LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 150** SLS 21RS 307
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 9, 2021 10:36 AM
Author: BARROW
Dept./Agy.: Office of Group Benefits
Subject: Coverage of Bariatric Surgery to Treat Obesity
Analyst: Patrice Thomas

GROUP BENEFITS PROGRAM EN INCREASE GF EX See Note

Requires the Office of Group Benefits to cover bariatric surgery techniques for the treatment of severe obesity. (8/1/21)

Proposed law defines "severe obesity" and requires the Office of Group Benefits (OGB), with prior authorization, to cover treatment of severe obesity through gastric bypass surgery, sleeve gastrectomy, duodenal switch, SADI, or other methods recognized by the American Society for Metabolic and Bariatric Surgery as effective for the long-term reversal of severe obesity. Proposed law limit eligibility to members who have participated in OGB self-funded plans for at least one (1) year before prior authorization; members must have a BMI of at least 40 or at least 35 with two or more comorbidities; requires members to comply with all OGB requirements during a four-month pre-operative period. Proposed law set a maximum cap to 300 surgeries per year and excludes coverage or other benefits for skin removal surgery. Proposed law requires OGB to offer reimbursement to hospitals, physicians, and clinics (accredited by the American College of Surgeons and the American Society for Metabolic and Bariatric Surgery's Metabolic and Bariatric Surgery Accreditation and Quality Improve Program - MBSAQIP) that are reasonable and customary. Proposed law is effective 8/01/2021.

EXPENDITURES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**5 -YEAR TOTAL**
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						

EXPENDITURE EXPLANATION

Proposed law will significantly increase expenditures within the Office of Group Benefits (OGB). The proposed law requires OGB to cover bariatric surgery as a treatment for morbid obesity. Based upon the assumptions listed below, the expenditures to cover this benefit are $5,771,730 in FY 22. In subsequent fiscal year, the net expenditures decrease as a result of anticipated savings associated with the improved health benefits of members undergoing bariatric surgery.

	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Expenditures	$5,771,730	$5,984,412	$6,279,533	$6,548,613	$6,787,605
Savings	$0	-$671,582	-$2,081,233	-$3,224,871	-$4,441,722
Total	$5,771,730	$5,312,830	$4,198,300	$3,323,742	$2,345,883

Unless OGB Fund Balance is utilized, an SGF appropriation may be required to cover the state portion of the increase in premium costs, which is approximately 39%. As of March 2021, the OGB Fund Balance was $349.1 M.

The expenditure estimate is based upon requirements of the proposed law as well as the following assumptions:
(1) As of 4/26/2021, the current OGB active and retiree population in the five self-funded health plans is 124,234.
(2) Projection does not include changes in plan membership or exclude members who elect to have surgery in future years.
(3) Active and Retirees must have participated in an OGB health plan for at least 1 year before prior authorization to receiving bariatric surgery and must comply with a 4-month preoperative waiting period.
(4) Pre-operative medical services will be subject to a **20% member co-insurance**; bariatric surgery will be subject to a **$2,500 member co-pay** and a **10% member co-insurance after the co-pay**.
(5) Based on analysis performed by OGB's actuary Buck Global LLC that reviewed BMI data of OGB members: 13.16% (16,349) of adult members in the current OGB population are considered to be morbidly obese with a BMI of 40 or more and 10.29% (12,783) of adult members in the current OGB population are considered to have a BMI of 35 - 39 with one or more comorbidities. Therefore the number of **total eligible members is 29,132** (16,349 + 12,783).

(EXPENDITURE EXPLANATION CONTINUE ON PAGE 2)

REVENUE EXPLANATION

Proposed law may increase revenues within OGB as a result of increased premiums assessed to state agencies. The FY 22 projected annual and monthly premium increase to cover bariatric surgery under the proposed law is below.

$5,771,730/124,234 = $47 per member per year premium increase or $4 per member per month.

Senate Dual Referral Rules

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}

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

House

[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

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

Alan M. Boxberger

Alan M. Boxberger
Staff Director

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 150** SLS 21RS 307
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 9, 2021 10:36 AM
Author: BARROW
Dept./Agy.: Office of Group Benefits
Subject: Coverage of Bariatric Surgery to Treat Obesity
Analyst: Patrice Thomas

EXPENDITURE EXPLANATION CONTINUED from Page 1

(6) Upon enactment of the proposed law, **an annual utilization rate of 2%** is estimated resulting in 583 eligible members that will elect bariatric surgery (2% of the 29,132); thereafter an annual utilization rate of 2% is assumed in each fiscal year, but proposed law provides for a maximum of **300 surgeries per year**.
(7) Of eligible members that elect bariatric surgery, 30% will have Type II Diabetes.
(8) Proposed law provides that OGB cover various bariatric methods recognized by the National Institutes of Health (NIH) as effective. The four most common bariatric surgery methods are (A) Gastric Sleeve; (B) Gastric Bypass; (C) Lap-Band; and (D) Duodenal Switch. Based on data from Blue Cross Blue Shield of LA (BCBSLA), the **average cost of bariatric surgery is $22,000** per procedure and the **average cost of pre-operative medical services is $2,000** per patient.
(9) Of eligible members that elect bariatric surgery, 3% will experience complications related to the surgery. The cost of complications is estimated at $3,300 and presumed to be immediately following surgery.
(10) Of eligible members that elect bariatric surgery, 2% will require revisional surgery 24 months following initial surgery.
(11) Skin removal surgery will be excluded and not covered.
(12) A **medical inflation factor of 3.3%** was applied annually to future fiscal years. For example, in FY 23, lowest cost at $13,481 ($13,050 * 3.3% medical inflation) and highest cost at $29,750 ($28,800 * 3.3% medical inflation).
(13) **Claims cost savings of $7,211** as a result of members undergoing bariatric surgery will begin 12 months following surgery as follows: (A) $5,211 prescription drug claims savings from 80% of Type II Diabetes members who elect bariatric surgery (300 surgeries x 30% members with Type II diabetes = 90 members x 80% = 72 members prescription savings); and (B) $2,000 medical and prescription claims savings of all members as a result of overall improved health status.

Below are expenditure calculations utilized to project the cost within OGB as a result of the proposed law utilizing the assumptions listed on page one.

Expenditure Calculations and Estimated Savings:

$480,000 = 300 members x $1,600 ($2,000 pre-operative cost - $400 co-insurance)
$5,107,050 = 291 surgeries w/o complications x $17,550 ($22,000 - $2,500 co-pay - $1,950 co-insurance)
$184,680 = 9 surgeries w/complications x $20,520 ($25,300 - $2,500 co-pay - $2,280 co-insurance)
$5,771,730 in FY 22 ($2,250,975 SGF)

$495,900 = 300 members x $1,653 ($2,066 pre-operative cost - $413 co-insurance)
$5,297,073 = 291 surgeries w/o complications x $18,203 ($22,726 - $2,500 co-pay - $2,023 co-insurance)
$191,439 = 9 surgeries w/complications x $21,271 ($26,135 - $2,500 co-pay - $2,364 co-insurance)
$5,984,412
-$671,582 = Pharmacy and Medical Claims Savings
$5,312,830 in FY 23 ($2,072,004 SGF)

$512,100 = 300 members x $1,707 ($2,134 pre-operative cost - $427 co-insurance)
$5,493,498 = 291 surgeries w/o complications x $18,878 ($23,476 - $2,500 co-pay - $2,098 co-insurance)
$198,423 = 9 surgeries w/complications x $22,047 ($26,997 - $2,500 co-pay - $2,450 co-insurance)
$6,204,021
$75,512 = 4 revisional surgeries x $18,878 ($23,476 - $2,500 co-pay - $2,098 co-insurance)
$6,279,533
-$2,081,233 = Pharmacy and Medical Claims Savings
$4,198,300 in FY 24 ($1,637,337 SGF)

$528,900 = 300 members x $1,763 ($2,205 pre-operative cost - $441 co-insurance)
$5,696,616 = 291 surgeries w/o complications x $19,576 ($24,251 - $2,500 co-pay - $2,175 co-insurance)
$205,641 = 9 surgeries w/complications x $22,849 ($27,888 - $2,500 co-pay - $2,539 co-insurance)
$6,431,157
$117,456 = 6 revisional surgeries x $19,576 ($24,251 - $2,500 co-pay - $2,175 co-insurance)
$6,548,613
-$3,224,871 = Pharmacy and Medical Claims Savings
$3,322,742 in FY 25 ($1,296,259 SGF)

$546,600 = 300 members x $1,822 ($2,277 pre-operative cost - $455 co-insurance)
$5,906,136 = 291 surgeries w/o complications x $20,296 ($25,051 - $2,500 co-pay - $2,255 co-insurance)
$213,093 = 9 surgeries w/complications x $23,677 ($28,809 - $2,500 co-pay - $2,631 co-insurance)
$6,665,829
$121,776 = 6 revisional surgeries x $20,296 ($25,051 - $2,500 co-pay - $2,255 co-insurance)
$6,787,605
-$4,441,722 = Pharmacy and Medical Claims Savings
$2,345,883 in FY 26 ($914,894 SGF)

NOTE: Any reductions in claim expenditures as a result of any discounted rates negotiated with a healthcare provider or network are not incorporated in the fiscal note's assumptions.

Senate Dual Referral Rules

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}

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

House

[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

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

Alan M. Boxberger

Alan M. Boxberger
Staff Director