



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **12 VAC 5-408 – Rules and Regulations for Certification of Quality Assurance for Managed Care Health Insurance Plan Licensees Virginia Department of Health**

July 19, 2001

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

The Virginia Department of Health (VDH) proposes to amend its *Rules and Regulations for Certification of Quality Assurance for Managed Care Health Insurance Plan Licensees* in order to:

- More clearly differentiate between health maintenance organizations (HMOs) and preferred provider organizations (PPOs) and eliminate internal inconsistencies regarding PPOs;
- Expand the number of requirements that may be satisfied by national accreditation;
- Eliminate overly prescriptive requirements that are not likely to be good measures of quality; and
- Provide increased guidance regarding the Department's expectations concerning which sections certain licensees need not comply with and acceptable compliance activities for those that must.

## **Estimated Economic Impact**

### Background

Managed care health insurance plans or “MCHIPs” are health care insurance plans in which a health carrier arranges for insured individuals to obtain their care mostly or entirely from health care providers (physicians, hospitals, etc.) under contract with or employed by the insurance organization. The Bureau of Insurance (BOI) at the State Corporation Commission administers the state licensure program for MCHIPs in Virginia. A Certificate of Quality Assurance from the Virginia Department of Health is required in order to obtain a state license from BOI.

These regulations set out the procedures and requirements for obtaining a certificate of quality assurance from VDH. The purpose of the certification program is to assure that MCHIP licensees have appropriate standards in place for ensuring quality of care. These include: grievance procedures, customer satisfaction assessment, accessibility assurance, preventive services, provider credentialing, procedures to inform enrollees and providers of policies, systems to assess, measure, and improve health status of enrollees, confidentiality assurance, and utilization review standards.

The current regulations became effective in January 2000. Since then, VDH has recognized that inherent differences exist within different types of MCHIP licensees and that several of the requirements may have been overly prescriptive or burdensome to ensure a minimal level of quality. At that time, the agency modified its interpretation of several provisions to reflect the enhanced understanding of this industry. These modifications included limiting compliance in sections requiring clinical data to those MCHIP licensees that have access to clinical data and allowing licensees that do not have clinical data to demonstrate quality assurance in other ways. The agency also began allowing separate applications for separate plans provided a fee was submitted with each application.

The proposed changes to the regulation are intended to bring the regulatory text in line with the agency’s current practice. As such, the majority of the proposed changes will have no effect on the agency or any of the 95 current MCHIP licensees. The proposed changes that have not yet been adopted by the agency and may have an affect on MCHIP licensees or associated health care providers are discussed below.

### Provider Credentialing Verification

Under the new regulation, MCHIP licensees may grant practitioners provisional credentialing for up to 60 days while additional documentation (often from abroad) is obtained. Also the time frame for re-credentialing providers will be extended from two years to three years, which is in line with national standards. These changes will allow MCHIP licensees to contract with some providers sooner than they otherwise would have been allowed and reduce costs associated with re-credentialing providers. No reduction in the quality of care provided is expected as a result of these changes.

### National Accreditation

Currently, full accreditation is required by the regulations for exemption from certain provisions. Once VDH learned that provisional status could be conferred for reasons other than deficiencies in quality, it began to recognize this status in addition to full accreditation. However, at that time, the Department had already reviewed most licensees. The proposed regulation reflects this new policy and may decrease compliance costs for new applicants and licensees in future reviews.

### On-site Examinations

For those licensees not exempt due to national accreditation, a comprehensive on-site examination is required every three years. The proposed regulation increases advance notice of that examination from 60 days to 90 days and provides more detailed description of the parameters of the examination. This time frame, which is consistent with the advance notice provided by national accrediting bodies, allows more time for licensees to appropriately prepare for the on-site review.

### Conclusion

The proposed changes reflect the agency's experience with this regulation and its increased understanding of the issues and organizations involved. The new regulation is less prescriptive and more results oriented. The required criteria for assessing quality standards accommodates the differences in organizational structure and capabilities of certain MCHIP licensees, thereby eliminating compliance efforts that did not necessarily result in enhanced quality and allows for the least burdensome means of assuring a minimal level of quality. The

majority of the changes have already been incorporated into current practice and therefore, aside from providing more accurate and up-to-date guidance on the requirements for obtaining a certificate of quality assurance, are not expected to have any economic effects. Those changes that have not already been adopted by the agency (i.e., allowing provisional credentialing, recognizing conditional or provisional national accreditation) are likely to reduce compliance costs for licensees in the future, but the exact magnitude is not known at this time.

### **Businesses and Entities Affected**

There are currently 95 MCHIP licensees who could be affected by the proposed changes to this regulation.

### **Localities Particularly Affected**

The proposed changes to this regulation will not uniquely affect any particular localities.

### **Projected Impact on Employment**

The proposed changes to this regulation may allow some health care providers to contract with MCHIPs earlier than would have been able to otherwise, but no significant impact on employment in Virginia is expected.

### **Effects on the Use and Value of Private Property**

The proposed changes to this regulation are not expected to have any significant effects on the use and value of private property.