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FISCAL IMPACT REPORT

SPONSOR Martinez DATE TYPED 3/8/05 HB 394

SHORT TITLE Health Insurance Rates Alliance Membership SB

ANALYST Wilson

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			See Narrative		

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	\$196.0			General Fund
		\$564.0 FY07		General Fund
		(\$1,748.0) FY08	Recurring	General Fund

Duplicates to SB 504

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public School Insurance Authority (PSIA)

Public Regulation Commission (PRC)

Retiree Health Care Authority (RHCA)

SUMMARY

Synopsis of Bill

House Bill 394 amends the Alliance Statute as follows:

- changes the makeup of the five member plan directors by eliminating the requirement

that one director be from a nonprofit health plan;

- requires that one of the five governor-appointed small employer directors be from a non-profit corporation;
- reduces the premium rates that the member plans are able to charge, and
- requires a marketing effort by the Alliance.

Significant Issues

Currently, the member plans are able to charge +/- 15% of their standard rate index. This bill eliminates the +/- factor, meaning the vendors must charge no more or no less than their standard rate index. This reduces the premium for the Alliance plans, which should make the Alliance plans more competitive in the small group marketplace. However, this reduces the member plans ability to break even on the Alliance business, which means the claim loss ratio will deteriorate, causing a higher assessment to be paid by the vendors. (All health plans in the state must subsidize the Alliance pool losses).

This bill may encourage a greater number of individuals to secure coverage through the Alliance. This will reduce the number of uninsured New Mexicans.

FISCAL IMPLICATIONS

The health plans approved in New Mexico must subsidize the Alliance in order to do business in the state. This effect of this bill would appear to increase the subsidy paid by health carriers and may result in some carriers withdrawing from the state.

The PRC analysis indicates that this bill will increase revenue to the general fund by \$196 thousand in FY06 and \$564 thousand in FY07. In FY08, the estimated revenue impact on the general fund is a negative \$1.7 million. Although no projection is provided for later years, the methodology suggests that in FY09 and later years, general fund revenue losses can be expected to exceed \$3 million.

The PRC provided the following:

The premiums charged for coverage through the Health Insurance Alliance are not sufficient to cover the claims or administrative costs. These costs are covered directly by assessment to the health insurance industry. These insurers receive a credit against their premium taxes, which reduces general fund revenues equal to 50% of their assessment.

The revised premium structure along with anticipated growth in coverage will increase the assessments paid by the health insurance industry and increase the corresponding offset to the general fund. The actuary for the Health Insurance Alliance projects that the assessment could increase as follows:

Calendar Year	Increase in Assessment	Increase In Premiums
2005	\$ 400.0	\$ 500.0
2006	6,400.0	8,800.0
2007	15,500.0	29,400.0
2008	21,400.0	43,200.0

The increase in premiums could result in increased premium tax and premium surtax of \$196 thousand in FY 06, \$764 thousand in FY 07 and \$1,452 thousand in FY 08. The increase in assessments could result in tax revenue loss due to the premium tax offset. Those offsets are projected to be \$200 thousand in FY 07 and \$3,200 thousand in FY 08.

The combined effect on the general fund is to increase FY 06 and FY 07 revenues by \$196 thousand and \$564 thousand respectively. The combined effect on general fund revenues in FY 08 is a loss in revenues of \$1,748 thousand. The estimated revenue loss in FY 09 is \$4 million.

ADMINISTRATIVE IMPLICATIONS

The bill requires a marketing effort by the Alliance without providing any additional staff resources.

RELATIONSHIP

HB 394 duplicates SB 504.

OTHER SUBSTANTIVE ISSUES

The board of directors has not had non-profit representation since New Mexico Blue Cross Blue Shield was converted from a non-profit health care plan. This bill requires that one of the Governor's appointed directors represent a non-profit corporation.

DW/lg/njw