Core Services Category: Health Care

Study Area: Consolidation and Efficiency

High Level Recommendation: Merge health care purchasing agencies into a new department – the Health Policy and Finance Department. The new cabinet-level agency would be composed of the Medical Assistance Division and Behavioral Health Services Division of the Human Services Department in 2011 and the Risk Management Division of the General Services Department, the Retiree Health Care Authority, the Public School Insurance Authority, health benefit unit of Albuquerque Public Schools, and the Long-Term Services program of the Aging and Long Term Services Department by 2013. Under a revision currently being considered by the Government Restructuring Taskforce, the health policy function would remain separate from the department and consideration should be given to whether the existing Health Policy Commission should be strengthened, become a legislative agency, or both.

Problem Statement: The state's health care agencies, including Medicaid, maintain separate administrative structures resulting in duplicative administrative costs, redundant administrative services, disparate benefits plans, and differing cost structures. With each agency collecting and analyzing its own data, there is no comparison of cost or quality factors across state health care programs.

Background and Findings: The General Services Department, Risk Management Division (GSD/RMD), Public Schools Insurance Authority (PSIA), Albuquerque Public Schools (APS) and Retiree Health Care Authority (RHCA) collectively referred to as the Interagency Benefits Advisory Committee (IBAC) provide medical, prescription, dental, vision and life insurance benefits to approximately two-hundred thousand public employees and eligible dependents at an annual cost approaching $1 billion. Each of these groups is responsible for the design of their health care plans and the cost sharing arrangements (e.g., premium contributions, co-pays). Between FY06 and FY11 double digit growth in healthcare related expenditures for IBAC participants was common. Spending is now projected to grow an average of 8 percent annually.

Medicaid purchases healthcare services, primarily through managed care organizations, for more than 550,000 individuals. FY11 Medicaid expenditures are estimated to reach $3.7 billion, with the state contributing about $660 million from the general fund. Enrollment in Medicaid has grown more than 20 percent since FY08, with expenditures growing at similar rates. Medicaid, like all other health care programs, is subject to the inflationary pressures in the health care system. Without systemic change, these inflationary trends are unlikely to change. The fragmentation of the state's health care purchasing and planning functions may inhibit the change necessary to drive down costs.

In total, about 340 FTE are employed by the state to administer these healthcare programs at a cost of approximately $75 million (state, federal and other funds). The combined health care purchase by these programs is more than $4.7 billion in FY11.

Since 2004, several pieces of legislation have been introduced to create a Health Care Purchasing Authority (HCPA) to further consolidate the group health benefits insurance programs for state and public school employees, their dependents, and retirees. The bills were intended to save money by leveraging purchasing power and expanding health care coverage for the participants. Opposition from IBAC member agencies has stalled consolidation.

Senate Joint Memorial 1 of the 2009 session requested meetings of public and quasi-public health coverage entities engaged in the administration, delivery and payment of health care services in New Mexico to elicit their cooperation in identifying areas of common interest and opportunities for consolidation.

In November 2009, a report was presented by HSD to the legislative Health and Human Services Committee suggesting the following cost savings opportunities:

- Commercial carriers indicated that statewide public risk pool aggregation with Albuquerque metro area public plans could lead to cost savings;
- Administrative service costs could be reduced by administering similar benefit plans and larger risk pools;
- Consolidate customer service units from each organization;
- Implement a fixed payment methodology for rural hospitals' outpatient services similar to Medicare;
- Savings could be achieved through consumer-driven reduced benefit plans;
- Consider using one actuary for all public plans consulting;
- Restrict coverage options such that if two state employees have GSD coverage, require the higher paid employee to take-up coverage at a lower subsidy;
- Limit out-of-state coverage;
- Reduce benefit plan designs, increase copays, deductibles, office visit copays, or reduce dependent coverage options;
- Expand authority of the Health Care Purchasing Act and require joint procurement and purchasing by IBAC agencies; and
- Implement a common enrollment process that is electronic to enhance speed and efficiency.

Although there was no consensus regarding any one approach mentioned above, the report suggested that a cost analysis of these options could result in savings. In addition, the SJM1 report noted that Oregon and Kansas are the only states that have acted to consolidate their public health coverage purchasing and administration under one authority.

A 2010 LFC program evaluation recommended the consolidation of RMD and PSIA into a new health care authority. According to the evaluation, "the state has not maximized the purchasing power for health benefits nor taken advantage of comprehensive quality improvement initiatives that would better contain costs. There is little focus on the price of medical care or the outcomes the care provides." The state should "centralize all insurance functions of NMPSIA and RMD under a single entity to leverage the state's purchasing power, remove duplicative government functions, and improve the efficiency of government operations."

Options to Consider: Numerous combinations of these agencies could be considered. The options range from the status quo to a smaller consolidation of GSD/RMD and PSIA to this more comprehensive approach. With independent constituencies, each program carries significant political consideration to go along with the potential administrative and programmatic savings for the state as a whole.

The Health Policy and Finance Consolidation Act creates both an administrative and health care planning agency, although a separate health policy commission might be maintained for advice to the Legislature and the executive.

The Government Restructuring Taskforce adopted this more comprehensive approach, with goals to coordinate and leverage the purchase of health care products and services; create similar plan designs and premium structures for all public employees; and eliminate duplicative administration, information technology, and customer service resources.

The bill also requires the creation of an all-payer claims database to better track utilization and spending on healthcare services in New Mexico. According to the National Conference of State Legislatures (NCSL), all-payer claims databases "provide detailed information to help design and assess various cost containment and quality improvement efforts. By collecting all claims into one data system, states gain a complete picture of what care costs, how much providers receive from different payers for the same or similar services, the resources used to treat patients, and variations across the state and among providers in the total cost to treat illness or medical event (e.g., heart attack or knee surgery)." The lack of access to common data was noted as a key impediment to health care planning for NMPSIA and GSD/RMD in the LFC program evaluation.

Other requirements of the bill include:

- Study the efficacy of managed care
- Study transfer of DD and ALTSD services and
- Establish a workforce database.

Fiscal Implications:

The bill rolls out the consolidation in several phases. There may be some costs during the implementation phase with savings from consolidation not occurring until 2013. Potential savings from consolidated purchasing of healthcare services would occur in 2013 for FY14. The bill's requirement to conduct studies has costs but the amounts are not estimated here.

Estimated Administrative Savings (in thousands of dollars)

FY12	FY13	FY14	Activity	Recurring or Nonrecurring	Fund Affected
	$1,250	$2,500	Agency consolidation, especially IBAC agencies and	Recurring	Other State Funds and Federal Funds
	$750	$1,500	ALTSD long term services program*	Recurring	General Fund

*A full year of savings is estimate to be $4.0 million; given January 1, 2013, implementation, the first full year would be FY14. The combined share of total spending from the general fund is estimated to be about 38 percent.

The table represents potential cost reductions from fewer FTE performing similar duties. More significant savings would be realized from efficiencies in health care purchases and other administrative contracts, such as actuarial services and customer service functions. For example, a 1 percent reduction in rates due to the more efficient purchase of health care services for state employees and retirees could save $10 million per year – savings that would be shared by the state and the enrollee. In addition, the IBAC collectively agreed to recommend the selection of Medco as the pharmacy benefits manager for the four years beginning July 1, 2010. This consolidated purchase of the pharmacy benefit plan is estimated to save the IBAC agencies $51.5 million, or 8.7 percent, over the next four years. Arguably, even greater savings could be achieved by the consolidated purchase of medical services.

Cost to Implement (in thousands of dollars)

FY12	FY13-FY14	Activity	Recurring or Nonrecurring	Fund Affected
Indeterminate		Study efficacy of managed care	Nonrecurring	General fund and Federal funds
Indeterminate		Study transfer of DD and ALTSD services	Nonrecurring	General fund and federal funds
	Indeterminate	Establish an "all payer" claims database	Both	General fund and federal funds
	Indeterminate	Establish a workforce database	Both, mostly nonrecurring	Mostly general fund