

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3601-01
Bill No.: SB 597
Subject: Insurance - Medical; Health Care
Type: Original
Date: January 18, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(Unknown exceeding \$58,679)	(Unknown exceeding \$121,824)	(Unknown exceeding \$128,491)
Total Estimated Net Effect on General Revenue Fund	(Unknown exceeding \$58,679)	(Unknown exceeding \$121,824)	(Unknown exceeding \$128,491)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Insurance Dedicated	\$5,000	\$0	\$0
Highway - Highway Patrol	(Could exceed \$57,516)	(Could exceed \$163,423)	(Could exceed \$235,656)
Road	(Could exceed \$221,573)	(Could exceed \$629,573)	(Could exceed \$907,845)
All Other	(Unknown exceeding \$9,324)	(Unknown exceeding \$21,418)	(Unknown exceeding \$25,554)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown exceeding \$283,413)	(Unknown exceeding \$814,414)	(Unknown exceeding \$1,169,055)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Federal Funds	(Unknown exceeding \$12,910)	(Unknown exceeding \$27,762)	(Unknown exceeding \$30,662)
Total Estimated Net Effect on <u>All</u> Federal Funds	(Unknown exceeding \$12,910)	(Unknown exceeding \$27,762)	(Unknown exceeding \$30,662)

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	(Unknown exceeding \$50,000)	(Unknown exceeding \$100,000)	(Unknown exceeding \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety (DPS) - Director's Office** defer to the Office of Administration and Missouri Consolidated Health Care Plan for comment regarding the potential fiscal impact of this proposal since health care premiums/issues are handled through those agencies.

Officials from the **DPS - Missouri State Highway Patrol** defer to the Missouri Department of Transportation for response regarding the potential fiscal impact on the proposal on their organization.

Officials from the **Missouri Department of Conservation (MDC)** assume the proposal will not significantly impact MDC funds.

Officials from the **Department of Social Services (DOS) - Division of Medical Services (DMS)** assume any changes made to Section 376, RSMo applies to Medicaid. If this is not the intent of the proposal, a specific exclusion needs to be considered in the legislation.

ASSUMPTION (continued)

The proposed legislation requires all health benefit plans, providing coverage to residents of Missouri, to offer coverage for the treatment of morbid obesity. Under Missouri Medicaid, the treatment of obesity is non-covered unless the treatment is an integral and medically necessary part of a course of treatment for a comorbid or existing condition and the body mass index (BMI) is equal to or greater than forty (40) kilograms. In the proposed legislation, one of the definitions of “morbid obesity” is a BMI equal to or greater than thirty-five (35) kilograms with comorbidity or existing medical conditions or a BMI of forty (40) kilograms without comorbidity.

The proposal would have an unknown fiscal impact to the DMS as a result of the following:

- The definition change in the BMI requires either a decrease in the current BMI with comorbidity or existing medical conditions or the criteria allows for the current BMI but without comorbidity which the current Medicaid policy requires.
- There is no clear definition or limit regarding the services that would be mandated as part of the treatment. Medicaid does not cover weight loss pharmaceuticals, weight loss programs, nutritional counseling or exercise programs, which may or may not be the intent of the proposed legislation.
- The current treatment of obesity, when an integral and medically necessary part of the treatment course for a comorbid or existing medical condition, requires a prior authorization. The expansion of services would increase the number of prior authorizations.
- With the expansion of services, there would be potential for extended inpatient hospital stays, and
- The DMS is unable to determine the number of Medicaid eligibles who would meet the criteria established in the proposed legislation.

The DMS contracts with managed care health plans to provide medical assistance to individuals eligible under Section 208.151. The managed care health plans are subject to the proposed legislation. Therefore, there would be an unknown fiscal impact to the DMS for the increase in the managed care capitated rates due to the additional services, the cost of the actuarial consultant for DMS to renegotiate the current contracts with the managed care health plans, and notification to be prepared and sent to all managed care enrollees.

ASSUMPTION (continued)

HW-C:LR:OD (12/02)

The DMS assumes that the Medicaid state plan would be approved and, therefore, the services would be eligible for matching federal financial participation. If the services proposed in the new legislation were not Medicaid state plan services, only the recipients enrolled in managed care would receive the services and there would be no federal financial participation.

Therefore, the DMS assumes an unknown fiscal impact exceeding \$100,000 annually.

Officials from the **Missouri Department of Transportation (DOT)** state according to the American Medical Association (AMA) Report 8 of the Council on Scientific Affairs (CSA), the U.S. adult population who are obese (body mass index > 29.9) has increased from 13.5% in the early 1960's to approximately 30% in the late 1990's. During this same period, the number of people with extreme obesity (BMI > 39.9) has increased from 2.9% to 4.7% and trends for children and youth parallel the epidemiology for adults.

The Medical Plan currently has 6,022 children and 21,472 adults (ages 18 and older) enrolled in the plan. The DOT used the assumption, as stated by the AMA, that 4.7% are morbidly obese and the assumption that between 50 and 100 percent of these participants may elect to have gastric bypass surgery. According to Westport Benefits, the costs for gastric bypass surgery averages around \$20,000 barring any complications. The potential fiscal impact to the plan could be as great as \$20,180,000 (21,472 participants X 4.7% morbidly obese = 1,009 participants X \$20,000 = \$20,180,000) and a minimum of \$10,100,000 (21,472 participants X 4.7% X 50% = 505 participants meeting the morbidly obese criteria and 505 X \$20,000 = \$10,100,000). These figures include Medicare participants as Medicare does not provide coverage for obesity.

The DOT assumes that the participants electing to have gastric bypass would have the surgery over a three-year period. The number of participants electing to have the surgery is unknown. Therefore, the range per year would be \$0 to \$6,726,666.

The Medical Plan's enrollment consists of 77% DOT and 23% Patrol participants. Therefore, there would be a fiscal impact of \$5,179,533 ($\$20,180,000 \times 77\% / 3$) due to DOT participation and \$1,547,133 ($\$20,180,000 \times 23\% / 3$) due to Patrol participation.

These assumptions do not take into account the expense for participants under age 18 or future participants who will fall within the classification of being morbidly obese. These figures also do not take into account that approximately 20% of patients having gastric bypass surgery require more surgery after the procedure to correct complications (according to the March 2004 edition of USA Today). However, those who are successful with the surgery do show long term (4-5 years) savings.

ASSUMPTION (continued)

In addition, the figures do not take into account the coverage for prescription benefits for weight loss drugs and other services not currently covered by the plan. The prescription coverage could be a huge cost as the plan cannot separate coverage of weight loss drugs for only the morbidly obese patients; therefore, all participants could have access to this coverage. These costs cannot be accurately determined.

Historically, the DOT and the plan members have shared in any premium increases necessary because of increases in benefits. The costs may be shared between three categories: absorbed by the plan, state appropriated funds, and/or costs to individuals. However, the Medical Plan, Missouri Highway Transportation Commission, DOT, and Patrol must make a decision on how to fund the increase.

Oversight conducted internet research and determined the number of bariatric/gastric bypass surgeries performed nationwide in 2002 totaled 71,733. Bariatric surgeries exceeded 140,000 nationwide in 2004, an increase of approximately 140% a year between 2002 and 2004. Based on these numbers, **Oversight** estimated the nationwide number of bariatric surgeries in 2005 to be 196,835 ($71,733 \times 140\% \times 140\% \times 140\%$). Missouri's population is roughly equal to 2% of the total U.S. population ($5,800,310$ MO population / $279,851,587$ U.S. population). Assuming the number of bariatric surgeries in Missouri is 2% of the total bariatric surgeries performed nationwide, approximately 3,937 bariatric surgeries were performed in Missouri in 2005 ($196,835 \times 2\%$). The DOT's medical plan has 21,472 covered individuals age 18 and over, or 0.37% of Missouri's total population ($21,472 / 5,800,310$). Assuming the number of covered individuals potentially electing bariatric surgery under the DOT's medical plan is the same as for the rest of the state, **Oversight** assumes, in 2005, approximately 15 individuals might have had bariatric surgery ($3,937 \times 0.37\%$).

Further, assuming a continued growth in bariatric surgeries of 140% per year, **Oversight** assumes the DOT's medical plan could cover bariatric surgeries for 29 individuals in 2007 ($3,937 \times 140\% \times 140\% \times 0.37\%$), 40 individuals in 2008 ($3,937 \times 140\% \times 140\% \times 140\% \times 0.37\%$), and 56 in 2009 ($3,937 \times 140\% \times 140\% \times 140\% \times 140\% \times 0.37\%$). Based on DOT's plan coordinator's estimated surgery cost of \$20,000 per surgery, **Oversight** estimates the costs of this proposal to the DOT's medical plan for all funds could exceed \$580,000 for FY 07, \$824,000 for FY 08, and \$1,188,208 for FY 09 (includes a 3% annual inflationary adjustment). These estimates do not take into account expenses for participants under age 18, additional surgery due to complications, or prescription drugs.

Oversight assumes changes in insurance coverage would become effective January 1, 2007.

ASSUMPTION (continued)

Officials from the **Missouri Consolidated Health Care Plan (HCP)** state the proposal requires plans renewed on or after August 28, 2006, to offer coverage for the treatment of morbid obesity. However, the proposal does not specify which types of treatments are required. Currently, the HCP only provides coverage for the nonsurgical treatment of obesity, including nutritional counseling or diet planning services. Obesity surgery has become a rapidly increasing procedure. However, many believe the surgery is an extremely risky procedure. Many reports show the average cost of surgical intervention for morbid obesity ranges from \$10,000 to \$40,000 depending on the type of surgery. The Mayo Clinic reports about one in 200 - 300 people who have gastric bypass surgery in the U.S. will die from the procedure. Another study puts the five year mortality rate at approximately 0.7%. In March 2004, USA Today stated 20% of patients having gastric bypass surgery require more surgery after the procedure to correct complications. However, those who are successful with the surgery do show long term (4-5 years) savings.

Due to the rapid increase in popularity and the high cost of post-surgical complications, HCP expects a significant fiscal impact, more than \$100,000, from this proposal. The anticipated fiscal impact on public entities is also unknown, but expected to exceed \$100,000 annually.

Officials from the **Department of Insurance (INS)** estimate approximately 100 insurers would be required to submit amendments to their policies to comply with the proposal. Policy amendments must be submitted to the INS for review along with a \$50 filing fee. One-time additional revenues to the Insurance Dedicated Fund are estimated to be \$5,000.

Additional staff and expenses are not being requested with this single proposal, but if multiple proposals pass during the legislative session which require policy form reviews, the INS will need to request additional staff to handle the increase in workload.

This proposal will result in an increase in total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
<u>Costs - Department of Social Services</u>			
Increase in Medicaid program payments	(Unknown exceeding \$20,000)	(Unknown exceeding \$40,000)	(Unknown exceeding \$40,000)
<u>Costs - Missouri Department of Transportation</u>			
Increase in insurance premiums	(Could exceed \$5,309)	(Could exceed \$15,084)	(Could exceed \$21,751)
<u>Costs - Missouri Consolidated Health Care Plan</u>			
Increase in insurance premiums	<u>(Unknown exceeding \$33,370)</u>	<u>(Unknown exceeding \$66,740)</u>	<u>(Unknown exceeding \$66,740)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Unknown exceeding \$58,679)</u>	<u>(Unknown exceeding \$121,824)</u>	<u>(Unknown exceeding \$128,491)</u>
INSURANCE DEDICATED FUND			
<u>Income - Department of Insurance</u>			
Form filing fees	<u>\$5,000</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>\$5,000</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009
HIGHWAY FUND - HIGHWAY PATROL			
<u>Costs - Missouri Department of Transportation</u>			
Increase in insurance premiums	<u>(Could exceed \$57,516)</u>	<u>(Could exceed \$163,423)</u>	<u>(Could exceed \$235,656)</u>
ESTIMATED NET EFFECT ON HIGHWAY FUND - HIGHWAY PATROL	<u>(Could exceed \$57,516)</u>	<u>(Could exceed \$163,423)</u>	<u>(Could exceed \$235,656)</u>
ROAD FUND			
<u>Costs - Missouri Department of Transportation</u>			
Increase in insurance premiums	<u>(Could exceed \$221,573)</u>	<u>(Could exceed \$629,573)</u>	<u>(Could exceed \$907,845)</u>
ESTIMATED NET EFFECT ON ROAD FUND	<u>(Could exceed \$221,573)</u>	<u>(Could exceed \$629,573)</u>	<u>(Could exceed \$907,845)</u>
ALL OTHER FUNDS			
<u>Costs - Missouri Department of Transportation</u>			
Increase in insurance premiums	<u>(Could exceed \$3,294)</u>	<u>(Could exceed \$9,358)</u>	<u>(Could exceed \$13,494)</u>
<u>Costs - Missouri Consolidated Health Care Plan</u>			
Increase in insurance premiums	<u>(Unknown exceeding \$6,030)</u>	<u>(Unknown exceeding \$12,060)</u>	<u>(Unknown exceeding \$12,060)</u>
ESTIMATED NET EFFECT ON ALL OTHER FUNDS	<u>(Unknown exceeding \$9,324)</u>	<u>(Unknown exceeding \$21,418)</u>	<u>(Unknown exceeding \$25,554)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009
FEDERAL FUNDS			
<u>Income - Department of Social Services</u>			
Increase in Medicaid program receipts	Unknown exceeding \$30,000	Unknown exceeding \$60,000	Unknown exceeding \$60,000
<u>Costs - Department of Social Services</u>			
Increase in Medicaid program payments	(Unknown exceeding \$30,000)	(Unknown exceeding \$60,000)	(Unknown exceeding \$60,000)
<u>Costs - Missouri Department of Transportation</u>			
Increase in insurance premiums	(Could exceed \$2,310)	(Could exceed \$6,562)	(Could exceed \$9,462)
<u>Costs - Missouri Consolidated Health Care Plan</u>			
Increase in insurance premiums	(Unknown exceeding \$10,600)	(Unknown exceeding \$21,200)	(Unknown exceeding \$21,200)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>(Unknown exceeding \$12,910)</u>	<u>(Unknown exceeding \$27,762)</u>	<u>(Unknown exceeding \$30,662)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (6 Mo.)	FY 2008	FY 2009

ALL LOCAL GOVERNMENTS

Costs - All Local Governments

Increase in insurance premiums

(Unknown
exceeding
\$50,000)

(Unknown
exceeding
\$100,000)

(Unknown
exceeding
\$100,000)

**ESTIMATED NET EFFECT ON ALL
LOCAL GOVERNMENTS**

**(Unknown
exceeding
\$50,000)**

**(Unknown
exceeding
\$100,000)**

**(Unknown
exceeding
\$100,000)**

FISCAL IMPACT - Small Business

This proposal would be expected to directly impact small businesses that provide insurance for employees.

DESCRIPTION

This proposal requires health insurance companies to provide coverage for the treatment of morbid obesity.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Social Services

HW-C:LR:OD (12/02)

L.R. No. 3601-01
Bill No. SB 597
Page 11 of 11
January 18, 2006

Missouri Department of Transportation
Department of Public Safety -
Director's Office
Missouri State Highway Patrol
Missouri Consolidated Health Care Plan
Department of Insurance
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