FIS Actuarial Form 6-03

Kentucky Department of Insurance
Financial Impact Statement

1. Mandating health insurance coverage of BR 1073 / HB 318, will increase premiums, based upon our analysis of the proposed mandate and our experience with similar health insurance benefits. The proposed mandate requires all insurers to establish a program for which a participating provider can qualify to reduce or eliminate prior authorization requirements for certain health care services as determined by the program design. A participating provider that qualifies for, and chooses to participate in, the program must also enter into a value-based healthcare reimbursement agreement wherein the provider takes downside risk and an electronic medical records access agreement. Our estimated increase in premiums for health benefit plans, not including state employee plans, is approximately $0.00 to $4.18 per member per month (PMPM). This represents an increase of approximately 0.0% to 0.5% or approximately $0 to $18.5 million for all fully insured policies in Kentucky, excluding Medicaid and state employees, due to the increased costs for health plans.

The proposed BR 1073 / HB 318, as described above, will increase the total cost of health care in the Commonwealth, based upon our analysis of the proposed mandate and our experience with similar health insurance benefits. Our estimated increase in the total cost of health care in the Commonwealth for health benefit plans, is approximately $0.00 to $4.18 per member per month (PMPM). This represents an increase of approximately 0.0% to 0.5% or approximately $0 to $18.5 million for all fully insured policies in Kentucky, excluding Medicaid and state employees, due to the increased costs for health plans.

The proposed BR 1073 / HB 318, as described above, is not expected to materially increase administrative expenses of insurers, based upon our analysis of the proposed mandate and our experience with similar health insurance benefits. The proposed legislation for all insured health benefit plan coverages, excluding Medicaid and state employees, is not expected to materially increase administrative expenses of Insurers. It is our assumption that Insurers may have to spend time putting administrative systems in place for this bill but that this will be offset by the reduction in time spent on prior authorizations, and therefore the mandate would not significantly impact the administrative costs relative to current levels.

Our analysis included the use of data and statistics from Kaiser Family Foundation (KFF), America's Health Insurance Plans (AHP), Texas Association of Health Plans (TAHP), actuarial judgement, and a 2022 Annual Data Report provided by DOI.

Note: There is not a consensus opinion on the effect of prior authorization on health-care spending. Some studies have found that prior authorization has a neutral effect on spending when also considering the operating costs. On the other hand, many insurers affirm that prior authorization provides evidence-based quality and cost-containment. In actuality, the larger the current level of net cost-savings achieved by prior authorization, the larger the potential impact of this proposed mandate This level of uncertainty regarding current net cost-savings via prior authorization was considered in developing our estimated impact range.

Disclosure: L&E notes that there is significant uncertainty around how insurers would design their prior authorization exemption programs under the proposed mandate, including qualification requirements and how many providers would qualify. This level of uncertainty was considered in developing our estimated impact range. In developing our estimated impact range, we assumed that an insurer would not, by choice, design a prior authorization exemption program that would significantly increase costs on a net basis.

Disclosure: L&E made several assumptions in performing the analysis. Several of these assumptions are subject to material uncertainty and it is not unexpected that actual results could materially differ from these estimates if a more in-depth analysis were to be performed.

Disclosure: Due to the material disclosure requirements required therein, we must acknowledge that the content of this report may not comply with Actuarial Standard of Practice No. 41 Actuarial Communications

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