

**ANALYSIS OF REFORM OPTIONS FOR
EXTENDING HEALTH CARE COVERAGE IN NEW MEXICO:**

Methods for Estimating Health Services and Administrative Cost

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Overview

- **Current-case medical cost and nonmedical cost**
- **Medical cost of the reform models**
 - **New benefit designs**
 - **Behavioral response to change in coverage**
 - **Change (if any) in provider reimbursement**
- **Nonmedical costs for new system and products**
 - **Administrative cost of system**
 - **Insurance functions (claims, reserves, surplus, etc.)**
- **Cost projections to 2011**

Current Case Medical Cost

- Estimated from national data, normalized to New Mexico spending levels by type of service and program:
 - Medicaid and SCHIP
 - SCI
 - Federal employees
 - State employees
 - Private group insurance
 - Private individual insurance

Benefit Designs

- **HSA – State employee health plan**
- **NM Health Choices**
 - **Low, medium, and high cost sharing by income**
 - **Estimated at medium cost sharing (state employee health plan)**
- **Health Coverage Plan – Current cost sharing by source of coverage**

Covered Services and Cost Sharing

- Covered services
 - 8 service types
 - Coverage for vision and dental
- Cost sharing for covered services
 - Deductibles
 - Coinsurance and copayments
- Uninsured and services not covered = 100% cost sharing

Behavioral Response to New Coverage and New Benefit Designs

- Lower cost sharing induces greater use of services
 - Change in benefit design for insured months (e.g., move from private to Medicaid/SCHIP)
 - Coverage in uninsured months
- Higher cost sharing induces lower use of services
 - E.g., move from private to new program coverage for vision/dental

Estimated Cost Sharing and Expenditures for Uncovered Services

	Medicaid & SCHIP	State employees	Private group	Private individual
	(percent of total expenditures)			
Inpatient	0.0	2.5	2.2	9.1
Outpatient	0.5	7.2	5.0	15.6
ER	1.3	10.9	8.6	11.4
Physician	5.1	21.4	16.1	40.5
RX	15.7	34.8	35.3	59.6
Vision/Dental	25.7	50.7	45.8	71.8
Other services and supplies	19.1	40.8	42.7	71.6
Home Health	0.0	9.9	11.2	25.2

Change in Provider Reimbursement

- **Negotiated provider payments**
 - Health Security Act and NM Health Choices
- **Other avenues for medical cost reduction**
 - Health Coverage Plan
- **Immediate reduction in provider costs and reimbursement for simplification of billing and payer relations**
 - Health Security Act

Considerations for HSA

- Reduction in number of payers, but not single payer
- Providers retain administrative cost of billing FEHBP, Medicare, self-insured employer plans
- Savings estimated at $\frac{1}{2}$ of estimates for Canadian national system by type of service (Woolhandler et al. 2003)

Assumed Change in Provider Reimbursements 2007

	Health Security Act	NM Health Choices	Health Coverage Plan
Hospital inpatient, outpatient, and ER	-5.7%	---	---
Office-based providers, vision and dental	-5.4%	---	---
Home health	-9.6%	---	---
Rx, other services and supplies	---	---	---

Major Sources of Nonmedical Cost

	Health Security Act	NM Health Choices	Health Coverage Plan
Private insurer admin. and surplus		√	√
New voucher/subsidy system		√	
Negotiation of provider payments	√	√	
Claims processing	√	√	√
New governing/ oversight board; hearings and public processes	√	√	
Cost and quality review	√	√	√

Nonmedical Costs of Current Programs

Program	3-5 year average nonmedical cost as a percent of total cost
Medicaid and SCHIP	11.4
Federal employees and self-insured employer plans	15.0
SCI	17.8
State employees	15.0
NMMIP	5.3
HIA	20.4
Private group insured	17.8
Private individually insured	28.1
Other state and federal programs	6 - 8

Nonmedical Cost Assumptions for New Programs

	Basis	Assumption
Health Security Act	2 x Medicare rate for FFS	\$300 per person
NM Health Choices	115% of HSD rate for eligibility determination FEHBP net cost	\$144 per person for voucher system and Alliance management + 15.5% of medical cost for private insurers and administration of reinsurance program
Health Coverage Plan	Current administrative cost rates	Calculated by payer

Assumed Annual Medical Cost Growth

	Current case	Reform models
Basis	2001-2005 trend by payer	1996-2003 Medicare FFS cost trend per member per year, adjusted for FEHB trend for prescription drugs
2008	8.7%	7.7%
2009	8.2%	7.7%
2010	8.4%	7.7%
2011	8.5%	7.7%
