

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 173** SLS 15RS 511
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.: **w/ PROP SEN COMM AMD**
 Sub. Bill For.:

Date: April 29, 2015 8:54 AM	Author: HEITMEIER
Dept./Agy.: Office of Group Benefits (OGB)	Analyst: Travis McIlwain
Subject: Bariatric Surgery	

HEALTH CARE OR INCREASE GF EX See Note Page 1 of 2
 Provides for treatment of morbid obesity. (10/1/15)

Proposed bill with proposed committee amendments expands the Office of Group Benefits' (OGB) Heads Up Program shall have approximately 300 participants annually by FY 18. Proposed bill with proposed committee amendments mandates the health insurance coverage for the treatment of morbid obesity for medically necessary expenses of the diagnosis including bariatric surgery, physician office visits, health and behavior assessments, nutrition education, patient self-management education and training and therapeutic exercises for all policy types excluding individual policies (any policy of family group). Proposed bill with proposed committee amendments defines morbid obesity to mean a BMI of 40 plus with hypertension and diabetes. Proposed bill with proposed committee amendments provides that the fee schedule utilized for the payment of services associated with treatment of morbid obesity shall be the same as the fee schedule used by the LA Medicaid Bayou Health Program. Effective October 1, 2015.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	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	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	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

The proposed legislation with proposed committee amendments is anticipated to result in an indeterminable cost increase to the Office of Group Benefits due to likely increased administrative workload associated with the expansion of the Heads Up Program, which includes bariatric surgery and intensive medical treatment. Members in OGB's plans may be eligible to participate in this program being conducted by Pennington Biomedical Research Center. OGB currently has a \$2.3 M administrative contract in place with Pennington Biomedical Research Center that provides for the administrative costs of the program. To the extent this program is expanded, this administrative contract will likely increase by indeterminable amount. The current 5-year contract ends in December 2016.

In addition to the likely administrative costs increase, there will be an aggregate surgical cost increase as the OGB program expands its participants from 100 currently to 300 by FY 18. OGB pays the providers participating in the program \$13,000 (low) for sleeve, \$13,500 for gastric band, and \$23,500 (high) for bypass. If the program is expanded, the provider network will likely expand which could result in a change in the current provider contract amounts. The extend of that potential change is unknown at this time.

For illustrative purposes, using the current provider contracts in place, expanding the Heads Up Program by an additional 200 individuals (thus treating a total 300) would result in increased net surgical costs ranging from \$1.3 M to \$2.4 M in FY 16, peaking in FY 18 to \$2.2 M to \$4.3 M and decreasing to \$1.7 M to \$3.8 M in FY 20. Also, according to the Centers for Disease Control (CDC) on average obese individuals have medical costs that are \$1,429 annually higher than normal weight individuals. This assumption is built into the table below to determine the net cost potential of this legislation with proposed committee amendments.

	FY 16	FY 17	FY 18	FY 19	FY 20
Additional Individuals	100	150	200	200	200
Low Cost Estimate (\$13,000/individual)	\$1.3 M	\$1.95 M	\$2.6 M	\$2.6 M	\$2.6 M
High Cost Estimate (\$23,500/individual)	\$2.4 M	\$3.5 M	\$4.7 M	\$4.7 M	\$4.7 M
Less: potential medical costs savings (\$1,429)	\$0	(\$0.1 M)	(\$0.4 M)	(\$0.6 M)	(\$0.9 M)
Net Cost Increase (low)	\$1.3 M	\$1.8 M	\$2.2 M	\$2.0 M	\$1.7 M
Net Cost Increase (high)	\$2.4 M	\$3.4 M	\$4.3 M	\$4.1 M	\$3.8 M

The Heads Up Program includes an intensive screening process to determine if someone is a quality candidate for surgery. Factors that are considered include: psychological instability, home environment, evidence of medical noncompliance, uncontrolled eating disorder, drug, alcohol and other substance addiction, medical diseases that make surgery too risky, etc. Due to the intensive screening process, the program has had medical cost savings results for participants. Research findings from the pilot group suggest 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. **If the expanded participants produced these results, the costs discussed above could be significantly lower. (Continued on Page 2)**

REVENUE EXPLANATION

Increasing OGB's costs will likely result in a premium increase in order fund the Heads Up Program expansion. Based upon the illustration within the expenditure table above, using a medical loss ratio of 0.85 the FY 16 minimum premium increase would be from \$0.58 per member per month to \$1.04 per member month, or \$1.5 M to \$2.8 M.

Note: The potential premium increase is based strictly upon surgical costs and does not consider the likely administrative contract increase.

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 Rev. Red. to State {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}

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CONTINUED EXPLANATION from page one:

To the extent premiums are increased to pay for the anticipated increased OGB program costs, a SGF appropriation will be required to fund the state's share. Based upon the FY 16 Executive Budget document, the SGF portion of the projected expenditure increase will likely result in at least 32% of the increase premium cost to expand this program.

The legislation with proposed committee amendment is ambiguous as to if OGB is excluded from the requirement to cover this health benefit for those individuals outside the Heads Up Program. To the extent this legislation requires OGB to offer obesity coverage outside the Heads Up participant treatment, the costs of the program will significantly increase.

Medicaid Impact

According to information provided to the Legislative Fiscal Office by the Department of Health & Hospitals (DHH), this bill will have no fiscal impact upon the Medicaid Program. This medical service is already a covered service with prior authorization and medical necessity review.

PRIVATE HEALTH INSURANCE IMPACT

Pursuant to R.S. 24:603.1, the information below is the projected private insurance impact of the proposed legislation. The health actuary for the Department of Insurance (DOI) estimates that the costs to the private industry statewide as result of covering this service is approximately \$48 M to \$91 M in FY 16 and costs estimating ranging from \$19 M to \$38 M in subsequent fiscal years.

This actuary analysis by the DOI is based upon the bill's original posture and due to time constraints does not consider the proposed committee amendments. However, to the extent this legislation is enacted with proposed committee amendments that limit the definition of those eligible (40+ BMI with diabetes and hypertension), the assumption that provides for 2% to 3% that meet the standards will be reduced by an indeterminable amount. Therefore, the costs estimates provided below will be some amount less.

FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
\$48 M to \$91 M	\$23 M to \$38 M	\$21 M to \$36 M	\$20 M to \$35 M	\$19 M to \$33 M

These estimates are based upon the following assumptions listed below:

- 1.) Impacted insured population is 1.725 million (excludes 225,000 OGB population & 200,000 individual insured population);
- 2.) That 2% to 3% of the impacted insured population meets the standards of morbidly obese; (this assumption will likely decrease)
- 3.) That 10% to 11% of the impacted insured population elect treatment in year 1;
- 4.) That 5% of the impacted insured population elect treatment in subsequent years;
- 5.) That the number of eligibles will grow by 4% per year;
- 6.) That the treatment costs range from \$14,000 to \$16,000;
- 7.) That medical loss ratio is 0.85;
- 8.) That each subsequent fiscal year population attempts to exclude the individuals who previously elected surgery.

Private Health Insurance Impact - Cost Calculations

FY 16 Low: 1,725,000 x 0.02 x 0.1 x \$14,000 = \$48 million
 FY 16 High: 1,725,000 x 0.03 x 0.11 X \$16,000 = \$91 million

FY 17 Low: 1,725,000 x (0.02 x (1-0.1)) x 1.04 x 0.05 x \$14,000 = \$23 million
 FY 17 High: 1,725,000 x (0.03 x (1-0.11)) x 1.04 x 0.05 x \$16,000 = \$38 million

FY 18 Low: 1,725,000 x (0.02 x (0.9-0.05)) x 1.04 x 0.05 x \$14,000 = \$21 million
 FY 18 High: 1,725,000 x (0.03 x (0.9-0.05)) x 1.04 x 0.05 x \$16,000 = \$36 million

Private Health Insurance Impact - Premium Calculations

FY 16 Low: \$48 million/0.85 = \$57 million, \$258 per member per year or \$21 per member per month
 FY 16 High: \$91 million/0.85 = \$107 million, \$484 per member per year or \$40 per member per month

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| Senate | <u>Dual Referral Rules</u> | House | <input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {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} |

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