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FISCAL IMPACT REPORT

ORIGINAL DATE 02/01/10

SPONSOR Heaton LAST UPDATED _____ HB 106

SHORT TITLE Limit Health Benefit Plan Index Rate SB _____

ANALYST Lucero

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY10	FY11		
	None		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Regulation Commission (PRC)
Health Policy Commission (HPC)

SUMMARY

Synopsis of Bill

House Bill 106 amends Section 59A-23C-5 NMSA 1978, the Small Group Rate and Renewability Act of the Insurance Code, to change the premium rate calculations for health insurance for small employers. The bill would gradually lower the index rate differential from 20 percent to 10 percent, reducing it by two percentage points each year from 2011 to 2015. The bill specifies the following reduction schedule:

- 20 percent through December 31, 2010;
- 18 percent for calendar year 2011;
- 16 percent for calendar year 2012;
- 14 percent for calendar year 2013;
- 12 percent for calendar year 2014; and
- 10 percent for every year thereafter.

The bill also gradually lowers the premium rates charged during a rating period to small employers with similar case characteristics for the same or comparable coverage; or the rates that could be charged to those employers under the rating system for that class of business, shall not

vary from the index rate by more than the following percentages of the index rate for policies issued or delivered in the respective year:

- 20 percent through December 31, 2010;
- 18 percent for calendar year 2011;
- 16 percent for calendar year 2012;
- 14 percent for calendar year 2013;
- 12 percent for calendar year 2014; and
- 10 percent for every year thereafter.

FISCAL IMPLICATIONS

Although there does not appear to be an impact to state agencies, according to the Health Policy Commission (HPC), the insurance regulations provided in the bill could possibly result in decreased profit over time for insurers as a result of lowering premiums. However, the bill would gradually decrease the variance of premium rates charged to small employers for health benefit plans.

SIGNIFICANT ISSUES

Small group rates are regulated at the state level, and the highest price can't be any more than a defined percent of the lowest price, and the group needs to be priced and managed as whole. For example, if the highest price is \$100, then the lowest price can't be below \$80 — no matter what the demographic or medical expense variance might be across all small businesses. In contrast, larger company premiums are priced more directly on the calculated medical expenses of each group, meaning there is no ceiling and no floor for large groups overall.

According to the Insurance Superintendent of the Public Regulation Commission (PRC), if the intent of the bill is to hold down cost increases for small employers by restricting the amount by which insurance carriers can increase rates for a particular class of business and employers within a class of business due to its claims experience. The closer that the rate variations get to zero difference, the closer the market gets to a pure community rating. State regulations requiring guaranteed issue (actually required by federal HIPAA law) and community rating in the small group market have likely helped to ensure access to insurance for high risk/high cost groups, but such regulations have not been highly effective at decreasing the overall rate of uninsured in the small group market. See, e.g., *Implementing Small Group Insurance Market Reforms: Lessons from the States*, New York State Health Policy Research Center, Sept. 2008.

Increasing participation in the small group market is important for insurance coverage because in New Mexico as of 2005 only 34.6 percent of firms in the small group market (2-50 employees) offered health insurance coverage, compared to 92.7 percent of firms with over 50 employees. Source: *2006 AHRQ/MEPS*. New Mexico is also losing participation in the small group market at a faster rate than the national trend. From the period of 2004 through 2007, participation in New Mexico's small group market decreased by 4 percent, while the U.S. saw a less than 1 percent decrease. Sources: *2008 Current Populations Survey Annual Social and Economic Supplement (CPS ASEC)*, produced by the U.S. Census Bureau (USCB). For N.M. statistics, *2007 American Community Survey (ACS)*, produced by the USCB.

The Bill will have little impact, if any, because there are only two classes of business covered: their normal book of business and the Groups that they purchased. (see Definitions 59A-23C-

3.E. “all small employers as shown on the records of the small employer carrier” and “A separate class of business may be established ...plans have been acquired from another ...carrier.”)

RELATIONSHIP

HB12 “Health Insurer Service Reimbursement”

HB32 “Health Insurance Small Employer Definition”

OTHER SUBSTANTIVE ISSUES

The HPC contributes the following information:

In 2008, 23 percent of New Mexicans were uninsured. The uninsured rate in New Mexico was above the national rate of 15.4 percent in 2008. The State had the second highest uninsured rate in the nation, preceded by Texas with an uninsured rate of 24.4 percent.

(SOURCE: <http://164.64.93.39/documents/Quick%20Facts%202010.pdf>)

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 percent of employers offered health benefits.

- 49 percent of firms with three to nine employees offered coverage.
- 78 percent of firms with 10 to 24 employees offered coverage.
- 90 percent of firms with 25 to 49 employees offered coverage.
- More than 95 percent of firms with 50 or more employees offered coverage.

According to a July 2007 study produced by Research & Polling, Inc., and commissioned by the General Services Department and Human Services Department, employee insurance coverage rates among vendors conducting business with the State of New Mexico, 69 percent of vendors (with at least two full-time employees) offered some type of health insurance benefits to their employees. Larger companies, non-profit organizations, and entities that provided larger salaries to their employees were most likely to offer employees health insurance. According to the study, the cost associated with health insurance benefits was the primary barrier to those state vendors offering health insurance benefits to their employees.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The consequences of not enacting this bill would cause the Small Group Rate and Renewability Act to remain the same.

DL/mew