FISCAL IMPACT REPORT

SPONSOR Szczepanski **LAST UPDATED** **ORIGINAL DATE** 2/5/2025

SHORT TITLE State Administered Health Coverage Plan **BILL NUMBER** House Bill 186

ANALYST Chenier

APPROPRIATION*
(dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
	$2,000.0	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	FY28	FY29	5 Year Total Cost	Recurring or Nonrecurring	Fund Affected
HCA	**No fiscal impact**	**$1,000.0**	**$6,538.9**	**$1,675,182.2**	**$3,350,364.5**	**$5,033,085.6**	Recurring	**Federal funds**
HCA	**No fiscal impact**	**$1,000.0**	**$2,179.6**	**$619,935.1**	**$1,239,870.1**	**$1,862,984.8**	Recurring	**General Fund**
Total	**No fiscal impact**	**$2,000.0**	**$8,718.5**	**$2,295,117.3**	**$4,590,234.6**	**$6,896,070.4**	Recurring	

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
Health Care Authority (HCA)
Office of Superintendent of Insurance (OSI)
New Mexico Health Insurance Exchange (NMHIX)

SUMMARY

Synopsis of House Bill 186

House Bill 186 (HB186) appropriates $2 million from the general fund to the Health Care Authority (HCA) for expenditure in FY26 and FY27 to hire staff and contract for consulting or technical assistance for the development of the Medicaid forward plan.

The bill directs the secretary of HCA to amend the New Mexico Medicaid state plan to provide medical assistance by January 1, 2028, to state residents who are under age 65, are not otherwise eligible for and enrolled in mandatory coverage or optional full Medicaid coverage under the Medicaid state plan, and have a household income of more than 133 percent of the federal

poverty level. The secretary is also directed to consult with the Medicaid Advisory Committee and other groups to establish premiums and cost-sharing based on household income for eligible individuals and offer discounted premiums and cost-sharing to households under 400 percent of the federal poverty level, at a minimum. The secretary would also be required to set premiums to ensure maximum access to services and be permitted to phase in coverage.

The HCA secretary and Office of Superintendent of Insurance (OSI) are instructed to seek federal waivers to administer the Medicaid forward plan and maximize federal funding. The HCA secretary and OSI are also instructed to coordinate with the New Mexico Health Insurance Exchange (NMHIX) to establish systems to apply and enroll in coverage and conduct consumer outreach programs to assist individuals with enrolling in Medicaid, the Medicaid forward plan and qualified health plans offered through NMHIX. The three entities also may coordinate efforts to make the Medicaid forward plan available for direct purchase through NMHIX.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

The appropriation of $2 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY27 shall revert to the general fund.

HCA provided the following:

> There is not a sufficient appropriation to cover the programmatic or administrative costs anticipated from implementation of this bill. The total potential cost of this bill in FY28 is likely to be as high as $4,590,234.6 billion with a state matching share of $1,239,870.1 billion.
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> With the $2 million appropriation contained in the bill, the HCA assumes a 50 percent federal match on the $2 million general fund appropriation, which would bring the total to $4 million. The HCA assumes that $2 million would be expended in state fiscal year 2026 and $2 million in state fiscal year 2027.
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> The Medicaid program and administrative budgets will necessitate recurring general funds starting January 1, 2028, and ongoing, for the payment of coverage for the Medicaid Forward Plan enrollees and associated administrative expenses. These additional expenditure amounts would need to be requested and secured in the HCA FY28 budget request, as the existing appropriation in the bill is insufficient; and assurance of the general fund share must be submitted with the federal approval request. The increase in operational expenses regarding capitation premiums and administrative costs are discussed in the Medicaid Forward Report prepared by HCA contracted consultant (https://www.hca.nm.gov/medicaid-forward/).
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> There is significant uncertainty regarding the overall costs of implementing Medicaid Forward and potential impacts to the remainder of New Mexico's health insurance market.
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> These estimates are for the first year of implementation only and assume that the Centers

for Medicare and Medicaid Services (CMS) approve the state's expansion request and provide federal matching participation funds at 71.68%. The study estimates a significant increase in operational expenses from enrolling between 290,415 to 326,092 new members to the Medicaid program. The coverage of these new members could increase programmatic state costs between $994 million to $1,240 billion. The lower estimate above reflects members assuming financial responsibility while the higher estimate assumes no financial responsibility.

Estimated Fiscal Impact No Income Limit with and w/o Enrollee Responsibility

	No Limit w/ Enrollee Financial Responsibility		No Limit w/o Enrollee Financial Responsibility	
	Expenditure Chg.	% Change	Expenditure Chg.	% Change
Medicaid Enrollment	3,484,980	42.3%	3,913,104	47.5%
Medicaid Capitation Costs	$4,090,240,348	55.5%	$4,618,113,330	62.7%
Enrollee Financial Responsibility	$348,224,210	N/A	$0	N/A
Medicaid Drug Rebate Program Revenue	$106,127,705	64.6%	$120,595,167	73.4%
Additional State Administrative Expenses	$88,163,046	N/A	$92,716,398	N/A
Net Medicaid Program Cost	**$3,724,051,480**		**$4,590,234,561**	
Federal Matching Funds	$2,729,181,382	47.2%	$3,350,364,450	58.0%
State Share of Net Capitation Costs and Administrative Expenses	$994,870,097	69.8%	$1,239,870,111	87.0%
BeWell State Subsidies	($31,593,581)	-93.3%	($31,594,365)	-93.3%
GSD/Public School Employer Contributions	($381,597,606)	-62.1%	($416,168,445)	-67.7%
Additional State Costs	**$581,678,910**		**$792,107,301**	
Premium Tax Revenue	$214,092,414	28.8%	$245,391,786	33.0%
Additional State Costs less Premium Tax Revenue	*$367,586,497*	*N/A*	*$546,715,515*	*N/A*
Potential Private Employer Funding	$413,396,896	-12.5%	$462,415,363	-14.0%

The estimate includes between $88 million and $92 million in funding for the administrative costs of implementing Medicaid Forward. The additional administrative expenses include items such as: additional state staff (and associated costs for equipment and facilities) to process the higher Medicaid application volume in compliance with federal timeliness requirements and additional contract costs, such as for technical assistance with federal approvals or changes to IT systems that support Medicaid eligibility and enrollment and provider payments. Examples of administrative costs include:

State Health Benefits

Data throughout this analysis is based on the November 2024 Mercer Government Human Services Consulting "Implementation of Medicaid Forward" report. Medicaid Forward could shift individuals from State Health Benefits (SHB) to Medicaid, reducing SHB claim expenditures; however, any reduction is not possible to quantify because the bill is not clear about what would happen to SHB funding or the structure of the SHB

program if Medicaid Forward were to be implemented. The impact of Medicaid Forward on SHB would depend on eligibility criteria established for the program and the premium and cost-sharing structure.

Because the bill provides flexibility related to these program elements, SHB's analysis is based on assumptions used in Mercer's November 2024 analysis of Medicaid Forward that sets the maximum federal poverty level at 400 percent federal poverty level and includes a member responsibility arrangement as follows:

- No member financial responsibility under 200 percent federal poverty level;
- 2 percent of household income between 200-300 percent federal poverty level; and
- 3.5 percent of household income between 300-400 percent federal poverty level.

According to Mercer's November 2024 study, 30.6 thousand, or 60.15 percent, of SHB enrollees would shift from SHB to Medicaid Forward under these program parameters. While the study did not break out the specific percentage reduction in state costs, the total level of SHB/New Mexico Public Schools Insurance Authority/APS savings due to this enrollment shift would be $310,839.7. With 112,503 current enrollees in these insurance options, the average savings to the state per enrollee equals $2,762.95. If 30,551 SHB members switched to Medicaid Forward, the state would save $84,410.9. FY28 savings are half as much ($42,205.5) due to the program changes occurring halfway through the fiscal year.

The study estimated the total enrollee responsibility amount would equal $130,723.9 across 158,830 Medicaid Forward enrollees, for an average of $823 in premium and out-of-pocket costs per enrollee per year. Mercer's study estimates 30,551 SHB enrollees will switch to Medicaid Forward, meaning the total enrollee financial responsibility for those who switch would equal $25,143.5.

Under the FY26 Executive and LFC budget recommendations, state and local government employees enrolled in a State of NM health plan would pay $138,269.0 in premiums (assuming state employees pay 45 percent of premiums and local employees pay 20 percent of premiums) and $105,162.2 in out-of-pocket costs (assuming the average actuarial value for SHB plans is 82 percent), for a combined $243,431.2. SHB's enrollment census is higher than Mercer's projections, so if the amount above is spread across 59,000 SHB enrollees, it equals $4,125.95 per enrollee per year. Among the 30,551 SHB enrollees who are expected to switch to Medicaid Forward, the total current SHB enrollee financial responsibility is projected to be $126,052.0.

Marketplace Affordability Program (MAP)
Per the Mercer analysis, enrollment in the BeWell Marketplace would decrease by 69.5 percent (enrollment decrease from 56,091 to 17,374) if Medicaid Forward eligibility was limited to 400 percent FPL and 88.9 percent (enrollment decrease from 56,901 to 6,302) if there is no income limit. Due to the reduction in Marketplace enrollment, state subsidy costs will decrease by 75.2 percent if Medicaid Forward eligibility was limited to 400 percent federal poverty level and 93.3 percent if there was no income limit. Based on a June 2024 Wakely analysis that assumed 57,950 enrollees for FY28 with the expiration

of the enhanced Federal Premium Tax Credit (and its resulting 75.2 percent decrease in subsidy costs), that would save $60,460.8 in HCAF funding; with a 93.3 percent decrease in subsidy costs, that would save $75,495.6 in HCAF funding.

Due to BeWell's record enrollment of 70,373 as of January 2025, HCA requested Wakely provide updated data on costs. Based on newly available data, HCA would expect an enrollment of 71,050 in FY28. In FY28, assuming an expiration of the enhanced Federal Premium Tax Credit, a 75.2 percent decrease in subsidy costs would save $67,755.2 in HCAF funds; a 93.9 percent decrease in subsidy costs would save $84,603.9 in HCAF funds. FY28 savings are half as much due to the program changes occurring halfway through the fiscal year. The percentage decrease in enrollment is different than the decrease in subsidy costs as different consumers are eligible for different levels of coverage. The "Estimated Additional Operating Budget Impact" data is based on income limits at 400 percent FPL and the June 2024 Wakely data.

The bill is not clear about what role the Exchange would play if Medicaid Forward were to be implemented. **Substantial reductions in Exchange and State Employee Health plan enrollment would destabilize those health plans and would likely render them financially insolvent.**

Total HCAF Impact
With $67,755.2 in lower MAP spending and $3,976.2 in lower small business initiative spending, HCAF program spending would be $71,731.4 lower with the implementation of Medicaid Forward.

SIGNIFICANT ISSUES

HCA provided the following:

Cautionary Note on Medicaid Policy Changes in New Mexico
Given the transition to a new federal administration, significant policy changes at the federal level may impact New Mexico's Medicaid program. The new administration has previously advocated approaches such as block grants or per capita caps, which, if implemented, could alter the structure of federal Medicaid funding and increase fiscal uncertainty for the state.

Medicaid and Income Support Division
HB186 does not provide funding for anticipated MAD, ASPEN, MMIS, and call center and ISD staffing changes necessary to implement the Medicaid Forward Plan; or for the ongoing programmatic costs of coverage. The bill is not clear about what impacts would occur on the existing health insurance market in New Mexico.

Medicaid provider reimbursement is generally lower than reimbursement through commercial coverage. The bill does not contemplate what level Medicaid reimbursement would need to be set at to offset any reduction to provider payments resulting from the movement to Medicaid Forward. It is likely that Medicaid reimbursement rates would need to be increased under the proposed structure.

Health Care Affordability Fund
Consumers within the income range for Medicaid Forward are expected to transfer from

private coverage to Medicaid Forward due to the anticipated cost savings. Per federal requirements, Medicaid Forward premiums and cost-sharing cannot exceed 5 percent of household income without an 1115 waiver. However, plans for consumers at 400 percent of the federal poverty level and above on BeWell, the New Mexico Health Insurance Marketplace, currently have a maximum consumer contribution rate of 8.5 percent of household income (see table below with examples from Mercer's study).

Under HB186, financial assistance will be offered, "at a minimum, to households with incomes below four hundred percent of the federal poverty level." Based on July 2024 BeWell data, that means that 77.5 percent (45,792 individuals) of enrollees in BeWell would be eligible to receive financial assistance through enrollment in Medicaid Forward. Per the Affordable Care Act, to qualify for the PTC, an individual cannot be eligible for Medicaid. If these consumers become eligible for Medicaid, they will no longer be eligible for the PTC under the Affordable Care Act. Further, if they are not eligible for the PTC, they are not eligible for additional state subsidies, including premium and out-of-pocket assistance provided by the Marketplace Affordability Program under the health care affordability fund (HCAF). Though BeWell's core enrollment would be likely to decline significantly, HB186 may include a substantial role for BeWell's platform to be used to enroll consumers in Medicaid Forward, thus maintaining their platform and staff.

OSI provided the following:

The parameters of the Medicaid Forward Plan are undefined, making it difficult to determine the impact on the commercial market and on New Mexico medical providers.

<u>Individual and Group Off-Exchange Market</u>

OSI does not have jurisdiction over the health plans subject to the Health Purchasing Act and Medicaid. OSI regulates all commercial (fully funded) health plans sold in New Mexico. These plans include subsidized and non-subsidized Qualified Health Plans (QHPs) sold on the New Mexico Health Insurance Exchange (BeWell), as well as plans sold off-Exchange to individuals, small and large employer groups. As of December 2024, a total of 163,436 individuals were enrolled in commercial plans and could be significantly impacted by the implementation of Medicaid Forward. As of January, 2025, 70,373 persons are covered through BeWell.

Stakeholders in the Mercer study explained that "there would still be individuals who would want employer-sponsored coverage and inquired if the Medicaid Forward Plan would effectively limit employer offerings or make employer offerings less robust. Concerns were expressed about how Medicaid Forward would impact coverage offered by employers, and how those would continue to operate if offered only for a small population. Additionally, certain stakeholders voiced concerns that Medicaid Forward could drive business away from New Mexico and dissuade new businesses from coming in." Concerns were also expressed with the fact that Medicaid Forward may undermine the role of the private sector.

<u>Independent Providers</u>

It has been determined that Medicare physician reimbursements have not been keeping up with the costs of maintaining practice (inflation). Per the American Medical Association, Economic and Health Policy Research, significant disparities exist between provider reimbursement rates and inflation. From 2001 to 2021, practice cost inflation

rose 54 percent, while physician reimbursement only rose 8 percent. This may result in the unsustainability of independent providers and could further reduce the availability and accessibility of health care services in New Mexico.

Based on the Urban Institute study, provider reimbursement rates under Medicaid Forward would be between 130 percent and 140 percent of Medicare. However, the Mercer study specifies that, "Medicaid rates would need to increase if Medicaid Forward were implemented." Stakeholders have expressed that 150 percent of Medicare is not enough to sustain providers and practices and suggested that rates for current population need to increase up to 250 percent of Medicare.

NMHIX said that based on current enrollment for PY2025, New Mexicans are receiving approximately $35.5 million per month to reduce the cost of their monthly premium. If Medicaid eligibility is extended to all New Mexicans under 65 years old, premium tax credits will not be provided, resulting in reduced federal tax credits of $426 million per year.

BeWell's (also known as NMHIX) purpose is to:

- Maintain functional and secure technology to allow consumers to shop for and enroll in health insurance plans that fit their needs.
- Facilitate consumer access to federal financial assistance like advance premium tax credits (APTC) and certain other cost-sharing reductions (CSRs).
- Conduct extensive, year-round outreach to educate New Mexicans – particularly Native Americans and residents of rural communities – about health insurance and the financial assistance and customer service available to them at BeWell.

Currently, more than 50 percent of BeWell's consumers pay $10 or less per month in premiums. Two-thirds (67 percent) of consumers pay $100 or less per month for their coverage. Marketplace enrollees receive, on average, $591.88 in APTCs; approximately $35.5 million per month in APTC funding is accessed through the marketplace.

On average, consumers save $40.26 through New Mexico Premium Assistance and $21.20 through Native American Premium Assistance, both funded by HCAF. Less than 15 percent of BeWell enrollees receive no subsidies for their premiums.

More than two-thirds (68 percent) of BeWell consumers are enrolled in a Turquoise Plan, which have lower out-of-pocket costs, due to funding from HCAF. Turquoise plans are available to consumers with incomes up to 400 percent of the FPL which allow them to receive HCAF-funded state subsidies.

BeWell's marketplace currently serves a record 70,373 enrollees. During Open Enrollment for the 2025 Plan Year, the greatest growth was in the 138-200 percent FPL segment; 28 percent of consumers enrolled in medical coverage through the marketplace have household incomes of 200 percent FPL or lower.

The direct result of a precipitous decline in enrollment in NMHIX would be the effective elimination of New Mexicans' access to federal subsidies. BeWell is the only place consumers can access financial assistance like APTCs and CSRs, and consumers are only eligible for APTCs/CSRs or Medicaid; they cannot be eligible for both types of financial assistance. If this

bill were to be enacted, New Mexico would forfeit any federal funding consumers would otherwise receive in the form of APTCs or CSRs, which currently measures at approximately $35.5 million per month. It is important to note that this federal funding cannot simply be redirected to fund other programs, including Medicaid: these funds are paid directly to insurance carriers on behalf of consumers and are not allocated as direct grants to states, so states do not have discretion over their use.

EC/hj