



104TH GENERAL ASSEMBLY

State of Illinois

2025 and 2026

HB4735

by Rep. Sharon Chung

SYNOPSIS AS INTRODUCED:

New Act

Creates the Transparency in Downcoding Act. Provides that the Act applies to certain policies of health insurance amended, delivered, issued, or renewed on or after the effective date of the Act, except for employee or employer self-insured health benefit plans under the federal Employee Retirement Income Security Act of 1974 and health care provided pursuant to the Workers' Compensation Act or the Workers' Occupational Diseases Act. Prohibits a health insurance issuer from using an automated process, system, or tool to downcode a claim; from downcoding a claim based solely on the reported diagnosis codes; and from using downcoding practices in a targeted or discriminatory manner against physicians who routinely treat patients with complex or chronic conditions. Requires downcoding decisions to be made by a physician licensed to practice medicine in all its branches in any United States jurisdiction and of the same or similar specialty as a physician who typically manages the medical condition or disease. Sets forth provisions concerning notification requirements for downcoded claims; the appeal process for downcoded claims; enforcement by the Department of Insurance; and penalties. Provides that any pattern or practice of discriminatory downcoding identified by the Director of Insurance or another regulatory authority shall be subject to enforcement actions, including fines, restitution, or suspension of the health insurance issuer's license in this State. Effective immediately.

LRB104 19666 BAB 33115 b

1 AN ACT concerning regulation.

2 **Be it enacted by the People of the State of Illinois,**
3 **represented in the General Assembly:**

4 Section 1. Short title. This Act may be cited as the
5 Transparency in Downcoding Act.

6 Section 2. Findings. The General Assembly finds that:

7 (1) Downcoding of medical claims, when done without
8 clear justification or transparency, undermines fair
9 payment of health care providers and threatens the
10 stability of physician practices.

11 (2) Improper downcoding may result in harm to patients
12 by disincentivizing care for individuals with complex
13 medical conditions.

14 (3) It is in the public interest to ensure that all
15 coding adjustments are clinically supported, transparent,
16 appealable, and free from discriminatory targeting.

17 Section 5. Definitions. As used in this Act:

18 "CARC" means Claim Adjustment Reason Codes, which provide
19 the reason for a financial adjustment specific to a particular
20 claim or service referenced in the transmitted Accredited
21 Standards Committee (ASC) X12 835 standard transaction adopted
22 by the United States Department of Health and Human Services

1 under 45 CFR 162.1602.

2 "Downcoding" means the unilateral alteration by a health
3 insurance issuer of the level of evaluation and management
4 service code or other service code submitted on a claim,
5 resulting in a lower payment.

6 "Health insurance issuer" has the meaning given to that
7 term in Section 5 of the Illinois Health Insurance Portability
8 and Accountability Act.

9 "RARC" means Remittance Advice Remark Codes, which provide
10 supplemental information about a financial adjustment
11 indicated by a CARC or information about remittance
12 processing.

13 Section 10. Applicability; scope.

14 (a) This Act applies to the following if they are issued,
15 amended, delivered, or renewed on or after the effective date
16 of this Act:

17 (1) a policy or contract for health insurance coverage
18 as defined in the Illinois Health Insurance Portability
19 and Accountability Act;

20 (2) State, employee, unit of local government, or
21 school district health plans; and

22 (3) policies issued or delivered in this State to the
23 Department of Healthcare and Family Services and providing
24 coverage to persons who are enrolled under the Medical
25 Assistance Article of the Illinois Public Aid Code or

1 under the Children's Health Insurance Program Act.

2 This Act does not apply to employee or employer
3 self-insured health benefit plans under the federal Employee
4 Retirement Income Security Act of 1974 and health care
5 provided pursuant to the Workers' Compensation Act or the
6 Workers' Occupational Diseases Act.

7 (b) This Act does not diminish a health care plan's duties
8 and responsibilities under other federal or State law or the
9 rules adopted thereunder.

10 (c) This Act is not intended to alter or impede the
11 provisions of any consent decree or judicial order to which
12 the State or any of its agencies is a party.

13 Section 15. Prohibition of automatic downcoding.

14 (a) A health insurance issuer shall not use an automated
15 process, system, or tool to downcode a claim. For the purposes
16 of this Section, use of an automated tool includes, but is not
17 limited to, the use of artificial intelligence.

18 (b) Downcoding decisions shall be made by a physician
19 licensed to practice medicine in all its branches in any
20 United States jurisdiction and of the same or similar
21 specialty as a physician who typically manages the medical
22 condition or disease. The physician who makes the downcoding
23 decision shall perform a documented review of the clinical
24 information supporting the billed service.

1 Section 20. Prohibition on diagnosis-based downcoding. A
2 health insurance issuer shall not downcode a claim based
3 solely on the reported diagnosis codes.

4 Section 25. Notification requirements for downcoded
5 claims. When a claim is downcoded, the health insurance issuer
6 shall notify the physician using the appropriate CARC and RARC
7 to clearly indicate that the claim has been downcoded and
8 provide:

9 (1) the specific reason for the downcoding, including
10 reference to the clinical criteria used to justify the
11 downcoding;

12 (2) the original and revised service codes and payment
13 amounts;

14 (3) the National Provider Identifier of the physician
15 who is responsible for the downcoding decision and the
16 physician's credentials, board certifications, and areas
17 of specialty expertise and training; and

18 (4) a notice of the right to appeal as described in
19 Section 30.

20 Section 30. Appeal process for downcoded claims.

21 (a) A health insurance issuer shall provide physicians
22 with a clear and accessible process for appealing downcoded
23 claims, including a written or electronic notice detailing how
24 to initiate an appeal, contact information for the physician

1 managing the appeal, reasonable timelines for submission of an
2 appeal that are no less than 180 days, and timelines for
3 adjudication of the appeal consistent with applicable State
4 law or regulations governing utilization review.

5 (b) Physicians shall have the right to appeal in batches
6 of similar claims involving substantially similar downcoding
7 issues, without restriction.

8 (c) A health insurance issuer must ensure that all appeals
9 are reviewed by a physician. The physician must:

10 (1) be licensed to practice medicine in all its
11 branches in any United States jurisdiction;

12 (2) be of the same or similar specialty as a physician
13 who typically manages the medical condition or disease;

14 (3) be knowledgeable of, and have experience
15 providing, the health care services under appeal;

16 (4) not have been directly involved in making the
17 decision to downcode the claim; and

18 (5) perform a documented review of the clinical
19 information supporting the billed service, including, but
20 not limited to, a review of all pertinent medical records
21 provided to the health insurance issuer and any medical
22 literature provided to the health insurance issuer by the
23 appealing physician.

24 Section 35. Protections for patients with chronic
25 conditions.

1 (a) A health insurance issuer shall not use downcoding
2 practices in a targeted or discriminatory manner against
3 physicians who routinely treat patients with complex or
4 chronic conditions.

5 (b) Any pattern or practice of discriminatory downcoding
6 identified by the Director of Insurance or another regulatory
7 authority shall be subject to enforcement actions, including
8 fines, restitution, or suspension of the health insurance
9 issuer's license in this State.

10 Section 40. Enforcement and penalties. Violations of this
11 Act shall be enforceable by the Department of Insurance and
12 may include, but are not limited to:

13 (1) monetary penalties of up to \$50,000 per violation;

14 and

15 (2) orders to reprocess improperly downcoded claims
16 with interest.

17 Section 97. Severability. The provisions of this Act are
18 severable under Section 1.31 of the Statute on Statutes.

19 Section 99. Effective date. This Act takes effect upon
20 becoming law.