



clarifies that the provisions of the bill apply to insurance policies covering small employers' employees and their dependents in the title.

The amendment adds a new subsection to exempt major medical group-type coverages, such as Medicare, long-term care, disability income, specified disease, accident-only, hospital indemnity, or other limited-benefit health insurance policies.

The amendments provides a definition of “direct services”, replaces the definition of “medical loss ratio”, and defines “small employer”

### Synopsis of Original Bill

Senate Bill 259 enacts a new section of the New Mexico Insurance Code which would require that health insurers disclose broker and agent commissions and other compensation associated with a health policy, provide a history of rate changes, and identify the policy medical loss ratio.

Senate Bill 259 (SB259) adds a new section to the Insurance code, which requires the Insurance Division of the Public Regulation Commission (PRC) to promulgate rules to require that health insurers make certain disclosures to purchasers who request quotes for comprehensive major medical insurance.

Senate Bill 259 adds a new section to the insurance code which requires that the division of insurance promulgate rules that require health insurers to make certain disclosures to purchasers who request quotes for comprehensive major medical insurance including:

- Commissions and/or compensations that a broker/agent will receive;
- History of rate changes for that type of policy over preceding five year period; and
- Medical loss ratio for a policy with a substantially similar experience rating.

Definitions are included for certain terms of art used within the section.

### **FISCAL IMPLICATIONS**

The Health Policy Commission (HPC) notes that health insurance transparency legislation could potentially result in decreased rates charged by major medical insurers. Disclosure of certain information as proposed in Senate Bill 259 would provide more transparency in health care costs, afford consumers more information upon which to make informed health coverage choices and add to the overall benefit of the public by providing information about health coverage and cost.

There may be a minimal additional impact to the operating budget of the Division of Insurance for promulgating rules pursuant to this proposed legislation.

### **SIGNIFICANT ISSUES**

This bill does not impact the General Services Department. Risk Management Employee Benefits is exempt from the Insurance Code except for the Patient Protection Act.

The bill attempts to control costs by allowing consumers to make cost effective health coverage choices by requiring major medical insurers to disclose information related to profits and fees. Insurance brokers and agents tend to already provide this type of information upon request to

purchasers who request quotes for health insurance products, to the extent that meaningful comparisons can be made between the products in question and previous experience with other products. Under law, the cost of a product does not vary based on whether or not it is purchased through a broker or agent, so this aspect of the disclosure law generally may not add a meaningful point of comparison when comparing the costs of various products offered to the purchaser.

SB259 requires that health insurer disclosures include:

- Commissions and other compensation that a broker or agent will receive contingent upon the policy being issued;
- The history of rate changes for the type of policy being considered over the preceding five years; and
- For each of the preceding five years, the medical loss ratio for a policy with a substantially similar experience rating, as defined by the superintendent, that a health insurer offers to a purchaser.

According to a 2007 survey conducted by the Insurance Division of the PRC in coordination with the Health Policy Commission, there were 57 New Mexico licensed health insurers that wrote major medical, PPO, HMO or other hospital and medical expense policies.

## **ADMINISTRATIVE IMPLICATIONS**

There is no fiscal impact on the Human Services Department as a result of this proposed legislation. This bill requires health insurers to make specific disclosures and the administrative burden and expense would be upon the insurance carriers.

## **TECHNICAL ISSUES**

In recent years, the term “comprehensive major medical insurance” has generally been replaced in legislative language with references to portions of the Insurance Code that are being amended, along with an exemption for types of coverage not subject to the law.

It may be helpful to include language in the bill that allows the DOI to further define in the rule-making process the term “medical loss ratio.”

## **OTHER SUBSTANTIVE ISSUES**

Medical Loss Ratio is defined as the amount of revenues from health insurance premiums that is spent to pay for the medical services covered by the plan and is used to measure the success of a health insurer.

SB259 requires that major medical insurers disclose, for each of the preceding five years, the medical loss ratio (MLR) for a policy with a substantially similar experience rating, as defined by the superintendent, that a health insurer offers to a purchaser.

MLR refers to the percentage of revenues from health insurance premiums that are directed toward medical services covered by the medical insurance health plans. MLR is referred to as a ratio such as 0.85, in which 85% of premiums are used to purchase medical services (as opposed to administrative costs and profits, in this case 15%).

The MLR is a ratio of medical expenditures to insurance premiums. High ratios can be achieved either through a large numerator (high medical expenditures) or through a small denominator (low insurance premiums). The MLR, as a ratio of the two, can be measuring the impact of medical market competition on expenditures or of insurance market competition on premiums.

The components of the MLR are derived from internal accounting statistics developed by insurance companies to measure what fraction of premium revenues are paid out in claims (losses). State insurance departments gradually have required insurers to file loss ratios as part of their documentation of solvency and, in regulated contexts, documentation for rate increases.

The National Association of Insurance Commissioners (NAIC) has sought to standardize the often inconsistent accounting practices and definition of terms (for example, what counts as an administrative expense). The available data on MLRs, which are collected from state agencies, suffer from the inconsistent nature of the underlying insurer reports, the limits of auditing standards, and the incomplete adoption of NAIC guidelines. Public access is difficult and time-consuming as a result of the information not being centralized or available in an electronic format.

#### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Brokers and agents will continue to operate pursuant to current law, rules and practices, which favors disclosure of requested information, to the extent meaningful and practicable. Brokers and agents must pass licensing examinations in order to sell products in New Mexico and otherwise abide by current broker and licensing laws, including NMSA 1978, Title 59A, Chapters 11, and 12, and 13.4. 2 NMAC.

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