

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 7, 2003

TO: Honorable John T. Smithee, Chair, House Committee on Insurance

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB1491 by Naishtat (Relating to utilization review and independent review of certain health care services.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1491, As Introduced: an impact of \$0 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$0
2005	\$0
2006	\$0
2007	\$0
2008	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/ (Loss) from <i>DEPT INS OPERATING</i> <i>ACCT</i> 36	Probable Savings/(Cost) from <i>DEPT INS OPERATING</i> <i>ACCT</i> 36	Change in Number of State Employees from FY 2003
2004	\$564,064	(\$564,064)	11.0
2005	\$512,573	(\$512,573)	11.0
2006	\$512,573	(\$512,573)	11.0
2007	\$512,573	(\$512,573)	11.0
2008	\$512,573	(\$512,573)	11.0

Fiscal Analysis

The bill would require the Texas Department of Insurance to certify and register all companies that perform retrospective reviews of the medical necessity of services that have been performed. Although Health Maintenance Organizations (HMO) do perform retrospective review, the bill would require independent review by the independent review organization of an adverse determination that was based on a retrospective review of the medical necessity and appropriateness of the service performed. The changes made would apply only to utilization review or independent review under Articles 21.58A and 21.58C, Insurance Code, that begins after January 1, 2004.

The bill would take effect September 1, 2003.

Methodology

According to the Texas Department of Insurance (TDI), 527 indemnity health plan carriers (commercial health insurance companies, as opposed to HMOs) reported premiums in 2001 from the sale of health insurance. Of those 527 indemnity health plan carriers, 28 are certified/registered to perform utilization review leaving 499 not certified/registered (527-28=499). The bill would require each company to be certified/registered as a Utilization Review Agent (URA), since each company conducts retrospective reviews. Processing the additional URA applications would require an additional 5.3 Insurance Specialist V FTEs (\$182,520 total annual salary). HMOs also perform retrospective reviews but significantly less than insurance companies. As of this writing, TDI was unable to determine the number of retrospective reviews based on medical necessity and appropriateness that HMOs may have performed during the past few years.

Any retrospective reviews that result in an adverse determination would be subject to the utilization review appeal process outlined in Texas Insurance Code Article 21.58A, Sections 6 and 6A. Under this process, TDI assigns independent review organizations (IRO) as requested by enrollees and health care providers. According to TDI, approximately 3 percent of all claims submitted by insureds are reviewed. Of the 3 percent reviewed, 5 percent of those claims are denied. In 2001, the estimated enrollment for commercial indemnity health insurance was 3,573,514. Conservatively assuming that 50 percent of all insureds filed a claim and 3 percent of those were reviewed with 5 percent of those being denied, there would be approximately 2,680 retrospective claims reviewed by IROs. The additional requests would require an additional 5.7 Insurance Specialist III FTEs (\$193,896 total annual salary).

The URA application fee is \$2,150 and the renewal fee is \$545. The renewal period is two years. Revenue from fees would increase by \$1,072,850 in FY 2004, and by \$271,955 in FY 2006 and FY 2008. It is anticipated that any difference between the amounts collected from fees and additional costs associated with the bill would be offset by a decrease in insurance maintenance tax collections.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 454 Department of Insurance

LBB Staff: JK, JRO, RT, RB