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## FISCAL IMPACT REPORT

SPONSOR Feldman DATE TYPED 2/06/04 HB \_\_\_\_\_

SHORT TITLE Consolidated Health Care Program Purchases SB 538

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)

Replaces: SB 101

Duplicates: HB 561

Relates to: SJM 8, HJM 3

### SOURCES OF INFORMATION

Public School Insurance Authority (PSIA)

Retiree Healthcare Authority (RHCA)

Note: this analysis incorporates input from the General Services Department (GSD), Human Services Department (HSD), Department of Health (DOH) on the prior version of this bill, SB 101. No new information was received in time for this bill analysis.

### SUMMARY

#### Synopsis of Bill

Senate Bill 538 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 purchase, as established through actuarially based rates, health care benefits afforded by the authority. HCPA shall take into account the results of studies and recommendations of the legislative health and human services committee and the study required by SJM 8 and HJM 3 on the potential effects and methods of authorizing businesses and individuals to join a public health insurance purchasing collaborative.

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 under a separate division of 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, the creation of the HCPA 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 538 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.

- Major Changes in SB 538 From Earlier Bills

SB 538 and HB 561 reflect a number of changes designed to address concerns raised by agencies and constituent groups during discussions on the original bills proposing creation of the HCPA (HB 87 and SB 101):

1. Adds language that groups will not be pooled for premium rate purposes unless an actuarial study determines that each group to be pooled will receive lower premiums if grouped;
2. Language is clarified to assure no commingling of sub-accounts from agencies merged into HCPA and funds can only be used for that group with no subsidization between groups to occur;
3. The emergency clause has been eliminated and detailed language has been added regard-

ing development of a transition plan to be in effect by June 1, 2004;

4. Language is clarified to establish a separate division at GSD for HCPA and director qualifications have been added;
5. The HCPA board has been enlarged to 29 members (four non-voting ex officio), additional representatives have been added to represent constituent groups and the percentage of governor appointees on the board has been lowered.

- Other Comments on SB 538

PSIA and RHCA concerns include:

1. SB 538 is implementing consolidation without sufficient study.

RHCA states they believe that there should be an independent comprehensive and actuarial analysis of the concept of universal coverage and the impact of such a step, including this "first step" (i.e., consolidation of IBAC agencies). RHCA states they cannot commit to support a measure that would so significantly alter the health care landscape in New Mexico without a full understanding of what is wrong, what should be fixed, how that should be accomplished, and all the consequences. PSIA notes that the Governor's Task Force on Health Care recommended a study of the pros and cons of a consolidated purchasing pool, yet SB 538 proceeds with consolidation without study.

2. 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.

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, ultimately costs could 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.

4. The proposed make up of the HCPA board weakens the representation of PSIA and RHCA and consolidation under GSD will reduce the quality of service to members.

The bill proposes a policy making HCPA board of 29 members (4 nonvoting, ex-officio) of which 14 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. 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.

PSIA and RHCA do not favored the proposed consolidation at GSD. PSIA notes that prior studies have recommended a free-standing state agency with its own staff, solely focused on health care issues, with a long term consistent strategy. According to PSIA, consolidation will dilute member advocacy services currently provided by PSIA, such as claim assistance and eligibility exceptions. RHCA states that consolidation will detract from, rather than improve, the various programs.

### **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 dispute the assumptions behind the estimated savings.

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 538 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**

Replaces SB 101. Duplicates House Bill 561. 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.

**GG/prr**