

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 362

SPONSOR: Banking and Insurance Committee and Senator Saunders and others

SUBJECT: Health Insurance

DATE: January 28, 2002

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Emrich	Deffenbaugh	BI	Favorable/CS
2.			HC	
3.			AGG	
4.			AP	
5.				
6.				

I. Summary:

Committee Substitute for Senate Bill 362 revises various provisions relating to health insurers, health maintenance organizations (HMOs), health providers, insureds, and subscribers specific to claims processing and payment, as follows:

- Substantially revises requirements and procedures for payment of claims by health insurers and HMOs;
- Standardizes all time periods for health insurers and HMOs to pay, deny or contest any claim, or portion of a claim, to 35 days;
- Increases interest rate penalties for overdue payments of claims from 10 to 12 percent a year;
- Provides for a civil remedy in the event the HMO or health insurer violates the prompt pay provisions, plus attorneys fees, interest, and costs;
- Eliminates the current law requirement of a “clean claim” which means that the provider submits a claim which has no defect or impropriety, including lack of required substantiating documentation, and removes the requirement that the Department of Insurance adopt rules consistent with federal claim-filing standards;
- Mandates that insurers and HMOs may make only one request for information in connection with a claim unless the provider fails to submit all requested information or if information submitted by a provider raises new, additional issues in which case such entities may make one more request for information;
- Entitles insureds and subscribers to prompt insurance payments of claims for covered services and provides penalties;
- Substantially revises health insurer and HMO requirements related to treatment authorization; defines “authorization;” requires such entities that require authorization to

- provide lists of medical care and health care services, prohibits denial of certain claims, and provides procedural requirements for determination of authorization;
- Requests for HMO or health insurer authorization must be answered within 24 hours of such request as to inpatient admissions or within 4 hours of such request for inpatients in a health care facility;
- Specifies that the “look-back” or audit review period must not exceed 2 years after date claim was paid, unless fraud in billing is involved;
- Redefines “managed care organization” to allow preferred provider organizations and health insurers to be eligible to utilize the statewide provider and managed care organization claim dispute resolution program; specifies time frames for submission of supporting documentation necessary for dispute resolution; provides consequences for failure to comply and authorizes the Agency for Health Care Administration to impose fines or sanctions;
- Authorizes a process whereby health insurers may file claims for overpayments with providers, a process which is similar to the one developed for HMOs in the prompt pay law of 2000. This process requires providers to respond to claims for overpayments using the same timetable as applies to claims submitted by providers to health insurers.
- Provides for eligibility determination procedures and electronic transference of payments of claims;
- Specifies application of certain additional provisions to group, blanket, and franchise health insurance;
- Provides that untruthfully notifying a provider that a filed claim has *not* been received constitutes an unfair trade practice for insurers and HMOs;
- Mandates that any health insurance policy insuring against loss or expense due to hospital confinement or to medical services, that payment of benefits must be made directly to any hospital, doctor, or other person who provides treatment of a psychological disorder for substance abuse, including drug and alcohol abuse, when such treatment is in accordance with provisions of such policy and the benefits. Payments must be made under this provision, notwithstanding contrary provisions in health insurance contracts;
- Requires emergency services to extend through any inpatient admission required in order to provide for stabilization of any emergency medical condition pursuant to state and federal law; and
- Provides that prompt pay provisions may not be waived, voided, or nullified by contract.

This bill substantially amends the following sections of the Florida Statutes: 408.7057, 626.9541, 627.613, 627.638, 627.651, 627.662, 641.185, 641.30, 641.3155, and 641.3903.
The bill creates section 627.6142, Florida Statutes.

II. Present Situation:

Prompt Payment of Claims - National Perspective

The submission and payment of health insurance claims is a critical component of the health care economy. In recent years a total of forty-seven states, including Florida, have enacted legislation to require HMOs and insurers to promptly pay their claims.¹ During the 2000-2001 legislative session, nine states, Florida among them, revised their laws to tighten deadlines, stiffen fines, and attempt to close other loopholes that providers say allow plans to evade state-mandated time limits. Such laws in effect put HMOs and health insurers on notice to pay clean claims in a timely fashion or face possible penalties and fines. The term "clean claim" generally means a claim that has no defect or impropriety or particular circumstance requiring special treatment.²

Most states require insurers to pay clean claims within 30 to 45 days, however state requirements range from 15 days (North Dakota) to 60 days (Michigan and Nevada). Under Georgia law, insurers are required to pay 18 percent interest on claims not paid within 15 days. Although Georgia's law is considered to be the strictest, Hawaii requires that claims filed electronically be paid within 15 days.

The trend in the most recent state "prompt pay" legislation is to adopt the Medicare standard of requiring 95 percent clean claims paid within 30 days and all claims approved or denied within 60 days from the date of the request with time tolled for supplying additional information. Medicare does define a "clean claim" as a claim that has no defect or impropriety, including lack of required substantiating documentation or particular circumstances requiring special treatment which is the same language as is in current Florida law.³ Medicare also has authority to audit the billing practices of providers and has strict fraud provisions incorporating civil and criminal penalties, which include requiring the offender to pay restitution and investigative costs.

During their 2001 sessions, five states passed "prompt-pay" laws with specified interest requirements. Typically, these standards are similar, if not identical, to the Medicare 30-day prompt pay requirement.

State	Prompt-Pay Deadline	Interest Rate
Arizona	30 days	Rate equal to state legal rate
Kansas	30 days	1% per month
Kentucky	30 days	12% for up to 60 days and 21% after 90 days
Minnesota	30 days	1.5% per month
New Mexico	45 days	1.5 times state legal rate

Even given the above reference reforms, some health care providers continue to complain that the laws requiring prompt payment of claims have not resulted in insurers and HMOs actually paying claims promptly. Health providers assert that HMOs in particular are chronically paying claims late. According to a June 4, 2001, American Medical Association News Report, more

¹ The American Medical Association Report, July 2001. The three states which do not presently have prompt pay provisions are Idaho, Nebraska and South Carolina.

² See s. 641.3155, F.S.

³ S. 641.3155, F.S.

states are likely to consider further revisions to their prompt pay statutes and regulations in their next regular legislative sessions.

However, insurers and HMOs dispute the alleged magnitude of payment problems and state that the overwhelming majority of claims have been paid on time. Further, these entities assert that the recent prompt pay laws need to be given time to work. In many cases, the time health plans spend processing claims is used to protect consumers from fraud, thereby keeping health care costs down.

Florida: Prompt Payment of Health Claims Effecting Health Maintenance Organizations

In February 2000, the Florida Advisory Group on the Submission and Payment of Health Claims issued its report and recommendations to the Legislature on prompt payment of health claims and related issues affecting providers and managed care organizations (MCOs), specifically health maintenance organizations (HMOs).⁴ Subsequently, legislation was enacted during the 2000 session based on those recommendations and subsequent discussions among the affected parties (ch. 2000-252, L.O.F.; s. 641.3155, F.S. et al. (Other sections were amended by the law). That law included the following provisions:

- Required HMOs to pay a claim for treatment if a provider followed the HMOs authorization procedures and received authorization for a covered service for an eligible subscriber, unless the provider submitted information to the HMO with the intent to misinform the HMO.
- Created the Statewide Provider and Managed Care Organization Claim Dispute Resolution Program. The Agency for Health Care Administration (AHCA) must contract with independent resolution organizations to recommend to the agency an appropriate resolution of disputes between a managed care organization and providers with regard to claim disputes in violation of the prompt payment statute, s. 641.3155, F.S., subject to a final agency order.
- Required HMOs to provide treatment authorization 24 hours a day, 7 days a week. Requests for treatment authorization would not be held pending by the HMO unless the requesting provider contractually agreed to take a pending or tracking number.
- Clarified the “balance billing” provisions by prohibiting a provider from collecting from a subscriber any money for services authorized by an HMO; specified that the prohibition applies to both contract and noncontract providers rendering covered services; prohibiting a provider from billing the subscriber during the pendency of any claim; prohibiting a provider from reporting a subscriber to a credit agency for unpaid claims due from an HMO; and required referral of violations by physicians and facilities to the appropriate regulatory agency for final disciplinary action.
- The prompt payment requirements of s. 641.3155, F.S., would be applied to claims made by either contract or noncontract providers. The requirement for an HMO to pay claims within 35 days of receipt would be limited to a “clean claim” or any portion of a “clean

⁴ The 1999 Florida Legislature authorized the Director of the Agency for Health Care Administration (AHCA) to establish the Advisory Group. A health maintenance organization (HMO) is considered to be the prototype managed care organization and such entities are issued certificates of authority and approved by the Department of Insurance and AHCA.

- claim” filed by a provider. A “clean claim” is defined until such time as the Department of Insurance adopts a revised definition, consistent with federal standards.
- Clarified that the current 10 percent annual simple interest penalty on a claim against an HMO begins to accrue on the 36th day after the clean claim has been received, and requires that the interest be payable with the payment of the claim.
 - Required an HMO to file a claim against a provider for an overpayment and prohibited the HMO from reducing payment to the provider (termed a “take back”), unless the provider agrees to the reduction or fails to respond to the HMOs claim pursuant to specified time frames and requirements, which are the same requirements that apply to provider claims against an HMO.
 - Entitled providers who bill electronically to electronic acknowledgment of receipts of claims within 72 hours.
 - Prohibited an HMO from retroactively denying a claim due to subscriber ineligibility more than 1 year after the date of payment of the clean claim.
 - Prohibited as an unfair claim settlement practice, an HMO committing or performing with such frequency as to indicate a general business practice, systematic downcoding with the intent to deny reimbursement otherwise due.
 - Authorizes AHCA to impose fines against hospitals and other regulated facilities for a violation of the “balance billing” prohibitions of s. 641.3154, F.S.,
 - Provided that in addition to any other provision of law, systematic upcoding by a provider, with the intent to obtain reimbursement otherwise not due from an insurer is punishable by fines in amounts the same as those that may be imposed against an HMO for a violation of chapter 641.

The above provisions were in addition to the 1998 and 1999 legislative changes addressing the issue of requiring HMOs to pay claims within certain time frames (See ch. 98-79, L.O.F.; CS/SB 1584 (1998) and ch. 99-393, L.O.F.; CS/HBs 1927 and 961 (1999) (s. 641.3155, F.S.))

In summary, the provisions of s. 641.3155, F.S., relating to prompt payment of claims requires HMOs to pay claims for services provided under contract with the provider within 35 days after receipt of the claim. For contested claims, the HMO must notify the contract provider, in writing, within 35 days after receipt of the claim, and identify the contested portion of the claim and the specific reason for contesting or denying the claim. In the event the HMO requests additional information, the provider must provide the information within 35 days, and within 45 days after receipt of the information requested, the HMO must pay or deny the contested claim or portion of the contested claim. In any event, all claims must be paid or denied no later than 120 days after the HMO receives the claim. Overdue payment of a claim accrues a simple interest penalty at the rate of 10 percent per year.

Florida: Health Insurers-Prompt Payment of Health Claims

Health insurers are required to pay claims under a health insurance policy within 45 days after receipt of the claim by the health insurer (s. 627.613, F.S.). If a claim or a portion of a claim is contested by the health insurer within the 45 days, then the insured or the insured's assignees must be notified, in writing, that the claim is contested or denied. Upon receipt of the additional information, a health insurer must pay or deny the contested claim or portion of the contested

claim within 60 days. All claims must be paid or denied no later than 120 days after receiving the claim. Overdue payment of a claim accrues a simple interest penalty at the rate of 10 percent per year.

Department of Insurance-Enforcement of Prompt Pay Provisions

The Department of Insurance has jurisdiction to examine the affairs, transactions, accounts, and business records of both insurers⁵ and HMOs,⁶ to investigate such entities and assess fines,⁷ seek injunctive relief,⁸ and sanction them for unfair or deceptive trade practices.⁹ In an effort to monitor the effectiveness of the HMO prompt pay law enacted in 2000, the department issued a special data call to the 24 HMOs operating in Florida and requested records as to all claims paid in the second quarter of 2001. After identifying the claims, which were paid more than 35 days after receipt of the claim (i.e., late claims), the department picked a random sample of 100 such claims from each HMO to review and requested the particular HMO to explain why there was a delay in paying the claim. According to representatives with the department, they are in the process of reviewing the data received from the HMOs and have not reached any conclusions at this time. However, these officials did state that if they found that an HMO had engaged in a practice and pattern of late claims' payments, it would be sanctioned by the department.¹⁰

In general, department officials did state that the number of prompt pay complaints against both insurers and HMOs have declined in 2001 from previous years. For example, for 2001, the number of complaints received by the department against health insurers totaled 2,755 as compared to 3,124 for 2000, and for HMOs, the number of complaints received totaled 3,653 for 2001 as compared to 4,746 for 2000.

According to information provided by the largest insurer in the state, Blue Cross and Blue Shield of Florida, which has a total statewide enrollment of 3.4 million Floridians (i.e., this includes all their plans, HMO, PPO and indemnity), the company paid 96.4 percent of its 2001 claims within 30 days, and nearly 90 percent within 20 days for its HMO (Health Options). Its insurance and PPO (PPC) claims payment performance for 2001 was the following: 99.4 percent of claims were paid within 30 days and 97.3 percent were paid within 20 days. According to company representatives, for its insurance and PPO claims, on an annualized basis for 2001, it paid \$2.475 billion in claims within 30 days, with less than \$70 million paid thereafter even though the statutory threshold is 45 days.

Statewide Provider and Managed Care Organization Claim Dispute Program

The Statewide Provider and Managed Care Organization Claim Dispute Program (Dispute Program), administered by AHCA, was established 2 years ago (s. 408.7057, F.S.; ch. 2000-252,

⁵ S. 624.3161, F.S.

⁶ S. 641.27, F.S.

⁷ S. 624.310, F.S.

⁸ S. 641.281, F.S.

⁹ S. 641.3903, F.S. for HMOs and Part IX of ch. 626, F.S., for insurers.

¹⁰ Department representatives state that the National Association of Insurance Commissioners (NAIC) has established a statistical error rate of 7 percent for late claims' payments. For example, if an HMO had failed to timely pay more than 7 percent of its claims during a particular period, it could be sanctioned.

L.O.F.). According to the parties involved in proposing the legislation, the Dispute Program was to serve as an alternative to providers suing HMOs. Under the law, AHCA has contracted with Maximus, an independent dispute resolution organization, which conducts “paper reviews” of disputes between HMOs and providers with regard to amounts paid for services. Maximus, in turn, recommends to AHCA an appropriate resolution of the claims dispute and the agency has 30 days to review it before taking final agency action.

The Dispute Program requires that physicians have at least \$500 (in aggregate) in disputed claims to enter the dispute process, while hospitals must have \$25,000 (in aggregate) for inpatient treatment and \$10,000 (in aggregate) for outpatient services they believe they are owed. In addition, HMOs are able to initiate the dispute process after meeting the same \$500 monetary threshold as physicians. In each case, the loser pays the cost for the dispute review. The Dispute Program became operational on May 1, 2001, and as of January 25, 2002, Maximus has received eight claims (one was a duplication). Three of the claims have been submitted to AHCA for final order, two are outstanding and two have been dismissed.

Representatives with provider groups assert that the Dispute Program has not been utilized because it has not been publicized by ACHA (for example, it is not on their web site), therefore not enough providers know about the program. Agency representatives respond that they have spoken about the program to various groups, but that there were no funds appropriated to publicize the program and therefore have left it up to the various stakeholders in the process (i.e., providers groups and HMOs) to tell their constituents. The agency also comments that the Dispute Program statute lacks sanctions for nonresponding plans or providers. In addition, some HMOs assert that they are hesitant to participate in the Dispute Program because the law does not contain a public records exemption for confidential and proprietary information (i.e., health plan reimbursement agreements with providers). Further, some providers feel that the costs associated with the review process to the non-prevailing party are too high. But according to ACHA records, the costs as to the current claims submitted to the Dispute Program are very low and range from \$175 to \$187.

Health Insurance Fraud

According to estimates by the National Health Care Anti-Fraud Association, the losses due to fraud add \$100 billion to the annual cost of health care in this country. The Florida Division of Insurance Fraud within the Department of Insurance and the Coalition Against Insurance Fraud estimate that insurance fraud in Florida costs \$6.5 billion annually and every insurance consumer family in the state annually pays over \$1,414 in additional premiums as a result of such fraud with health care fraud constituting a significant percentage of that amount. Further, according to a recent report by the Office of Program Policy Analysis and Government Accountability (OPPAGA), Florida’s losses due to Medicaid fraud and abuse range from \$2.1 billion to \$4.3 billion, or between 5 percent and 10 percent of total Medicaid health services expenditures.¹¹ The risks posed by health care fraud and abuse to insurers and managed care plans are enormous: financial loss, consumer dissatisfaction, provider desertion, malpractice lawsuits by patients, shareholder lawsuits, sanctions and criminal investigations, a damaged reputation and loss of customers. For most employers, fraud increases the cost of providing benefits to their employees

¹¹ Report No. 01-39, Sept. 2001. This estimate is over a six-year period (FY 1995-96 to 2000-01).

and, therefore, their overall cost of doing business. That translates into higher premiums and out-of-pocket expenses.

According to the report issued to the Legislature on the submission and payment of health claims, the vast majority of providers, insurers and managed care plans maintain high ethical standards and do not knowingly abuse or defraud our complex health finance system, however, a few unscrupulous individuals do extract or withhold billions of dollars fraudulently.¹² Division of Insurance Fraud officials state that the common types of health care fraud involve billing for a treatment or procedure never rendered (i.e., X-rays, laboratory tests, or drugs never dispensed) or double billing wherein a provider obtains payment from two sources. In the area of automated processing of claims, there have been charges of abusive practices against both providers and insurers. For instance, certain providers may fraudulently "upcode" various medical procedures so that a minor service can be upcoded as a more labor intensive or expensive service. "Kickbacks" are also common in healthcare fraud cases. Another scheme involves misrepresenting the diagnosis and symptoms on patient records and then submitting invoices to insurers to receive a higher rate of reimbursement. An example of this would be a patient who visited the doctor for a common cold treatment, but the health insurer was billed for a condition diagnosed as pneumonia, with associated pneumonia testing.

Additional Health Care Payment Provisions under Current Florida Law

Section 627.613, F.S., relates to time of payment of claims requirements for health insurance policies. Health insurers are required to reimburse all claims or any portion of any claim from an insured or an insured's assignees, for payment under a health insurance policy, within 45 days after receipt of the claim by the health insurer. If a claim or a portion of a claim is contested by the health insurer, then the insured or the insured's assignees must be notified, in writing, that the claim is contested or denied, within the 45 days after receipt of the claim by the health insurer. A health insurer, upon receipt of the additional information requested from the insured or the insured's assignees shall pay or deny the contested claim or portion of the contested claim, within 60 days. An insurer shall pay or deny any claim no later than 120 days after receiving the claim. In addition, all overdue payments shall bear simple interest at the rate of 10 percent per year.

Section 627.6141, F.S., relating to denial of claims, provides that each claimant, or provider acting for a claimant, who has had a claim denied as "not medically necessary" must be provided an opportunity for an appeal to the insurer's licensed physician who is responsible for the medical necessity reviews under the plan or is a member of the plan's peer review group. Further, the appeal may be by telephone, and the insurer's licensed physician must respond within a reasonable time, not to exceed 15 business days.

Section 627.647, F.S., relating to standard health claim form requirements for indemnity plans, requires all hospitals, physicians, dentists, and pharmacists to use a standard health claim form as prescribed by the Department of Insurance. This section specifies that the form must be one that allows for the use of generally accepted coding systems by providers and must provide for

¹² February 2000 Report by the Florida Advisory Group on the Submission and Payment of Health Claims. The Report noted that in the area of automated processing of claims, there have been charges of abusive practices against both providers and insurers. Automated "upcoding or downcoding of claims is an area of particular concern."

disclosure by the claimant of the name, policy number, and address of every insurance policy which may cover the claimant with respect to the submitted claim. Required information on diagnosis, dental procedures, medical procedures, services, date of service, supplies, and fees may also be met by an attachment. This requirement does not apply to Medicaid claims nor to claims submitted by electronic or electromechanical means. These requirements do not apply to coordination of benefits against an indemnity-type policy, an excess insurance policy as defined in s. 627.635, F.S., a policy with coverage limited to specified illnesses or accidents, or a Medicare supplement policy. (Note: Rule 4-161.004-007, F.A.C., requires the use of specified health insurance claim forms; dental claim forms; pharmacy claim forms; and hospital claim forms. In addition, Rule 4-161.008, F.A.C., clarifies that additional information not contained on the forms may be requested by the insurer.)

Section 641.3155, F.S., regulates payment of claims for HMOs and relates to HMO provider contracts and payment of claims. Specifically authorized are temporary timeframes for payment of noncontested claims, contesting of claims, prompt payment of claims, and payment reconciliation until adoption of a rule by the department. Rule 4-191.066, F.A.C., provides specific timeframes for the payment of "clean claims" and refers to "clean claims" as "valid undisputed claims." Specific authority for this rule is derived from s. 641.36, F.S., relating to the adoption of rules, s. 641.31(12), F.S., relating to health maintenance contracts, and s. 641.3903(5)(c)3., 5., and 6., F.S., relating to unfair methods of competition and unfair or deceptive acts or practices.

Federal Activities Relating to Managed Care

The Centers for Medicare & Medicaid Services (CMS), formerly known as the Health Care Financing Administration, as part of its administration of the Medicare program, currently requires organizations, including health care providers and institutions, to:

- Pay 95 percent of the "clean claims" within 30 days of receipt if they are submitted by, or on behalf of, an enrollee of Medicare for services that are not furnished under a written agreement between the organization and the provider; and
- Pay interest on clean claims that are not paid within 30 days; and
- All other claims must be approved or denied within 60 calendar days from the date of the request.

A "clean claim" is defined to mean a claim that has no defect or impropriety (including any lack of any required substantiating documentation) or particular circumstance requiring special treatment that prevents timely payment from being made on the claim (Social Security Act, §§ 1816(c)(2)(B) and 1842(c)(2)(B)).

Health Insurance Portability and Accountability Act (HIPAA) of 1996

In 1996, Congress passed the Health Insurance Portability and Accountability Act of 1996 (Public Law 104-191), commonly known as HIPAA, which required the Health Care Financing Administration (HCFA) to identify and implement standard electronic formats for health insurance transactions, including claims, eligibility and payments. Rule-making was begun to implement a nationwide standard format so as to provide for common claims forms, procedure

codes and data sets. The implementation of the rule, known as the Administrative Simplification (AS) rule, was recently delayed for a year by Congress due in part to the enormity of its impact. The requirements outlined by the AS rule are far-reaching, and all health care organizations that maintain or transmit electronic health information must comply. This includes: payers (health plans, health insurers, and health care clearinghouses) and health care providers, from large integrated delivery networks to individual physician offices. When implemented, all health care providers will be required to submit specified transactions in specified formats with standardized transaction codes and all insurance carriers will be required to accept these forms and codes by specified compliance dates.

Currently, there is no federal common standard for the transfer of information between health care providers and payers. As a result, providers have been required by payers to meet many different requirements. For some providers who submit claims to multiple payers, determining which data to submit and on which form has been a difficult and expensive process whether done manually or electronically. HIPAA will ultimately simplify this process by requiring payers to accept specific transaction standards for Electronic Data Interchange (EDI), depending on provider type and service type. Providers are given the option of whether to submit the transactions electronically or “on paper,” however, if they elect to submit them electronically, they must use the standards agreed upon under the law. Payers are required to accept these transmissions in the standard format in which they are sent and must not delay a transaction or adversely affect a provider who wants to submit the transactions electronically.

III. Effect of Proposed Changes:

Section 1. Amends s. 408.7057, F.S., relating to the Statewide Provider and Managed Care Organization Claim Dispute Resolution Program (Dispute Program), to expand the definition of “managed care organization” (MCO) to include preferred provider organizations (PPOs) and health insurers licensed pursuant to chapter 627. This will allow PPO providers and health insurers to file claim disputes with the Dispute Program.

The bill further provides for a time limit (15 days) for MCOs or providers to submit requisite documentation to the Dispute Program and failure to submit such documentation will result in a dismissal of the claim. Also, a default will be entered against a respondent in a claims dispute that fails to provide supporting documentation within the requisite 15 day period. The defaulting entity must pay the full amount of the claims dispute, plus accrued interest, upon recommendation by the Dispute Program. It provides that the Agency for Health Care Administration may impose fines or sanctions including certification revocation. There are no such time limits or sanction provisions in current law. According to representatives with AHCA, this provision will increase the number of claim disputes filed with the Dispute Program and result in a fiscal impact to the agency. (See Economic Impact and Fiscal Note Section below.)

Section 2. Amends s. 627.613, F.S., related to time of payment of claims, as follows:

Reduces the time frames (under current law) for health insurers to pay claims or portion of claims made by an insured or an insured’s assignees, for payment under a policy, from 45 to 35 days after receipt of the claim by the insurer. Requires the notice contesting the claim to contain specific reasons for contesting the claim and written itemization of any additional information or

documentation needed to process the claim. Prohibits health insurers from making more than one request in connection with a claim unless the provider fails to submit all requested information to process the claim, or if information submitted by the provider raises new or additional issues not included in the original written itemization, in which case the insurer may have one more opportunity to request additional information. In no case can the insurer request duplicate information.

Requires a health insurer, upon receipt of the additional information requested from the insured or the insured's assignees, to pay or deny the contested claim within 35 days. (Current law is 60 days.) Creates an *uncontestable obligation* on the health insurer who fails to pay or deny any claim within 120 days after receiving the claim. Provides that payment of a claim is considered made on the date the payment was electronically transferred or otherwise delivered and increases the interest rate from 10 to 12 percent on overdue payments, with interest accruing on the 36th day.

Provides that a provider's claim for payment is considered received if the claim has been electronically transmitted, when the receipt is verified electronically and that a provider's claim for payment is considered received if the claim has been mailed to the address disclosed by the health insurer, on the date indicated on the return receipt. Requires a provider to wait 35 days following a receipt of a claim before submitting a duplicate claim.

Prohibits health insurers from reducing payments for other provider services based on a retroactive review of coverage decisions or payment levels unless the provider agrees to such reduction. Provides that a provider must pay a claim for an overpayment made by a health insurer that the provider does not contest or deny within 35 days after receipt of the claim that is mailed or electronically transferred to the provider. A provider that denies or contests a claim for overpayment must notify the insurer in writing within 35 days after receipt of the claim. Such notice must identify the contested or denied portion of the claim, specify reasons and, if contested, include a request for additional information. Requires the provider to pay or deny the claim for overpayment within 35 days after receipt of such information.

Payment of a claim for overpayment is considered made on the date payment was electronically transferred or otherwise delivered or on the date the provider receives payment from the health insurer that reduces or deducts the overpayment. Such overdue payments bear interest at a rate of 12 percent per year with such interest accruing on the 36th day. Providers must pay or deny claims for overpayment no later than 120 days after receiving the claim and failure to do so creates an uncontestable obligation for the provider to pay the insurer.

Provides that a health insurer's claim for overpayment is received by a provider, if the claim has been electronically transmitted to the provider, when receipt is verified electronically, or if the claim is mailed, on the date indicated on the return receipt. A health insurer must wait 35 days following the provider's receipt of the claim for overpayment before submitting a duplicate claim. Retroactive reductions of payments or previous overpayments due to retroactive review of coverage decisions or payment levels must be reconciled to specific claims and that retroactive demands by providers for payment due to underpayments or nonpayments for covered services must be reconciled to specific claims. Specifies that look-back or audit review periods may not

exceed 2 years after the date the claim was paid by the insurer, except in situations where fraud in billing is involved.

Provides that an insurer may not deny a claim due to an insured's ineligibility if the provider can document receipt of the insured's eligibility confirmation by the insurer prior to the date or time covered services were provided. A person who knowingly misinforms a provider before receipt of services as to coverage eligibility commits insurance fraud (second degree misdemeanor).

Provides that, regardless of other remedies or relief which a provider is entitled, any provider who is aggrieved by a violation of this section by a health insurer may bring an action to enjoin a person who has violated, or is violating, this section. Provides that the provider may recover any amounts due the provider by the health insurer, including accrued interest, plus attorney's fees and costs as specified.

Provides that for any action arising from the health insurer's violation of this section, the provider, after judgment in trial court and exhaustion of all appeals, will be awarded reasonable attorney's fees and costs from the health insurer. Prohibits the provisions of this section from being waived, voided, or nullified by contracts.

Section 3. Creates s. 627.6142, F.S., relating to treatment authorization and payment of claims, as follows:

Defines "authorization" to mean any requirement of a provider to notify an insurer in advance of providing a covered service. Provides that health insurers that require authorization must provide PPO and EPO contracted providers with a list of the medical care and health care services that require authorization and the authorization procedures used by the health insurer at the time the contract becomes effective. Health insurers that require authorization are also required to provide such list and procedures to all other providers, within 10 working days after a request is made. Health insurers that require authorization are prohibited from modifying the list or procedures unless written notice is provided, at least 30 days in advance, to all affected insureds, all contracted providers, and to all other providers that had previously requested the list and procedures.

Insurers that make such lists and procedures accessible to providers and insureds electronically are in compliance with the above provision so long as such notice is provided at least 30 days in advance of any changes in such lists or procedures to all insureds, contracted providers, and non contracted providers who had previously requested a list of medical care or services that require authorization.

Specifies that any claim for a covered service that does not require authorization that is ordered by a contracted physician and entered on the medical record, may not be denied. If the health insurer determines that an overpayment has been made, then a claim for overpayment should be submitted to the provider pursuant to s. 627.613, F.S.

Prohibits denial of a claim for treatment if the provider follows the health insurer's published authorization procedures and receives authorization, unless the provider submits information with the willful intent to misinform a health insurer.

Requires a health insurer to issue a written determination indicating if the authorization is granted or denied upon receipt of such a request from a provider. If the request for authorization is for an *inpatient admission*, the determination by the insurer must be issued no later than *24 hours* after the request is made by the provider. If authorization is denied, the health insurer must notify the insured at the same time notification is sent to the provider. Failure of a health insurer to respond to a written request for authorization within the 24 hour period, results in automatic authorization of the request and payment shall not be denied.

If the proposed medical care or health care service involves an inpatient admission requiring authorization, the insurer must review and issue a written or electronic authorization for the total estimated length of the stay for the admission, based on the recommendation of the patient's physician. If the proposed care or service are provided to an insured who is an inpatient in a health care facility and authorization is required, the insurer must issue a written determination indicating whether the services are authorized or denied no later than *4 hours* after the request is made by the provider. A health insurer who fails to respond to such a request within *4 hours* is considered to have authorized the requested medical care or service and denial of payment is prohibited.

Authorization may not be required for emergency services and care or emergency medical services as provided pursuant to ss. 395.002 (emergency services and care), 395.1041 (access to emergency services and care), 401.45 (denial of emergency treatment) and 401.252 (interfacility transfer). Further, such emergency services and care shall extend through any inpatient admission required in order to provide for stabilization of an emergency medical condition pursuant to state and federal law.

Prohibits the provisions of this section from being waived, voided, or nullified by contract.

Section 4. Amends s. 627.638, F.S., relating to direct payment for hospital or medical services, to provide that under any health insurance policy insuring against loss or expense due to hospital confinement or to medical services, that payment of benefits must be made directly to any recognized hospital, doctor, or other person who provides treatment of a psychological disorder for substance abuse, including drug and alcohol abuse, when such treatment is in accordance with provisions of such policy and the insured authorizes direct payment of benefits. Payments must be made under this provision, notwithstanding contrary provisions in an insurance contract. This provision applies to all health insurance policies now or hereafter in force as of the effective date of this act.

Section 5. Amends s. 627.651, F.S., relating to group contracts and plans of self-insurance, to revise a citation to s. 627.662(8) (time of payment of claims) as specified under Section 6 of this bill.

Section 6. Amends s. 627.662, F.S., relating to group health insurance, blanket health insurance and franchise health insurance, to provide that s. 627.6142, (treatment authorization) applies to such insurance.

Section 7. Amends s. 641.185, F.S., relating to HMO subscriber protections, to provide that such subscribers are entitled to prompt payment from the HMO when appropriate under

s. 641.3155.

Section 8. Amends s. 641.30, F.S., relating to construction and relationship of other laws, to provide that HMOs must accept claim forms prescribed pursuant to s. 641.3155.

Section 9. Amends s. 641.3155, F.S., relating to payment of claims for HMOs, as follows:

Deletes the term “clean claim” and the language clarifying what a “clean claim” is, and defines the term “claim” for *noninstitutional providers* to mean a paper or electronic billing instrument consisting of the HCFA 1500 data set with all mandatory entries completed for a physician licensed under ch. 458 (allopathic medicine), ch. 459 (osteopathic medicine), ch. 460 (chiropractic medicine), ch. 461 (podiatric medicine), or ch. 490 (psychological services) or other appropriate form for any other noninstitutional provider, or its successor. (Note: This would apply to all noninstitutional providers not just to physicians licensed under the specified chapters.) Defines “claim” for *institutional providers* to mean a paper or electronic billing instrument that consists of the UB-92 data (claim form for hospitals) set or its successors that has all mandatory entries completed.

Deletes the Department of Insurance’s rulemaking authority to adopt rules to establish claim forms consistent with federal claim filings standards for HMOs.

Current Florida law utilizes the definition of “clean claim” as used under the Medicare provisions. The effect of deleting the requirement that provider claims be “clean,” which means they be accurately completed with “no defect or impropriety, including lack of required substantiating documentation,” may result in claims processing delays and added administrative costs by forcing plans to investigate and correct any misinformation submitted by providers.

Requires HMOs to pay any claim or portion of a claim after the receipt of a claim by the HMO which is submitted by the provider either electronically or using hand delivery, mail, or overnight delivery. Requires an HMO denying or contesting a claim or portion of a claim, in addition to current requirements (identify the contested portion and the specific reason for contesting) to give the provider a written itemization of any additional information or additional documents needed to process the claim or any portion of the claim that is not being paid.

Requires an HMO to pay or deny a claim within 35 days after receipt of requisite additional information from a provider (current law is 45 days). Prohibits an HMO from making more than one request under this paragraph in connection with a claim, unless the provider fails to submit all of the requested information to process the claim, or if information submitted raises new, additional issues, in which case the HMO may allow the provider one additional opportunity to submit the additional information.

Prohibits an HMO from denying or withholding payment on a claim because the insured has not paid a requested deductible or co-payment. An overdue payment of a claim bears interest at a rate of 12 percent (current law provides for 10 percent interest).

If an HMO determines an overpayment has been made to a provider as a result of a retroactive review, the HMO may not reduce payment, unless the provider agrees to the reduction in writing after receipt of the claim for overpayment from the HMO. Increases the simple interest rate for

an overdue payment of a claim from 10 percent a year to 12 percent a year. Limits the time for a “look-back” or audit review to 2 years after the date the claim was paid by the HMO, except in the case where fraud in billing is involved.

Provides that a provider’s claim for payment is considered to be received by the HMO on the date the delivery receipt is signed by the HMO if the claim is hand delivered. Specifies that an HMO may not deny a claim because of subscriber ineligibility if the provider can document receipt of eligibility confirmation by the HMO prior to the date or time covered services were provided. Every HMO contract with an employer must include a provision that requires the employer to notify the HMO of changes in eligibility status within 30 days (deletes authorization for such denials to 1 year after the date of payment of the clean claim). A person who knowingly misinforms a provider prior to receipt of services as to coverage eligibility commits insurance fraud (second degree misdemeanor).

Provides that regardless of other remedies or relief a provider is entitled to, any provider aggrieved by the violation of this section may bring an action to enjoin a person who has violated or is violating this section. Authorizes providers who suffer such loss to recover any amounts due the provider by the HMO, including: accrued interest, attorney’s fees, and costs.

Requires that in an action arising out of the violation of this section by an HMO, if the HMO is found to have violated this section, the provider, after judgment and exhausting all appeals, is required to be awarded attorney’s fees and costs from the HMO.

Provides that an HMO subscriber is entitled to prompt payment from an HMO whenever the subscriber pays an out-of-network provider for a covered service and then submits a claim to the HMO. The HMO must pay the claim within 35 days after receipt or must advise the subscriber of what additional information is required. After receipt of such information, the HMO must pay the claim within 10 days. If the HMO fails to pay claims submitted by subscribers within the time periods specified, the HMO must pay interest at a rate of 12 percent. Failure to timely pay claims and interest is a violation of the Insurance Code and each occurrence is considered a separate violation. Prohibits the waiver, voidance, or nullification by contract of the provisions of this section.

Section 10. Substantially rewrites and rennumbers s. 641.3156, F.S., relating to treatment authorization, as follows:

Defines “authorization” for the purposes of this section to include, but is not limited to, direct or indirect use of preauthorization, precertification, notification, or any other similar terminology.

Requires the following from HMOs that require authorization for medical care and health services:

- Provide each contracted provider at the time a contract is signed with a list of medical and health care services that require authorization and the authorization procedures used by the HMO.

- Provide to each noncontracted provider, within 10 working days after a request is made, a list of medical and health care services that require authorization and the authorization procedures used by the HMO.
- Notify all subscribers, contracted providers, and noncontracted providers who had previously requested a list, in writing and at least 30 days in advance, of any changes or modification to the list. An HMO that makes such list and procedures accessible electronically is deemed to be in compliance, so long as notice is provided at least 30 days in advance of any changes in such list or procedures to all subscribers, contracted providers and non contracted providers who had previously requested such list that require authorization.

Prohibits the denial of any claim for treatment that does not require authorization for a covered service which is ordered by a contracted physician.

Deletes existing language relating to the requirement of payment by HMOs for certain services which were authorized in accordance with the HMO's current and communicated procedures, unless the provider provided information to the HMO with the willful intent to misinform the HMO.

Requires an HMO to issue a written determination indicating whether the service or services are authorized upon receipt of a request from a provider for authorization. If the request for authorization is for an inpatient admission, the determination must be transmitted to the provider making the request within 24 *hours* after the request is made. Requires the HMO to notify both the subscriber and the provider at the same time if the HMO denies the request for authorization. Provides that an HMO that fails to respond to a request for authorization from a provider pursuant to this paragraph is considered to have authorized the inpatient admission within 24 hours and payment may not be denied.

If the proposed medical care or services involve an inpatient admission and the HMO requires authorization as a condition of payment, the HMO must issue a written or electronic authorization for the total estimated length of stay for the admission. Requires HMOs that require authorization for proposed medical care or health care service or services for a subscriber who is an inpatient at the health care facility at the time the services are proposed, to issue a determination indicating whether the proposed services are authorized no later than 4 *hours* after the request by the provider.

Provides that the failure of an HMO to respond to a request for authorization within 4 *hours* is considered to have authorized the requested medical care or health care service and such payment may not be denied.

Expands the exemption of emergency services from the provisions of this section (and subjects such services to s. 641.513, F.S.) and provides that emergency services and care extends through any inpatient admission required in order to stabilize the patient pursuant to federal and state law.

Prohibits the waiver, voidance, or nullification of the provisions of this section by contract.

Section 11. Amends s. 626.9541, F.S., to make it an unfair or deceptive practice for insurers to notify providers that claims filed under s. 627.613, F.S., (payment of claims) have not been received when, in fact, the claims have been received.

Section 12. Amends s. 641.3903, F.S., to make it an unfair or deceptive practice for HMOs to notify providers that claims filed under s. 641.3155, F.S., (payment of claims) have not been received when, in fact, the claims have been received.

Section 13. Specifies that this act takes effect October 1, 2002.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

Article I, s. 10 of the State Constitution, prohibits laws impairing the obligation of contracts. The Supreme Court of Florida has held that laws cannot constitutionally be applied retroactively to insurance contracts in existence prior to the effective date of the legislation *Hassen v. State Farm Mutual Auto. Ins. Co.*, 674 So.2d 106 (Fla. 1996). That means that the respective laws in effect on the date of the policy at issue govern the respective rights, obligations of the parties, time limits as to the policy contract and terms as to the filing of claims.

To the extent that Section 4 of the bill permits the provision as to direct payment for certain hospital or medical services to apply to all health insurance policies now in force could impact obligations or rights under contract and could possibly be subject to constitutional challenge as being violative of the prohibition against impairment of contracts. *Hassen v. State Farm Mutual Auto. Ins. Co.*, 674 So.2d 106 (Fla. 1996).

Further, under Section 9 of the bill, the reference to a claim for institutional providers, as to a paper or an electronic billing instrument that consists of UB-92 data set “or its successor” may raise the issue of unlawful delegation of legislative authority by referring to the data set which is not yet in existence.

V. Economic Impact and Fiscal Note:**A. Tax/Fee Issues:**

None.

B. Private Sector Impact:

Providers of health care services should receive more timely reimbursement for claims submitted to HMOs and health insurers and potentially achieve greater reimbursement under the provisions of this bill. Also, providers could bring civil law suits, plus collect costs and attorney's fees, against insurers and HMOs for suffering a loss as a result of an HMO or insurer violating specified provisions of the bill.

According to the Department of Insurance Fiscal Impact Report on the bill, this legislation "could result in significant increase in litigation and legal expense fees for insurers/HMOs, providers and policyholders/subscribers. If system costs increase, resulting premium increases could result in the elimination or reduction in benefits of some employer/employee health plans."

The Agency for Health Care Administration states in its report that this legislation has a "fiscal impact on health insurers and HMOs by shortening treatment authorization timeframes, and giving subscribers new rights for prompt payment."

The following provisions of this bill may result in increased costs to health insurers and HMOs, and ultimately policyholders, as a result of the following:

- Deleting the requirements that providers submit accurate "clean" claims with supporting documentation before triggering payment timeframes;
- Limiting the number of times that HMOs and insurers can request specified information from providers before paying a claim;
- Authorizing that providers may bring civil causes of action against health insurers and HMOs which violate provisions relating to claims payment and subjecting such entities to attorney's fees, interest, and costs, regardless of the minor nature of the violation;
- Eliminating health insurers' and HMOs' abilities to conduct audits and look-back reviews beyond 2 years after the payment of a claim (although this exception does not involve instances where fraud in billing occurs); and
- Eliminating the insurers' and HMOs' ability to require adequate information regarding insured's or subscriber's eligibility due to abbreviated authorization time frames.

C. Government Sector Impact:

The bill appears to have a direct fiscal impact on the Department of Insurance. Under the bill, the department would have to expand its monitoring activities to ensure that health insurers and HMOs are in compliance with the various prompt pay provisions. In

addition, the bill classifies certain violations of time frames by HMOs as violations of the Insurance Code, thereby requiring additional enforcement activities by the department. Such enforcement activities by the department include suspension or revocation of an HMO's certificate of authority or imposition of administrative fines in lieu of such suspension or revocation.

According to AHCA, the bill has a direct fiscal impact on the agency because it permits all health insurers, as opposed to just managed care organizations, to access the Statewide Provider and Managed Care Claim Dispute Resolution Program (Dispute Program). The agency is responsible for issuing final orders for all claim disputes submitted to the Dispute Program and while the Program's current caseload is very low, the inclusion of all health insurance will likely increase the caseload.¹³ Based on information from the Department of Insurance, an insurance expert, and based on the expansion of the dispute resolution program to include over 2400 health indemnity plans and PPOs, AHCA estimates that the number of claim disputes would equal 700 cases (final orders) and therefore request one attorney position for FY 2002-03 (\$57,727).¹⁴ The need for this position is based on the estimated 700 cases, the number of attorney hours required per final order or case, and the number of attorney hours required for the dispute resolution program. The attorney would be responsible for drafting all final orders, attending meetings and consulting with department and resolution organization representatives as needed.¹⁵

The provision allowing providers a civil cause of action against insurers and HMOs may result in providers not utilizing the Claims Dispute Resolution Program authorized under AHCA.

There could be indeterminate cost increases to local government health plans arising from claims handling and/or claims settlement expenses.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.

¹³ The agency's costs incurred for the issuance of these final orders are funded from its trust fund.

¹⁴ The FTE estimate for FY 2003-04 is \$71,275.

¹⁵ The agency estimates that each final order will require approximately 2.8 hours; approximately 60 hours for consulting with Department of Insurance and resolution organization representatives. Based on the foregoing, approximately 2,020 hours annually and one attorney will be needed to meet this workload. The estimate is based on 1,854 working hours per year per person.