F I S C A L I M P A C T R E P O R T

SPONSOR Beffort **ORIGINAL DATE** 02/25/09 **LAST UPDATED** 03/19/09 **HB**

SHORT TITLE Voluntary Health Insurance Exchange Study **SJM** 40/aHHGAC

ANALYST Lucero

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		Minor			Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Health Policy Commission (HPC)

SUMMARY

Synopsis of HHGAC Amendment

House Health and Government Affairs Committee (HHGAC) amendment to Senate Joint Memorial 40 deletes the requirement to "implement" a voluntary health insurance exchange; instead, the memorial only requests a study and a report from the taskforce.

Synopsis of Original Bill

Senate Joint Memorial 40 requests that the Insurance Division of the Public Regulation Commission (PRC) form a task force to study and implement a voluntary health insurance exchange to provide individuals and employers with greater access to, and greater choice, portability and affordability of health insurance products.

The bill requests that the task force investigate pretax benefits and tax deductions; explore administrative structures to administer a health insurance exchange, including nonprofit public corporation; and the potential for a health insurance exchange to lower or contain the cost of health insurance premiums.

The bill requests that the PRC collaborate with the New Mexico Health Policy Commission (HPC), the Human Services Department (HSD), the New Mexico Health Insurance Alliance, the New Mexico Medical Insurance Pool (NMMIP), and other agencies as appropriate.

The taskforce is to report progress, findings, and recommendations to the interim Legislative Health and Human Services Committee by November 1, 2009.

FISCAL IMPLICATIONS

The joint memorial has no appropriation; however, implementing the directives contained in this bill would have a minor administrative impact including staff time and appropriate supporting resources.

SIGNIFICANT ISSUES

The New Mexico Health Policy Commission (HPC) reports that according to a 2008 report entitled, *Health Insurance Exchange Study*, conducted by the Minnesota Department of Health, the idea of states' establishing health insurance exchanges (sometimes also called "connectors") to promote better functioning of health insurance markets has received a great deal of attention from policymakers in the past few years.

An exchange serves as a market clearinghouse, but not as a regulator or purchaser. It functions as a single place where people can go to find out about their health insurance options, and improves market competition among health plans by providing more complete and understandable access to information about the products and pricing available in the market.

The study notes that a health insurance exchange by itself does not directly influence the availability and affordability of health insurance plans. Rather, it facilitates better market functioning, and could be an effective tool to improve access, choice, portability, and affordability of health insurance coverage in combination with other reforms.

By itself, the operation of the exchange would likely have only a minimal impact on the cost of health insurance coverage. To the degree that it increases competition among health carriers and reduces the costs of marketing, it could reduce health insurance premiums. This effect would likely be small because most (over 90%) of the cost of health insurance is due to medical expenses; in addition, a large share of administrative expense (such as claims processing) is unlikely to be affected much by greater competition among health plans for market share.

In combination with other reforms, however, there could be significant impacts on the cost of coverage. For example, greater use of Section 125 plans would substantially improve the affordability of coverage for individuals (although it would not necessarily affect the total premium, individuals could realize a 30 to 50% savings by paying for insurance with pre-tax dollars).

DUPLICATION

Duplicates HJM57.

OTHER SUBSTANTIVE ISSUES

<u>Health Insurance Coverage</u>
According to the U.S. Census Bureau, 5.3% or 45.7 million people in the United States did not have health insurance coverage in 2007. Using a three year average from 2005 to 2007, 21.9% of New Mexicans did not have health insurance. New Mexico had the second highest rate of people without health insurance in the nation.

Private health insurance is provided primarily through benefit plans sponsored by employers. About 158 million nonelderly people were insured through employer-sponsored health insurance in 2006. In 2008, 63% of employers offered health benefits. Forty-nine percent of firms with 3 to 9 workers offered coverage, compared to 78% of firms with 10 to 24 workers, 90% of firms with 25 to 49 workers, and over 95% of firms with 50 or more workers.

According to a July 2007 study by Research & Polling, Inc., commissioned by the General Services Department and Human Services Department, on employee insurance coverage rates among vendors doing business with the State of New Mexico, 69% of vendors (with at least two full-time employees) offered some sort of health insurance to their employees. Larger companies were most likely to offer employees health insurance as were non-profit organizations and companies who had employees with larger salaries. According to the survey, cost was the primary barrier to those state vendors that did not offer health insurance to their employees.

Section 125 Plans

Health care flexible spending accounts are plans that reimburse employees for specified medical expenses as they are incurred. These accounts are allowed under section 125 of the Internal Revenue Code and are also referred to as "cafeteria plans" or "125 plans." Flexible spending accounts are set up by employers to allow employees to set aside pre-tax money to pay for qualified medical expenses during the year. Only employers may set up an account, and employers may or may not contribute to the account. There may be a limit on the amount that employers and employees can contribute to a flexible spending account.

Flexible spending accounts can be offered in conjunction with any type of health insurance plan, or they can be offered on a stand-alone basis. In the past, health flexible spending arrangements were subject to a use-it-or-lose-it rule. Now, employers may give employees a 2-1/2 month grace period at the end of the plan year to use up funds in the account. After that time, remaining funds from the previous plan year are forfeited.

Health Savings Accounts

A high deductible health plan (HDHP), sometimes referred to as a “catastrophic” health insurance plan, is an inexpensive health insurance plan that generally doesn’t pay for the first several thousand dollars of health care expenses but will generally provide coverage after that.

A HSA is an alternative to traditional health insurance. HSAs enable consumers to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

A consumer must be covered by a HDHP to be eligible to take advantage of HSAs. A HDHP generally costs less than what traditional health care coverage costs, so the money that a consumer saves on insurance can therefore be put into the HSA.

The consumer owns and controls the money in his/her HSA. Decisions on how to spend the money are made by the consumer without relying on a third party or a health insurer. The consumer will also decide what types of investments to make with the money in the account in order to make it grow.

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