

Cutting Costs and Improving Health Care in New Mexico

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The New Mexico Legislature begins a 30 day session in January and one of the top issues facing our elected officials this year is health care and whether to adopt Governor Richardson's "Health Solutions New Mexico" plan which attempts to provide nearly universal health care coverage to New Mexicans.¹ While focusing on "universal coverage," Richardson's plan relies heavily on both the federal and state governments to achieve its goals.

There are many issues to consider with Richardson's plan, but the tremendous power given to an entity called the New Mexico Health Care Authority is the most important. This entity would be in charge of implementing the plan and regulating nearly every health care-related activity in the state including doctor pay. New Mexico already struggles to attract and keep doctors to the state, especially to rural areas. Allowing an all-powerful new bureaucracy to cut costs – ultimately on the backs of doctors – will greatly exacerbate the problem.²

While increased coverage may sound like a wonderful achievement, slapping price controls on doctors as Richardson's plan does, will force New Mexicans to quickly realize that being insured and receiving quality health care in a reasonable amount of time mean two completely different things. This is not a far-fetched possibility, but an inevitable result of artificial price controls which inevitably result in shortages.

Given the very real problems with any government effort to solve our health care problems and the opposition that has already materialized in New Mexico's Legislature, Governor Richardson's plan faces long odds in 2008.³ This is a good thing as there is still time for advocates of limited government to put their own ideas on the table.

Rather than simply expanding government control over our health care, New Mexicans should be looking for reforms that will make high quality care more accessible. Here are a few possibilities that will cut health care costs while actually improving care:

¹ Details of Richardson's plan are available at: <http://www.governor.state.nm.us/healthsolutions.php?mm=4>.

² Martin Salazar, "UNM Program Helps Answer NM Doctor Shortage," *Albuquerque Journal*, November 25, 2007, <http://www.abqjournal.com/news/metro/264617metro11-25-07.htm>.

³ Sen. Steve Komadina, "Health Care Reform or Political Posturing?" *The Santa Fe New Mexican*, November 17, 2007, http://www.santafenewmexican.com/Opinion/Health_care_reform_or_political_posturing_.

The Solutions

- 1) Exempt co-payments, deductibles, fee-for-service health care (including dentists), and over-the-counter medicine from New Mexico's Gross Receipts Tax.⁴ Currently, only payments from insurers are exempt from the onerous Gross Receipts Tax.

No health care reform could be simpler than exempting health care expenses that are not even taxed in most states from taxation in New Mexico. Most health care plans now ask patients to pay part of their bill in the form of co-payments and deductibles; there is no reason to demand New Mexicans pay up to nearly 8 percent in taxes to the state on top of those burdens.

Policymakers may view this tax break as "expensive," but it will be far cheaper than embarking on a new government-directed, universal coverage scheme.

- 2) New Mexico could make individual health insurance premiums/out-of-pocket medical expenses tax deductible. Oregon and North Dakota are the only two states in the U.S. with provisions to allow an additional deduction from their personal income taxes for medical expenses not qualifying under federal law.⁵ North Dakota's tax benefit is available for everyone while Oregon's deduction is for seniors only.

President Bush has tried to give individuals the same tax benefits for health care as their employers get, with little success. New Mexico could cut individuals' health care costs by moving in this direction.

- 3) New Mexico could participate in the Health Opportunity Accounts demonstration, which allows some Medicaid recipients to have Health Savings Accounts.⁶ The Deficit Reduction Act of 2005 (DRA) included a provision that allows the Secretary of Health and Human Services (HHS) to approve new demonstration projects in up to 10 states to establish "Health Opportunity Accounts" for people enrolled in Medicaid.⁷

These plans offer recipients of Medicaid greater control over their health care expenses and they can allow states to reduce the rapid annual increases in Medicaid costs.

- 4) New Mexico could permit pretax contributions from small business owners to their employees' individually selected policies. Employees with individual policies, particularly HSA plans, are not insulated from the true cost of the premiums or the cost of care. They recognize that this is their portable plan, not the employer's plan. They are aware that their lifestyles affect premiums. This realization can affect unhealthy, sedentary choices. For example, when told that his premium could be 30 percent lower if he was not a tobacco user, an individual said that was

⁴ State of New Mexico, "Frequently Asked Questions about the New Mexico "Health Services Deduction," <http://www.tax.state.nm.us/pubs/FAQMed.pdf>.

⁵ Oregon Legislative Revenue Office, "Changes in Oregon's Additional Medical Deduction for Seniors Incorporated in the 2003 Revenue Package," October 2003, http://www.leg.state.or.us/comm/lro/rr5_03.pdf.

⁶ Office of Management and Budget, "State Plan Amendment: Health Opportunity Accounts Demonstration Program," <http://www.cms.hhs.gov/smdl/downloads/HOAprerequisitefinal112906.pdf>.

⁷ Medicaid Alert, Families USA, <http://www.familiesusa.org/assets/pdfs/dra-hoas.PDF>.

the incentive he needed to stop smoking. This self-ownership provides for more judicious utilization of insurance benefits, and promotes wellness.

With a \$2,500 deductible Health Savings Account plan available for as little as \$60 a month and employers now able to chip in, such a law would help businesses provide coverage for employees that otherwise might remain uninsured.

Missouri has undertaken this reform.

- 5) Allow individuals to purchase health insurance across state lines. Federal legislation called the Health Care Choice Act which is sponsored by Rep. John Shadegg (AZ) would do this on a nationwide basis. New Mexico's Legislature could do the same thing for those in need of reasonably-priced health care in our own state.

New Mexico law mandates that insurance companies cover 49 specific health care procedures. While well-intentioned, each mandate drives up the cost of coverage and makes it more difficult for those who are uninsured – New Mexico has the 2nd-highest rate of uninsured in the nation – to purchase basic, inexpensive health insurance policies.

According to the Coalition for Affordable Health Insurance, mandated benefits currently increase the cost of basic health coverage from a little less than 20% to more than 50%, depending on the state. Mandating benefits is like saying to someone in the market for a new car, if you can't afford a Lexus loaded with options, you have to walk.⁸

Why wait for action from Washington when New Mexico can increase the accessibility of health care this right now, without a massive new government bureaucracy?

- 6) New Mexico should consider legislation requiring proposed and existing mandates to first be evaluated for cost effectiveness and medical efficacy. Twenty-six states have some kind of requirement that new and even existing health care mandates be reviewed.⁹ New Mexico has no similar provision.

Special-interest politics have caused New Mexico to accumulate one of the most onerous sets of health care mandates in the nation. Some form of objective study is important before we add more mandates.

Many problems in health care are the direct result of poor decisions made in Washington over which New Mexico policymakers have limited control. However, each of the above policies can be undertaken at the state level right now and with positive results. Legislators could have a dramatic, positive impact on our state's high uninsured rate and the quality of New Mexicans' health care by enacting one or more of these measures.

⁸ Bunce, Wieske, and Prikazky, Health Insurance Mandates in the States 2007, Coalition for Affordable Health Insurance, http://www.cahi.org/cahi_contents/resources/pdf/MandatesInTheStates2007.pdf.

⁹ Bellows, Halpin, McMenamin, "State-Mandated Benefit Review Laws," Health Research and Educational Trust, http://www.chbrp.org/documents/benefit_review_laws_hsr062006.pdf.