposal resulting in revenue of \$1,450. INS states that if multiple proposals pass during the legislative session which require policy form amendments to be filed the insurers would probably file one amendment for all required mandates.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
---	---------------------	---------	---------

ALL FUNDS

Cost - All Funds

Increased state contributions	<u>\$0 to</u> <u>(\$15,105,067)</u>	<u>\$0 to</u> <u>(\$19,938,688)</u>	<u>\$0 to</u> <u>(\$21,932,557)</u>
-------------------------------	--	--	--

ESTIMATED NET EFFECT ON ALL FUNDS

<u>\$0 TO</u> <u>(\$15,105,067)</u>	<u>\$0 TO</u> <u>(\$19,938,688)</u>	<u>\$0 TO</u> <u>(\$21,932,557)</u>
--	--	--

GENERAL REVENUE FUND

Cost - Department of Social Services

Medical assistance payments*	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
------------------------------	------------------	------------------	------------------

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*

<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>	<u>(UNKNOWN)</u>
-------------------------	-------------------------	-------------------------

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

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
INSURANCE DEDICATED FUND			
<u>Income - Department of Insurance</u>			
Form filing fees	<u>\$1,450</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>\$1,450</u>	<u>\$0</u>	<u>\$0</u>
FEDERAL FUNDS			
<u>Income - Department of Social Services</u>			
Medicaid reimbursements*	Unknown	Unknown	Unknown
<u>Cost - Department of Social Services</u>			
Medical assistance payments*	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS*	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
POLITICAL SUBDIVISIONS			
<u>Cost - Political Subdivisions</u>			
Increased local contributions	<u>\$0 to (\$2,925,960)</u>	<u>\$0 to (\$3,862,267)</u>	<u>\$0 to (\$4,248,494)</u>
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<u>\$0 TO (\$2,925,960)</u>	<u>\$0 TO (\$3,862,267)</u>	<u>\$0 TO (\$4,248,494)</u>

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 shall be known as the "Patient Freedom Act of 2001". Currently, Section 354.606, RSMo, deals with contracts between health carriers and health care professionals. This proposal would provide 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 Transportation
Department of Social Services
Missouri Consolidated Health Care Plan
Department of Insurance
Department of Conservation
Department of Public Safety
Missouri State Highway Patrol



Jeanne Jarrett, CPA
Director

January 23, 2001