AGENCY: General Services Department, New Mexico Public Schools Insurance Authority, Albuquerque Public Schools

DATE: August 18, 2017

PURPOSE OF HEARING: Review of group health benefits programs

WITNESS: Lara White-Davis, Director, Risk Management Division (RMD), GSD, Ernestine Chavez, Deputy Director, NMPSIA, Vera Dallas, Director, Employee Benefits Program, APS

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EXPECTED OUTCOME: Informational

Group Health Membership	
GSD	58,015
NMPSIA	50,517
APS	16,367
TOTAL	**124,899**

Source: LFC Files

For the IBAC, nearly 60 percent of costs are attributed to hospital settings, 15 percent to out-of-network or non-contracted providers, and 10 percent to care received in emergency rooms.

According to the National Institutes of Health, potentially preventable hospital-acquired complications add up to 9 percent to inpatient costs.

Rising benefits costs means take-home pay is shrinking for state and local government workers. According to the U.S. Department of Labor, for private industry workers, wages increased 2.4 percent this past year and benefits costs rose 2.2 percent. For state and local government workers, wages increased more slowly, at 2.1 percent and benefits costs rose more quickly, at 3.2 percent. In New Mexico, however, the average classified employee and teacher salary increased only 0.6 percent and 1.3 percent, respectively, and benefits as a portion of total compensation rose 2 percent.

BACKGROUND ON BENEFIT PLANS The General Services Department (GSD), New Mexico Public School Insurance Authority (NMPSIA), and Albuquerque Public Schools (APS) participate in the Interagency Benefits Advisory Committee (IBAC), the largest commercial healthcare purchaser in New Mexico. For FY17, total medical and drug IBAC expenditures for active state employees and teachers reached nearly $650 million, an increase of 2 percent from FY16, despite fewer covered lives. On a per member basis, however, costs increased 7 percent, due to more high cost claimants and a larger percentage of spending on drugs for costly specialty medications to treat complex or rare chronic conditions.

Trends. IBAC drug expenditures have been growing faster than medical expenditures in recent years. From FY16 to FY17, the amount spent for drugs on a per member basis grew nearly 6 percent. However, a relatively small number of drugs contributed to most of those costs. In FY17, almost half of the IBAC's drug costs were for 25 drugs and the majority of those were higher cost specialty drugs. The remaining covered drugs, in the hundreds now, contributed minimally to total costs because of low prices or limited use. A member under GSD plans paid a higher cost-share and under NMPSIA a lower cost-share than the state government plan average.

Creating Effective Health Benefits Programs

Benefit Eligibility. APS requires a 30 hour work week to qualify for employer-sponsored health benefits. GSD and NMPSIA have a 20 hour work week minimum but NMPSIA will provide coverage for a 15 to 20 hour work week if requested by a school board. NMPSIA has discussed with schools increasing eligibility to 30 hours to meet the federal minimum requirement for employers, achieving savings for schools. Some schools have changed their eligibility to require a longer work week while others in more rural areas report that benefits helps recruit lower paid workers. For GSD, the savings is not as significant because of fewer part-time workers.

Funding. The state provides premium subsidies to make health coverage more affordable for lower-wage employees. The employer's cost is spread over a multi-tier structure, with lower-wage workers paying relatively less than higher-wage workers. The subsidy is based on annual income and does not take into account if for single, spouse or family coverage. Over one-third of participants in the IBAC employee health plans are spouses.

The annual benchmark Kaiser Family Foundation survey of employer-sponsored health benefits reports the average annual premium in 2016 (employer and worker combined) was $6,435 for single and $18,142 for family coverage. The family premium was 3 percent higher than 2015. For workers in government, the average single premium was $7,218 which was higher than all other industries. On average, workers contribute 18 percent of the premium for single coverage and 30 percent for family coverage. For the first time, the survey found half of all workers face deductibles of at least $1,000 and three in 10 are enrolled in high-deductible plans. The survey also found 12 percent of employers require spouses with other coverage options to pay higher premiums or cost sharing and 10 percent give additional compensation to workers enrolled in their spouse's plan.

The "Big Bid." Last year, IBAC secured contracts for healthcare benefits. The contracts included performance metrics for care and disease management and alternatives to fee-for-service pricing. APS and NMPSIA selected New Mexico Health Connections (NMHC) as a new partner in addition to Presbyterian and Blue Cross Blue Shield (BCBS). GSD chose BCBS and Presbyterian. NMHC was selected because it had negotiated better contracts with providers in some areas and was further along with value-based purchasing agreements. Next year, IBAC will issue a joint request-for-proposals for a new pharmaceutical benefits management (PBM) contract. Last year, through its PBM, the IBAC reduced its drug spend by over $20 million from negotiated rebates with drug companies.

Wellness Initiatives. Since 2015, GSD has contracted with a third-party to operate an employee clinic. In addition to a fixed fee, personnel, drugs, lab supplies, and other operating expenses pass to GSD from the contractor. APS was on track to open a clinic but has since abandoned the idea. Utilization data from the clinic suggests it has not yet broken even; however, the cost-avoidance of employees seeking care they might otherwise have delayed is hard to capture. Other cost-avoidance strategies in place include an employee assistance program, biometric screenings, dedicated wellness programs, and disease management. In FY17, the three agencies paid over $4 million to the carriers for these add-on services in addition to fees to manage networks and claims for nearly $24 million.

Review of Agency Plans

General Services Department. Under Blue Cross Blue Shield, the proportion of members who received less than $200 in services was 29 percent. However, 1.6 percent of members had expenses over $50 thousand and these claimants spent over 40 percent of total paid expenses. Under Presbyterian, 105 members with claims over $150 thousand submitted 13 thousand claims for over $30 million, 20 percent of total paid expenses.

In the table on page three, total costs for medical and prescription drugs increased 2.5 percent despite fewer covered lives. On a per member basis, costs increased 8 percent, due to higher costs to treat chronic conditions, which may suggest the wellness and disease management programs did not reach those members that spent a higher percentage of total paid expenses.

APS

Salary	Employee (EE)	Employer (ER)
< $30K	20%	80%
$30K +	40%	60%

NMPSIA

Salary	EE	ER
< $15K	25%	75%
< $20K	30%	70%
< $25K	35%	65%
$25K +	40%	60%

GSD

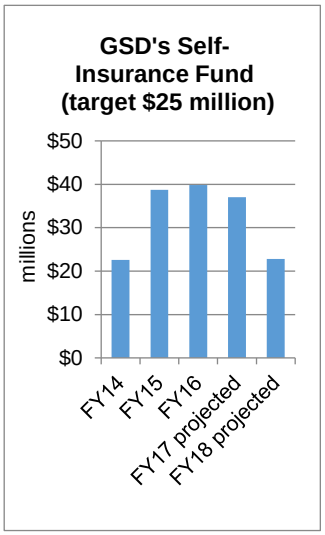
Salary	EE	ER
< $50K	20%	80%
< $60K	30%	70%
$60K +	40%	60%

The average monthly single premium was $536 and family premium $1,512, with workers paying on average $440, or 30 percent of the cost, for family coverage in 2016, according to Kaiser Family Foundation. However, for workers in government, premiums were 12 percent higher than the average.

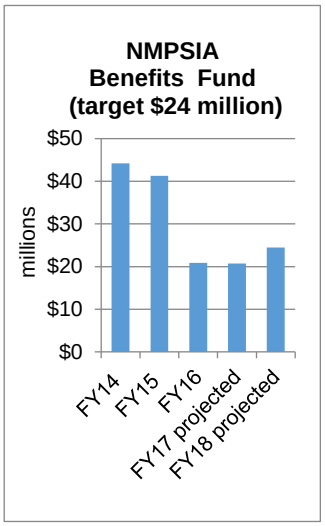
IBAC Monthly Premiums
(in dollars, for most earning less than $50 thousand in 2017)

	APS	PSIA	GSD
Single			
EE	194	236	99
ER	308	354	393
Total	**502**	**590**	**492**
Family			
EE	525	600	289
ER	840	900	1,162
Total	**1,365**	**1,500**	**1,451**

Source: LFC files



Ensuring prior authorization, drug quantity management, and step therapy programs are working as intended to ensure the right drugs are prescribed to the right patients may reduce plan and member costs.



GSD Year-Over-Year Change
(in thousands)

	FY16	FY17	Change (FY16-FY17)
Covered lives	61,211	58,015	-5.2%
Medical	$244,550	$252,525	3.3%
Costs per member	$3,995	$4,353	8.9%
Drugs	$41,400	$40,600	-1.9%
Costs per member	$676	$700	3.5%
Total medical/drug costs	$285,950	$293,125	2.5%
Total costs per member	$4,672	$5,053	8.2%

Source: GSD and LFC Files

For FY19, GSD is finalizing premiums for FY19 and plan design changes and will provide recommendations to LFC at the August hearing in Taos.

From FY09 to FY13, GSD used fund balances to offset the difference between rising costs and declining revenue because of hiring freezes and loss of members to retirement. In 2013, GSD was near insolvent from holding premiums flat and managing inflation trends of over 10 percent. In response, the Legislature appropriated $10 million from the general fund. In the ensuing five years, GSD has increased premiums 30 percent in total.

New Mexico Public School Insurance Authority. As reflected in the table below, over the past fiscal year, total costs increased by 2.2 percent despite fewer covered lives. On a per member basis, medical costs rose 8 percent and drug costs rose 7 percent, due to a larger number of high dollar medical claims expenditures and higher cost specialty drug utilization.

NMPSIA Year-Over-Year Change
(in thousands)

	FY16	FY17	Change (FY16-FY17)
Covered lives	53,311	50,517	-5.2%
Medical	$221,984	$227,217	2.4%
Cost per member	$4,164	$4,498	8.0%
Drugs	$43,848	$44,368	1.2%
Cost per member	$822	$879	6.9%
Total medical/drug costs	$265,832	$271,627	2.2%
Total cost per member	$4,986	$5,377	7.8%

Source: NMPSIA and LFC Files

Despite expenditures exceeding revenue by $11 million for FY17, the fund balance is $18 million, after certain fiscal-year-end adjustments, less than the program's target of one month of claims which is about $25 million. To meet trend assumptions of 7.8 percent for FY18 and again for FY19, NMPSIA is increasing premiums up to 4 percent this October, depending upon the plan, less than last year's projected 14 percent. If there are no plan changes, NMPSIA says premiums could increase 10 percent next year. To mitigate cost increases, NMPSIA has increased member education on disease management and implemented a dedicated wellness program, is participating in a number of cost-containment programs administered by the PBM, and ensuring carriers pursue value-based payment initiatives.

This year, NMPSIA added data warehouse and data mining services and the ability to combine data with other plan sponsors to benchmark costs and utilization. NMPSIA also amended contracts with its carriers, PBM, and third-party administrator to upload data to the database monthly. By warehousing data from the group into one integrated database, NMPSIA hopes to be able to better analyze plan costs and utilization data and identify inefficiencies in insurance carrier contracting and management.

Albuquerque Public Schools. APS plans are governed by a seven-member elected school board that meets monthly. APS staff will present health benefit plan recommendations for FY19 to the superintendent this month and report the outcome of that meeting at the LFC hearing in Taos.

APS Year-Over-Year Change
(in thousands)

	FY16	FY17	Change (FY16-FY17)
Covered lives	16,392	16,367	-0.2%
Medical	$68,473	68,094	-0.6%
Costs per member	$4,177	$4,160	-0.4%
Drugs	$12,867	$13,779	7.1%
Costs per member	$785	$842	7.3%
Total medical/drug costs	$81,340	$81,873	0.7%
Total costs per member	$4,962	$5,002	0.8%

Source: APS and LFC files

As reflected above, between FY16 and FY17, total costs and costs on a per member basis were flat which are likely due to plan design changes. Those changes include a narrow network option plan with lower out-of-pocket costs from a new carrier, or more choice with two three-tier option plans that include a broader network with higher out-of-pocket costs for out-of-network or nationwide providers from two other carriers. Interestingly, members who select a three-tier option can start with the narrow network option and move to higher-cost providers if their health needs change.

IBAC's Contract Requirements for Health Plan Partners

1) Monitor diabetics under appropriate treatment
2) Monitor high cost patients managed correctly
3) Monitor network providers prescribing patterns
4) Monitor and reduce low-value procedures
5) Monitor percentage of providers/hospitals using value-based agreements

NMPSIA now requires a routine medical review by a doctor for all claims that hit a $100 thousand threshold; previously that threshold was $250 thousand.