

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **HB 318** HLS 08RS 914
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 8, 2008 3:46 PM	Author: KLECKLEY
Dept./Agy.: Office of Group Benefits (OGB)	Analyst: Brian Crow
Subject: Coverage for prosthetic devices and services	

INSURANCE/HEALTH OR INCREASE SG RV See Note Page 1 of 2
 Requires health insurance coverage of prosthetic devices and prosthetic services

The proposed legislation requires any health coverage plan issued for delivery, delivered, renewed, or otherwise contracted for in this state on or after January 1, 2009 to provide coverage for prosthetic devices and prosthetic services. The proposed legislation provides that limits for coverage shall be determined by a functional limit test, and that the potential functional ability of the patient shall be determined by the treating physician or accredited facility, in consultation with the patient. The bill provides that such health coverage plans may require prior authorization for prosthetic devices and services, and provides for the imposition of co-payments, deductibles, or coinsurance amounts that are no more restrictive than those for all other plan benefits. The bill defines prosthetic device or prosthesis as an artificial medical device that is not surgically implanted and is used to replace a missing limb. The definition does not include artificial eyes, ears, noses, dental appliances, ostomy products, or devices such as eyelashes or wigs. The bill becomes effective upon signature of the governor, or after the lapse of time for gubernatorial action.

EXPENDITURES	2008-09	2009-10	2010-11	2011-12	2012-13	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2008-09	2009-10	2010-11	2011-12	2012-13	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

The expenditures of OGB will increase as a result of this measure. The current plans offered by OGB provide coverage for medically necessary prosthetic devices and services the same as for all other medical conditions. However, the proposed legislation will eliminate OGB's medical necessity review and allow the treating physician or accredited facility, in consultation with the patient, to determine what prosthetic device and/or services are medically necessary based on a functional limit test. The expenditures are anticipated to increase as follows:

FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	5-year Total
\$356,086 to \$474,781	\$377,451 to \$503,268	\$400,098 to \$533,464	\$424,104 to \$565,472	\$449,550 to \$599,400	\$2,007,289 to \$2,676,385

The estimates are based on the following assumptions:

- 1) That costs for prosthetic devices and services will increase by \$0.12 to \$0.16 per insured member per month;
- 2) The current enrollment in all plans offered by OGB is 247,282;
- 3) That OGB will not be able to control the medically necessary determination for the most appropriate prosthetics and services as a result of the proposed legislation; and
- 4) Medical inflation is 6% in FY 10 and subsequent fiscal years.

Note: A State General Fund appropriation shall be required to cover the state portion (66.7%) of the increased premium cost to add this benefit pursuant to the legislation (estimated to be \$279,423 to \$372,564 in FY 09 and increase to \$352,764 to \$470,354 in FY 12).

The actuary for the Department of Insurance estimates that the costs to the **private insurance industry** statewide to provide coverage for medically prescribed prosthetic devices and prosthetic services will range from \$7 million to \$21 million for 6 months in FY 09, and increase to \$8 million to \$23 million in FY 10. Subsequent fiscal years, beginning in FY 11 are anticipated to range from \$8 million to \$25 million per year. The estimates are based on the following assumptions:

(Continued Pg. 2)

REVENUE EXPLANATION

The revenues of OGB will increase as a result of this measure. Using a medical loss ratio of 0.85, the revenue increase required for OGB to cover the cost of this benefit is as follows:

FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	5-year Total
\$418,925 to \$558,566	\$444,060 to \$592,080	\$470,704 to \$627,605	\$498,946 to \$665,261	\$528,882 to \$705,177	\$2,361,516 to \$3,148,688

Senate **Dual Referral Rules**

13.5.1 >= \$500,000 Annual Fiscal Cost

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

Robert E. Hosse
Robert E. Hosse
LFO Staff Director

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: HB 318 HLS 08RS 914
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Table with metadata: Date: April 8, 2008 3:46 PM; Author: KLECKLEY; Dept./Agy.: Office of Group Benefits (OGB); Subject: Coverage for prosthetic devices and services; Analyst: Brian Crow

CONTINUED EXPLANATION from page one:

Expenditures

- 1) 1.7 million insured individuals in the state of Louisiana covered by group health insurance;
2) An average of 2 lives covered by each plan (850,000 policies);
3) Health care service recipients as a result of the proposed legislation are new amputees and existing amputees in need of replacement services;
4) Basic prosthetic coverage is standard in the majority of group health policies for vascular related amputations below the knee;
5) The major benefit of the proposed legislation is for nonvascular related amputations above the knee and/or arm, which are more complex and require more expensive prosthetic devices and services;
6) Both the annual incidence and prevailing rates of nonvascular amputations are 6 (low) and 52 (high) per 100,000 (source: Amputee Coalition of America);
7) Existing equipment must be replaced once every 5 years (factor of 0.2)
8) Standard annual coverage for prosthetics is \$25,000, and that more sophisticated equipment costs between \$25,000 and \$75,000 more than standard coverage;
9) The annual group health insurance premium cost per policy is \$10,000 for 2 lives;
10) Medical inflation is 5% per year (2.5% for 6 months in FY 09).

Expenditure Calculations

The total annual extra claim cost for new incidences equals [1.7 million X incidence X equipment cost]
The total annual extra claim cost for prevailing cases equals [1.7 million X prevalence X equipment cost X 0.2]
The total annual extra claim cost equals the sum of the new incidences and the prevailing costs rounded to the nearest million
FY 09 incidence cost (low): 1.7 million X 6/100,000 X \$25,000=\$2,550,000
FY 09 incidence cost (high): 1.7 million X 6/100,000 X \$75,000=\$7,650,000
FY 09 prevailing cost (low): 1.7 million X 52/100,000 X \$25,000 X 0.2=\$4,420,000
FY 09 prevailing cost (high): 1.7 million X 52/100,000 X \$75,000 X 0.2=\$13,260,000
FY 09 total cost (low: \$2,550,000 + \$4,420,000=\$6,970,000 (rounded=\$7 million)
FY 09 total cost (high): \$7,650,000 + \$13,260,000=\$20,910,000 (rounded=\$21 million)

Revenue Calculations

The total annual extra premium cost equals the total annual claim cost divided by 0.85 (standard loss ratio), rounded to the nearest million
FY 09 total premium cost (low): \$6,970,000 / 0.85=\$8,200,000 (rounded=\$8 million)
FY 09 total premium cost (high):\$20,910,000 / 0.85=\$24,600,000 (rounded=\$25 million)
All subsequent year calculations use FY 09 totals inflated forward by 5%
FY 09 percentage extra premium cost equals the total premium cost divided by the number policies and premium per policy
FY 09 premium percentage increase (low): \$8,200,000 / (850,000 X \$10,000)=0.1%
FY 09 premium percentage increase (high): \$24,600,000 / (850,000 X \$10,000)=0.3%

Senate Dual Referral Rules

[X] 13.5.1 >= \$500,000 Annual Fiscal Cost

[] 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

Signature of Robert E. Hosse
Robert E. Hosse
LFO Staff Director