

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **SB 535** SLS 08RS 263
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 7, 2008 9:16 AM	Author: CASSIDY
Dept./Agy.: Office of Group Benefits (OGB)	Analyst: Travis McIlwain
Subject: Coverage of medically necessary treatments	

HEALTH/ACC INSURANCE OR SEE FISC NOTE GF RV Page 1 of 2

Requires insurance coverage of certain medically necessary treatments for alcoholism, drug abuse, and mental illness, effective upon the enactment of an income tax credit equal to the cost of premiums related to providing such coverage. Proposed legislation requires any group blanket or association health insurance policy issued to an employer with fewer than 50 employees to include coverage for the treatment of mental illness, alcoholism and drug abuse. Proposed legislation provides for such coverage to be provided by a physician, clinical psychologist, clinical social worker, addiction counselor or public/private facility authorized by the state. Proposed legislation specifically provides that the minimum benefit offered be the same benefits provided to state employees and their dependents by the Office of Group Benefits (OGB). Proposed legislation provides this will not be effective until an income tax credit equal to the additional premium charged as result of including mental health parity in its health benefits program. The tax credit shall not be more than one and one-half percent of total premium charged for such policy. Proposed legislation provides for the creation of the insurance parity group. Shall apply for all policies renewed or issued for delivery after September 1, 2008.

EXPENDITURES	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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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	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

The expenditures of OGB will **not** increase as a result of this measure. The population this bill applies to are those small businesses with fewer than 50 employees. OGB is specifically included within the scope of R.S. 22:669 setting forth minimum requirements for coverage of severe mental illness or other mental disorders, which provides for all mental health services subject to a separate \$200 deductible, 20% co-insurance in-network and limits of 52 outpatient visits and 45 inpatient days per calendar year. While this proposed law would expand the requirement to include those small businesses with less than 50 employees, it does not apply to the OGB plans.

Legislation creates the insurance parity group, which will be subject to funds being appropriated by the legislature. The bill charges this group with the responsibility of completing an independent actuarial analysis of the cost of benefits for mental illness treatment, alcoholism and drug abuse and impact on the costs incurred to the small business employees and dependents.

The actuary for the Department of Insurance estimates that the costs to the **private insurance industry** statewide could increase expenditures for mental health and substance abuse health care payments by approximately 0.8% to 2.6% for total provider claims (\$6.4 billion for all major policies excluding OGB and individual policies). Based upon this estimate, the increase cost to the private insurance industry which market private group health insurance to groups with fewer than 50 employees could expect an annual increase in expenditures in the range of \$23 to \$70 million for half of FY 09 and increase up to \$56 to \$169 million in FY 13. These estimates by the DOI health actuary are based on the following assumptions:

- 1.) That the language of this bill will not include any additional treatment requirements within Title 22 for severe mental illness over what is already stated and compliance with this bill is met, if for other mental illness and substance abuse, the following schedules are offered: a) 45 inpatient days per covered individual per calendar year, b) 52 outpatient days per covered individual per calendar year.
- 2.) 1.7 million insured persons in state of Louisiana (excludes OGB population of 250,000 and individual policies of 200,000);
- 3.) Health service recipients of this bill can be classed into substance abuse and other mental illness;

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REVENUE EXPLANATION

There is no anticipated direct material effect on the revenues of OGB as a result of this measure. Legislation specifically provides that the provisions of this bill will only be effective if enactment of an income tax credit equal to the additional premium increase happens, which could potentially decrease state general fund revenue receipts.

(Continued on Page 2)

Senate
 13.5.1 >= \$500,000 Annual Fiscal Cost


Dual Referral Rules

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

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


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 LFO Staff Director

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CONTINUED EXPLANATION from page one:

CONTINUED EXPENDITURE EXPLANATION:

- 4.) That the bill will not add to the cost of treating severe mental illness;
- 5.) Annual outpatient health costs for average substance abuse patient and other mental illness patient is \$3,000;
- 6.) Annual inpatient health costs for the average substance abuse patient and other mental illness patient is \$10,000;
- 7.) Percent of health insured undergoing outpatient treatment for substance abuse is 1.5% and for other mental illness is 1.0% respectively;
- 8.) Percent of health insured undergoing inpatient treatment for substance abuse is 0.5% and for other mental illness is 0.2% respectively;
- 9.) Annual health care cost inflation is 5%;
- 10.) Benefit costs do not exceed 85% of premiums (standard loss ratio), except under the 1.5% premium cap;
- 11.) Assumed current annual total premium cost per insured is \$5,000 per life. Assumed 2 lives per policy, \$10,000 annual premium;
- 12.) Since the bill only applies to groups with less than 50 employees, the bill will only apply to groups with less than 100 lives;
- 13.) That the less than 100 lives is 75% of all the insured lives (1.7 million x 0.75 = 1,275,000 lives)
- 14.) Effective cost range is 25% to 75% of loaded aggregate annual cost.

Expenditure Calculations (Private Insurance):

- 1.) Pure aggregate annual cost of outpatient substance abuse treatment is \$57.4 million [insured x annual cost x utilization=1,275,000 x \$3,000 x 0.015]
- 2.) Pure aggregate annual cost of outpatient other mental illness treatment is \$38.3 million [insured x annual cost x utilization=1,275,000 x \$3,000 x 0.01]
- 3.) Pure aggregate annual cost of inpatient substance abuse treatment is \$63.8 million [insured x annual cost x utilization=1,275,000 x \$10,000 x 0.005]
- 4.) Pure aggregate annual cost of inpatient other mental illness treatment is \$25.5 million [insured x annual cost x utilization=1,275,000 x \$10,000 x 0.002]
- 5.) Total pure aggregate annual cost of treatment is \$184.9 million [sum of four cost components=\$57.4+\$38.3+63.8+25.5=\$184.9 million]
- 6.) Low range of increased cost of treatment is \$46 million [rounded annual cost x low fraction=\$184.9 million x 0.25]
- 7.) High range of increase cost of treatment is \$139 million [rounded annual cost x high fraction=\$184.9 million x 0.75]
- 8.) FY 09 extra claim cost is \$23 to \$70 million [half year of claim cost = 0.5 x (\$46 to \$139 million)]
- 9.) FY 10 extra claim cost is \$49 to \$146 million [increased claim cost range loaded for medical inflation = 1.05 x (\$46 to \$139 million)]
- 10.) Out year claims equals previous year's values loaded for 5% medical inflation.

CONTINUED REVENUE EXPLANATION:

The actuary for the DOI indicates that insurers would be required to increase premiums in the range of \$27 to \$48 million to cover claims and administrative costs (approx. 15%) associated with the services required pursuant to proposed legislation for FY 09 (half year). The increase in premium range takes into consideration the 1.5% cap in premium in proposed legislation. If the 1.5% cap is not included within proposed legislation, the premium increases would be \$27 to \$82 million for half of FY 09 and increase up to \$66 to \$198 million in FY 13. **To the extent an employers total additional premiums for any calendar year exceed 1.5% per year, an employer may choose not to provide the coverage pursuant to proposed legislation.** This opt out provision prevents insurers from becoming actuarially unsound over time due to a negative loss ratio relative to the provision of coverage for mental health illness and substance abuse.

Revenue Calculations (Private Insurance):

- 1.) Standard medical loss ratio is 0.85
- 2.) FY 09 extra annual premium is \$27 to \$82 million [0.5 x annual cost/loss ratio=(\$46 to \$139 million)/0.85]
- 3.) FY 09 extra annual premium is capped at \$48 million [0.5 x 1.5% x insured x annual premium=0.5 x 0.015 x 1,275,000 x \$5,000]
- 4.) FY 10 extra annual premium is \$58 to \$172 million [annual cost/loss ratio=(\$49 to \$146 million)/0.85]
- 5.) FY 10 extra annual premium is capped at \$101 million [1.05 x \$96 million]
- 7.) Subsequent fiscal year premium cap equal previous year's values loaded for 5% medical inflation
- 8.) Aggregate current annual premium cost is \$6.4 billion [current annual premium cost x insured = \$5,000 x 1,275,000]
- 9.) Low range percentage premium cost increase is 0.8% [low extra premium divided by aggregate current premium=\$54 million/\$6.4 billion]
- 10.) High range percentage premium cost increase is 2.6% [high extra premium divided by aggregate current premium=\$163 million/\$6.4 billion]
- 11.) High range percentage premium cost increase cap is 1.5% pursuant to legislation

SUMMARY:

(In Millions)

	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>
Total Annual Claim Cost Increase	\$23 to \$70	\$49 to \$146	\$51 to \$153	\$54 to \$161	\$56 to \$169
Total Annual Premium Increase	\$27 to \$82	\$58 to \$172	\$61 to \$181	\$64 to \$190	\$67 to \$199
Total Annual Premium Increase (with 1.5% Cap)	\$27 to \$48	\$58 to \$101	\$61 to \$106	\$64 to \$111	\$67 to \$117

Senate Dual Referral Rules

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