

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 11, 2008
POSITION: Oppose

BILL NUMBER: SB 1522
AUTHOR: D. Steinberg

BILL SUMMARY: Health Care Coverage: Coverage Choice Categories

This bill would require the Department of Managed Health Care (DMHC) and Department of Insurance (DOI) to develop a system to categorize all health care service plans and insurance policies by five choice categories. These categories would be distinguished from one another by price, benefit levels and service types. The California Health Benefits Review Program (CHBRP), within the University of California, would be required to assist the development of the choice categories by providing health care service plan and insurance policy data to DMHC and DOI.

FISCAL SUMMARY

DMHC estimates one-time costs of \$446,000 to develop regulations, and ongoing costs of \$72,000 to respond to enrollee inquiries and complaints.

DOI estimates one-time costs of \$510,000 to develop regulations, and ongoing costs of \$1.02 million for additional insurance policy filing review, categorization of new insurance policy filings, and annual reporting. Any request for additional resources would be evaluated during the normal budget development process.

Costs to CHBRP, within the University of California, are unknown but potentially significant.

COMMENTS

Finance opposes this bill because of the significant costs it creates for DMHC and DOI and the effects it would have on health care premiums and consumer choices. While this bill attempts to provide additional consumer information for individual purchasers, the coverage categories under this bill appear too limited to reflect accurately the range of health plan and insurance products on the market that offer varying levels of benefits, services, deductibles, copayments and premiums. Additionally, mandating specific out-of-pocket limits for health plans and insurers and requiring all insurance policies to provide for physician, hospital and preventive care coverage, and would exert upward pressure on health costs. While no specific estimate is available as to the effect this bill would have on health care premiums, given the magnitude of changes, premium increases could be significant and contribute to the problems of health care affordability, as well as prevent individual purchasers of health care coverage from accessing low cost health care options.

Analyst/Principal (0741) E. Harper	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

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ANALYSIS**A. Programmatic Analysis**

Existing law establishes the Department of Managed Health Care (DMHC) and Department of Insurance (DOI) for the regulation and licensure of health plans and insurers, respectively.

This bill would:

- Require DMHC and DOI to jointly develop regulations by April 1, 2009 establishing a system to categorize health plans and insurers across five price, benefit and service levels. The five categories would reflect a continuum between the category with the lowest level of health benefits and the category with the highest.
- Require plans and insurers to offer a health plan contract or policy in each coverage category, and to offer a health plan contract or policy type in each coverage category.
- Require the coverage choice categories established by DMHC and DOI to be enforced in the same market place, regardless of license type.
- Require health plans and insurers to establish maximum out-of-pocket expenditure limits for plans and policies offered after on or after January 1, 2009.
- Require all health insurers to provide coverage for physician services, hospitals, and preventive services for health insurance policies offered on or after January 1, 2009.
- Require DMHC and DOI to develop a notice for consumers that provides information about the coverage choice categories, and would require health plans and insurers to submit copies of this notice with marketing materials and at the time of contract or policy renewal.
- Require DMHC and DOI to annually report on the health care coverage categories beginning January 1, 2012.
- Require the California Health Benefits Review Program to compile data and submit a report to DMHC and DOI on health care products, benefits levels, service levels and cost sharing.

Discussion: In concept, Finance is supportive of consumers making well informed health care choices based on adequate information on coverage options. However, this bill would limit the flexibility of health plan and insurance offerings for individual purchasers, and potentially make products currently affordable to certain individual purchasers no longer affordable. DOI products, in particular, would be limited in their coverage options by mandating coverage for physician, hospital and preventative care. Both DMHC and DOI regulated plans and insurers would also be limited in their coverage offerings because the bill requires maximum out-of-pocket expenditure limits for plans and insurers. Further, this bill would increase the administrative costs of DMHC, DOI and health plans and insurers.

According to the sponsor, Health Access California, the purpose of the bill is to provide additional consumer information to individual purchasers of health care coverage by creating a system of five levels of coverage choices with a number of options in each coverage category along with pricing and coverage information provided by DMHC and DOI. In addition to creating coverage categories, this bill would also require all health insurance policies to provide coverage for physician, hospital and preventative care, where currently they are not required to do so. Also, this bill would specify that all health plans and insurers must create annual out-of-pocket expenditure limits.

Health insurance policies regulated by the DOI are currently not required to offer physician, hospital or preventative care coverage. Some policies offer only specialized services tailored to specific individual purchasers of insurance. Some of these specialized policies offer low cost alternatives for individual purchasers that otherwise may not be able to afford health coverage because of preexisting conditions. Additionally, neither health plans regulated by DMHC nor health insurers regulated by DOI are required to create maximum out-of-pocket expenditures. Health coverage plans and insurers that offer lower

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premiums in exchange for higher out-of-pocket expenses without maximum limits meet the needs of some individual purchasers, though under this bill these types of plans and policies would be limited because of out-of-pocket expenditure limits.

B. Fiscal Analysis

DMHC estimates one-time costs for this bill would be \$446,000 to develop regulations, and ongoing costs would be \$72,000 to respond to enrollee inquiries and complaints.

DOI estimates one-time costs for this bill would be \$510,000 to develop regulations, and ongoing costs would be \$1.02 million for additional insurance policy filing review, categorization of new insurance policy filings, and annual reporting. Any request for additional resources would be evaluated during the normal budget development process.

Costs to CHBRP, within the University of California, for the preparation of data on health care plan and insurance offerings are unknown but potentially significant.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)								Fund Code	
	LA	(Dollars in Thousands)									
	CO	PROP									
	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011			
2400/MngedHltCare	SO	No	C	\$446	C	\$72	C	\$72		0933	
0845/Insurance	SO	No	C	\$510	C	\$1,022	C	\$1,022		0217	
6440/UC	SO	No		----- See Fiscal Analysis -----							0001
<u>Fund Code</u>	<u>Title</u>										
0001	General Fund										
0217	Insurance Fund										
0933	Managed Care Fund										