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Fiscal Impact Report –BR1358/HB539

Substance Use Disorder Treatment

PREPARED FOR THE KENTUCKY DEPARTMENT OF INSURANCE

MARCH 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 BR1358/HB539, which would mandate health plans provide coverage for comprehensive substance use disorder (SUD) treatment including treatment in an inpatient facility, partial hospitalization program, or in-home program accessed through telehealth. The proposed mandate also prohibits a health plan from limiting the duration of treatment to less than 6 months.

Kentucky Revised Statute (KRS) 6.948[a] mandates that the sponsor of any bill proposing a health benefit mandate must request a financial 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 BR1358/HB539'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.

CURRENT COVERAGE FOR COMPREHENSIVE SUBSTANCE USE DISORDER TREATMENT

This bill mandates comprehensive substance use disorder treatment, including treatment in an inpatient facility, partial hospitalization program, or in-home program accessed through telehealth, which cannot be limited to a duration less than 6 months. Research[1], including a review of the KY benchmark plan, suggests that while carriers generally cover SUD treatment[c], they may restrict the duration to less than six months[2]. Based on L&E's experience and actuarial judgment, L&E selected the following for the percentage of health plans that do not already cover comprehensive substance use disorder treatment with a duration limit that is greater than or equal to 6 months:

	Low	High
Assumed % of Health Plans Not Covering SUD Treatment with a Duration Limit ≥ 6 Months	25.0%	75.0%

Additionally, for the remainder of the assumptions, L&E has assumed that carriers under this category (i.e., do not currently cover SUD treatment with a duration limit greater than or equal to 6 months) currently cover SUD Treatment with an average duration limit of 90 days.

UTILIZATION FOR COMPREHENSIVE SUBSTANCE USE DISORDER TREATMENTS

Utilization data for comprehensive substance use disorder treatment was reviewed from several sources.[3] [4] Since L&E assumes an average duration limit of 90 days for the carriers that would be impacted by the proposed mandate, the utilization assumptions focus on the insureds who may

[c] This includes coverage for treatment in the specified settings of inpatient facility, partial hospitalization program, in-home program, and telehealth programs. However, L&E notes that the definition of 'comprehensive substance use disorder treatment' is "including but not limited to" these settings.

utilize this treatment long-term (i.e. >90 days). Based on this data, L&E selected the following range for the utilization percentages:

	Low	High
Utilization % for Long-term Comprehensive SUD Treatment	0.03%	0.10%

AVERAGE COST OF ADDITIONAL SUD TREATMENT MANDATED

Based on the information available from publicly available research[5] [6] [7], L&E selected the following assumptions for the assumed additional cost of mandating that coverage cannot be limited to a duration of less than 6 months (i.e. coverage for an assumed additional 90 days on of SUD treatment on average).

	Low	High
Assumed Cost of Additional SUD Treatment	$25,000	$60,000

INSURER COST SHARE FOR SUBSTANCE USE DISORDER TREATMENT

Based on the KY DOI's Annual data report and actuarial judgment, L&E selected the following assumptions for the Insurer Cost-Sharing for substance use disorder treatment:

Assumed Insurer Cost-Sharing		
	Low	High
Substance Use Disorder 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
Utilization % for Long-term Comprehensive SUD Treatment (a)	0.03%	0.10%
Assumed Cost of Additional SUD Treatment (b)	$25,000	$60,000
Substance Use Disorder Insurer Cost-Share (c)	60.0%	80.0%
% of Health Plans Not Covering SUD Treatment with a Duration Limit ≥ 6 Months (d)	25.0%	75.0%
Mandate Claim Cost Impact PMPY (e)=(a)*(b)*(c)*(d)	$0.94	$36.00
Mandate Claim Cost Impact PMPM (f)=(e)/12	$0.08	$3.00
Projected 2025 Total Claims Costs PMPM (g)	$636.55	$636.55
Mandate Claim Cost % Impact (h)=(f)/(g)	0.0%	0.5%

Premium Impact Calculation		
Assumption	**Low**	**High**
Projected 2025 KY Average Loss Ratio (i)[d]	89.5%	89.5%
Projected 2025 KY Average Premium PMPM (j)=(g)/(i)	$711.60	$711.60
Mandate Premium Impact PMPM (k)=(e)/(i)	**$0.09**	**$3.35**
Mandate Premium % Impact (l)=(k)/(j)	**0.0%**	**0.5%**
Projected 2025 KY Insured Members[e] (m)	351,797	351,797
Mandate Premium Total Annual Impact (n) = (k)*(m)*12	**$369K**	**$14.2M**

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 affordability and accessibility of extended-duration (i.e. >90 days) SUD treatment. Research[8,9] suggests that extended-duration SUD treatment can lead to better outcomes and lower relapse rates. However, quantifying these savings is challenging, as it requires estimating the counterfactual scenario—what would have occurred without extended-duration treatment. Moreover, any cost reductions could be partially offset by induced utilization, where the increased availability of services results in higher-than-expected use.

While the research available suggests the potential for long-term cost savings, it does not define the magnitude of such cost savings, particularly regarding the relationship between cost savings and incremental coverage increases. Furthermore, if a higher percentage of carriers already cover extended-duration SUD treatment, the proposed mandate would have less impact on current practices. Based on L&E experience, actuarial judgment, and research discussed in prior sections of this report, L&E estimates the impact of potential future savings as a result of the BR1358/HB539 to be immaterial (within +/- 0.05%).

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

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

RESULTING TOTAL COST OF HEALTH CARE IMPACT ESTIMATE

The table below illustrates the calculation of the estimated total cost of health care (TCoHC) impact range. The resulting estimate differs from the premium impact primary because the TCoHC impact includes the impact on the portion of cost paid by the insured. Within this calculation L&E has assumed that zero to ten percent of insureds are currently paying for extended SUD treatment, beyond their carrier's duration limit, out-of-pocket (OOP).

Total Cost of Health Care (TCoHC) Calculation		
Assumption	**Low**	**High**
Percentage Paying for Extended SUD Treatment OOP[f] (o)	10%	0%
TCoHC Impact PMPM (p) = {[(a)*(b)*(d)]/12}*[1-(o)]	$0.12	$3.75
Projected 2025 KY TCoHC PMPM (p)	$863.25	$863.25
Mandate TCoHC % Impact (q)	**0.0%**	**0.4%**
Projected 2025 KY Insured Members (r)	351,797	351,797
Mandate TCoHC Total Annual Impact (s) = (o)*(r)*12	**$495K**	**$15.8M**

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 provisions of the bill that may trigger the requirement are on page 1, lines 7 & 25-26 as the mandated coverage definition of "includes but is not limited to…" and the stipulation that the required coverage cannot be limited to a duration of less than 6 months may increase coverage beyond what is currently required by the benchmark plan such that defrayal is required.

The estimated annual cost defrayal payment that the state may be required to make is between $113K and $4.3M, 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).

[f] A higher percentage paying OOP results in a lower impact; therefore, the higher percentage is listed for the low end.

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.

Robert Dorman, ASA, MAAA
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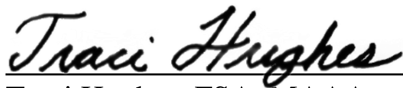

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3/4/2025

(Signature of Commissioner/Date)

ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations[g], 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[h], 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 March 4, 2025. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is March 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 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.

[g] 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.

[h] 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

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[4] Substance Abuse and Mental Health Services Administration (SAMHSA). (2020). *2019 National Survey on Drug Use and Health: Detailed tables*. Retrieved February 26, 2025, from https://www.samhsa.gov/data/sites/default/files/reports/rpt29393/2019NSDUHFFRPDFWHTML/2019NSDUHFFR090120.htm#tx.

[5] Rehabs.com. (n.d.). *How much does rehab cost?*. Retrieved February 26, 2025, from https://rehabs.com/addiction/how-much-does-rehab-cost/.

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[9] Social Recovery Center. (n.d.). *Does length of stay make a difference in drug and alcohol addiction treatment?* Social Recovery Center. Retrieved March 4, 2025, from https://www.socialrecoverycenter.com/does-length-of-stay-make-a-difference-in-drug-and-alcohol-addiction-treatment

Kentucky Department of Insurance
Initial Cost Defrayal
Statement

After reviewing BR 1358/ HB 539 as currently drafted, the Department's initial determination is 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. Specifically, page 1, lines 7 & 25-26, of the bill mandated coverage definition of "included but is not limited to" is not clearly defined and the stipulation that the required coverage cannot be limited to a duration of less than 6 months may increase coverage beyond what is currently required by the benchmark plan MAY trigger cost defrayal. Therefore, in accordance with KRS 304.17A-099(2), if the bill is enacted this provision will not be effective until it no longer triggers cost defrayal under 42 U.S.C sec 18031(d)(3) and 45 C.F.R. sec 155.170, as amended.

Therefore, a cost defrayal analysis will be performed within the statutorily required timeframe.

2/21/2025

(Signature of Commissioner/Date)