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Fiscal Impact Report – BR1380

Feeding and Eating Disorder Treatment Coverage

PREPARED FOR THE KENTUCKY DEPARTMENT OF INSURANCE

FEBRUARY 4, 2025

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Introduction

Lewis & Ellis, LLC (L&E) was engaged by the Kentucky Department of Insurance (KY DOI) to perform a fiscal impact analysis of BR1380, which would mandate that health benefit plans provide coverage for treatment of a diagnosed feeding and eating disorders. When determining medical necessity, BR1380 would prohibit a health plan from utilizing body mass index, ideal body weight, or any other standard requiring an achieved weight.

Kentucky Revised Statute (KRS) 6.948[a] mandates that the sponsor of any bill proposing a health benefit mandate must request a health mandate fiscal impact statement from the Kentucky Department of Insurance (DOI). This statement must be completed within 30 days of the request and should include the following:

1. An assessment of the impact of the mandated health benefit on administrative expenses, premiums, and the overall cost of healthcare including any potential future cost savings.
2. Supporting documentation, including studies, written opinions, calculations, and citations that validate the findings and conclusions.
3. An estimate of any potential cost savings in the future, along with an explanation of why the bill would or would not lead to such savings, and
4. A certification confirming the accuracy of the information provided.

Additionally, KRS 6.948 mandates that the sponsor of any bill proposing a health benefit mandate must also request a federal cost defrayal impact statement from the Kentucky DOI. This statement must be completed within 30 days of the request. The federal defrayal cost impact statement shall:

1. Indicate whether a bill or amendment that contains a mandated health benefit may result in the state being required to make payments to defray costs.
2. If applicable, indicate which provision(s) of the bill or amendment may trigger the requirement to make payments to defray the costs.
3. If applicable, include an estimate of the payment amount that the state may be required to make if the bill or amendment is enacted into law.

L&E is tasked with performing the health mandate fiscal impact and federal cost defrayal impact analyses for the Kentucky insurance market, excluding the Kentucky Employee Health Plan (KEHP) and the Kentucky Medicaid programs. The fiscal impact analyses for these programs are performed by other entities. For this analysis, L&E reviewed literature, gathered statistics from public sources[b], and used data from the KY DOI's 2023 Insurer Annual Data report.

Administrative Expense Impact Analysis

The proposed bill is estimated to have **an immaterial (within +/- 0.05%) impact on administrative expenses**, based upon our analysis of the proposed mandate and our experience with similar health insurance benefits. It is our assumption that insurers either already provide

[a] As amended by 2024 House Bill 635.

[b] Including reports for other states who have considered or passed similar legislation.

coverage for the mandated benefits or the additional administrative requirements imposed by this mandate would not significantly impact the administrative costs relative to current levels.

Premium Impact Analysis

To estimate BR1380's premium impact, L&E evaluated data from KY DOI's 2023 Insurer Annual Data report and publicly available sources. L&E used the collected information and data to estimate low-end and high-end assumptions for each variable that could impact cost or utilization. The ranges for each variable were then used to estimate the aggregate premium impact range.

While L&E selected specific assumptions to develop a range for the estimated premium impact, it is not intended to represent only the low- and high- scenarios illustrated. Each assumption range is intended to capture the various uncertainties inherent in each assumption and to provide an estimated range of resulting potential outcomes. Therefore, the final estimated aggregate premium impact range implicitly captures a wide range of scenarios and assumptions.

Each of the following sections discuss the data used to inform each assumption evaluated by L&E.

EATING DISORDER TREATMENT UTILIZATION

Eating disorder prevalence and utilization data was reviewed from a study for the Academy for Eating Disorders.[1] Based on this data, L&E selected the following range for the eating disorder treatment utilization percentage:

Eating Disorder Treatment Utilization	Low	High
Eating Disorder Treatment Utilization %	0.8%	1.7%

CHANGE IN DENIAL RATES

This bill mandates that when determining medical necessity, a health plan cannot utilize body mass index, ideal body weight, or any other standard requiring an achieved weight. There is little data available regarding how often and why eating disorder treatment is denied. However, L&E believes it is reasonable to assume that there are currently some denials under current practices that could no longer be denied with this mandate. Based on L&E's research[2] [3] and judgment, the following denial rates were assumed pre- and post- mandate:

	Low	High
Assumed Denial Rate Pre-Mandate (a)	17.0%	27.0%
% of Denials now Covered after Mandate (b)	10.0%	75.0%
Assumed Change in Denials as a Result of Mandate (c = a*b)	1.7%	20.3%

EATING DISORDER AVERAGE COST

Based on the information available from publicly available research[1], L&E selected the following assumptions for the average annual cost per year for eating disorder treatment.

Eating Disorder Treatment Average Annual Cost		
	Low	High
Average Cost of Eating Disorder Treatment	$400	$1,200

INSURER COST-SHARING

Based on the KY DOI's Annual data report, the average insurer-paid claims costs for behavioral health services as a percentage of total claims costs were determined to be 68.4%. Based on the information available, L&E selected the following assumptions for the insurer cost-sharing for eating disorder treatments:

Assumed Insurer Cost-Sharing		
	Low	High
Eating Disorder Treatment Insurer Cost-Share	60.0%	80.0%

RESULTING PREMIUM IMPACT ESTIMATE

The following table illustrates the range of assumptions selected by L&E and the resulting estimated premium impact range.

Claim Cost Impact Calculation		
Assumption	**Low**	**High**
Assumed Denial Rate Pre-Mandate (a)	17.0%	27.0%
% of Denials now Covered after Mandate (b)	10.0%	75.0%
Assumed Change in Denials as a Result of Mandate (c = a*b)	1.7%	20.3%
Eating Disorder Treatment Utilization % (d)	0.8%	1.7%
Eating Disorder Treatment Average Annual Cost (e)	$400	$1,200
Eating Disorder Treatment Insurer Cost-Share (f)	60.0%	80.0%
Mandate Claim Cost Impact PMPY (g)=c*d*e*f	$0.03	$3.23
Mandate Claim Cost Impact PMPM (h)=(g)/12	$0.00	$0.27
Projected 2025 Total Claims Costs PMPM (i)	$636.55	$636.55
Mandate Claim Cost % Impact (j)=(h)/(i)	0.0%	0.0%

Premium Impact Calculation		
Assumption	**Low**	**High**
Projected 2025 KY Average Loss Ratio (k)[c]	89.5%	89.5%
Projected 2025 KY Average Premium PMPM (l)=(i)/(k)	$711.60	$711.60
Mandate Premium Impact PMPM (m)=(h)/(k)	**$0.00**	**$0.30**
Mandate Premium % Impact (n)=(m)/(l)	**0.0%**	**0.0%**
Projected 2025 KY Insured Members[d] (o)	351,797	351,797
Mandate Premium Total Annual Impact (p) = (m)*(o)*12	**$13K**	**$1.3M**

The proposed bill is estimated to have **an immaterial (within +/- 0.05%) impact on premium**, based upon our analysis of the proposed mandate.

Total Cost of Health Care Impact Analysis

L&E defines 'Total Cost of Health Care' as being equal to the sum of the Allowed Cost (i.e., the amount paid by the insurer plus the amount paid by the insured) and the insurer Non-Benefit Expenses. Additionally, as required by KRS 6.948, L&E considered the impact of potential future cost savings.

POTENTIAL FOR FUTURE COST SAVINGS

L&E recognizes the potential for long-term savings through enhanced accessibility of eating disorder treatments. Improved access by limiting denials can lead to prompt diagnosis and treatment, reducing the need for higher-cost interventions in the future. For example, shifting the mix of services from higher-cost settings, such as inpatient facilities or emergency rooms, to lower-cost alternatives like outpatient visits, may yield savings. However, quantifying these savings is challenging, as it requires estimating the counterfactual scenario—what would have occurred without early intervention. Moreover, any cost reductions could be partially offset by induced utilization, where the increased availability of services results in higher-than-expected use.

While there is limited research suggesting eating disorder treatment is cost effective in some specific settings (such as college students), further research is needed to estimate the overall costs that may be prevented through early intervention and prevention. The limited research available does not define the magnitude of cost savings, particularly regarding the relationship between cost savings and incremental coverage increases. Based on experience and actuarial judgment, L&E estimates the impact of potential future savings as a result of the BR1380 to be immaterial (within +/- 0.05%).

RESULTING TOTAL COST OF HEALTH CARE IMPACT ESTIMATE

The proposed bill is estimated to have **an immaterial (within +/- 0.05%) impact on total cost of health care**, including potential future cost savings, based upon our analysis of the proposed mandate and our experience with similar health insurance benefits.

[c] Based on 2023 Insurer Annual Data report provided by the KY DOI. Excludes KEHP and Medicaid.

[d] Excluding the Kentucky Employee Health Plan (KEHP) and the Kentucky Medicaid programs.

Cost Defrayal Impact Analysis

Based on L&E's research and actuarial judgment, L&E determined that this bill contains a mandated health benefit that may result in the state being required to make payments to defray costs under 42 U.S.C sec 18031(d)(3) and 45 C.F.R. sec 155.170, as amended. The provision of the bill that may trigger the requirement is on page 2, lines 7-20 as the stipulation regarding what is able to be used to deny/approve a claim for medical necessity may trigger cost defrayal.

The estimated annual cost defrayal payment that the state may be required to make is between $4K and $390K, which is based on the portion of the mandate claims cost estimate that is attributed to the individual and small group markets.

L&E has disclosed its defrayal determination based on its earnest interpretation of federal guidance available as of the date of this report. However, determination of defrayal is ultimately under the regulatory purview of Centers for Medicare and Medicaid Services (CMS).

Certification of Accuracy

L&E believes the estimates are accurate based on the information disclosed in the report. To the extent that there are material inaccuracies, misrepresentations, or lack of adequate disclosure in the data, the results may be accordingly affected. Several of the assumptions made in this analysis are subject to uncertainty and it is expected that actual results could differ from the calculated estimates.

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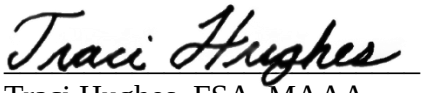

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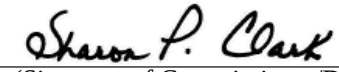

2/4/2025
(Signature of Commissioner/Date)

ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[e], promulgates actuarial standards of practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct[f], to observe the ASOPs of the ASB when practicing in the United States. ASOP 41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained in the following.

Identification of the Responsible Actuary

The responsible actuaries are:

- Bobby Dorman, ASA, MAAA, Vice President & Consulting Actuary
- Traci Hughes, FSA, MAAA, Vice President & Principal

These actuaries are available to provide supplementary information and explanation.

Identification of Actuarial Documents

The date of this document is February 4, 2025. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is February 4, 2025.

Disclosures in Actuarial Reports

- The contents of this report are intended for the use of the Kentucky Department of Insurance. The authors of this report are aware that it may be distributed to third parties. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis, LLC is financially and organizationally independent from the health insurers and providers involved in this analysis. There is nothing that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the Kentucky Department of Insurance in assessing the financial impact and federal cost defrayal impact of proposed legislation that includes a proposed health benefit mandate.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.
- L&E has reviewed the data provided by the insurers and Kentucky Department of Insurance for reasonableness, but the data has not been audited. L&E nor the responsible actuaries assume responsibility for these items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.

[e] The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

[f] These organizations adopted identical *Codes of Professional Conduct* effective January 1, 2001.

- Several of the assumptions made in this analysis are subject to uncertainty and it is not unexpected that actual results could differ from the calculated estimates.
- L&E is not aware of any subsequent events that may have a material effect on the findings.
- There are no other documents or files that accompany this report.

Actuarial Findings

The actuarial findings of the report can be found in the body of this report.

Bibliography

[1] Deloitte Touche Tohmatsu. (2020, June 24). Economic costs of eating disorders [PowerPoint slides]. Harvard University. https://content.sph.harvard.edu/wwwhsph/sites/1267/2020/07/Slides-from-June-24-2020-Press-Conference-Economic-costs-of-eating-disorders-Report.pdf.

[2] Kaiser Family Foundation. "Consumer Survey Highlights Problems with Denied Health Insurance Claims." *KFF*, 30 Jan. 2023, https://www.kff.org/affordable-care-act/issue-brief/consumer-survey-highlights-problems-with-denied-health-insurance-claims/.

[3] FAIR Health. (2023, January 30). From 2018 to 2022, eating disorder claim lines increased 65 percent nationally as a percentage of all medical claim lines. FAIR Health. https://www.fairhealth.org/article/from-2018-to-2022-eating-disorder-claim-lines-increased-65-percent-nationally-as-a-percentage-of-all-medical-claim-lines.