LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 702** HLS 15RS 990
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 5, 2015 11:34 AM **Author:** THIERRY
Dept./Agy.: Office of Group Benefits/Louisiana Department of Insurance
Subject: **Analyst:** Alan M. Boxberger

INSURANCE/HEALTH OR INCREASE GF EX See Note

Requires health insurance issuers to cover contested healthcare services, including prescription drugs, during the appeal or review process

Present law provides for various levels of review and appeal of adverse determinations by health insurance issuers. Adverse determination is generally defined as the denial, reduction, termination, or failure to pay or provide for a benefit under a covered person's health benefit plan. Proposed law provides that notice of an adverse determination or a final adverse determination shall be provided by a health insurance issuer to a covered person no later than the thirtieth day before the date on which the healthcare services that are the subject of the appeal or review will be discontinued. Proposed law provides that the procedures for appealing any adverse determination shall: require that coverage or benefits for the contested healthcare services, including prescription drugs, shall continue under the covered person's health benefit plan while the appeal or review is being considered as if no adverse determination had been made, require that any health insurance issuer to cover the contested service or prescription as if no adverse determination had been made, and prohibit any health insurance issuer from recouping any payment made to a healthcare provider based upon any adverse determination on appeal or review. Proposed law provides that it shall apply only to adverse determinations for a health benefit on or after January 1, 2016 and not prior to that date.

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	$0	$0	$0	$0	$0	**$0**
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.	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						

EXPENDITURE EXPLANATION

The expenditures of the Office of Group Benefits (OGB) and potentially to a second undetermined state agency (likely DHH) will increase significantly as a result of proposed law through increased claims costs. Based on the assumptions outlined below and on page 2, the potential net costs to the Office of Group Benefits as prescribed in proposed law are:

FY16 (six months only)	FY17	FY18	FY19	FY20
$12M	$25.5M	$27.1M	$28.8M	$30.7M

A SGF appropriation increase will be required to cover the state portion of the increased costs. Based upon the FY16 Executive Budget Document, the SGF portion of the projected expenditure increase would equal 32% of the increased cost to add this benefit pursuant to proposed law, ranging from $3.8M in FY16 to $9.8M in FY20.

OGB's cost estimate above is based upon the following assumptions:

1) The current OGB population is approximately 220,000 insured, of which approximately 192,740 are adults over the age of 18.

(CONTINUED ON PAGE 2)

REVENUE EXPLANATION

SGR revenues for OGB will increase as a result of this measure. Using a medical loss ratio of 0.85, the revenue increase required by OGB to cover potential costs of the benefit prescribed by proposed law could be:

FY16 (six months only)	FY17	FY18	FY19	FY20
$12.1M	$25.4M	$26.6M	$27.8M	$30.3M

OGB estimates the anticipated approximate annual and monthly premium increase over current premiums to cover this benefit would be:
FY16: $12.1M/221,223 = $54.72 per member per 1/2 year premium increase, or $9.12 per member per month.
FY17: $25.4M/221,223 = $114.92 per member per year premium increase, or $9.57 per member per month
FY 18: $26.6M/221,223 = $120.39 per member per year premium increase, or $10.03 per member per month
FY19: $27.8M/221,223 = $125.86 per member per year premium increase, or $10.48 per member per month
FY20: $30.3M/221,223 = $136.81 per member per year premium increase, or $11.40 per member per month

To determine the revenues generated by each rate increase, OGB multiplies the required rate increase (rounded to the nearest thousandth) for each fiscal year by the self-funded plan premiums projects to be collected during FY15 ($1,210,599,918).

(CONTINUED ON PAGE 2)

Senate Dual Referral Rules House

- [x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [ ] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Evan Brasseaux

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CONTINUED EXPLANATION from page one:

OGB EXPENDITURES CONTINUED

2) OGB anticipates a 1.5% increase in medical claims and a 3% increase in prescription drug claims due to member appeals (including prior authorization denials and termination of benefits).
3) OGB assumes that appeal rates will increase in subsequent fiscal years, as members and healthcare providers will have the ability to receive services during an appeal period that are not part of the standard benefits that their health insurance issuer provides for. OGB is unable to anticipate what that additional growth factor may be. To the degree that this increase in usage of appeals may materialize, OGB's estimated costs as detailed above may be understated by an indeterminable amount.
4) Increased costs are calculated by multiplying estimated medical claims in each fiscal year by 1.5% and pharmacy claims by 3%.
5) To the degree that OGB experiences expenditures associated with enactment of proposed law that differ from estimates provided in this fiscal note, OGB may be required to adjust any associated premium rates accordingly.

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 Louisiana Department of Insurance (LDI) estimates that the total annual claims cost increase to private industry statewide as a result of covering services during appeal is approximately $43M to $159M in FY16, and claims cost increases ranging from $91M to $368M in subsequent fiscal years reflected in this note.

Claims Cost:	FY16 (six months only)	FY17	FY18	FY19	FY20
	$45M - $110M	$95M to $231M	$99M to $243M	$104M to $255M	$109M to $267M

These estimates are based on the following assumptions:
1) Louisiana insured population is 2.225 million (adjusted Kaiser State Health Facts plus Affordable Health Care Act policies)
2) The Office of Group Benefits (OGB) population is approximately 225,000
3) Louisiana individual health insured (IHI) population is approximately 275,000 (Kaiser State Health Facts plus ACA)
4) It is assumed there are two lives per policy (average of single and family coverage)
5) Proposed law applies to both group and individual health insurance plan coverages resulting in an affected insured population of 2,000,000 (1,000,000 policies)
6) 5% to 10% of the insured population contests at least one claim per year (Blue Cross Blue Shield - 2014 Annual Statement)
7) The cost of coverage while contesting a claim is assumed to be $1,000 (range of $900 to $1,100)
8) The bill and associated costs are in effect for only half of the first fiscal year
9) Medical cost inflation is assumed to be 5% per annum AND assumed premium loss ratio is 85%
10) The existing annual insurance premium cost is assumed to be $15,000 (using OGB as a proxy)

Cost Determination
1) It is assumed that the medical costs incurred during the 30 days while contesting a claim is $1,000 (range set at $900 to $1,100)
2) The claims incidence is estimated to be between 5% and 10% per year
2) Aggregate health insurance cost incurred while contesting a claim during the first fiscal year = (year fraction of coverage X population X claim incidence X cost of coverage)
    Low = (0.5) X (2,000,000) X (0.05) X ($900) = $45M for first six months
    High = (0.5) X (2,000,000) X (0.1) X ($1,100) = $110M for first six months
3) Aggregate health insurance cost incurred while contesting a claim during the second fiscal year = (population X claim incidence X cost of coverage X cost of inflation)
    Low = (2,000,000) X (0.05) X ($900) X (1.05) = $95M for second fiscal year, 12 months total
    High = (2,000,000) X (0.1) X ($1,100) X (1.05) = $231M for second fiscal year, 12 months total

Health Insurance Premium Increase Determination
1) Aggregate health insurance premium increase from contesting a claim during the first fiscal year = (year fraction of coverage X population X claim incidence X cost of coverage) / (loss ratio)
    Low = (0.5) X (2,000,000) X (0.05) X ($900) / (0.85) = $53M for first six months
    High = (0.5 X (2,000,000) x (0.1) x $1,100) / (0.85) = $129M for first six months
2) Annual premium increase per policy for coverage while contesting a claim in the first fiscal year = (aggregate premium increase) / (number of policies)
    Low = ($53M) / (1,000,000) = $53 per member per year, or $4.42 per member per month
    High = ($129M) / (1,000,000) = $129 per member per year, or $10.75 per member per month

Due to provisions of the federal Affordable Care Act (ACA) that require the state to defray the costs of state-mandated benefits in qualified health plans in excess of the essential health benefits, there could be a significant but indeterminable state cost as a result of proposed law. Under the provisions of the ACA, any change to existing health insurance mandates or creation of new mandates after December 2011, the state would be required to pay for those costs outside of the essential health benefits within the health insurance exchange. According to LDI, as of February 2015 there are approximately 186,000 individuals covered through the insurance exchange. Any premium increase within the exchange resulting from proposed law could be ruled a state responsibility if deemed to be an expansion of the essential health benefit by CMS. This cost could range between a low of $9.9M ($53 per member per year x 186,000) to a high of $24.0M ($129 per member per year x 186,000). The LFO is unable to determine which state agency would be required to cover such costs.

REVENUES CONTINUED FROM PAGE 1

Proposed law would result in SGF revenue increases based on the Louisiana premium tax rate of 2.25% (with an effective tax rate of 0.1125% when allowing for tax offsets in current law), ranging from a low of $60,000 in FY16 to a high of $353,000 in FY20 when applying the effective tax rate to the low and high annual premium increases noted above.

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