



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 1049** HLS 14RS 707
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 16, 2014 5:20 PM	Author: ARMES
Dept./Agy.: Office of Group Benefits (OGB)	Analyst: Travis McIlwain
Subject: Bariatric Surgery	

INSURANCE/GROUP-STATE OR INCREASE GF EX See Note Page 1 of 2
Requires state employee group benefits to cover bariatric surgery techniques for the treatment of morbid obesity

Proposed bill defines morbid obesity as a mass body mass index equal to or greater than 40 kilograms per meter squared or a body mass index equal to or greater than 35 kilograms per meter squared along with an associated comorbidity including but not limited to hypertension, cardiopulmonary conditions, sleep apnea or diabetes. Proposed bill provides that the Office of Group Benefits (OGB) shall offer a provision for the treatment of morbid obesity through gastric bypass surgery or other methods as may be recognized by the National Institutes of Health as effective for the long-term reversal of morbid obesity.

EXPENDITURES	2014-15	2015-16	2016-17	2017-18	2018-19	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

REVENUES	2014-15	2015-16	2016-17	2017-18	2018-19	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

EXPENDITURE EXPLANATION

Due to the current OGB plans not offering this proposed coverage, the expenditures of OGB will increase as a result of this measure. The expenditures are anticipated to increase as follows with the maximum impact being in FY 15 and decreasing through FY 19 (rounded):

<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>FY 18-19</u>
\$1.56 M to \$2.85 M	\$1.51 M to \$2.77 M	\$1.49 M to \$2.72 M	\$1.44 M to \$2.65 M	\$1.41 M to \$2.58 M

The net cost estimates are based upon the following assumptions:
1.) The current OGB total population is 232,063 and will remain static in subsequent fiscal years;
2.) That of the 232,063 OGB total population, 121,963 are adults and will remain static in subsequent fiscal years;
3.) That based upon national studies, 5% of OGB's adult population is defined as morbidly obese or 6,098 (121,963 x 5%);
4.) That of the 5% morbidly obese population, 5% would elect surgery or 206 (6,098 x 5% less 100 for Heads Up Program participants);
5.) That currently through the OGB/Pennington Biomedical "Heads Up Program" 100 OGB members currently undergo these surgeries, which were removed from the 5% population electing surgery.
6.) That of the population that would elect surgery, 75% would select lap band (154) and 25% would elect laparoscopic/open surgery (52);
7.) That of the 25% population that elects laporoscopic/open surgery, 95% of that group would elect laparoscopic (49) & 5% would elect open surgery (3);
8.) That each subsequent fiscal year population projection is based upon 95% of the previous FY population and that 5% of that population would undergo surgery;
9.) That the current low surgical prices for the three procedures are as follows: \$7,520 - lap band, \$13,348 - laporoscopic, \$12,220 - open;
10.) That the current high surgical prices for the three procedures are as follows: \$14,100 - lap band, \$18,706 - laporoscopic, \$16,450 - open;
11.) That the cost of these procedures will increase by 6% annually;
12.) That according to the Centers for Disease Control (CDC), the obese employees, on average, incur \$1,400 per year more in medical costs than normal weight employees;
13.) That due to covering bypass surgeries, the cost of overall coverage of those electing surgery would decrease by \$1,400/person post surgery;
14.) That the \$1,400 cost savings from covering surgery would increase by 6% a year. (See pg 2)

REVENUE EXPLANATION

The revenues for OGB will increase as result of this measure. Using a medical loss ratio of 0.85, the revenue increase required by OGB to cover the cost of this benefit is as follows (rounded):

<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>FY 18-19</u>	(See pg 2)
\$1.84 M to \$3.35 M	\$1.78 M to \$3.26 M	\$1.75 M to \$3.20 M	\$1.70 M to \$3.12 M	\$1.66 M to \$3.04 M	

Senate

Dual Referral Rules

House

☒ 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

☒ 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

☐ 6.8(F)(2) >= \$500,000 State Rev. Reduc. {H & S}

☐ 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

☐ 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer



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CONTINUED EXPLANATION from page one: Page 2 of 2

EXPENDITURES CONTINUED

NOTE: A State General Fund appropriation will be required to cover the state portion of the increase in costs. Based upon the FY 15 Executive Budget document, the increased SGF portion will likely be at least 40% of the increased premium cost to add this benefit pursuant to this legislation ranging from approximately \$735,000 in FY 15 (low) to \$1.3 million in FY 15 (high).

Below are expenditure calculations utilized to project the costs of the FY 15 OGB Program as a result of the proposed bill utilizing the assumptions discussed on page 1. OGB’s contract actuary provided the assumptions utilized to project anticipated expenditures.

FY 14-15 Calculations
[(121,963 x .05) x .05] = 306 that would elect surgery, less 100 of the individuals anticipated to have surgery under the “Heads Up Program” (discussed below).

206 x 0.75 = 154 that would elect lap band
206 x 0.25 = 52 that would elect laparoscopic/open surgery

52 x 0.95 = 49 that would elect laparoscopic surgery
52 x 0.05 = 3 that would elect open surgery

LOW Procedure	Population	Costs/Procedure	Total Costs
Lap Band	154	\$7,520	\$1,158,080
Laparoscopic	49	\$13,348	\$654,052
Open	3	\$12,220	\$36,660
Total	206		\$1,848,792

HIGH Procedure	Population	Costs/Procedure	Total Costs
Lap Band	154	\$14,100	\$2,171,400
Laparoscopic	49	\$18,706	\$916,594
Open	3	\$16,450	\$49,350
Total	206		\$3,137,344

Cost Savings to OGB as a result of offering these procedures
206 x \$1,400 = \$288,400

FY 14-15 (Low) Net Costs of proposed legislation equates to \$1,848,792 - \$288,400 = **\$1,560,392**
FY 14-15 (High) Net Costs of proposed legislation equates to \$3,137,344 - \$288,400 = **\$2,848,944**

**In order to calculate subsequent fiscal year costs, cost savings increase by 6%, surgical procedure costs increase by 6% and the total population electing surgery decrease by 5%.*

NOTE: Members in OGB’s PPO or HMO plan may be eligible to participate in an OGB weight loss program being conducted by Pennington Biomedical Research Center. This program is called “Heads Up” and is currently limited to the Baton Rouge area and 100 individuals picked through a lottery process. The program includes bariatric surgery and intensive medical treatment. This program is a 5-year pilot program designed to assist OGB about ways to better manage the health problems caused by obesity. For the purposes of calculating the fiscal impact of this legislation, these 100 individuals were backed out of the potential population impacted by legislation because these individuals would have received these services regardless of this legislation.

NOTE: Pursuant to HR 169 and SR 160 of the 2008 RLS, the OGB was required to report the results of a bariatric surgery demonstration program initiated in 2004. In 2003, OGB solicited a study in conjunction with the LSU Medical School to examine whether bariatric operations could be performed in a controlled setting in which health outcomes and risks could be evaluated. Some of the major findings of the follow-up study (conducted in 2008) from the original 2004 study relative to weight-loss surgery include:
*Medical costs for the non-surgical morbidly obese population were significantly less than the surgical weight loss group across fiscal years 2002-2007. However, the majority of the cost difference is related to initial cost of surgery;
*Medical costs in FY 08 for the non-surgical morbidly obese were significantly greater than the surgery group;
*Findings suggests that it has taken 4 years to recoup the cost of the surgery, and that the non-surgical obese population is beginning to cost more than the surgical group.

REVENUES CONTINUED

The anticipated FY 15 annual and monthly premium increase would be:

Low: \$1,835,755/232,063 = \$7.91 per member per year premium increase or \$0.66 per member per month premium increase
High: \$3,351,699/232,063 = \$14.44 per member per year premium increase or \$1.20 per member per month premium increase

Senate	Dual Referral Rules	House	<input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	 John D. Carpenter Legislative Fiscal Officer
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)(2) >= \$500,000 State Rev. Reduc. {H & S}		
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}		