

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 602** HLS 15RS 1188

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

<b>Date:</b> May 5, 2015	5:40 PM	<b>Author:</b> JOHNSON, R.
<b>Dept./Agy.:</b> Louisiana Department of Insurance/Office of Group Benefits		<b>Analyst:</b> Alan M. Boxberger
<b>Subject:</b>		

INSURANCE/HEALTH OR INCREASE GF EX See Note Page 1 of 2  
Provides relative to collection of coinsurance and deductibles

Proposed law provides for certain definitions, including the definition of a "high deductible" as one set at \$1,000 or greater. Proposed law prohibits a health insurance issuer from executing, amending or renewing any contract with a healthcare provider which requires that provider collect any applicable coinsurance or deductible amount which may be the responsibility of the insured pursuant to the insured's contract for health insurance coverage when such contract includes a high deductible; requires a health insurance issuer to recover all coinsurance and deductible amounts due from insureds for covered services as required pursuant to such a contract; provides that payment of claims submitted by healthcare providers shall not be dependent upon the health insurance issuer recovering any applicable coinsurance and deductible amounts pursuant to such a contract, nor shall collection of any applicable coinsurance, deductible, and copayment amounts be required to be completed prior to processing and paying a claim made by a healthcare provider pursuant to such a contract; and provides that provisions of proposed law shall not have any effect as to the collation of copayments.

<b>EXPENDITURES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>						

<b>REVENUES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>5 -YEAR TOTAL</b>
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Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

The expenditures of the Office of Group Benefits (OGB) will increase significantly as a result of proposed law through increased claims costs. Proposed law will also likely increase SGR costs for the Office of the Attorney General and the Department of Revenue.

Based on the assumptions outlined below and on page 2, the potential net costs to cover increased costs for OGB as prescribed in proposed law are:

<u>FY16 (OGB assumes 1/1/16 start)</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
\$4.3M	\$9.1M	\$9.6M	\$10.2M	\$10.8M

A SGF appropriation increase will be required to cover the state portion of the increased costs, with the balance paid from other means of finance and by plan members through premium increases. 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 \$1.4M in FY16 to \$3.5M in FY20. The FY16 impact would double if the effective date correlates with the start of the fiscal year rather than 1/1/16.

OGB reports it will incur a one-time, indeterminable cost to establish a billing function to invoice individuals participating in high deductible plans. It is likely OGB will realize additional indeterminable costs associated with initial balance due collection efforts as it attempts to  
**(CONTINUED ON PAGE 2)**

**REVENUE EXPLANATION**

SGR revenues for OGB will increase as a result of this measure to the extent that premiums must increase to offset additional costs. Using a medical loss ratio of 0.85, assuming a 5.5% medical inflation, and excluding administrative costs; the revenue increase required to cover potential costs prescribed by proposed law are estimated at approximately:

<u>FY16 (six months only)</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
\$4.3M	\$9.1M	\$9.6M	\$10.2M	\$10.8M

OGB estimates the anticipated approximate annual and monthly premium increase over current premiums to cover this benefit would be:  
 FY16: \$4.3M/221,223 = \$19.53 per member per 1/2 year premium increase, or \$3.25 per member per month.  
 FY17: \$9.1M/221,223 = \$41.24 per member per year premium increase, or \$3.44 per member per month  
 FY 18: \$9.6M/221,223 = \$43.56 per member per year premium increase, or \$3.63 per member per month  
 FY19: \$10.2M/221,223 = \$46.01 per member per year premium increase, or \$3.83 per member per month  
 FY20: \$10.8M/221,223 = \$48.60 per member per year premium increase, or \$4.05 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)**

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>	<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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**Staff Director**

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CONTINUED EXPLANATION from page one:
OGB EXPENDITURES CONTINUED

collect outstanding balances due before turning the remainder over to the Office of Debt Recovery (see below). This could be implemented either through contracting for collection services or expanding its T.O. to provide for additional staff. These costs would be above and beyond the estimates presented above.

OGB's cost estimate 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.
2) OGB assumes these total costs based on additional costs incurred, excluding administrative costs, should OGB be able to collect 50% of applicable member out-of-pocket (OOP) deductible and coinsurance costs for medical services and prescription drugs.
3) OGB assumes an effective date of January 1, 2016, although the bill is silent with regard to an effective date.

Office of Debt Recovery

No later than 60 days after a payment becomes delinquent, although it is permissible to turn them over prior to that, OGB will be required to turn over outstanding debts to the Office of Debt Recovery. At that point, non-final accounts would be turned over to the Office of the Attorney General for collections (until collected or the debt becomes final). Final debts will be the responsibility of the Department of Revenue. Any incremental increase in workload for these two units will result in an indeterminable increase in SGR expenditures dependent upon the volume and value of delinquencies.

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 shifting out of pocket expense collection from providers to insurers is \$89M to \$286M in FY16 and in future fiscal years. Proposed law mandates that insurers take responsibility for the collection of deductibles and copayments when the plan is a high deductible plan (defined as a deductible of \$1,000 or greater). The bill is expected to have a cost impact to the insurance industry due to insurance companies having difficulty in securing the necessary leverage to collect the deductibles and copayments.

These estimates are based on the following assumptions:

- 1) Louisiana insured population is 2.15 million (adjusted Kaiser State Health Facts)
2) The Office of Group Benefits (OGB) population is approximately 225,000
3) Louisiana individual health insured (IHI) population is approximately 200,000 (Kaiser State Health Facts)
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 1,925,000 (962,500 policies)
6) Insurance companies fail to collect between 20% and 50% of the deductible owed to them.
7) There is no medical cost inflation as the level of deductibles and coinsurance are assumed not to increase over the review period
8) It is assumed that Blue Cross Blue Shield (BCBS) of Louisiana collects between 70% and 90% of the high deductible plan premiums assessed in Louisiana
9) The assumed premium loss ratio is 85%

Cost Determination

- 1) BCBS of Louisiana provided the annual amount of deductibles and copayments under their high deductible plans.
2) Aggregate amount of deductibles and copayments not collected under high deductible plans = (BCBS high deductible plan deductibles and copayments) X (non-collection percentage) / (assumed BCBS share of the high deductible market)
Low = (\$400M) X (0.2) / (0.9) = \$89M
High = (\$400M) X (0.5) / (0.7) = \$286M

Health Insurance Premium Increase Determination

- 1) Aggregate health insurance premium increase for deductibles and copayments not collected under high deductible plans = (aggregate amount no collected) / (loss ratio)
Low = (\$89M) / 0.85 = \$105M
High = (\$286M / (0.85) = \$336M
2) Annual premium increase per policy for non-collection of deductibles & copayments under high deductible plans = (aggregate premium increase) / (number of policies)
Low = (\$105M) / (962,500) = \$109 per member per year, or \$9.08 per member per month
High = (\$336M) / (962,500) = \$349 per member per year, or \$29.08 per member per month

REVENUES CONTINUED FROM PAGE 1

Proposed law would result in a 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 \$118,000 to a high of \$378,000 per year when applying the effective tax rate to the low and high annual premium increases noted for private health insurance above.

Office of Debt Recovery

The Office of Debt recovery is allowed to charge a premium for debt recovery efforts up to 25% of the value of the debt. The Office of the Attorney General and the Department of Revenue will realize an indeterminable increase in SGR based on the volume and value of debts collected by the respective agencies.

- 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}
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Senate

Dual Referral Rules

House

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