SENATOR JEFF BINGAMAN

HEALTH CARE REFORM: KEY FISCAL BENEFITS AND COSTS TO NEW MEXICO

On balance, the new national health reform law represents a remarkable opportunity for New Mexico and will provide much more in benefits than costs to our state. The following summary provides information about some of the key fiscal benefits and costs as the law is fully implemented (2010-2019).[1]

KEY BENEFITS

Federal Private Health Insurance Subsidies (both premium credits and cost-sharing subsidies)

- In aggregate, New Mexicans will receive **$3.7 billion new federal dollars** for private health insurance subsidies from 2014-2019. [2]
- At full implementation of health care reform in 2019, approximately **120,000** New Mexicans will be recipients of federal subsidies and premium credits, **averaging $7,250 each** (total $870 million).[3]

Expansion of Medicaid to 133% of FPL and Support for Children's Healthcare

- From 2014-2019, reform will bring in **$3.1 billion new federal dollars** to New Mexico to provide Medicaid coverage for approximately 150,000 new beneficiaries.[4] In addition, the new law will provide 100 percent federal support for the State Children's Health Insurance Program or "SCHIP," likely **worth an additional $168 million in new funding**.[5]

Immediate Assistance for Individuals who are Unable to Secure Affordable Health Insurance

- The new health reform law provides immediate assistance to individuals who are unable to secure affordable health insurance by establishing a new high risk pool in New Mexico. It will operate until the new health insurance exchanges are implemented in 2014. During 2010-2014, New Mexico is expected to **receive at least $37 million** for this program.[6]

Small Business Tax Credits

- Starting this year, **24,456** small businesses in New Mexico are eligible to receive a health insurance tax credit, phased in from 35% to 50% of their contributions to employee health insurance premiums.[7]
- A conservative estimated net benefit for New Mexico's small businesses from this program is approximately **$232 million** (2010-2019).[8]
- A small business with 10 employees, employee health care costs of $70,000, and a payroll of $250,000 will receive a **$24,500 tax credit** each year from 2010-2013 and **$35,000** in 2014.
- It is estimated that in New Mexico, the average benefit to small businesses will be **$9,487** (those that employ a smaller number of employees would receive even more).[9]

Strengthening Medicare by Reforming Medicare Advantage

- Reform is estimated to lower premium costs for 224,000 New Mexico seniors and other Medicare beneficiaries by as much as $45 in premium costs, per beneficiary, each year, at an overall impact for New Mexican Medicare beneficiaries of approximately **$10 million** per year.[10]
- Changes in Medicare Advantage benchmarking policy will lower excess payments to private insurance companies but maintain higher payments for New Mexico as percentage of fee-for-service (traditional Medicare) than other states. New Mexico payments are expected to be 113 to 118 percent of fee-for-service, while plans in New York will receive 102 percent and in Connecticut plans will receive 97 percent.[11]

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[1] Complete estimates of the impact of health care reform are not available; this represents a summary of available information. Please see citations for sources of information. As more data becomes available, these estimates may be updated and refined. Last revision date: May 18, 2010.

KEY COSTS

Medicaid State Matching

- Between 2014 and 2019, New Mexico is expected to only match approximately **3%** of the costs for covering new Medicaid recipients. This will require the state of New Mexico to provide approximately **$16.7 million per year** (just $111 per recipient per year).[12]

Excise Tax on High Cost Insurance Plans

- Heath care reform places a new tax, beginning in 2018, on high cost, so-called "Cadillac" health insurance plans valued at over $10,200 for individual coverage and $27,500 for family plans.[13]
- In New Mexico by 2018, the projected total average health insurance plan cost for individuals will only total $6,828 for individual coverage and $20,231 for families.[14]
- An independent analysis by the Congressional Research Service indicates that **very few insurance plans in New Mexico fall above this threshold**, likely less than **2%**.[15]
- Thus, almost all plans fall well below the threshold for the new excise tax and this means **the vast majority of New Mexicans will not pay this tax.**

Medicare Hospital Insurance (HI) Tax

- The Medicare HI tax applies to individuals who earn more than $200,000 per year and couples who earn more than $250,000; it also places a surcharge on some unearned income for these higher-income taxpayers.
- About **1.89 percent** of New Mexicans report earned income above $200,000.[16]
- Thus, **over 98% of New Mexicans will not face any additional tax burden**.
- By way of contrast, **a higher percentage of residents in other states will experience this new tax.** For example, 375,265 or 3.78% of taxpayers in New York and 101,088 or 5.4% of taxpayers in Connecticut are likely to have to pay this tax.[17]

Penalties from the Individual Mandate

- In 2014, the new health care law requires most individuals to maintain minimum essential health care coverage or pay a penalty of **$95 or 1% of income** (whichever is greater). In New Mexico, 1% of current median income is $414. By 2016, the flat dollar amount per person rises to **$695 or 2.5% of income** (approximately $1,036 in current dollars for median income taxpayers in New Mexico).[18]
- The Congressional Budget Office estimates that **the majority of uninsured individuals in 2016 will not be subject to a penalty** (and in fact, may be eligible for subsidies or public coverage through Medicaid).[19]
- In addition, the law provides a number of **exceptions**, many of which apply to New Mexicans.
    - Taxpayers who are not required to file a tax return -- i.e., in 2010 those with incomes at or below **$9,350 for single filers** and $ **18,700 for joint filers** -- are also exempt from the mandate and any penalty. In New Mexico, approximately **225,000 or 12% of taxpayers fall below these thresholds and thus will not face a penalty**.[20]
    - **194,000 (9.7%)** of New Mexico's population is American Indian and are exempt from the mandate.[21]
- And, with the Medicaid eligibility expansion, over **630,000 New Mexicans** will be covered by this public program and thus will not be subject to the individual mandate penalty.[22] Combined with Medicare and private coverage expansion, **this means over 94% of New Mexicans would be eligible for health insurance coverage** (undocumented immigrants would be the only group without a guaranteed source of coverage).[23]

Industry Fees

- Health care reform places a number of new fees on drug and health insurance companies as well as an excise tax on certain medical devices. Given the current industry mix in New Mexico, the impact on our businesses will be limited, particularly in comparison to other states with large pharmaceutical companies, such as New Jersey, or a large medical device manufacturer presence, such as California.[24]

Sources

[2] Analysis of the Patient Protection and Affordable Care Act (HR 3590) and the Health Care and Education Reconciliation Act of 2010 (HR 4872) by Jonathan Gruber, Professor of Economics, Massachusetts Institute of Technology (March 2010). See Health Care Reform for America Now, "Federal Health Reform Provides Critical Long-Term Help to States" (March 24, 2010), available at [http://hcfan.3cdn.net/3c225ed1445f6c7748_dzm6i66qw.pdf].

[3] Ibid.

[4] Ibid.; newly eligible Medicaid beneficiary data from John Holahan and Linda Blumberg, "How Would States Be Affected By Health Reform?" Urban Institute Report (January 2010), available at [http://www.urban.org/uploadedpdf/412015_affected_by_health_reform.pdf].

[5] Based on spending in 2009 extrapolated from 2014-2019. See [http://www.statehealthfacts.org/profileind.jsp?cat=4&sub=61&rgn=33].

[6] U.S. Department of Health and Human Services, "Fact Sheet: Temporary High Risk Pool Program," available at [http://www.hhs.gov/ociio/initiative/hi_risk_pool_facts.html].

[7] Analysis of the Medical Expenditure Panel Survey-Insurance Component (2008) by the Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services, as detailed in the Democratic Policy Committee Report, "The Benefits of Health Reform in New Mexico" (April 5, 2010), available at [http://dpc.senate.gov/docs/sr-111-2-41_states/nm.pdf].

[8] Ibid.

[9] Benefit calculation derived from the Congressional Budget Office's estimated $37 billion cost nationally for small business tax credits (2010-2019) and the expected number of small businesses (3.9 million) which may quality. See Congressional Budget Office, "Letter to the Honorable Nancy Pelosi Providing an Estimate of the Direct Spending and Revenue Effects of an Amendment in the Nature of a Substitute to H.R. 4872, the Reconciliation Act of 2010" final analysis of HR 4872, available at [http://www.cbo.gov/ftpdocs/113xx/doc11379/Manager%27sAmendmenttoReconciliationProposal.pdf].

[10] U.S. Senate Finance Committee data, as detailed in the Democratic Policy Committee Report, "The Benefits of Health Reform in New Mexico" (April 5, 2010), available at [http://dpc.senate.gov/docs/sr-111-2-41_states/nm.pdf].

[11] See Brian Biles and Grace Arnold , "Medicare Advantage Payment Provisions: Health Care and Education Affordability Reconciliation Act of 2010," George Washington University School of Public Health and Health Services Working Paper (March 2010), available at [http://www.gwumc.edu/sphhs/departments/healthpolicy/dhp_publications/pub_uploads/dhpPublication_8C515659-5056-9D20-3D3985C6A1BBC2A5.pdf]; Medicare Payment Advisory Commission, "State Levels of MA Benchmarks, FFS Medicare Spending, MA Rebate Payments, and MA Plan Enrollment as a Share of Medicare," table supplied by the Senate Finance Committee to the Office of Senator Jeff Bingaman, May 6, 2010.

[12] Kaiser Commission on Medicaid and the Uninsured, "Financing New Medicaid Coverage Under Health Reform: The Role of the Federal Government and States," (May 7, 2010), available at [http://www.kff.org/healthreform/upload/8072.pdf]. See also January Angeles and Matthew Broaddus, "Federal Government Will Pick up Nearly All Costs of Health Reform's Medicaid Expansion," Center on Budget and Policy Priorities Report (April 20, 2010), available at [http://www.cbpp.org/files/4-20-10health2.pdf]. This CBPP estimate is based on CBO's analysis of final legislation: Congressional Budget Office, "Letter to the Honorable Nancy Pelosi Providing an Estimate of the Direct Spending and Revenue Effects of an Amendment in the Nature of a Substitute to H.R. 4872, the Reconciliation Act of 2010" (March 20, 2010) .

[13] Kaiser Family Foundation, "Summary of New Health Reform Law," available at [http://www.kff.org/healthreform/upload/8061.pdf], p. 3.

[14] Senate Finance Committee data supplied to the Office of Senator Jeff Bingaman, May 3, 2010.

[15] Congressional Research Service estimates provided to the Office of Senator Jeff Bingaman, August 5, 2009. Estimates based on 2008 data adjusted to appropriate threshold levels.

[16] Senate Finance Committee Expanded Income Distribution Data, supplied to the Office of Senator Jeff Bingaman, May 3, 2010. Based on 2007 tax filings.

[17] Senate Finance Committee Expanded Income Distribution Data supplied to the Office of Senator Jeff Bingaman, May 3, 2010. Based on 2007 tax filings.

[18] Median income data from the U.S. Census Bureau, "The 2010 Statistical Abstract" (Table 690: Household Income—Distribution by Income Level and State: 2007) available at [http://www.census.gov/prod/2009pubs/10statab/income.pdf].

[19] Congressional Budget Office, "Payments of Penalties for Being Uninsured Under the Patient Protection and Affordable Care Act," (April 22, 2010), available at [http://www.cbo.gov/ftpdocs/113xx/doc11379/Individual_Mandate_Penalties-04-22.pdf].

[20] Analysis of aggregate Personal Income Tax (PIT) data from the State of New Mexico (2005 tax filing year).

[21] Kaiser Family Foundation, "Summary of New Health Reform Law," available at [http://www.kff.org/healthreform/upload/8061.pdf], p. 1; Native American population estimate from U.S. Census Bureau, "State and County Quickfacts," available at [http://quickfacts.census.gov/qfd/states/35000.html].

[22] Combined total based on projected new enrollees (note 3) and existing Medicaid beneficiaries; see New Mexico Human Service Department Medicaid Client Data (May 5, 2010), available at [http://www.hsd.state.nm.us/mad/pdf_files/Reports/Revisedby5-5-10/AllClient.pdf].

[23] CBO estimate of insurance coverage after full implementation of health reform. See Congressional Budget Office, "Letter to the Honorable Nancy Pelosi Providing an Estimate of the Direct Spending and Revenue Effects of an Amendment in the Nature of a Substitute to H.R. 4872, the Reconciliation Act of 2010" (March 20, 2010).

[24] New Jersey, for example, is the historic headquarters of the pharmaceutical industry and currently has 251 companies which manufacture pharmaceuticals; New Mexico has none. See U.S. Census Bureau, American Fact Finder, "Table 1. Selected Industry Statistics for the U.S. and States: 2007, Pharmaceutical and Medicine Manufacturing" available at [http://factfinder.census.gov/servlet/IQRTable?_bm=y&-ds_name=EC0700A1&-NAICS2007=3254&-_lang=en]. California has over 1,800 establishments producing medical equipment; New Mexico has 53. See U.S. Census Bureau, American Fact Finder, "Table 1. Selected Industry Statistics for the U.S. and States: 2007, Medical Equipment and Supplies Manufacturing" available at [http://factfinder.census.gov/servlet/IQRTable?_bm=y&-ds_name=EC0700A1&-NAICS2007=3391&-_lang=en].