

Kentucky Department of Insurance
Initial Cost Defrayal
Statement

After reviewing BR 1263/ SB 97 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. The provision of the bill that may trigger the requirement is on page 1, line 11 thru page 3, line 10, as the minimum coverage outlined may be in excess of the minimum coverage currently required under the Essential Health Benefits, as defined by the State's Benchmark Plan. 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.

Sharon P. Clark

2/03/2026

(Signature of Commissioner/Date)

Fiscal Impact Report – BR1263/SB97

Prosthetics and Orthotics Coverage

PREPARED FOR THE KENTUCKY DEPARTMENT OF INSURANCE

FEBRUARY 4, 2026

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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 BR1263/SB97, which would expand insurance coverage requirements related to prosthetic and orthotic devices. The bill requires health benefit plans to provide coverage for one or more prostheses or orthoses when prescribed by a health care provider, including coverage for replacement and for devices necessary to support activities of daily living, occupational needs, and physical activities, subject to the terms of the bill.

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 2024 Insurer Annual Data report.

Administrative Expense Impact Analysis

The proposed bill is estimated to have **an immaterial (within +/- 0.05%) impact on administrative expenses** as a percentage of premium, based upon our analysis of the proposed mandate and our experience with similar health insurance benefits. While health plans may be

^a As amended by 2024 House Bill 635.

^bIncluding reports for other states who have considered or passed similar legislation.

required to update medical policies, utilization management criteria, and benefit designs related to prosthetic and orthotic devices, these changes are not expected to materially affect administrative costs relative to current levels. Based on L&E’s experience with similar coverage mandates, any additional administrative requirements associated with implementation of the bill are expected to be absorbed within existing operational structures.

Premium Impact Analysis

To estimate BR1263/SB97’s premium impact, L&E evaluated data from KY DOI’s 2024 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.

PROSTHETIC DEVICES

OVERVIEW OF COVERAGE CHANGES AND COST IMPLICATIONS

Under current practice, health benefit plans generally provide coverage for prosthetic and orthotic devices consistent with the Kentucky essential health benefit benchmark plan. Benchmark coverage typically focuses on restoring basic function and allows insurers to apply utilization controls, including limiting coverage to a single device that meets minimum functional specifications and imposing replacement or useful-life restrictions.

The proposed changes under BR1263/SB97 would expand coverage requirements by mandating coverage of one or more prostheses or orthoses when clinically appropriate, including devices necessary to support activities of daily living, occupational needs, and higher-level physical activities such as running, biking, and strength training. The bill also relaxes common replacement limitations and expands access and network requirements.

As a result, increased utilization of prosthetic and orthotic devices is expected for a limited subset of insured individuals, particularly through the use of additional devices, upgrades to higher-function components, and more frequent replacement.

BASELINE PROSTHESIS UTILIZATION

L&E first assumed a baseline rate of insured members who currently utilize prostheses. This assumption is centered on published estimates of limb loss prevalence and prosthetic use¹²³, with adjustment to reflect the broader, function-based scope of coverage under the bill. While prosthetic utilization is most commonly associated with limb loss, the bill’s coverage standard is not limited

to limb replacement and may encompass additional users. Accordingly, a range of baseline prosthesis utilization rates is used to reflect uncertainty regarding the size of the affected population. Thus, L&E selected the following range for the baseline prosthesis utilization rate:

Baseline Prosthesis Utilization	
Low	High
0.2%	0.5%

INCREMENTAL PROSTHETIC DEVICE UTILIZATION ATTRIBUTABLE TO THE BILL

The bill requires coverage of one or more prostheses when clinically appropriate, including devices needed for different functional or activity-specific purposes. L&E modeled the incremental utilization impact of the bill that is intended to reflect additional devices or replacements that may occur as a result of expanded coverage standards, including activity-specific devices, earlier replacement, or coverage beyond minimum-specification devices. The assumed range reflects actuarial judgment regarding the proportion of prosthesis users who may experience additional device utilization following enactment.

Incremental Prosthetic Utilization	
Low	High
5%	20%

UPGRADES TO HIGHER-FUNCTION PROSTHETIC DEVICES

In addition to additional devices, the bill may result in some insured individuals receiving higher-function prosthetic components than would otherwise be covered under existing benefit designs. L&E modeled this impact as a subset of prosthesis users upgrading from minimum-specification devices to higher-function prostheses, such as advanced components designed to support increased physical activity. The assumed range reflects uncertainty regarding the extent to which higher-function devices would be prescribed and covered under the bill.

Prosthetic Upgrade Utilization	
Low	High
5%	20%

INCREMENTAL ALLOWED COST FOR ADDITIONAL PROSTHETIC DEVICES

The incremental allowed cost for additional prosthetic devices reflects the average insurer-allowed cost associated with an additional or replacement prosthesis beyond baseline coverage. These costs are annualized using a three-year useful-life assumption, which is consistent with commonly cited functional life spans for major prosthetic components. The assumed cost range reflects variation in prosthetic configuration and complexity.

Incremental Allowed Cost (Annualized)	
Low	High
\$3,333	\$8,333

INCREMENTAL ALLOWED COST FOR UPGRADES TO HIGHER-FUNCTION PROSTHESES

The incremental allowed cost for upgrades reflects the additional insurer-allowed cost associated with higher-function prosthetic components relative to baseline devices. These costs are also annualized over a three-year period. The assumed range is informed by the Medicare DMEPOS fee schedule and commercial pricing information for advanced prosthetic components⁴, recognizing that higher-function devices can materially increase total allowed costs.

Upgrades Allowed Cost (Annualized)	
Low	High
\$5,000	\$11,667

ASSUMED INSURER COST SHARE FOR PROSTHETIC DEVICES

The bill does not prohibit the use of cost sharing for prosthetic devices. Accordingly, L&E applied an assumed insurer cost share to the incremental allowed costs to estimate the insurer-paid portion reflected in premiums. The assumed range reflects typical cost-sharing levels observed for the DME benefit category in commercial health benefit plans in KY and accounts for variation across plan designs.

Assumed Insurer Cost Share	
Low	High
50%	70%

PROSTHETIC DEVICES CLAIM COST IMPACT ESTIMATE

The following tables illustrate the range of assumptions selected by L&E and the resulting estimated claim cost impact range due to prosthetic devices as a result of the bill.

Prosthetic Devices Claim Cost Impact Calculation		
Assumption	Low	High
Baseline Prosthesis Utilization (a)	0.2%	0.5%
Incremental Prosthetic Utilization (b)	5.0%	20.0%
Prosthetic Upgrade Utilization (c)	5.0%	20.0%
Incremental Allowed Cost (Annualized) (d)	\$3,333	\$8,333
Upgrades Allowed Cost (Annualized) (e)	\$5,000	\$11,667
Assumed Insurer Cost Share (f)	50%	70%
Prosthetic Devices Claim Cost Impact PMPY (g)=[(a)*(b)*(d) + (a)*(c)*(e)]*(f)	\$0.42	\$14.00
Prosthetic Devices Claim Cost Impact PMPM (h)=(g)/12	\$0.03	\$1.17

ORTHOTIC DEVICES

BASELINE ORTHOTICS UTILIZATION

Orthotic devices are more widely used than prosthetic devices and are already covered under many existing benefit designs. L&E assumed a baseline orthosis utilization rate based on published estimates of orthotic use in the general population and state-level analyses⁵⁶. The following range of baseline utilization rates was selected:

Baseline Orthotics Utilization	
Low	High
0.6%	1.5%

INCREMENTAL ORTHOTIC DEVICE UTILIZATION ATTRIBUTABLE TO THE BILL

The bill expands coverage requirements for orthoses in a manner similar to prostheses, including coverage of one or more orthoses, activity-specific use, and relaxed replacement standards. Based on actuarial judgment, L&E modeled the incremental impact of these changes as a modest increase in the annual rate of orthotic device events among existing orthosis users.

Incremental Orthotic Utilization	
Low	High
5.0%	20.0%

INCREMENTAL ALLOWED COST FOR ORTHOTIC DEVICES

The incremental allowed cost for orthotic devices reflects the average insurer-allowed cost of an additional or replacement orthosis. Orthotics are modeled as one-year devices rather than amortized over multiple years, reflecting their shorter life and more frequent replacement relative to prosthetic devices. The assumed cost range is informed by Medicare DMEPOS fee schedule amounts⁷ and reflects substantial variation by device type and complexity.

Orthotics Allowed Cost	
Low	High
\$500	\$2,500

ORTHOTIC DEVICE CLAIM COST IMPACT ESTIMATE

The following tables illustrate the range of assumptions selected by L&E and the resulting estimated claim cost impact range due to prosthetic devices as a result of the bill.

Orthotic Device Claim Cost Impact Calculation		
Assumption	Low	High
Baseline Orthotics Utilization (i)	0.6%	1.5%
Incremental Orthotics Utilization (j)	5.0%	20.0%
Orthotics Allowed Cost (k)	\$500	\$2,500
Assumed Insurer Cost Share (f)	50%	70%
Orthotics Claim Cost Impact PMPY (l)=(i)*(j)*(k)*(f)	\$0.08	\$5.25
Orthotics Claim Cost Impact PMPM (m)=(l)/12	\$0.01	\$0.44

BR1263/SB97 TOTAL RESULTING PREMIUM IMPACT ESTIMATE

The total premium impact estimate for BR1263/SB97 is equal to the sum of the impact estimate sections above. This is illustrated in the table below.

Prosthetics and Orthotics Claim Cost Impact Calculation		
Assumption	Low	High
Prosthetics and Orthotics Claim Cost Impact PMPY (n)=(g)+(l)	\$0.49	\$19.25
Prosthetics and Orthotics Claim Cost Impact PMPM (o)=(n)/12	\$0.04	\$1.60
Projected 2026 Total Claims Costs PMPM (p)	\$626.28	\$626.28
Prosthetics and Orthotics Claim Cost % Impact (q)=(o)/(p)	0.0%	0.3%

Prosthetics and Orthotics Premium Impact Calculation		
Assumption	Low	High
Projected 2026 KY Average Loss Ratio (r)^c	91.1%	91.1%
Projected 2026 KY Average Premium PMPM (s)=(p)/(r)	\$687.81	\$687.81
Prosthetics and Orthotics Premium Impact PMPM (t)=(o)/(r)	\$0.04	\$1.76
Prosthetics and Orthotics Premium % Impact (u)=(t)/(s)	0.0%	0.3%
Projected 2026 KY Insured Members^d (v)	343,644	343,644
Prosthetics and Orthotics Premium Total Annual Impact (w) = (t)*(v)*12	\$186K	\$7.3M

^c Based on 2024 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.

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.

PROSTHETICS AND ORTHOTICS FUTURE COST SAVINGS

L&E acknowledges that improved access to prosthetic and orthotic devices may support functional mobility, quality of life, and participation in daily and occupational activities for affected individuals. However, the bill primarily expands coverage for durable medical devices and does not replace or prevent the need for other high-cost medical services. As a result, the mandate is not expected to materially change the overall mix of health care services or reduce future medical treatment costs. Based on available information and actuarial judgment, any potential future cost savings associated with BR1263/SB97 are estimated to be immaterial (within +/- 0.05%).

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 twenty to forty percent of insureds are currently paying for additional or upgraded prosthetics or orthotics without any insurance coverage of the device.⁸

Total Cost of Health Care (TCoHC) Calculation		
Assumption	Low	High
Percentage Paying for Device w/o Coverage ^e (x)	40%	30%
TCoHC Impact PMPM (y)=(o)*[1-(x)]	\$0.02	\$1.28
Projected 2026 KY TCoHC PMPM (z)	\$828.33	\$828.33
Mandate TCoHC % Impact (aa)=(y)/(z)	0.0%	0.2%
Projected 2026 KY Insured Members (ab)	343,644	343,644
Mandate TCoHC Total Annual Impact (ac) = (y)*(ab)*12	\$101K	\$5.3M

Cost Defrayal Impact Analysis

Based on L&E’s research and actuarial judgment, L&E determined that this bill may contain a mandated health benefit that would 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 1, line 11 thru Page 3, line 10, as the minimum coverage outlined may be in excess of the minimum coverage currently required under the Essential Health Benefits, as defined by the State’s Benchmark Plan.

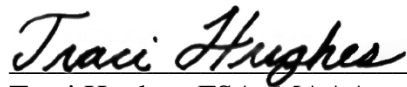
^e A higher percentage paying OOP results in a lower impact; therefore, the higher percentage is listed for the low end.

The estimated annual cost defrayal payment that the state may be required to make is between \$65K and \$2.5M, 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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2/3/2026

(Signature of Commissioner/Date)

ASOP 41 Disclosures

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations^f, 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^g, 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:

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

These actuaries are available to provide supplementary information and explanation.

Identification of Actuarial Documents

The date of this document is February 4, 2026. The date (a.k.a. “latest information date”) through which data or other information has been considered in performing this analysis is February 4, 2026.

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.

^f 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.

^g 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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