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FISCAL IMPACT REPORT

ORIGINAL DATE 2/16/09

SPONSOR Picraux LAST UPDATED _____ HB 662

SHORT TITLE Public Employee Benefit Option Health Care SB _____

ANALYST Archuleta

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY08	FY09	FY10	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total	\$0.1	\$0.1	\$0.1			

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public School Insurance Authority (PSIA)
 Retiree Health Care Authority (RHCA)
 Department of Finance and Administration (DFA)
 Human Services Department (HSD)
 Health Policy Commission (HPC)

SUMMARY

Synopsis of Bill

House Bill 662 requires GSD, RHCA, PSIA, and Albuquerque Public Schools (APS), (collectively referred to as IBAC) as part of the Health Care Purchasing act to provide options for health care benefits among similar populations for Medicare supplement, pregnancy, high risk, age appropriate services, geographic considerations, coordination of benefits or other unique services identified jointly by the agencies. The bill requires the IBAC to adopt uniform medical plans across the four agencies, adopt consistent member services functions for enrollment, premium collection and other activities and adopt uniform vendors to administer the medical plans.

House Bill 662 also requires the IBAC to select the same actuarial firm to provide the agencies with funding projections and solvency analysis, with the caveat that if more than one firm is selected, it shall be by consensus of the agencies. The bill deletes the previous requirement for health plans to be bid with a distinct service area of the Albuquerque metropolitan area. The bill requires that counties, municipalities, state education institutions and other political subdivisions to use any plan selected by the agencies.

House Bill 662 limits the governing Board's authority to develop individual plan design, but provides for the Board to recommend plan development. It states that premium assessment will be made in accordance with existing statutes governing contributions for each agency. The bill includes a provision for dispute resolution by arbitration or mediation or other means and sets a July 1, 2010 as the effective date for any consolidated purchasing beginning on or after that date.

FISCAL IMPLICATIONS

There is no appropriation contained in the bill. Theoretically, this bill will help contain health care related costs.

SIGNIFICANT ISSUES

HSD notes the following:

House Bill 662 would save tax dollars by consolidating public health insurance purchases, and requiring purchasing collaboration among the four public entities providing health coverage for school employees, state employees (and many local government employees), and retirees from each of these groups.

Under House bill 662 each agency within the IBAC will retain its current governance structure and decision-making about the percentage of the cost of health coverage to be paid by the employer and employees. The four agencies will adopt benefit plan designs and select plan administrators together.

The Group Benefits Act, Retiree Health Care Act and Public School Insurance Authority Act are not being amended and these agencies' funds/pools will remain separately controlled.

Common benefit plans will also allow portability for individuals moving between IBAC entities, for example when a school employee becomes a state employee or when school or state employees become retirees.

PSIA notes the following:

Effect on marketplace. Vendors are likely to offer more competitive fees in order to be included in the four agency offering. Vendors being offered by only one agency will have the chance to expand its membership if they are continued to be offered. Many of the IBAC vendors currently have call centers or labs in New Mexico. Failure to retain IBAC business would result in loss of employment in New Mexico.

Effect on membership. Albuquerque area charter schools receive their benefits through PSIA. Many of the Albuquerque area charter school employees are recruited from Albuquerque Public Schools. It is hard for these employees to understand why an Albuquerque charter school employee doesn't have the same benefit options as an Albuquerque Public School district employee. This bill will help to eliminate that problem.

Effect on rates. Uniform plans and vendor selections will have a positive effect on fees quoted for administration, as long as the volume is there. In 2004, uniform selections were not made, and the resulting additional cost to three IBAC agencies totaled \$1,000,130 annually in higher administrative fees.

RHCA supports strengthening the IBAC's purchasing leverage within the health care market, as well as the provision of a common basic benefit framework for these public agencies as proposed in the bill. RHCA believes that the bill will improve the ability of IBAC to fulfill its original mandate and intent. RHCA also supports the maintenance of the current governance and administrative structures of the IBAC agencies as proposed by House Bill 662.

The application of uniform medical plans across all four agencies will be particularly helpful to RHCA's incoming membership. This will provide guaranteed access to the same types of service upon retirement from any of the other agencies even if the cost sharing amount is slightly different. While this is already largely the case, some agencies will have to add a category of benefits while others may actually have to drop some coverages.

Likewise, selecting uniform vendors will guarantee new retirees access to the same provider networks and health plans upon retirement from any of the other agencies. None of the agencies currently have the same combination of health plan partners. As a result, the initial implementation of the bill will likely cause some member disruption.

In order to reach consensus on plan design and vendor selection, the IBAC will be required to establish formal decision-making procedures which have not heretofore existed. This will also ensure that there is no undue outside influence exerted during the plan design or purchasing process.

PERFORMANCE IMPLICATIONS

Uniform awards are likely to improve administrative fees and premiums which will help the IBAC meet its performance standards of premium increases within 3 percent of national trends. On the downside, if multiple vendors need to be selected in order to meet the uniformity provision, each vendor selected may charge higher fees to make up for less volume in membership.

ADMINISTRATIVE IMPLICATIONS

This will likely require more frequent IBAC meetings but the additional time can be absorbed by existing staff.

The Prescription Drug PBM contracts expire June 30, 2010, which would be rebid for a July 1, 2010 effective date. This Request for Proposal would follow the guidelines of the new law for uniform selections. In addition, PSIA's Comprehensive Health Management Program expires June 30, 2010, so that RFP would also be subject to this law. Existing medical, dental, vision, and actuarial contracts expire on June 30, 2012.

COMPANIONSHIP

Companion to House Bill 109, Employer Pre-Tax Health Coverage Options; House Bill 110, Health Insurer Direct Services Reimbursement; House Bill 111, Health Insurer Direct Services Reimbursement; House Bill 592, Health Insurance Alliance Reorganization; Senate Bill 246, Limit Index Rate for Certain Health Plans; Senate Bill 278, Electronic Medical Records Act; Senate Bill 332, Create Office of Health Policy; Senate Bill 439, Domestic Partner Health Coverage.

TECHNICAL ISSUES

Page 2, lines 16 & 17, appear to require exactly the same copays within the common plan design. Due to financial constraints any IBAC agency may be forced to have higher copays than another.

Page 3, lines 4, 5, 6, could be read to require IBAC to use one common eligibility platform, one set of eligibility rules, and a common payroll deduction systems and methodologies. If this is not the intent, language should be clarified by the addition of the language “to the extent practicable”. (School deductions need to take into account the payroll processing for the summer months, which varies from the RMD twice-monthly deductions throughout the year and RHCA’s deductions through the pension funds.

OTHER SUBSTANTIVE ISSUES

In 2000, the New Mexico Health Policy Commission produced a report entitled *Restructuring of Health Care Finance*, which states that value-based purchasing is a concept that combines cost effective approaches of purchasing pools/cooperatives with choices of health plans based on quality. Throughout the nation, and in New Mexico, with the recent consolidated purchasing of the State employees, retirees, and public schools, purchasing pools are providing employers with added leverage in controlling costs and negotiating with health care plans.

The contingency of administrative cost reduction and the improved ability of entities in the New Mexico Insurance Pool to negotiate, while representing more enrollees, may keep insurance costs from increasing as rapidly as they have in recent years. In addition, a larger New Mexico Insurance Pool may allow members to negotiate for better insurance coverage.

Lastly, HPC notes the following: in 2006, the Connecticut General Assembly Office of Legislative Research produced a research report that identifies four states (California, New York, Wisconsin, and Kentucky) with consolidated health insurance programs that cover state employees and retirees along with municipal and county employees, and retirees. These unified health systems create greater purchasing power. For example the California system's annual health insurance premium is over \$4 billion a year.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The IBAC will continue to procure on a consolidated basis, but not necessarily purchase uniformly.

Employees moving from one public employment situation to another or moving from employment to retirement will have to change benefit plans.

DA/mc