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Letter of Direction

Date: May 30, 2025

To: State Health Benefits Medical Coverage Administrative Service Organizations

From: Kari Armijo, Cabinet Secretary and JoLou Trujillo-Ottino, State Health Benefits Director

Subject: State Health Benefits urban hospital reimbursement rates

Title: Establishing maximum payment limitations using Medicare reference-based prices

Pursuant to Senate Bill 376 (2025), the purpose of this Letter of Direction (LOD) is to notify Administrative Service Organizations (ASOs) contracted with the New Mexico Health Care Authority (HCA) to administer the State Health Benefits (SHB) medical plans for state and Local Public Body employees (enrolled in the SHB plans) that, starting July 1, 2025, the HCA will no longer reimburse urban in-network hospitals more than 200% of what Medicare would pay for the same services or urban out-of-network hospitals more than 175% of what Medicare would pay for the same services.

Hospitals Subject to Maximum Payment Limitations

Hospitals located in counties that have a population of 125,000 or more according to the most recent federal decennial census are subject to Maximum Payment Limitations (MPL). Facilities located in Bernalillo, Las Cruces, Sandoval, and Santa Fe are subject to the MPL under this directive.

Maximum Payment Limitations

ASOs must update contracts with network hospitals located in counties that have a population of 125,000 or more according to the most recent federal decennial census to ensure that no in-network inpatient or outpatient services or products will be reimbursed at a rate greater than 200% of Medicare. If the hospital's current contracted rate is below 200% of Medicare, the rate is to remain at its current level and may not be increased.

To ensure that no inpatient or outpatient services delivered at out-of-network hospitals located in counties that have a population of 125,000 or more according to the most recent federal decennial census will be reimbursed at a rate greater than 175% of Medicare, these hospitals shall be reimbursed the lesser of billed charges, the reimbursement negotiated by the ASO, or 175% of the Medicare rate for the service as of the date of service of the claim.



If a specific service is not covered by Medicare but a similar service is covered, the ASO shall use that service as the basis for payment. If there is no similar service, the MPL shall not apply. Additionally, the MPL shall not apply to professional services or out-of-network covered services for which the allowed amount is determined by federal or state laws, such as emergency care as governed by the New Mexico Surprise Billing Protection Act.

Calculation of the Medicare reference-based MPL for inpatient services applies the Inpatient Prospective Patient System rates excluding any additional payments that are not claim-specific, such as, bad debt, disproportionate share, and medical education payments. Calculation of the Medicare reference-based MPL for outpatient services applies the Medicare Ambulatory Payment Classification or Hospital Outpatient Prospective Payment System rates. To the greatest extent possible, claims submitted for reimbursement must include all CMS required modifiers so that all rebates, incentives, or adjustments that would have applied if reimbursed by Medicare would also apply.

If an ASO does not reimburse claims on a fee-for-service basis for a particular service, the payment method used must take into account the limits established by this directive. This includes, but is not limited to, value-based payments, capitation payments, and bundled payments.

Balance Billing Prohibition

Per SB 376, hospitals subject to the MPL are prohibited from balance billing patients in reference-based pricing initiatives under the Health Care Purchasing Act, meaning only the applicable cost-sharing amounts in the patient's health benefits contract can be charged to the patient for both in-network and out-of-network services. ASOs shall notify in-network hospitals subject to the MPL of this requirement. If the Centers for Medicare and Medicaid Services (CMS) takes any action that results in a retroactive adjustment to the MPL for any inpatient or outpatient hospital service or supply it shall not result in retroactive increases to member cost sharing.

Right to Audit

To promote transparency, accountability, and verification, HCA (or a third party its choosing) will have the ability review affected hospital claims to determine if they are being adjudicated in compliance with this LOD on a claim level basis. This is necessary because the savings related to the MPLs are reflected in the SHB FY26 budget and the legislature will be monitoring progress to achieve the savings throughout the fiscal year. No additional confidentiality, nondisclosure, or data use agreement shall be required to enable or govern such disclosures, as all required protections and obligations are already provided for under the existing agreement.



When evaluating whether bundled payments are in compliance with the MPLs, because they are impacted by utilization, two years of experience will be considered when making the compliance determination.

Effective Date

The guidance described in this Letter of Direction shall be effective July 1, 2025.

As such, by July 1, 2025, the ASOs are expected to have completed the following, submitting to HCA an attestation that it has complied with this Letter of Direction and taken the following actions:

- Necessary contracts amendments with affected in-network hospitals.
- Communications to affected in-network and out-of-network hospitals regarding the prohibition from balance billing.
- Provide members with written communications stating balance billing is prohibited, and include ASO contact details so they can seek assistance if they ever receive a balance bill.
- Other activities required to implement Medicare reference-based pricing, such as: updating the claims systems, training claims and member services teams, and communicating to members.

HCA will prepare a contract amendment implementing these changes. If you have any questions, please contact JoLou Trujillo-Ottino at JoLou.Trujillo-Ottino@hca.nm.gov.