LFC Hearing Brief

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Public employee health benefits are provided through three agencies: the General Services Department (GSD) for state employees as well as employees of some local governments and higher education institutions; the Public School Insurance Authority (NMPSIA) for employees of 88 school districts, charter schools, and some higher education institutions; and Albuquerque Public Schools (APS) for all employees of the Albuquerque school district. In the case of APS and NMPSIA, health benefit rates are set by their respective boards while ultimate discretion for GSD rates resides with the governor.

AGENCY: General Services Department, Public School Insurance Authority, Albuquerque Public Schools, Human Services Dept./Heath Care Authority Dept.

DATE: September 29, 2023

PURPOSE OF HEARING: Review of group health benefits and risk insurance programs

WITNESS: Robert Doucette, GSD; Patrick Sandoval, NMPSIA, Todd Torgerson, APS, Kari Armijo, Human Services Dept./Heath Care Authority Dept.

PREPARED BY: Joseph Simon, Analyst, LFC

EXPECTED OUTCOME: Informational

Health Benefits

New Mexico, like most other states, operates several self-insured health plans, providing public employees who choose to participate in the plans with medical, dental, vision, and prescription drug coverage. Self-funded plans, typically favored by large employers that have the scale to spread risk with a larger insured population, cover the cost of medical care, contracting with external entities for access to their coverage networks and for third-party administrative services, such as claims processing. New Mexico's public employee plans place health premiums into a fund, which is then used to pay medical claims. A self-insured benefits plan must match health expenditures with program revenue raised through assessed premiums while balancing the need to provide coverage benefits that are competitive in the marketplace to ensure public employers can recruit and retain qualified staff.

According to data provided by the Kaiser Family Foundation, the average total cost of health insurance plans for New Mexico workers was $7,794 per year in 2022, slightly less than the national average of $7,911. New Mexico employees paid an average $1,741 for coverage, or about 22 percent of the total premium. For family coverage, total premiums averaged $21,857. However, state and educational employees in New Mexico typically pay more, with state employees paying as much as $2,474 for single coverage and public school employees paying as much as $3,097 for single coverage.

According to NCSL, 29 states operate fully self-insured plans, with 19 states have both self-insured and fully insured options. Only two states—Idaho and North Dakota—only offer fully insured options.

FY24 Comparison of Annual Health Insurance Premium Costs

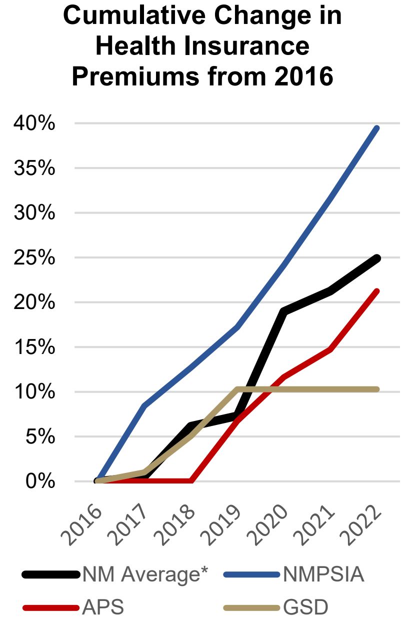
Based on Single Coverage and income of $50 thousand (Exchange Rate for 30 year old)*

	NMPSIA-High Option	GSD-Blue Cross PPO	APS-BCBS Preferred	UNM - Pres	BernCo-Blue Cross PPO	Exchange Gold Plan (Unsubsidized)
Employer Premium	$7,227	$5,774	$4,835	$6,702	$5,487	$0
Member Premium	$3,097	$2,474	$2,072	$2,872	$1,372	$4,477
Total Premium	**$10,325**	**$8,248**	**$6,908**	**$9,575**	**$6,859**	**$4,477**
Deductible	$750	$500	$1,000	$600	$1,000	$3,500
Max Out of Pocket	$4,100	$4,000	$5,000	$3,000	$5,000	$9,100

Source: LFC Files

*For GSD plan, the premium is based on state agency premiums; local government and higher education have a 10 percent reduction until Jan. 1, 2024.

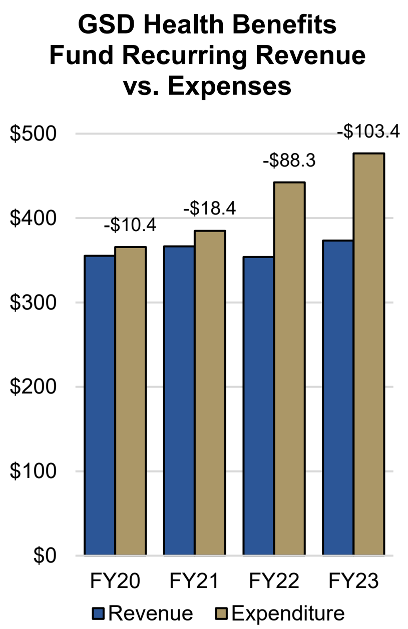
Health Insurance Costs Trends



*Note: 2022 is most recent available data for average New Mexico data

Source: Kaiser Family Foundation and LFC Files

Recently published research found that employers who provide self-insured plans pay marginally higher costs for medical services versus fully insured plans. Researchers argue even large employers lack sufficient market power to effectively negotiate prices.



Source: SHARE

The total cost of most state funded plans has increased significantly in recent years. For the Public School Insurance Authority, rate increases since 2016 have totaled nearly 50 percent, with the costs of one popular plan rising from $6,984 in 2016 to $10,325 in 2023. NMPSIA reports a 6.5 percent medical cost trend, a 10 percent prescription drug cost trend and 4 percent dental cost trend.

Premiums for plans offered by the General Services Department remain much lower; however, this is largely because plan premium rates have not been set to meet the total cost of the plan. Between FY20 and FY23, GSD held health insurance premiums flat, despite rising medical costs. Instead, the department sought additional one-time appropriations directly from the general fund. Between 2019 and 2022, the Legislature appropriated $42.6 million from the general fund to the group benefits fund to resolve ongoing deficits. But several years with no rate increase led to ongoing deficits, with recurring revenue for the group benefits fund in FY23 falling $103 million short of expenditure.

GSD provides plans to both state and local government employees and local governments are charged the same premiums as the state. Because the program premium revenues are less than program costs, the state is effectively subsidizing health coverage for non-state employees. Approximately one-third of the GSD health benefits program is from local government employees and their dependents. Additionally, about half of state employees are paid with funds from other than the general fund. As a result, total general fund exposure for health insurance premiums are only about one third of the total and a direct general fund appropriation of $42.6 million to the health benefits fund was effectively a $28.4 million bailout of other revenue sources at the expense of the general fund.

Budget guidelines from LFC for the 2023 session noted the employee health benefits fund should not continue to receive 100 percent bailouts from the general fund. Consistent with those guidelines, the Legislature approved a total of $96 million in one-time appropriations for the health benefits fund, with $34.6 million from the general fund, contingent on a plan from GSD to raising matching funds of $32.6 million from local governments and higher education institutions. Following assessments to municipal and county government, several municipal and county government filed suits asking the court to prevent GSD from collecting these assessments. To date, GSD has collected about $9.8 million of the $32.6 million matching funds, with $22.8 million remaining outstanding.

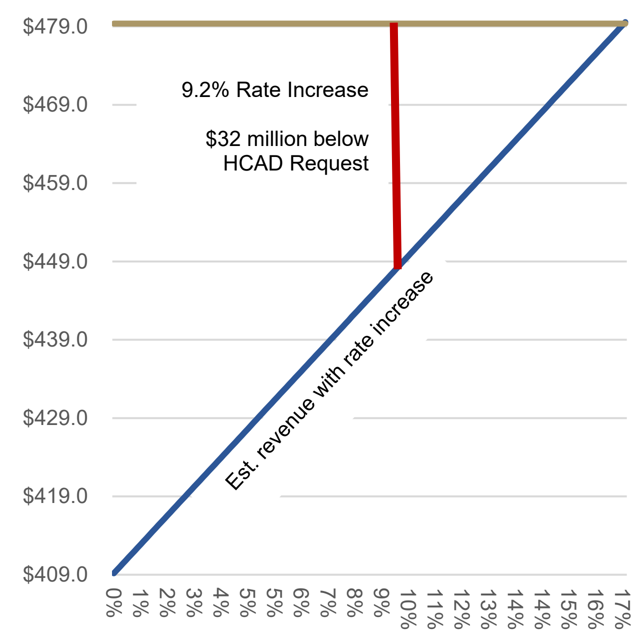
Budgeting for Health Insurance. GSD rates are built into base budget requests of agencies prior to the appropriations process while NMPSIA and APS requests funding to be included in the public school support (PSS) budget for distribution to school districts. The NMPSIA board is empowered to set insurance rates assessed to districts regardless of whether funding was included in the PSS budget. APS receives 25 percent of the state equalization guarantee funding available for insurance in the PSS budget regardless of claims experience.

For FY25, budget instructions from the Department of Finance and Administration included a 9.2 percent premium rate increase for medical, dental, and vision plans, although the instruction noted this total could possibly change. In FY25, management of the group health insurance plan will transfer to the Health Care Authority Department (HCAD), which submitted a budget request for FY25 totaling $479.4 million, with $3.3 million in direct general fund appropriations and $476.1 million in insurance premiums from employers and employees.

Even accounting for the 9.2 percent rate increase built into agency budget requests, it appears total revenue into the health benefits fund will likely fall short of the total requested by the Health Care Authority Department. LFC estimates a 9.2 percent rate could raise as much as $40 million, but total revenue would need to increase by $70 million to reach the request for FY25 benefits. With no current fund balance and ongoing litigation involving the use of one-time appropriations to balance the fund, HCAD should ensure rates are set at a level that reflects actual costs to operate the program.

For FY25, NMPSIA requested a rate increase of 7.2 percent, reflecting the cost trend as well as a 2 percent claims fluctuation margin. APS is requesting a 9.4 percent rate increase, although that increase is applied on a base significantly lower than the NMPSIA rate. Both NMPSIA and APS members will receive funding for benefit rate increases through the state equalization guarantee, an enrollment-driven funding formula, weighted based on student need and demographic circumstances.

Health Insurance Rate Increase Needed to Match HCAD Request for Expenditure



Note: The HCAD request includes $3.3 million from the general fund; employee health benefits are typically not funded with direct general fund

Source: LFC Analysis

Cost Containment Strategies

Nationally, rising benefit costs mean wages are accounting for a smaller share of total compensation. The rapid growth in health insurance costs forces employers to pay for benefits at the expense of salary increases. Data from the Bureau of Labor Statistics show the average compensation package is comprised of 69 percent salary and 31 percent benefits, but state and local government workers typically have more generous benefits packages. While, on average, health insurance benefits for all civilian workers account for 7.6 percent of total compensation, these benefits account for 11 percent of state and local government workers compensation.

The relationship between plan revenue and expenses is measured by a program's loss ratio; a ratio of less than 100 percent means the program raises more revenue than it expends while a program with a ratio over 100 percent spends more than it brings in. Because a self-insured program does not need to make a profit, the program should try to set premiums as close to a loss ratio of 100 percent as possible.

The Centers for Medicare and Medicaid Services (CMS) estimates health spending will grow at an average rate of 5.4 percent per year from 2022 to 2031 and that health spending will likely grow 0.8 percent faster than gross domestic product over this period.

Loss Ratio and Premium Increase by Plan

Agency	Metric	FY20	FY21	FY22	FY23	FY24*
GSD	Loss Ratio	98%	105%	118%	118%	111%
	Premium Increase	5%	0%	0%	0%	10%
NMPSIA	Loss Ratio	98%	99%	106%	103%	100%
	Premium Increase	5.6%	5.5%	5.6%	9.7%	5.6%
APS	Loss Ratio	98.6%	102.7%	102%	96.5%	102.2%
	Premium Increase	4.5%	6.0%	5.7%	5.8%	9.8%

*Projected

Source: APS, GSD, NMPSIA

Of the three plans, GSD is in the most precarious financial position. The program's loss ratio is consistently over 100 percent, resulting in an increasing deficit faced by the program. This is largely driven by the lack of consistent premium increases needed to keep pace with medical and prescription cost increases.

According to the National Conference of State Legislatures, other states have used a variety of methods to help contain rising healthcare costs. Some of the methods highlighted by NCSL are reviewed below.

Pooling of Public Employee Benefits

One strategy used by some states to limit cost increases has been to increase the size of insurance pools, increasing purchasing power. NCSL has found 22 states that pool state employee insurance with local governments, 19 that pool with public school employees, and 16 states that pool with higher education employees.

While New Mexico pools insurance benefits for some employees in an effort to take advantage of larger purchasing power, some gaps remain. For example, New Mexico pools all public school employees except Albuquerque Public Schools. Similarly, GSD provides benefits to many local government employees but some larger local governments maintain their own benefits plan. Both NMPSIA and GSD cover some higher education institutions, but the University of New Mexico offers its own plans separately. This splintering of the purchasing public employee benefits reduces the ability of public employers to take advantage of their total purchasing power.

Since 1997, the state has tried to increase its purchasing power by making use of a consolidated purchasing process pursuant to the Health Care Purchasing Act. Under that law, GSD, NMPSIA, APS, and the Retiree Health Care Authority are required to enter into a cooperative consolidated purchasing effort for health benefits. However, prior evaluations of the program have indicated that the plans have failed to take advantage of the full promise of joint purchasing. Although the agencies issue a joint request for proposals for health care purchasing, each agency is responsible for separately contracting with provider networks and plan design and cost can vary by agency.

Medicare Reference-Based Pricing

According to the National Academy for State Health Policy, a nonprofit that studies state-level health policies, six states are exploring reference-based pricing models. Two states, Montana and North Carolina have included reference-based pricing in contracts with hospital systems. Montana's Health Care and Benefits Division, which operates the state employee health plan, a shift to Medicare reference pricing for hospital services beginning in FY17 led to savings versus traditional negotiated pricing of about 20 percent for inpatient services and from 10 percent to 15 percent for outpatient services. In 2017, Oregon passed legislation to limit reimbursement from public employee and educator health plans to 200 percent of the Medicare allowable rate for in-network hospitals and 185 percent of the Medicare allowable rate for out-of-network hospitals. An analysis commissioned by the Oregon Health Authority found savings of 14 percent in 2020 and 33 percent in 2021. However, advocates for hospitals caution against the

States With Medicare Reference-Based Pricing Policies

State	Method	Program
Colorado	Legislation	Colorado Standardized Health Benefits Plan
Montana	Contract	State of Montana Employee Benefits Plan
North Carolina	Contract	State Health Plan for Teachers and State Employees
Nevada	Legislation	Nevada Public Option
Oregon	Legislation	Public Employees' Benefit Board and Oregon Educators Benefit Board
Washington	Legislation	Cascade Care public option insurance plans

Source: National Academy for State Health Policy use for reference-based pricing, arguing the policies push costs from the health plans to patients, could lead to an increase in uncollectable medical debt, and doesn't account for service quality.

Reverse Auction Procurement

Some states have realized health plan savings by using alternative procurement methods to encourage competition. Since 2016, New Jersey has contracted with a pharmacy benefits manager using a "reverse auction" method. Under a reverse auction, vendors submit sealed bids for services that are then aligned to provide comparable offers from each vendor. But rather than awarding the contract to the lowest bidder at this point, the contracting entity releases all of the proposals and allows vendors to revise their offer in light of the other bids. The purpose of a reverse auction is to drive the high bidders to compete with a lower offer, ultimately saving the health plan over time. By using a reverse auction, New Jersey officials estimated contract savings of nearly 20 percent over the life of the contract.

For Medicaid programs, many states are shifting away from fee-for-service models to value-based care arrangements, with encouragement from the federal Centers for Medicare and Medicaid Services. Some states have begun to explore value-based care models for state employee benefits, including Washington and Tennessee.

High Deductible Health Plans

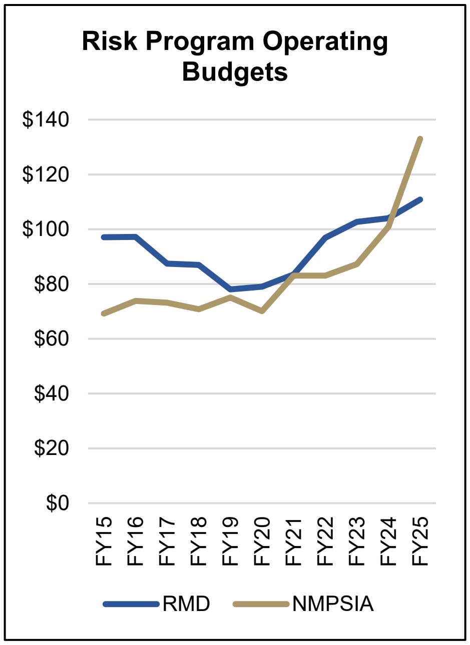
One trend in the larger health insurance marketplace has been the update of high deductible health plans with savings options—generally, a plan with a deductible of at least $1,000 for single coverage that is paired with a health savings account. Data from the Kaiser Family Foundation shows more larger employers are offering high deductible plans, with 66 percent offering these plans in 2022, up from 40 percent in 2012 and 8 percent in 2005. Enrollment in these plans has increased from 19 percent of workers in 2012 to 29 percent in 2022. Currently, New Mexico does not provide a high deductible health plan option.

High deductible health plans typically offer lower premiums but have a high deductible—or the amount a person has to pay before their insurance begins to cover health care costs—and higher annual out-of-pocket maximum limits than other plans. Nationally, high deductible plans had average premiums of $7,170 for single coverage versus $8,162 for non-high deductible plans, a savings of 12 percent. Worker contributions to premiums are typically about $300, or 23 percent less, but may pick up more out-of-pocket costs, even after accounting for employer contributions to health savings accounts, which average $648 per year. Additionally, increasing patient payment responsibility could make it more challenging for providers to fully collect for service, leading to an increase in "bad debt" write-offs.

According to NCSL, 30 states currently offer high deductible health plans with a health savings account. For example, Colorado currently offers high deductible health plans that allow employees to open a health savings account and the state contributes $60 per month, on top of covering up to 96 percent of the total premium.

Risk Insurance Programs

In addition to providing health benefits, the General Services Department (GSD), New Mexico Public School Insurance Authority (NMPSIA), and Albuquerque Public Schools (APS) provide coverages for workers' compensation, property, liability, unemployment, and other risks faced by public employers. These agencies manage risk through both self-insurance and insurance purchasing.



GSD and APS are primarily self-insured but carry excess coverage insurance for larger claims, while NMPSIA relies on a more robust excess insurance program to manage risk. Each entity covers different risks and exposures and carries different lines of coverage and self-insured amounts. For example, NMPSIA and APS do not have prisons, railroads, or hospitals to cover like GSD. NMPSIA has many schools in rural areas with limited access to fire or life safety services while the majority of APS schools are very accessible to fire and life safety services. In FY23, the three agencies paid out a total of $184 million from agency risk funds.

GSD and NMPSIA request budgets from the legislature each year through the regular appropriations process while APS receives its funding through a set proportion of the insurance allocation made in the public school support budget. GSD and NMPSIA construct their risk budgets by estimating the potential amount of payments for damages that will be made in a year and request that amount from the Legislature. In the case of GSD, premium revenue is raised by assessments on agencies that are built into the budget request, while the NMPSIA board determines the rates paid by school districts and charter schools. This appropriations request is therefore a request for expenditure authority rather than a request for an appropriation.

For FY25, there is a trend of increasing property insurance rates affecting all agencies. The property insurance market is national, so rates are influenced by losses occurring outside of the state. For example, fires in Hawaii or an active hurricane season could create losses for property insurers and those losses are passed to ratepayers nationwide.

General Services Department

A recent LFC program evaluation found RMD rates are based on a five-year loss history using a two year delay, delaying the impact of a large claim. For example, in July 2023, RMD settled two large civil rights claims filed against New Mexico State University for $8 million, but that loss will not begin to impact the university's premiums until FY26.

The Risk Management Division (RMD) of the GSD sets rates to reflect an agency's five-year loss history and exposure to losses with regards to a particular line of coverage. Each spring, RMD collects exposure data from agencies to determine the cost drivers for each line of coverage, for example, payroll, equipment, number of employees, hospital beds, buildings, vehicles, etc. Surveys are important because excess coverage insurers may limit or deny coverage for undocumented exposures.

RMD Total Budgeted Appropriations

(in thousands)

	FY20	FY21	FY22	FY23	FY24
Budgeted Appropriations	$79,018	$83,472	$96,928	$102,701	$104,025
Payments from GSD Funds	$75,722	$77,200.3	$73,853.8	$92,023	TBD

Source: GSD

RMD purchases excess property and fine arts coverage for catastrophic losses. RMD has a self-insured retention, similar to a deductible, for property losses of up to $500 thousand. For FY23, total premiums for excess insurance were $10.4 million, which is up significantly over the past few years. For excess property insurance, total premiums have risen from $2.8 million in FY18 to $5.4 million in FY23. RMD self-insures all liability and workers' compensation losses.

Rates for FY25. The Department of Finance and Administration published rates for covered entities to incorporate into the FY25 appropriation requests that rates reflect an overall increase of 1.3 percent from FY24. However, large increases in property insurance rates were offset by decreases in unemployment and workers compensation rates. While workers compensation and unemployment are spread throughout state government, property insurance premiums are concentrated at the Facilities Management Division of GSD, which accounts for about 40 percent of total premiums. Property insurance premiums are paid with general fund appropriations, while workers compensation and unemployment insurance are paid from agencies' personal services and employee benefits funds, with only about half of the total coming from the general fund. As a result of the workers compensation and unemployment insurance decreases, most state agencies will have additional funding for personnel in FY25, even without an increase in salary and benefits appropriations. Notably, the rate declines could offset a needed increase in health benefits programs discussed above.

GSD State Agency Assessed Premiums
(in thousands)

Coverage	FY24	FY25	Difference
WC	$16,578.1	$14,773.7	-11.2%
Liability	$25,687.3	$27,955.1	8.8%
Transportation	$1,406.7	$1,326.2	6.1%
Property	$4,475.2	$5,460.8	22.8%
Unemployment	$2,821.0	$2,128.8	-24.5%
Total	**$55,326**	**$68,901**	**1.3%**

Source: GSD

GSD Other Entity Assessed Premiums, FY25
(in thousands)

Coverage	FY24	FY25	Difference
WC	$7,751.7	$6,747.6	-13.0%
Liability	$14,661.4	$15,711.8	7.2%
Transportation	$317.0	$330.4	4.2%
Property	$7,138.1	$9,528.5	33.5%
Unemployment	$2,194.9	$670.8	-69.4%
Total	**$32,063.1**	**$32,989.1**	**2.9%**

Source: GSD

Public School Insurance Authority

NMPSIA's risk program self-insures property and liability losses up to $1 million and buys excess coverage for larger claims. In FY23, the program paid $52.3 million for excess liability, property, and crime coverage and $479 thousand for excess workers compensation premiums. Premiums continue to increase because property insurance markets face increased risk due to climate-related damages and liability rates increase primarily due to sexual assault claims against educational employees in New Mexico. Between FY20 and FY23, excess insurance premiums increased by $11.1 million, or 28 percent.

	FY20	FY21	FY22	FY23	FY24
Budgeted Appropriations	$70,081	$83,071	$83,080	$87,249	$100,864
Payments From Risk Funds	$98,018	$70,293	$87,031	$86,489	TBD

NMPSIA has paid an increasing amount to settle sexual abuse and molestation cases in recent years. Child sex abuse cases often affect multiple victims over many years which can result in huge liabilities when the abuse is brought to light. The excess insurance purchased by NMPSIA has limited the exposure of NMPSIA to many of these claims, but the large losses experienced by insurers has driven up rates and made securing coverage more difficult.

NMPSIA Claims and Excess Insurance Coverage
(in thousands)

	FY20	FY21	FY22	FY23
Property, Liability, and Crime Excess Insurance	$40,788	$42,620	$48,386	$52,293
Total Liability Claims Paid	$26,102	$17,122	$25,658	$11,319
Total Property Claims Paid	$8,437	$9,458	$9,059	$23,210
Excess Insurance Recoveries	$11,335	$8,514	$13,032	$10,194

Source: NMPSIA

Rates for FY25. While NMPSIA's budget request is for expenditure authorization only, the request indicates a substantial increase may be in store for FY25. NMPSIA requested total authorization for $133 million, including $20 million from fund balance, a 32 percent increase from the agency's FY24 operating budget. Notably, NMPSIA is anticipating large increases in excess insurance due to large property claims driving up costs. Excess liability insurance is projected to increase to $26.9 million, up from $21.3 million in FY23 and excess property insurance is expected to increase $46.8 million, up from $31 million in FY23, a $15.8 million, or 50 percent increase in only two years. NMPSIA reports large hail claims with damage of more than $20 million had an impact on the agency's property insurance rate.

One strategy used by insured entities to limit costs is to increase the amount of self-insured retention, or the amount that must be covered by the insured before the excess insurance carrier covers the claim. NMPSIA raised the self-insured retention from $2.5 million to $10 million for wind and hail claims, with an aggregate limit of $25 million, after which the self-insured retention reverts to $2.5 million. However, even with this adjustment, NMPSIA is projecting significant costs increases. The agency notes the need for improved maintenance activity to ensure roofs are capable of withstanding storms and has partnered with the Public School Facility Authority to identify roofs in need of maintenance to avoid possible future losses.

Albuquerque Public Schools

APS is the only school district not covered by NMPSIA and operates a risk insurance program independently. APS self-insures up to $650 thousand for workers' compensation and $350 thousand for liability exposure and carries excess coverage for large claims. Although APS's annual risk fund budget is about one third of NMPSIA's budget, actual payments are significantly lower, but are more volatile due to the smaller coverage pool.

	FY19	FY20	FY21	FY22	FY23
Budget for Risk Funds	$27,640	$24,119	$22,781	$23,478	$29,815
Payments From Risk Funds	$9,451	$8,261	$6,884	$5,059	$5,847