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## FISCAL IMPACT REPORT

ORIGINAL DATE 01/30/10

SPONSOR Feldman LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Study Health Care Administrative Costs SJM 8

ANALYST Hanika-Ortiz

### APPROPRIATION (dollars in thousands)

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

	FY10	FY11	FY12	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		\$5.0 - \$25.0			Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Health Policy Commission (HPC)

Public Regulation Commission – Insurance Division (DOI)

Regulation and Licensing Department (RLD)

### SUMMARY

#### Synopsis of Bill

Senate Joint Memorial 8 (SJM 8) requests DOI conduct a study of health care administrative costs in New Mexico’s private insurance market.

SJM 8 provides for the following:

- the World Health Organization of the United Nations reports that more money per person is spent on health care in the United States than in any other nation in the world;
- studies show that a significant portion of overall health care costs comes from administrative expenses;
- Dr. Steffie Woolhandler and Dr. David Himmelstein report in *The New England Journal of Medicine* that these administrative costs consume thirty-one percent of health spending in the United States;
- much of health care administration involves a duplication of efforts and a lack of coordination in setting standards;
- health professional credentialing has been identified as a particularly cumbersome and duplicative process for many health professionals, resulting in expense and delay;

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- health care professionals are known to expend an enormous amount of resources verifying patient insurance eligibility and coverage;
- due to variable implementation of health information technology, health care providers and insurers report that they must often maintain duplicative paper and electronic recordkeeping and billing systems at high cost;
- nearly every health insurer has its own codes and procedures for processing health care claims, a plurality that costs health professionals and patients a great deal of annoyance and resources; and
- there is currently a plurality of standards applied in health care utilization review, as many individual insurers set their own standards.

### **FISCAL IMPLICATIONS**

As the basis for the study, the bill cites the burdensome cost of health care administration, including one study which concluded that administrative costs consume 31% of health spending the United States. Other bases for the study include duplication of efforts in the areas of health care professional credentialing, recordkeeping, coding and billing; and multiple standards of utilization review.

The bill will require additional resources and time expended by DOI staff to organize and participate in meetings, collect data and produce reports.

Several states limit or are considering legislation to limit the amount of money health insurance companies spend on administration.

### **SIGNIFICANT ISSUES**

The memorial identifies several segments of health care administrative costs that could be subject to more uniform standards in an effort to avoid duplication of effort and lower the overall cost of health care.

### **PERFORMANCE IMPLICATIONS**

There are some issues identified in the bill that are currently subject to uniform standards, such as the coding of medical procedures, which must be done in accordance with federal Medicare standards.

DOI will be required to include in the study group membership, experts in health care administration and finance, from both the public and private sectors, and report its study findings to the Legislative Health and Human Services Committee and the Legislative Finance Committee by November 1, 2011.

### **ADMINISTRATIVE IMPLICATIONS**

DOI reports that studying issues of health care administration and finance is in the purview of its current staff duties and experience.

**OTHER SUBSTANTIVE ISSUES**

DOI further reports that in 2007, a taskforce studied the Managed Health Care Rule and the Grievance Procedures Rule. Based on the ideas that came out of the task force, DOI adopted an amended Grievance Procedures Rule, effective February, 2008, and, repealed and replaced the Managed Health Care Rule, effective September 1, 2009, with four new rules governing managed health care plans and health maintenance organizations in the state's commercial market. The New Mexico's Managed Health Care Rule governs over 90% of the commercial market, sets uniform standards for utilization review, with uniform standards for both internal and external patient and provider appeals from adverse decisions. Because the four new rules (13.10.13 NMAC, 13.10.21 NMAC, 13.10.22 NMAC and 13.10.23 NMAC) have only been effective for a little over three months, it would be too early to come to any conclusions on their effect on the market.

**ALTERNATIVES**

The issues identified in this memorial will need to be studied in the context of the passage of any health care reforms at the federal level.

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

DOI would not be requested to convene a study group to conduct a study of administrative costs in New Mexico's private insurance market.

AHO/svb