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

SPONSOR Beffort **DATE TYPED** 03/02/05 **HB**

SHORT TITLE Small Employer Health Insurance Coverage **SB** 1061

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			Indeterminate, see fiscal impact		

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to: SB 335/HB 289, SB 496/HB 394, SB 271/HB 523, SB 504

SOURCES OF INFORMATION
LFC Files

Responses Received From

Human Services Department (HSD)
Public Regulation Commission (PRC)
Health Policy Commission (HPC)

SUMMARY

Synopsis of Bill

Senate Bill 1061 amends the Insurance Code to authorize the issuance of "Basic Health Coverage" for individuals. Basic health coverage is defined as health insurance coverage containing some mandated benefits, but excluding others. SB 1061 also contains requirements for an annual $600 deductible for an individual and a $1200 deductible for families for the individual policy.

SB 1061 also proposes a small group health insurance policy for employers with 2-10 eligible employees that include some but not all of the state mandated coverages currently required under Section 59A-Article 22 NMSA. SB 1061 also contains requirements for an annual $600 deductible for an individual and a $1200 deductible for families for the small group health insurance policy. There are specific requirements for ascertaining whether employers and their em-

ployees are "eligible" as defined by the bill.

The bill has a provision relating to notice and proof of loss provisions to ensure language in basic insurance policies as proposed by this bill cannot be less favorable than what is currently required under Section 59A Article 22 NMSA.

Significant Issues

1) Role of Mandated Benefits in Cost of Health Insurance

PRC notes that many proponents of this type of legislation believe that state mandated benefits drive up the cost of health insurance and by implication make the cost of coverage too expensive to be affordable. Industry trade associations estimate the cost of such mandates to be between 15% and 25%. PRC's own HMO's have estimated the cost to be in the 10% - 15% range. These estimates often include Federal mandates such as maternity coverage in employer sponsored plans and guaranteed issue in small employer sponsored plan. The PRC Insurance Division is currently conducting an examination of a number of insurers to determine the cost of state mandates. While these exams are not complete, the Insurance Division believes that the mandates excluded by SB 1061 are less than 3% of the cost. SB 1061 would allow those insurers currently offering health insurance to offer both 1) health insurance with all mandates and 2) a basic plan which excludes some of the mandates. Opponents believe that the cost savings don't justify ignoring the public policy behind the mandates. They also point out that offering products with mandates and without mandates will result in anti-selection.

2) Relation to Other Health Insurance Products

HSD provides that the mandates to be retained and eliminated are enumerated in the language of the bill but there is no explanation as to why certain requirements are retained and others are not. The benefit package offered under SB 1061 might relate to the State Coverage Initiative proposed by HSD which also aims to provide a more affordable insurance package for employers. The Governor's Insure New Mexico! Council proposed looking at state mandates and encourages insurance that is more "basic" and lower cost. However, the Council recommended a task force working with the Department of Insurance before any legislation is proposed or passed. At this time, the impact of this legislation on the insurance market and health care delivery in New Mexico is unknown.

FISCAL IMPLICATIONS

No estimated impact in cost to state agencies. However, HSD notes that it is conceivable that the elimination of certain mandated coverages and the inclusion of deductibles might serve to lower the premium cost for a "basic" health insurance plan so that the small employer of 2-10 low-income individuals and individuals with low incomes who wish to purchase "basic" health insurance might be able to buy a more affordable policy. This impact to other state initiatives as well as Medicaid is unclear.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 1061 relates to: SB 335 and HB 289, Part-Time Employee Health Insurance Coverage; SB

496 and HB 394, Health Insurance Rates and Alliance Membership; HB 523 and SB 271, Small Employer Health Coverage Access; and SB 504, Health Insurance Alliance Rates and Membership.

OTHER SUBSTANTIVE ISSUES

HPC Provided Background on Health Insurance

According to the Census' 2003 Current Population Survey, New Mexico ranks second in the nation for the rate of uninsurance at 22.1% or an estimated 414,000 individuals.

Additionally 88% of small employers in New Mexico employ less than 20 employees with 41% not offering health insurance. 81% of the small employers that do not currently provide coverage cite cost as the primary reason.

The NM Health Policy Commission recently released a new employer survey.
Below are the key findings as they relate to SB 1061:

• "Fifty-nine percent of New Mexico companies offer health insurance to their employees, while 41% do not offer insurance.

• As company size increases, so, too, does the likelihood of offering health insurance. In fact, less than half (46%) of the companies with 2-5 full or part-time employees offer health insurance compared to 87% of companies with more than 20 employees. Three-quarters of companies with 11 to 20 employees offer health insurance as do 64% of those with between 6 to 10 employees.

• When asked in an unaided, open-ended manner, four-fifths (81%) of the companies that do not offer employee health insurance cite cost as the reason for not doing so. Ten percent of the companies say they do not offer insurance because of a lack of employee interest or participation, while 3% say their premiums rose too much and another 3% claim they do not need to offer insurance to attract employees.

• Six percent of the companies that do not currently offer insurance say they discontinued their health plan within the past year. Cost (60%) and a rise in premiums (32%) are cited most frequently as the reasons for discontinuing their health plan."

SB 1061 is aimed at how the benefit mandates under the control of the legislature have increased the cost of insurance and consequently reduce access to health coverage. A health insurance "mandate" is a requirement that an insurance company or health plan cover (or offer coverage for) common (but sometimes not so common) benefits and patient populations.

While mandates make health insurance more comprehensive, they also make it more expensive because mandates require insurers to pay for care that consumers previously funded out of their own pockets. Mandated benefits currently increase the cost of basic health coverage from a little less than 20% to more than 50%, depending on the state (Source: Health Insurance Association of America).

New Mexico specific DOI information is that "industry trade associations have estimated the cost of mandates to be 15% to 25%. New Mexico's HMO's have estimated between 10% and

15%. DOI estimates it is closer to 3 than 15, but that the information has not been determined" (Source: Insure New Mexico! Council presentation–Nov. 2004).

According to the 1999 study, "Mandated Benefit Laws and Employer Sponsored Health Insurance" for the Health Insurance Association of America, as many as one in four individuals who are without coverage are uninsured because of the cost of state health insurance mandates.

Mandate laws range from statutes that require health plans to cover services by particular types of providers (e.g., chiropractors, optometrists), requirements to cover specific diagnostic or treatment services (e.g., mammography, inpatient hospital care following delivery) or laws to extend benefits to certain populations (e.g. continuation coverage of employees or dependents). While individual mandates are often "popular" since they are intended to provide specific populations with greater access to particular services, there is a cumulative price effect associated with ensuring such access. The sheer volume of mandated benefits has likely caused health insurance premiums to rise.

By the late 1960s, state legislatures had passed only a handful of mandates benefits; The Council for Affordable Health Insurance (CAHI) has "identified more than 1,800 mandated benefits and providers. In January 2004, CAHI followed the introduction of 295 new mandates in states across the country."

Mandates apply only to those health insurance policies controlled by state health insurance laws – mainly policies purchased by small businesses and individuals. The state regulates the provision and procurement of insurance other than Medicare and Medicaid and ERISA covered plans. The mandates also do not apply to the plans of larger companies that are self-insured and ERISA (Employee Retirement Income Security Act of 1974) covered. The mandates do not apply to Medicare or Medicaid patients. As a result, the full impact of these laws falls on the most vulnerable part of the market, and in New Mexico this is particularly hard with the number of small businesses whose capitalization is such that health insurance is not an option.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

There will be no alternative to continuation of mandated benefit polices for much of the small business market in New Mexico.

GG/lg