

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6840
BILL NUMBER: SB 269

DATE PREPARED: Dec 27, 1999
BILL AMENDED:

SUBJECT: Determination of Medical Necessity.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires a determination of medical necessity to be made by a qualified physician, in writing, and based on medical information. It also specifies certain criteria on which a determination of medical necessity must be based.

Effective Date: July 1, 2000.

Explanation of State Expenditures: *Impact summary:* This bill establishes standards on which a health maintenance organization (HMO) or traditional insurance plan must base determinations of medical necessity for health care services provided to its insureds and places additional requirements on HMOs and insurance plans in the management of patient care. To the extent that HMOs and insurance plans participating in the health benefit plans for state employees face additional costs or reduced profits from these provisions, there may be an impact on premiums, enrollment fees and/or copayments charged to the state or to state employees.

The impact on costs to the health care plans providing benefits to state employees is estimated to be in excess of \$1.4 million annually. By agreement with the state employees, most of the increase that is passed through in the form of premium and enrollment fee increases will be paid by the state.

Background: By agreement with the state employees, the state agrees to pay 93.5% of any increase in the total premiums for both single and family coverage during the life of the agreement. Employees will pick up the remaining 6.5% of any increase.

The estimated dollar impact to the costs faced by health plans is based on Congressional Budget Office (CBO) estimates of the impact of medical necessity definitions provided in federal patient protection proposals. The federal proposal would prohibit plans from "arbitrarily interfering with the manner or setting of care when that care is medically necessary or appropriate for treatment or diagnosis to the extent that such

treatment or diagnosis is otherwise a covered benefit." According to the CBO, manner or setting would be defined as the location of treatment and the duration of a service but would exclude decisions on the coverage of particular services or treatments. Medically necessary or appropriate is defined in the federal proposal as care that is "consistent with generally acceptable principles of professional medical practice." The CBO estimates that the higher volume of internal and external reviews and the higher probability of decisions that would be unfavorable to health plans would raise premiums by 0.8%.

Application of this estimate to the \$175.5 million in total health benefit plan contributions for state employees for FY99 results in an estimated \$1.4 million increase in costs faced by the health plans. The state currently pays 93.5% of the total health plan costs for its employees. As described above, by current agreement, 93.5% of the increased plan costs that are passed through to the state employee program would be paid by the state (or about \$1.3 million per year). However, this may not necessarily imply corresponding additional budgetary outlays since state responses to increased health benefit costs may include: (1) greater employee cost sharing in health benefits in years after the expiration of the current employee agreement; (2) reduction or elimination of health benefits; and (3) passing costs onto workers in the form of lower wage increases than would have been granted before.

The total impact on insurance and HMO plan costs may be in excess of the estimate provided above. The determination of medical necessity as proposed in this bill goes beyond the federal proposal as described above since the medical necessity determination in this bill is made by the provider with no requirement that the determination be consistent with the standard of generally acceptable principles of professional medical practice.

Explanation of State Revenues:

Explanation of Local Expenditures: Similar to the state, increased premiums and enrollment fees may or may not result in additional costs to local governments and school corporations purchasing health benefits from insurance companies and HMOs for their employee health benefit plans. However, this may not necessarily imply additional budgetary outlays since employer responses to increased health benefit costs may include: (1) greater employee cost sharing in health benefits; (2) reduction or elimination of health benefits; (3) reduction in the size of the workforce eligible for health benefits; and (4) passing costs onto workers in the form of lower wage increases than would have been granted before.

Explanation of Local Revenues:

State Agencies Affected: All

Local Agencies Affected: Local Governments and School Corporations

Information Sources: Congressional Budget Office Cost Estimate of H.R. 3605/S. 1890 (Patients' Bill of Rights Act of 1998), CBO, July 16, 1998.