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## FISCAL IMPACT REPORT

ORIGINAL DATE 01/28/10

SPONSOR Harden LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Public & School Employee Health Plans SB 155

ANALYST Archuleta

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>	*Indeterminate Significant Savings Possible	*Indeterminate Significant Savings Possible	*Indeterminate Significant Savings Possible		Recurring	All Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

\*See Fiscal Impact

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public School Insurance Authority (PSIA)

Retiree Health Care Authority (RHCA)

General Services Department (GSD)

Health Policy Commission (HPC)

### SUMMARY

#### Synopsis of Bill

Senate Bill 155 amends the Health Care Purchasing Act to consolidate the health plan purchasing and health policy goals of the four public agencies (PSIA, RHCA, GSD, and APS) collectively referred to as the Interagency Benefits Advisory Committee (IBAC). The bill includes the following requirements:

- 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.
- Adopt uniform medical plans across the four agencies.
- Adopt consistent member services functions for enrollment, premium collection and other activities.

- Adopt uniform vendors to administer the medical plans.
- 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.
- It also deletes the previous requirement for health plans to be bid with a distinct service area of the Albuquerque metropolitan area.
- It requires that counties, municipalities, state educational institutions and other political subdivisions to use any plan selected by the agencies.
- It 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.
- It adds a section that would allow APS to opt out of the health care purchasing act if an actuarial analysis reveals that the continued participation under the health care purchasing act is not actuarially sound. The decision to withdraw would be subject to dispute resolution.
- It includes a provision for dispute resolution by arbitration or mediation or other means.

Senate Bill 155 sets July 1, 2011 as the effective date for any consolidated purchasing beginning on or after that date.

### **FISCAL IMPLICATIONS**

\*Senate Bill 155 should serve to limit the impact of medical inflation by leveraging the purchasing power of an estimated 200,000 public employees and eligible dependents and approximately \$800 thousand in health care related expenditures.

### **SIGNIFICANT ISSUES**

SB 155 is a Governor's Bill, which was endorsed by the Legislative Health and Human Services Committee. The bill attempts to achieve greater leveraging of public buying power and the ability to retain the same coverage options when moving from one public agency to another.

Senate Bill 155 allows each IBAC entity to 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. However, the agencies would adopt benefit plan designs and select plan administrators together. Further, the Group Benefits Act, the Retiree Health Care Act, and the Public School Insurance Authority Act would not be amended, and agency funds/pools would remain separately controlled.

### **PSIA notes the following:**

- 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.

- Currently, Albuquerque area charter schools receive their benefits through PSIA. Many of the Albuquerque area charter school employees are recruited from APS. It is hard for these employees to understand why an Albuquerque charter school employee doesn't have the same benefit options as an APS district employee. Senate Bill 155 will help to eliminate that problem.
- Uniform plans and vendor selections should have a positive effect on fees quoted for administration, as long as the volume exists. 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. PSIA currently has the least rich benefit plan of the four agencies and is not in the financial position to bring its plan up to the level of any of the other three agencies' benefit levels.

**RHCA notes the following:**

- 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 Senate Bill 155. RHCA believes that Senate Bill 155 will improve the ability of IBAC to fulfill its original mandate and intent. RHCA also strongly supports the maintenance of the current governance and administrative structures of the IBAC agencies as proposed by Senate Bill 155.
- The application of uniform medical plans across all four agencies will be helpful to RHCA's incoming membership. This will provide 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 Senate Bill 155 may 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.

**HPC notes the following:**

- 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.

(Source:[http://hpc.state.nm.us/documents/HJM18\\_Restructuring%20of%20Health%20Care%20Financing%20Report\\_1999.pdf](http://hpc.state.nm.us/documents/HJM18_Restructuring%20of%20Health%20Care%20Financing%20Report_1999.pdf))

## **PERFORMANCE IMPLICATIONS**

The uniform award of contracts to third party administrators would likely reduce administrative fees and premiums which will help IBAC members meet their performance goals of limiting premiums increasing within plus or minus 3 percent of medical trends. However, 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 increase the frequency of IBAC meetings but the additional time can be absorbed by existing staff.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

SB155 is a companion bill to the following Governor's Bills:

- House Bill 12 - Health Insurer Service Reimbursement: requires health insurers to spend at least 85 percent of the amount collected in premiums for coverage across all health product lines over a three-year period.
- House Bill 32 - Health Insurance Small Employer Definition: revising the definition of small employer to include one employee to 50 employees, from the current definition of 2 to 50 employees, thereby allowing self-employed individuals to obtain coverage from any New Mexico licensed insurance carrier the same as other small employers currently.
- House Bill 96 - Guaranteed Issue for Individuals: requires insurance companies to offer coverage to any individual who requests it without exclusion of pre-existing medical conditions.
- House Bill 106 - Limit Health Benefit Plan Index Rate: requiring premium rates for health benefit plans subject to the Small Group Rate and Renewability Act to have a graduated reduction over a five-year period from 20 percent to 10 percent to increase health insurance affordability

SB155 relates to Senate Joint Memorial 9

- SJM9 requests that representatives of New Mexico's public and quasi-public health care coverage entities continue to meet and develop a common plan to consolidate certain administrative functions and achieve cost savings. In addition, SJM9 requests that the New Mexico Health Insurance Alliance (NMHIA), State Coverage Insurance (SCI) Program, and New Mexico Medical Insurance Pool (NMMIP) implement a joint broker certification. The Memorial further requests that the Insurance Division of the Public Regulation Commission (PRC) award continuing education units to brokers for the NMHIA, SCI Program, and NMMIP. SJM9 also requests that the public and quasi-public health care coverage entities move toward a common benefit plan design.

Representatives from these public and quasi-public health care coverage entities are requested to report the details of and implementation strategy for the common plan that they have developed to the Legislative Health and Human Services Committee and the Legislative Finance Committee by December 1, 2010.

### **TECHNICAL ISSUES**

Page 3, lines 4, 5,6, could be read to require the publicly funded health care agencies 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 GSD’s bi-weekly deductions throughout the year and RHCA’s deductions through the pension funds.

### **OTHER SUBSTANTIVE ISSUES**

The Life and Disability contracts expire June 30, 2011, which would be rebid for a July 1, 2011 effective date. This Request for Proposal would follow the guidelines of the new law for uniform selections. The publicly funded health care agencies did make uniform selections of one vendor for the Life and Disability in the last bid cycle.

Existing medical, dental, vision, and actuarial contracts expire on June 30, 2012.

### **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.

### **POSSIBLE QUESTIONS**

Page 3, line 4, Insert “To the extent practicable” at the beginning of the sentence.

DA/svb