Department of Planning and Budget
2007 Fiscal Impact Statement

1. **Bill Number** HB2562

House of Origin	☒ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☐ Substitute	☐ Enrolled

2. **Patron** Ware, R.L.

3. **Committee** Commerce and Labor

4. **Title** Joint payment of health insurance claims.

5. **Summary/Purpose:** Requires every health insurer, health services plan, or health maintenance organization, when paying a claim for services rendered by a health care provider that does not participate in the provider panel, to pay the claim by sending a check made payable to both the insured, subscriber, or member and to the nonparticipating health services provider.

6. **Fiscal Impact Estimates are:**

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2006-07	$0	N/A	N/A
2007-08	$4,314,443	N/A	General Fund
2007-08	$3,449,941	N/A	Nongeneral Fund-State Agencies
2007-08	$1,817,901	N/A	Employees and Pre-Medicare Retirees
2008-09	$4,745,887	N/A	General Fund
2008-09	$3,794,935	N/A	Nongeneral Fund-State Agencies
2008-09	$1,999,691	N/A	Employees and Pre-Medicare Retirees
2009-10	$5,220,476	N/A	General Fund
2009-10	$4,174,428	N/A	Nongeneral Fund-State Agencies
2009-10	$2,199,660	N/A	Employees and Pre-Medicare Retirees
2010-11	$5,742,523	N/A	General Fund
2010-11	$4,591,871	N/A	Nongeneral Fund-State Agencies
2010-11	$2,419,626	N/A	Employees and Pre-Medicare Retirees
2011-12	$6,316,775	N/A	General Fund
2011-12	$5,051,058	N/A	Nongeneral Fund-State Agencies
2011-12	$2,661,589	N/A	Employees and Pre-Medicare Retirees
2012-13	$6,948,453	N/A	General Fund
2012-13	$5,556,164	N/A	Nongeneral Fund-State Agencies
2012-13	$2,927,748	N/A	Employees and Pre-Medicare Retirees

7. **Budget amendment necessary:** Yes, approximately $4,314,443 would need to be added to Item 461 of the introduced budget to cover the general fund share of this cost increase.

8. **Fiscal implications:** Currently, the state employee health insurance program maintains a network that allows through negotiated allowances, a discount in charges for professional services. The difference between the allowable charges that are reimbursed and the amounts that would otherwise have to be paid can be considerable. In FY 2007, this difference

was $283.6 million for the state employee plan and the Local Choice program combined. This bill will most likely result in a reduction in these discounts.

One of the primary benefits for health care providers to participate in a given health insurance network is direct payment. Health care providers receive the benefit of direct payment in exchange for providing services at a discounted price. Network providers are also prohibited from "balance billing" patients for the difference between the allowable charge and the full un-discounted cost.

While this bill does not call for full direct payment for non-participating providers, it does call for in essence the same thing by jointly issuing payment to the non-participating provider and the consumer of the health care services. The result is that the incentive to participate in a given health insurance network will be greatly reduced because a) providers will be guaranteed the payment of the network's allowable charge and b) being non-providers, they retain the ability to balance bill the patient for the remainder.

The provider for the State Employee and Local Choice, plans Anthem, will not likely be able to maintain the same breadth of networks that are currently offered and health care costs will increase in two ways. First, insurance premiums will increase as higher fee schedules will be needed to entice enough providers to maintain even a smaller network. Second, more members will be exposed to the potential for balance billing as the number of non-contracting providers increases. This will be a particular risk in instances where there is little or no effective competition, which is the case with most hospital based physicians, and with many surgical specialties.

The increased cost will result in higher premiums for both the employer and employee. A higher employer premium for the state employee plan will result in an increased general fund requirement. In addition, the premiums of retired state employees under the age of 65 will also increase (pre-Medicare retirees are included in the state employee health insurance program.) The magnitude of this additional cost depends on the actual loss in the professional services discount.

The cost estimates shown in item 6 assume an erosion of the network which will result in a five percent increase in the cost of inpatient and outpatient professional (physician) services. In FY 2007, the state employees health program paid $191,645,689 for inpatient and outpatient professional services. A five percent increase results in a cost of $9,582,284 which when split between the general fund, nongeneral fund and employee/retiree portions yields the amounts shown for FY 2008 in item 6. The costs beyond FY 2008 assume a ten percent increase in the overall cost of health insurance each year.

9. **Specific agency or political subdivisions affected:** All state agencies and all political subdivisions that provide health insurance to their employees.

10. **Technical amendment necessary:** No

11. Other comments: No

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cc: Secretary of Administration