LFC Requester:	

AGENCY BILL ANALYSIS
2017 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:

LFC@NMLEGIS.GOV

and

DFA@STATE.NM.US

{Include the bill no. in the email subject line, e.g., HB2, and only attach one bill analysis and related documentation per email message}

SECTION I: GENERAL INFORMATION
{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Original X **Amendment** ____
Correction ___ **Substitute** ____

Date 2/20/17
Bill No: HB 316

Sponsor: Rep. Paul Bandy
Short Title: High Risk Insurance Pool Assessments

Agency Code: 440
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19		

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to: SB 469
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis: This legislation changes the formula by which the New Mexico Medical Insurance Pool (NMMIP) assesses insurers to fund claims. The new formula removes the NMMIP's ability to assess Medicaid Managed Care premiums to help underwrite the costs of claims of individuals in NMMIP risk pool. The NMMIP board would retain its authority to assess private health insurers and reinsurance providers for the costs of the pool. This authority would continue to include the ability to adjust the formula to achieve equity of assessments among pool members, including assessments based on the number of lives covered through primary, excess, and stop-loss insurance in the state.

Additionally, the bill amends the amount of tax credits available to insurers participating in the pool. Currently, insurers paying into the pool receive a tax credit of 50% on the premium tax return for that member and a 75% credit on the premium tax return for that member for assessments attributable to pool policyholders that receive eligible premiums. Starting for the 2016 pool assessment plan year, the assessment for any pool member shall be allowed as a 25% credit on the premium tax return for that member and a 37.5% credit on the premium tax return for that member for the assessment attributable to pool policyholders that receive eligible premiums. This is a reduction of the tax credit available to carriers participating in the pool.

For 2017 and thereafter, tax credits for premiums assessed for pool members are eliminated.

The legislation also alters eligibility for coverage through the high risk pool. The legislation removes outdated language referring to the defunct Health Insurance Alliance and also prohibits individuals who are eligible for Medicare, Medicaid, or subsidized coverage through the New Mexico Health Insurance Exchange from enrollment in the pool.

FISCAL IMPLICATIONS

We are currently collecting data required to provide insight about how this shift in the responsibility for funding the high risk pool will affect ongoing health insurance business. While the total dollar value of assessments will not change in the short run, several peripheral issues arise. First, because the federal government matches Medicaid spending with an aggregate of four federal dollars for every state dollar spent, reduced Medicaid spending on the pool will reduce federal dollars brought into the state. By OSI's calculations, eliminating assessments on Medicaid premiums will currently save the state approximately $11 million in general funds, but will forgo $48.5M in federal matching dollars. If the state implements the legislation as written,

decreasing the size of the pool will save the state approximately $6 million in general funds, but will forgo $24M in matching funds.

The bill adjusts the definition of market share, specifically, the ratio that defines participation in the assessment process. The new market share definition shifts the assessment of support of the pool on to smaller carriers and substantially increases the fiscal responsibility of other types of carriers, including life insurance carriers. In the health insurance marketplace, the ability of carriers to absorb these additional costs and assessments is restricted state and federal law on medical loss and risk-based capital. Specifically, medical loss ratio law impedes an insurer's ability to generate reserves, which most significantly impacts small insurers. Risk-based capital laws impact how much capital insurers have on hand to pay claims. In combination, these two laws currently function to keep health insurers' profit margins very lean. As a result, the impact of shifting the fiscal burden for the pool solely to private insurance companies, especially health insurance companies, will drive up premium costs significantly. OSI projects, very conservatively, that premium rates will increase, conservatively, by a between $150 to $340 dollars per person per year. These estimates do not include the increases to premiums caused by the shift of higher risk individuals into the private market.

To the extent that federal tax credits and subsidies are in operation for the individual market, these costs will be blunted. However, the majority of private, fully-insured enrollees are covered through in the unsubsidized small group and large group coverage. Costs would then be passed off to small employers, impacting employer-sponsored insurance rates and, potentially, hiring. As a result, the state would likely lose revenue from employment taxes and increased uncompensated care. OSI projects that overall, this legislation would increase the population of uninsured by between 1,200 lives and 6,000 lives.

OSI projects that the legislation on life insurance premiums will be a minimum of approximately 120% increase. This increase will likely cause a loss of significant business for the life insurance industry and will decrease taxable premiums for this market.

SIGNIFICANT ISSUES

The Market Share Ratio defined on Page 2, lines 5 – 15, establishes the criteria for assigning market share to individual companies. HB316 modifies this formula. In so doing, carrier market share for NMMIP assessments will be unavoidably altered.

The change will be beneficial to companies that have a higher proportion of their premiums written on Medicaid; their assessed market share will decrease, and, as such, the amount of their assessments. Conversely, carriers that have limited exposure to Medicaid premiums will be adversely affected; their assessable market share and thus assessments will increase. The proposed bill therefore penalizes companies that prefer the private health insurance market to the public health insurance market and rewards the companies that prefer to do business within the public insurance sector. This penalty on insurers without a presence in the public market may be so significant as to cause rate increases effecting market competition.

It is difficult to calculate the exact impact on private health insurance premiums of changing the assessment and eligibility structures for the pool. At minimum, we are unequivocally certain that there will be an increase in health insurance premiums for New Mexico's consumers. Given current market instability and carrier uncertainty about the cost of

absorbing the pool's risk, these rate increases are likely to be ample. Carriers across the board will raise rates. These rate increases will likely need to overestimate the risk absorbed by the pool to insure carrier solvency. In light of the impact of increased premium costs and the potential of unbalancing the risk pools, carriers may decide to leave the fully-insured market. As a result, decreased competition and expected premium increases will have a substantial impact on insurance affordability in the state.

OSI also has concerns about the timing of this legislation. Currently, 2016 rates were submitted and approved and are already being collected from members. Pool members have not had a chance to re-adjust for their decreased credit when they submitted rates for 2016. Any changes to pool assessments and eligibility would be better after 2017.