

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 1162 - HB 904

February 27, 2013

**SUMMARY OF BILL:** Prohibits any health insurance issuer or managed health insurance issuer from denying any medical laboratory the right to participate as a participating provider in any policy, contract, or plan on the same terms and conditions as are offered to any other provider of medical laboratory services. Also, prohibits the issuer from preventing any person or health care provider who is a party to or beneficiary of the policy, contract, or plan from selecting a licensed laboratory of the person's or provider's choice.

**ESTIMATED FISCAL IMPACT:**

**Increase State Expenditures – Exceeds \$11,365,400**

**Increase Federal Expenditures - \$16,129,700**

**Increase Local Expenditures - Exceeds \$169,400\***

Assumptions:

- The Department of Commerce and Insurance will be responsible for regulating the provisions of the bill which will be accomplished through the review and approval of forms, policies, certificates, and contracts to ensure compliance. Any cost can be accommodated within existing resources without an increased appropriation or reduced reversion.
- According to the Bureau of TennCare, requiring contracted managed care organizations (MCOs) to contract with every laboratory provider who wished to join a network would impact the program's expenditures.
- A managed care system is one in which an insurer can negotiate pricing and utilization by contracting with a select number of providers at a lower cost point in return for providing a larger volume of business. Any willing provider system can limit the MCOs ability to negotiate price based on volume of business.
- Any willing provider system can also impact the authorization requirements necessary to ensure that enrollees do not access overlapping or duplicative services from multiple providers offering similar services.
- According to TennCare, one MCO has leveraged competitive bidding for laboratory services and realized cost savings of approximately 20 percent.
- In FY11-12, TennCare expended \$123,127,844 on laboratory procedures.

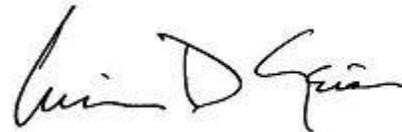
**SB 1162 - HB 904**

- It is estimated that TennCare will incur at least a 20 percent increase in laboratory procedure costs which will result in an increase in expenditures of \$24,625,569.
- Of this amount, \$8,495,821 will be state funds at a 34.5 percent rate and \$16,129,748 will be federal funds at a 65.5 percent match rate.
- According to the Department of Finance and Administration, the State Employee, Local Education, and Local Government health plans will incur increases in laboratory expenditures of at least a five percent.
- FY11-12 laboratory services expenditures are projected to be \$96,803,438 for all three plans. A five percent increase in expenditures is \$4,840,172. This amount is applied to the three plans as follows:
  - State Employee Health Plan is \$2,613,693 ( $\$4,840,172 \times 54\%$ );
  - Local Education Plan is \$1,887,667 ( $\$4,840,172 \times 39\%$ );
  - Local Government Plan is \$338,812 ( $\$4,840,172 \times 7\%$ ).
- The state covers 80 percent of the employees' health costs in the State Employee Health Plan resulting in an increase in state expenditures of \$2,090,954 ( $\$2,613,693 \times 0.8$ ).
- The state portion of the Local Education Plan is 45 percent of LEA instructional staff which is approximately 75 percent of LEA employees and 30 percent for support staff which is approximately 25 percent of LEA staff. The increase in state expenditures is estimated to be \$778,663 [ $(\$1,887,667 \times 75\% \times 45\%) + (\$1,887,667 \times 25\% \times 30\%)$ ].
- Each local government that opts into the state sponsored health plan is responsible for paying a percentage of the costs which is determined by the local government. It is assumed that local governments will cover at least 50 percent of the cost resulting in an increase in local expenditures which exceeds \$169,406 ( $\$338,812 \times 50\%$ ).

*\*Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/kml