

## **BILL ANALYSIS**

Senate Research Center

S.B. 10  
By: Duncan  
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### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

Academic research shows that savings and better health care outcomes can be achieved by moving away from the current reimbursement system that tends to emphasize volume of services over quality of care.

Programs that provide an incentive for all providers to work together to ensure that patient care is coordinated and evaluated for quality and effectiveness appear to be the future of health care.

S.B. 10 creates a pilot program within the Texas Employees Retirement System (ERS) and the Teacher Retirement System (TRS), to pay for services on a global (per-person) basis, on an episode (per-disease or health care need) basis, on a performance basis, or any combination of these concepts in order to align payments with quality of care rather than quantity of care.

As proposed, S.B. 10 amends current law relating to adoption of alternative payment method pilot programs for the provision of health care services to certain state employees and certain active and retired public school employees.

### **RULEMAKING AUTHORITY**

Rulemaking authority is expressly granted to the board of trustees of the Employees Retirement System of Texas in SECTION 1 (Section 1551.502, Insurance Code) of this bill.

Rulemaking authority is expressly granted to the Teacher Retirement System of Texas in SECTION 2.01 (Section 1575.552, Insurance Code) and SECTION 3.01 (Section 1579.352, Insurance Code) of this bill.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Amends Chapter 1551, Insurance Code, by adding Subchapter K, as follows:

#### **SUBCHAPTER K. ALTERNATIVE PAYMENT METHOD PILOT PROGRAM FOR PROVISION OF HEALTH CARE SERVICES**

Sec. 1551.501. DEFINITIONS. Defines "alternative payment system," "blended payment system," "clinical integration," "episode-based bundled payment system," "global payment system," "participating enrollee," "pay-for-performance payment system," "pilot program" and "plan year."

Sec. 1551.502. DEVELOPMENT AND IMPLEMENTATION OF PILOT PROGRAM.  
(a) Requires the board of trustees of the Employees Retirement System of Texas (board of trustees) to develop and implement a pilot program under which physicians and health care providers who provide health care services to certain employees who participate in the group benefits program under Section 1551.101 (Participation Eligibility; State Officers and Employees) are compensated under an alternative payment system. Requires that the pilot program test alternatives to traditional fee-for-service payments made under the group benefits program.

(b) Requires the board of trustees to administer the pilot program established under this subchapter and authorizes the board of trustees to adopt rules, plans,

and procedures and enter into contracts and other agreements as it considers appropriate and necessary to administer this subchapter.

(c) Authorizes the board of trustees to limit participation in the pilot program to one or more regions of the state or one or more organized networks of physicians, hospitals, and other health care providers.

(d) Authorizes the board of trustees to examine and replicate innovative programs used in other states.

(e) Requires that the pilot program implemented under this subchapter be operated for at least one plan year.

Sec. 1551.503. STANDARDS; CLINICAL INTEGRATION. (a) Requires the board of trustees, in connection with the pilot program, to adopt quality of care standards to ensure high-quality and effective health care services. Requires the board of trustees to implement policies to promote clinical integration of health care providers.

(b) Authorizes the board of trustees to adopt efficiency performance standards that may include the provision of bonuses to or the sharing of savings with physicians and other health care providers who provide health care services to participating enrollees that exceed the efficiency performance standards.

Sec. 1551.504. ALTERNATIVE PAYMENT SYSTEM. (a) Requires the board of trustees to adopt a payment system under the pilot program that ensures the availability of a primary care physician or primary care health care provider for each participating enrollee and payment to such a primary care physician or primary care health care provider under an alternative payment system that appropriately compensates the primary care physician or primary care provider for the services provided.

(b) Authorizes the board of trustees to contract with appropriate entities, including qualified actuaries, to assist the board in determining appropriate payment rates for the pilot program.

(c) Authorizes the board to increase a payment rate adopted under this section as necessary to adjust the rate for inflation.

SECTION 1.02. Amends Section 1551.202, Insurance Code, by adding Subsection (d), as follows:

(d) Requires the board of trustees to ensure that coverage provided to an enrollee participating in the pilot program implemented under Subchapter K meets the quality of care standards required under that subchapter and the basic coverage plan.

SECTION 1.03. Requires the board of trustees to develop the alternative payment method pilot program to be implemented under Subchapter K, Chapter 1551, Insurance Code, as added by this Act, beginning September 1, 2009. Requires the board of trustees to develop enrollment requirements for the pilot program not later than March 1, 2010, with participation and contributions for eligible enrollees beginning not later than September 1, 2010.

SECTION 1.04. Requires the board of trustees, not later than the 60th day before the date on which eligible employees may participate in the pilot program established under Subchapter K, Chapter 1551, Insurance Code, as added by this Act, to provide written information to those employees that provides a general description of the requirements for the program as adopted under Subchapter K, Chapter 1551, Insurance Code, as added by this Act.

SECTION 1.05. Authorizes the board of trustees, during the initial implementation of Subchapter K, Chapter 1551, Insurance Code, as added by this Act, and notwithstanding any bidding requirements or other requirements set forth in Chapter 1551, Insurance Code, as that chapter existed before amendment by this Act, to amend any agreement in effect on September

1, 2009, that it has entered into as necessary to comply with Subchapter K, Chapter 1551, Insurance Code, as added by this Act.

SECTION 1.06. Requires the board of trustees, not later than November 1, 2011, to present a report to the governor, the lieutenant governor, the speaker of the house of representatives, and the members of each legislative committee having jurisdiction over insurance and health care for state employees. Requires that the report describe the operation of the pilot program established under Subchapter K, Chapter 1551, Insurance Code, as added by this Act; analyze the quality of health care provided to participating enrollees under the pilot program; compare the per-patient cost under the pilot program to the cost per patient of a traditional fee-for-service program; and make recommendations regarding the continuation or expansion of the pilot program.

## ARTICLE 2. TEACHER RETIREMENT SYSTEM OF TEXAS--RETIREEES

SECTION 2.01. Amends Chapter 1575, Insurance Code, by adding Subchapter L, as follows:

### SUBCHAPTER L. ALTERNATIVE PAYMENT METHOD PILOT PROGRAM FOR PROVISION OF HEALTH CARE SERVICES

Sec. 1575.551. DEFINITIONS. Defines "alternative payment system," "blended payment system," "clinical integration," "episode-based bundled payment system," "global payment system," "participating enrollee," "pay-for-performance payment system," "pilot program" and "plan year."

Sec. 1575.552. DEVELOPMENT AND IMPLEMENTATION OF PILOT PROGRAM.

(a) Requires the Teacher Retirement System of Texas (TRS) to develop and implement a pilot program under which physicians and health care providers who provide health care services to certain retirees who participate in the group program under Subchapter D are compensated under an alternative payment system. Requires that the pilot program test alternatives to traditional fee-for-service payments made under the group program.

(b) Requires TRS to administer the pilot program established under this subchapter and authorizes TRS to adopt rules, plans, and procedures and enter into contracts and other agreements as it considers appropriate and necessary to administer this subchapter.

(c) Authorizes TRS to limit participation in the pilot program to one or more regions of the state or one or more organized networks of physicians, hospitals, and other health care providers.

(d) Authorizes TRS to examine and replicate innovative programs used in other states.

(e) Requires the pilot program implemented under this subchapter to be operated for at least one plan year.

Sec. 1575.553. STANDARDS; CLINICAL INTEGRATION. (a) Requires TRS, in connection with the pilot program, to adopt quality of care standards to ensure high-quality and effective health care services. Requires TRS to implement policies to promote clinical integration of health care providers.

(b) Authorizes TRS to adopt efficiency performance standards that may include the provision of bonuses to or the sharing of savings with physicians and other health care providers who provide health care services to participating enrollees that exceed the efficiency performance standards.

Sec. 1575.554. ALTERNATIVE PAYMENT SYSTEM. (a) Requires TRS to adopt a payment system under the pilot program that ensures the availability of a primary care physician or primary care health care provider for each participating enrollee and payment to such a primary care physician or primary care health care provider under

an alternative payment system that appropriately compensates the primary care physician or primary care provider for the services provided.

(b) Authorizes TRS to contract with appropriate entities, including qualified actuaries, to assist TRS in determining appropriate payment rates for the pilot program.

(c) Authorizes TRS to increase a payment rate adopted under this section as necessary to adjust the rate for inflation.

SECTION 2.02. Amends Subchapter D, Chapter 1575, Insurance Code, by adding Section 1575.154, as follows:

Sec. 1575.154. **COVERAGE UNDER PILOT PROGRAM.** Requires TRS to ensure that coverage provided to an enrollee participating in the pilot program implemented under Subchapter L meets the quality of care standards required under that subchapter and the basic coverage plan.

SECTION 2.03. Requires TRS to develop the alternative payment method pilot program to be implemented under Subchapter L, Chapter 1575, Insurance Code, as added by this Act, beginning September 1, 2009. Requires TRS to develop enrollment requirements for the pilot program not later than March 1, 2010, with participation and contributions for eligible enrollees beginning not later than September 1, 2010.

SECTION 2.04. Requires TRS, not later than the 60th day before the date on which eligible retirees may participate in the pilot program established under Subchapter L, Chapter 1575, Insurance Code, as added by this Act, to provide written information to those retirees that provides a general description of the requirements for the program as adopted under Subchapter L, Chapter 1575, Insurance Code, as added by this Act.

SECTION 2.05. Authorizes TRS, during the initial implementation of Subchapter L, Chapter 1575, Insurance Code, as added by this Act, and notwithstanding any bidding requirements or other requirements set forth in Chapter 1575, Insurance Code, as that chapter existed before amendment by this Act, to amend any agreement in effect on September 1, 2009, that it has entered into as necessary to comply with Subchapter L, Chapter 1575, Insurance Code, as added by this Act.

SECTION 2.06. Requires TRS, not later than November 1, 2011, to present a report to the governor, the lieutenant governor, the speaker of the house of representatives, and the members of each legislative committee having jurisdiction over insurance and health care for retired public school employees. Requires that the report describe the operation of the pilot program established under Subchapter L, Chapter 1575, Insurance Code, as added by this Act; analyze the quality of health care provided to participating enrollees under the pilot program; compare the per-patient cost under the pilot program to the cost per patient of a traditional fee-for-service program; and make recommendations regarding the continuation or expansion of the pilot program.

### ARTICLE 3. TEACHER RETIREMENT SYSTEM OF TEXAS--ACTIVE EMPLOYEES

SECTION 3.01. Amends Chapter 1579, Insurance Code, by adding Subchapter H, as follows:

#### SUBCHAPTER H. ALTERNATIVE PAYMENT METHOD PILOT PROGRAM FOR PROVISION OF HEALTH CARE SERVICES

Sec. 1579.351. **DEFINITIONS.** Defines "alternative payment system," "blended payment system," "clinical integration," "episode-based bundled payment system," "global payment system," "participating enrollee," "pay-for-performance payment system," "pilot program" and "plan year."

Sec. 1579.352. **DEVELOPMENT AND IMPLEMENTATION OF PILOT PROGRAM.**

(a) Requires TRS to develop and implement a pilot program under which physicians and

health care providers who provide health care services to certain employees who participate in the primary care coverage plan under Subchapter C are compensated under an alternative payment system. Requires the pilot program to test alternatives to traditional fee-for-service payments made under the group program.

(b) Requires TRS to administer the pilot program established under this subchapter and authorizes TRS to adopt rules, plans, and procedures and enter into contracts and other agreements as it considers appropriate and necessary to administer this subchapter.

(c) Authorizes TRS to limit participation in the pilot program to one or more regions of the state or one or more organized networks of physicians, hospitals, and other health care providers.

(d) Authorizes TRS to examine and replicate innovative programs used in other states.

(e) Requires that the pilot program implemented under this subchapter be operated for at least one plan year.

Sec. 1579.353. STANDARDS; CLINICAL INTEGRATION. (a) Requires TRS, in connection with the pilot program, to adopt quality of care standards to ensure high-quality and effective health care services. Requires TRS to implement policies to promote clinical integration of health care providers.

(b) Authorizes TRS to adopt efficiency performance standards that may include the provision of bonuses to or the sharing of savings with physicians and other health care providers who provide health care services to participating enrollees that exceed the efficiency performance standards.

Sec. 1579.354. ALTERNATIVE PAYMENT SYSTEM. (a) Requires the trustee to adopt a payment system under the pilot program that ensures the availability of a primary care physician or primary care health care provider for each participating enrollee and payment to such a primary care physician or primary care health care provider under an alternative payment system that appropriately compensates the primary care physician or primary care provider for the services provided.

(b) Authorizes TRS to contract with appropriate entities, including qualified actuaries, to assist TRS in determining appropriate payment rates for the pilot program.

(c) Authorizes TRS to increase a payment rate adopted under this section as necessary to adjust the rate for inflation.

SECTION 3.02. Amends Section 1579.103, Insurance Code, as follows:

Sec. 1579.103. PRIMARY CARE COVERAGE PLAN. (a) Creates this subsection from existing text. Requires that the coverage provided under the primary care coverage plan be comparable in scope and, to the greatest extent possible, in cost, to the coverage provided under Chapter 1551.

(b) Requires TRS to ensure that coverage provided to an enrollee participating in the pilot program implemented under Subchapter H meets the quality of care standards required under that subchapter and the primary care coverage plan.

SECTION 3.03. Requires TRS to develop the alternative payment method pilot program to be implemented under Subchapter H, Chapter 1579, Insurance Code, as added by this Act, beginning September 1, 2009. Requires TRS to develop enrollment requirements for the pilot program not later than March 1, 2010, with participation and contributions for eligible enrollees beginning not later than September 1, 2010.

SECTION 3.04. Requires TRS, not later than the 60th day before the date on which eligible employees may participate in the pilot program established under Subchapter H, Chapter 1579, Insurance Code, as added by this Act, to provide written information to those employees that provides a general description of the requirements for the program as adopted under Subchapter H, Chapter 1579, Insurance Code, as added by this Act.

SECTION 3.05. Authorizes TRS, during the initial implementation of Subchapter H, Chapter 1579, Insurance Code, as added by this Act, and notwithstanding any bidding requirements or other requirements set forth in Chapter 1579, Insurance Code, as that chapter existed before amendment by this Act, to amend any agreement in effect on September 1, 2009, that it has entered into as necessary to comply with Subchapter H, Chapter 1579, Insurance Code, as added by this Act.

SECTION 3.06. Requires TRS, not later than November 1, 2011, to present a report to the governor, the lieutenant governor, the speaker of the house of representatives, and the members of each legislative committee having jurisdiction over insurance and health care for employees of public schools. Requires that the report describe the operation of the pilot program established under Subchapter H, Chapter 1579, Insurance Code, as added by this Act; analyze the quality of health care provided to participating enrollees under the pilot program; compare the per-patient cost under the pilot program to the cost per patient of a traditional fee-for-service program; and make recommendations regarding the continuation or expansion of the pilot program.

#### ARTICLE 4. EFFECTIVE DATE

SECTION 4.01. Effective date, except as otherwise provided by this Act: September 1, 2009.