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## FISCAL IMPACT REPORT

<b>SPONSOR</b> <u>HAFC</u>	<b>LAST UPDATED</b> <u>3/10/23</u>
	<b>ORIGINAL DATE</b> <u>2/26/23</u>
<b>SHORT TITLE</b> <u>State-Administered Health Coverage Plan</u>	<b>BILL NUMBER</b> <u>CS/House Bill 400/ /HAFCS/aHF1</u>
	<b>ANALYST</b> <u>Esquibel</u>

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

	FY23	FY24	FY24-FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>HSD federal 50% matching funds for study</b>			\$500.0	\$500.0	Nonrecurring	Federal Medicaid matching funds

Parentheses ( ) indicate expenditure decreases.

\*Amounts reflect most recent analysis of this legislation.

Duplicates appropriation in the General Appropriation Act

### Sources of Information

LFC Files

#### Responses Received From

Attorney General’s Office (NMAG)

Human Services Department (HSD)

New Mexico Health Insurance Exchange (NMHIX)

Office of Superintendent of Insurance (OSI)

University of New Mexico Health Sciences Center (UNMHSC)

## SUMMARY

### Synopsis of House Floor Amendments to House Bill 400

The House Floor amendment to the House Appropriations and Finance Committee substitute for House Bill 400 removes the provisions creating and implementing the Medicaid Forward state-administered health coverage plan. The amendment leaves in the study of the feasibility, creation, and implementation of the Medicaid Forward plan. The amendments clarify the study shall consider the operation needs and effects of implementing the Medicaid Forward plan, as well as the fiscal effects on recurring and nonrecurring spending in the state budget.

### Synopsis of HAFCS Substitute to House Bill 400

The House Appropriations and Finance Committee substitute for House Bill 400 (HB/HAFCS) requires the Human Services Department (HSD) to study the Medicaid Forward Plan in

consultation with the Medicaid Advisory Committee and representatives of Indian nations, tribes, and pueblos. The HAFCS substitute stipulates HSD's proposed Medicaid Forward program design is contingent on the results of the study and must include a financing plan, information about reimbursement rates to maximize access to healthcare, operational needs, and federal waiver information.

HSD must submit a report to the Legislative Finance Committee and Legislative Health and Human Services by October 1, 2024, on the study of, and proposed program design for, the Medicaid Forward Plan.

On HSD's submittal of its report, and on appropriation and availability of federal and state funds, HSD may amend the state's Medicaid plan to provide medical assistance to residents under age 65, not otherwise eligible for Medicaid and with household incomes that exceed 133 percent of the federal poverty level (\$36,908 a year for a family of four). HSD may establish an affordability scale to subsidize premiums and cost-sharing for household incomes for individuals up to 400 percent FPL (\$120,000 a year for a family of four).

HSD, the Office of Superintendent of Insurance (OSI), and the New Mexico Health Insurance Exchange (NMHIX) may coordinate efforts and may cooperate to make the Medicaid Forward Plan available for direct purchase through the NMHIX IT platform.

## **FISCAL IMPLICATIONS**

The bill does not include an appropriation. However, the General Appropriation Act, the House Appropriations and Finance Committee substitute for HB2, includes a FY24/FY25 special appropriation for \$500 thousand for a study to analyze the financial, provider, and marketplace impacts of expanding Medicaid eligibility. HSD reports it could leverage an additional \$500 thousand in federal administrative Medicaid matching funds to conduct the study for a total of \$1 million.

OSI reports it is currently conducting a study of the Medicaid Forward Plan as part of the appropriations included in Senate Bill 1 passed during the 2022 special legislative session. That funding for OSI included \$790 thousand to conduct research on increasing accessibility and affordability of health coverage for New Mexico residents and assessing a global payment system for hospitals and health and \$750 thousand to contract for consultants to assess improvements needed to health benefits procurement to ensure fairness, health improvement, and cost-effectiveness.

HSD reports the fiscal impacts of implementing the Medicaid Forward Plan after conducting the study would be significant, including the impact on HSD for covering additional lives and ensuring sufficiency of provider reimbursement, as well as to pay for administrative costs and multiple IT system changes. At this time, because much of the costs and fiscal implications would presumably be quantified as part of the study, HSD is unable to determine the exact fiscal impact to the Medicaid program, the Human Services Department, OSI, or NMHIX or the impact to the New Mexico Medical Insurance Pool, state and local employee health insurance coverage, and the state's overall health insurance market.

The General Appropriation Act, as approved by the House, included an additional \$242 million in general fund support over FY23 to support the Medicaid budget. Additionally, the House-

approved budget for the Office of Superintendent of Insurance (OSI) included a \$78 million pass-through of health care affordability fund revenue for NMHIX to fund subsidized health insurance premiums for small employers, cover premiums for one month for people transitioning from Medicaid to NMHIX, subsidize premium coverage for individuals with incomes up to 400 percent of the federal poverty level (\$120 thousand a year for a family of four), and provide coverage to uninsured New Mexico residents, including undocumented individuals, who do not have access to federal premium assistance that makes health coverage more affordable to lower and middle income residents.

The University of New Mexico Health Sciences Center reports if the Medicaid Forward Plan is enacted, there would be considerable additional costs associated with the administration of the plan and paying healthcare costs for enrollees covered under the plan. Depending on the number of covered members in the plan, the cost would likely be in the tens of millions of dollars annually, or even greater depending on the enrollment level. This assumes people covered under the plan would be populations that are currently ineligible for Medicaid coverage.

## **SIGNIFICANT ISSUES**

HSD reports it is likely the Medicaid Forward Plan would have a significant fiscal impact on New Mexico's non-Medicaid insurance market, including the NMHIX and New Mexico's private commercial insurance carriers.

HSD identifies a significant issue regarding provider reimbursement and network adequacy. Medicaid currently provides coverage for 47 percent of New Mexicans and, as a result, is responsible for a significant portion of providers' payments. With an expansion such as Medicaid Forward, HSD anticipates a potentially negative impact on provider retention and network adequacy if the proposal does not coincide with sufficient provider reimbursement. While the Medicaid program has implemented many initiatives to increase provider reimbursements over the last several years, the potential for increased demand posed by Medicaid Forward would require additional investments and rate increases to maintain network adequacy.

OSI reports the bill could have major impacts on existing insurance markets because Medicaid coverage could be a coverage option for many New Mexicans due to its presumably lower premiums and out-of-pocket costs. Offering a public health insurance option also requires the availability of stable private insurance options, and there likely would need to be reforms in how risk is pooled in commercial health insurance markets. Also, Medicaid reimburses providers less than commercial insurance rates and expanding Medicaid eligibility to more individuals could exacerbate provider shortages unless paired with reimbursement rate increases and other issues such as healthcare provider recruitment and retention practice and medical malpractice adjustments.

## **ADMINISTRATIVE IMPLICATIONS**

HSD reports an administrative burden on staff and resources to complete the study. There is also a future administrative/program support burden if implementing the Medicaid Forward Plan, including completion of a state Medicaid plan amendment, rule promulgation, multiple IT system changes, coordination with NMHIX, and the implementation of premium and cost-sharing. The fiscal impact of these administrative activities should be considered in the study.

The study should also consider implications for NMHIX as the exchange already currently provides subsidized plans for the same population impacted by Medicaid Forward (i.e., individuals up to 400 percent of the federal poverty level).

The New Mexico Health Insurance Exchange (NMHIX) reports the legislation would require BeWellnm to devote staff and resources to participate in the study.

## TECHNICAL ISSUES

HSD notes the New Mexico state plan currently covers individuals up to 138 percent of the federal poverty level under the Medicaid Expansion Adult Category per 42 CFR § 435.603.

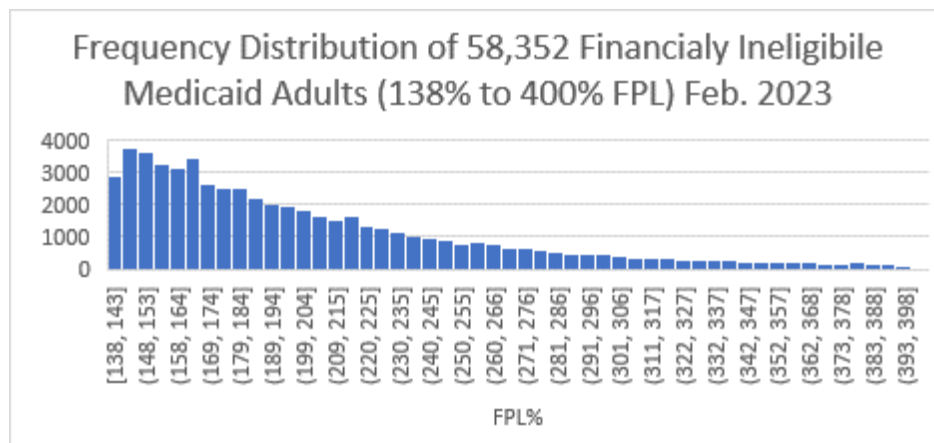
HSD suggests amending the bill to include language tying the plan study to include the probability of securing any needed federal approvals.

The Attorney General’s Office reports it is unclear if the Legislature has to write additional authorizing legislation after receipt of the results of the 2024 study.

## OTHER SUBSTANTIVE ISSUES

OSI reports the state, through the health care affordability fund, currently spends approximately \$28 million to subsidize healthcare costs for approximately 40 thousand NMHIX enrollees. The federal government spent \$156 million in 2022 on premium tax credits on the NMHIX. The state, through the healthcare affordability fund, is projected to spend up to \$38 million on NMHIX’s small business health insurance premium relief initiative in FY24. The small business health insurance premium relief initiative currently covers about 43 thousand lives.

HSD reports the bill poses significant issues for the Medicaid program, including enrollment effects, which can only be known at the time of implementation. As of February 2023, Medicaid enrolled 984,424 members, 46.5 percent of New Mexican residents. Of these, approximately 58,352 (5.9 percent) members are adults whose incomes range between 138 percent and 400 percent of the federal poverty level (see FPL graph below).



The 58,352 Medicaid members shown in the histogram above would potentially qualify for subsidized coverage under Medicaid Forward, were it implemented today. An additional 43 thousand members currently enrolled at NMHIX would also become eligible for coverage under

Medicaid Forward. Finally, Medicaid Forward could potentially cover uninsured individuals with incomes between 138 percent and 400 percent FPL. In 2019, the Urban Institute estimated some 42 thousand uninsured New Mexicans had incomes between 138 percent and 400 percent FPL [The Uninsured in New Mexico \(urban.org\)](http://urban.org). Since then, a significant percentage of these individuals enrolled in Medicaid as a consequence of the federally declared public health emergency. It is projected approximately 120,832 individuals (5.7 percent of New Mexicans) could enroll in Medicaid Forward if it were implemented today, covering adults, children, parents, and caretakers.

Based on current Medicaid premiums, the full cost of enrolling 120,832 individuals is \$170 million per year. With subsidies, a percentage of these costs would be incurred by households in the form of out-of-pocket expenses, and the remaining percentage would be covered by public funds. How premium assistance and cost-sharing would be implemented remains a topic for study, and would depend on economic factors impacting the insurance market. Additionally, there are limitations to premiums that can be charged to Medicaid populations per 42 CFR § 447.50 that may impact the language in Section 3A(2)(b) of CS/HB400/HAFCS regarding cost offsets.

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