F I S C A L I M P A C T R E P O R T

SPONSOR Feldman **DATE TYPED** 1/29/04 **HB**

SHORT TITLE Purchase of Public Health Care Programs **SB** 101

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
		See Narrative	See Narrative	Recurring	Various

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates: HB 87
Relates to: SJM 8, HJM 3

SOURCES OF INFORMATION

General Services Department (GSD)
Human Services Department (HSD)
Department of Health (DOH)
Public School Insurance Authority (PSIA)
Retiree Healthcare Authority (RHCA)
Albuquerque Public Schools (APS)

SUMMARY

Synopsis of Bill

Senate Bill 101 creates the Health Care Purchasing Authority (HCPA) by consolidating the group health benefits insurance programs for state and public school employees, their dependents, and retirees. The proposed HCPA is designed to save money by leveraging purchasing power and expanding health care coverage for the participants.

A major duty of the HCPA is to procure and administer, including effective cost-containment measures, health care insurance and benefits for covered employees and their dependents. Other major duties for HCPA include participation in and support for initiatives of the Department of Health (DOH), Human Services Department (HSD), and Health Policy Commission (HPC) to improve the health and safety of all New Mexicans, including education, intervention and treatment programs and other strategies to address public health concerns.

By the end of 2005, the HCPA would evaluate how to allow private employers and individuals to participate in HCPA health care benefits and how that would impact New Mexico's uninsured, health care costs, and insurance markets.

The HCPA governing board would consist of 23 representing related groups and professions, and would provide statewide geographic representation. The HCPA would meet at least quarterly and be administratively attached to the General Services Department (GSD). GSD would be the group health benefits policyholder for HCPA insurance policies with money appropriated from a new non-reverting, interest-bearing fund to pay for benefits plans and associated expenses.

Sections in Chapter 10, Articles 7B NMSA 1978 (Group Benefits), and 7C (Retiree Health Care), Chapter 13, Article 7 NMSA 1978 (Health Care Purchasing), and Chapter 22, Article 29 NMSA 1978 (Public School Insurance Authority) are amended or repealed to conform with the intent of the HCPA, including temporary provisions for transition and transfer of staff, assets, contracts and obligations to GSD. The Senior Prescription Drug Program created in 2002 would become part of the HCPA.

Significant Issues

- Governor Richardson's Health Care Agenda

According to the joint bill analysis submitted by GSD/HSD/DOH, SB 101 is a major component of the Governor's 4-Point Health Care Reform initiative and would create a single point of focus for public health care benefits decisions in New Mexico, directly affecting the coverage of a large percentage of the state's population. The coordinated procurement and benefits administration authorized in SB 101 may create significant administrative savings for state programs, including overhead costs, consultant and administrative contracts and fees, and leased office space.

In addition, the Governor is committed to implementing first steps to help address the high rate of uninsured New Mexicans. A first step is creating the HCPA. The HCPA will allow the state to spend its money better and use its buying power to help the uninsured.

- Other Comments on SB 101

The four current members of the consolidated purchasing effort of the Interagency Advisory Committee (IBAC) are GSD, PSIA, RHCA, and APS. Three of the four entities have expressed concerns with SB 101 and believe a comprehensive analysis of the short and long term objectives of the proposal should be completed before moving forward.

1. The assumptions that the HCPA would reduce administrative costs and reduce growth in health care costs are speculative.

RHCA notes prior studies have shown administrative savings from consolidation are minimal and the $375,000 of savings attributed to RHCA would be a very low return for the sacrifice of high quality of benefits and services they provide to retirees. PSIA states the argument that consolidation will result in a better negotiating position for health plan administration fees and provider reimbursements is questionable—the IBAC agencies already realize these savings because they purchase and contract jointly.

2. The timeframe of implementation (July 1, 2004) is too short and transition costs are unfunded.

PSIA states the four month transition timeline for consolidation into GSD is unrealistic and notes that from March through June, demands on the IBAC agencies are the heaviest due to introduction of new premium structures and switch enrollment processing. In addition, a project management plan for implementation has not been provided by GSD. APS states there will likely be additional unfunded costs to coordinate the consolidation through consulting fees as well as additional long term costs of converting, testing, and training on a single IT platform to replace the four existing benefit management systems.

3. There are possible negative impacts on the cost of benefits for current employees, teachers, and retiree's if HCPA brings other public employers, private employers, the uninsured, etc. into a consolidated purchasing effort.

RHCA has concerns with the stated goal of the HCPA, which is to build a platform for future consolidation of other public employers, the uninsured, individuals, private employers, etc; and whether or not risk pools are mingled (not specified in this bill), ultimately costs would be shared. An actuarial valuation to project the results should be conducted for each of the possible consolidation scenarios prior to executing the platform initiative (i.e., consolidation of IBAC agencies). At this time, one of the basic presumptions is that this would help hold down the growth in insurance costs, but there is no empirical data to support this presumption. Another presumption is that adding more lives—including the high-risk and uninsured—will lead to deeper provider discounts, but this reasoning is not supported. APS adds that long term this bill has the potential to combine risk pools which could negatively impact the cost of premiums for APS employees.

4. The proposed make up of the HCPA board weakens the representation of the current IBAC members.

The bill proposes a policy making HCPA board of 23 members (4 nonvoting, ex-officio) of which 15 are governor appointees. PSIA notes that the proposed board composition eliminates the current focused representation provided by its board to educational employees, and that advocacy for educational employees will be lost due to the diverse makeup of the HCPA board. PSIA does not favored the proposed consolidation under a cabinet agency for the same reason and suggests HCPA would better function as an independent agency. APS notes that it is guaranteed only one appointee on the board which would reduce the flexibility of APS to establish appropriate eligibility and benefit plan designs. RHCA suggests that the HCPA board should be comprised of a workable number of members, perhaps no more than fifteen, with adequate representation of each of the constituent groups.

FISCAL IMPLICATIONS

Per GSD/HSD/DOH, immediate administrative savings as a result of creating HCPA are estimated at approximately $2 million per year. This amount is questioned by the other three IBAC entities, who state they have not received any data to support this estimate.

In the long term, the administration has stated that it expects the HCPA can save additional dollars through its single procurement and contracting process, and that the combined purchasing power of HCPA's many members would hopefully slow down the growth in health insurance premiums.

ADMINISTRATIVE IMPLICATIONS

Per GSD/HSD/DOH, GSD would become the administrative arm for health care benefits for active and retired public employees and their eligible dependents. GSD has the infrastructure to procure and manage contracts and to work with HCPA members to implement policies set by HCPA board. Since SB 101 provides for the transfer of staff, budget, and other assets to GSD, transition costs could be absorbed within current budgets. Administrative costs to other participating state agencies to provide information to the HCPA on issues such as public health, intervention, and treatment programs could require moderate staff effort beyond current activities.

DUPLICATION AND RELATIONSHIP

Duplicates House Bill 87. HJM 3 and SJM 8 request HSD, GSD, the PRC insurance division, and the Health Policy Commission to study how private businesses and individuals might join in public health insurance purchasing initiatives.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Per GSD/HSD/DOH, this important opportunity to coordinate health care benefits procurement and eliminate duplication of benefits administration (and associated savings) would be missed. The number of uninsured and underinsured New Mexicans would likely increase without the benefits of collaboration on public health and safety issues and emphasis on education, prevention, and treatment programs.

RHCA states that program participants will continue to receive advocacy services of the agency dedicated to them—i.e., the ability to tailor strategies to each particular population in terms of cost containment, access, and service—and rates and service will not be negatively affected.

AMENDMENTS

A technical correction is suggested by GSD/HSD/DOH to delete reference to the Information Technology Commission, since that entity is no longer administratively attached to GSD**:** on page 19, delete lines 7 through 10 and reletter the underscored language on line 11.

Suggested by PSIA:

Amend the effective date from July 1, 2004 to July 1, 2005 to allow for successful implementation of the consolidation. Amend the property transfer provision to exclude the PSIA building since the risk management function will remain with PSIA.

GG/:lg