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**Purpose:** Review FY21 Health Insurance and Risk Insurance Budget Requests and issues related to health and risk insurance coverage.

**Witness:** Mark Tyndall and Mark Brown, Senior Directors, Albuquerque Public Schools; Ernestine Chavez, Director, Public Schools Insurance Authority

**Expected Outcome:** Better understanding of the insurance needs of public schools and their employees.

## Albuquerque Public Schools and Public Schools Insurance Authority Health and Risk Insurance Appropriation Request

In the mid-1980's the Legislature responded to the rapidly increasing insurance premiums faced by many New Mexico school districts by creating a state agency, the Public Schools Insurance Authority (NMPSIA), to allow school districts with fewer than 60 thousand students to purchase insurance coverage as one group in an effort to negotiate better rates. Since then, all school districts and charter schools, apart from Albuquerque Public Schools (APS), have received insurance coverage from NMPSIA. NMPSIA administers self-insured plans, with medical plans funded by contributions from employers and employees and property, liability, and workers compensation insurance covered by employer contributions. APS provides its own self-insured plans.

### Health Insurance Benefits

NMPSIA and APS provide coverage by contracting through providers selected by the Interagency Benefits Advisory Committee, which also includes the Retiree Health Care Authority and the General Services Department (GSD). These entities jointly issue requests for proposals to medical and pharmacy providers in an effort to minimize costs to taxpayers and employees. However, each plan is administered separately and has different cost structures. This can lead to varying costs and levels of coverage for employees of different agencies. NMPSIA, the agency with the most employees located outside of the Albuquerque metro area, typically faces larger health care costs because costs tend to increase in rural areas.

There are also disparities in the level of support given by employers to cover health insurance premiums. Under state law, school districts and charter schools are required to cover at least 60 percent of health insurance premiums for all employees, and the school

#### "High Option" Health Plan Design and Cost by Agency

	NMPSIA	GSD	APS
Deductible	\$750	\$500	\$500
Maximum Out-of-Pocket Costs	\$3,750	\$4,000	\$1,500
<b>Total Cost of Health Plan</b>	<b>\$8,669</b>	<b>\$7,498</b>	<b>\$9,863</b>
Employer Contribution	\$5,201	\$1,500	\$7,045
Employee Contribution	\$3,468	\$1,500	\$2,818

Source: LFC

#### Employer Share of Health Insurance Contributions

Salary Level	NMPSIA Minimum*	APS	GSD
Less than \$15,000	75%	80%	80%
\$15,000 to \$19,999	70%	80%	80%
\$20,000 to \$24,999	65%	80%	80%
\$25,000 to \$39,499	60%	80%	80%
\$39,500 to \$39,999	60%	70%	80%
\$40,000 to \$44,999	60%	70%	70%
\$45,000 to \$49,999	60%	60%	70%
\$50,000 to \$59,999	60%	60%	60%
\$60,000 or Above	60%	60%	60%

Source: LESC Files

\*A school district or charter school may contribute up to 80 percent of the cost of insurance for an employee, regardless of salary level, but must contribute at least the minimum amount based on salary levels.

district picks up a larger share for employees who earn less. The statutory thresholds are the minimum amounts a school district or charter school must pay; those with available funds are allowed to pay up to 80 percent of any employee's health insurance premium. While some school districts pay a larger share than the statutory minimum, many do not. NMPSIA staff have agreed to survey school districts to report the number of school districts paying more than the minimum required insurance premium, but on average, school districts pick up 63 percent of health insurance premiums. APS picks up a higher share of premiums for many low-paid employees, choosing to cover 80 percent of the premiums for employees earning under \$39.5 thousand beginning in January 2020.

School districts in many other states do not vary their health insurance contributions by income and some offer a set dollar amount to subsidize health insurance premiums. For example, in many Texas school districts, employees receive a subsidy as low as \$225 per employee per month. This can be enough to cover the entire share of a low-cost, employee-only plan, but those school districts do not provide additional subsidies to those selecting more expensive plans. For NMPSIA plans, subsidies vary based on income and expense of the plan, from as little as \$318 per month to as much as \$1,300 per month.

While requiring employers to cover a larger share of health insurance premiums can help to increase take home pay for school district and charter school employees, there is little evidence that increasing the amount of compensation related to health insurance plans is an effective tool for recruiting high quality educators, although it may prove a better tool for helping school districts and charter schools retain long-term employees. Anecdotally, some school districts have reported that school districts in other states, particularly in southwest Texas, have effectively recruited new teachers to their schools by increasing cash compensation, sometimes by offering signing bonuses. These school districts often provide relatively meager subsidies for health insurance, and some teachers in these school systems have complained that as health insurance costs rise they face reduced paychecks due to higher insurance costs. In New Mexico, teachers are partially shielded from such increases because school districts and charter schools are required to pay a percentage of the total premium and not a set dollar amount.

### **Medical Cost Trends and Rate Increases**

NMPSIA has requested an appropriation increase of \$15.6 million for the employee benefits fund, an increase of 5 percent over FY20, but anticipates per member rate increase of 7.4 percent, which NMPSIA estimates will cost school districts \$10.7 million. APS noted it plans on raising premiums by 4.5 percent for the plan year beginning January 1, 2020, but did not request an appropriation increase when appearing before the Legislative Finance Committee (LFC); however, APS will receive about 25 percent of any insurance appropriation to the state equalization guarantee distribution.

Overall, NMPSIA's cost for health coverage fell by 9 percent between FY16 and FY19, but due to a reduction in the number of members, costs per member increased by 2.7 percent. NMPSIA reports total medical costs per member rose by 8 percent between FY16 and FY19 but per-member prescription drug costs fell by 24.5 percent. In FY19, NMPSIA estimates it saved \$1.8 million by requiring prior authorization and only covering products when certain clinical criteria are met, \$1.4 million by only allowing pharmacies to fill prescriptions in FDA-approved quantities, and \$2.2 million by requiring a step therapy program to try lower cost products prior to higher cost name brands.



On average, NMPSIA’s rate increases for high option plans was 5.5 percent between FY16 and FY19, and 2.8 percent for low option plans. Rate increases are typically lower for the low option plan to meet affordability requirements under the Affordable Care Act. These increases have allowed NMPSIA to close FY19 with more than its target fund balance of one month of claims, which NMPSIA estimated as \$24.9 million in FY20. NMPSIA reported an unaudited fund balance of \$27.4 million at the end of FY19. After holding rates steady for several years due to budget constraints, APS staff recently recommended a 4.5 percent increase to the school board to address its depleted fund balance.

## Risk Insurance Coverage

Both NMPSIA and APS maintain coverage for property, general liability, and workers compensation. For FY19, APS budgeted a total of \$27 million for its risk management program, with \$17.4 million, or 62 percent for workers’ compensation activities. NMPSIA’s risk program totaled \$83.1 million in FY19, with \$24.9 million, or 30 percent for workers’ compensation coverage. NMPSIA noted it plans to increase rates for FY21 by an average of 9.5 percent, although school districts and charter schools will have varying rate changes, based on their claims history and property values. NMPSIA estimates the increase will cost school districts and charter schools \$6.7 million.

### Property and Liability Coverage

Much of NMPSIA’s risk insurance budget is allocated to pay for excess insurance coverage for property and general liability. In FY19, NMPSIA paid \$23 million in premiums for excess property and crime coverage, \$13.6 million for excess liability coverage, and \$523 thousand for other excess coverage. For FY20, excess property premiums will slightly decrease, while excess liability premiums will increase to \$14.6 million, according to projections in NMPSIA’s financial reports. NMPSIA retains up to \$1 million in losses before the excess insurance coverage begins. In FY19, NMPSIA paid out \$10.6 million in property claims and \$15.8 million in liability claims, with about \$4 million in excess insurance recoveries.

Data from the Public Education Department (PED) indicates total property and liability insurance premiums have been growing significantly. In FY15, total property and liability premiums were \$48.8 million; in FY18 those payments totaled \$59 million, an increase of 20 percent in just three years, excluding APS premiums.

LFC and LESC staff have requested that NMPSIA provide the Legislature with detailed information of the amount of excess insurance premiums paid and total recoveries from these policies. To date, NMPSIA has been able to provide some information, but the authority indicates complexities of the program and inconsistencies in record keeping make this reporting difficult. The Legislature may wish to include accountability measures for NMPSIA related to excess insurance payments to ensure NMPSIA’s oversight board have sufficient information to weigh the costs and benefits of the authority’s excess insurance plan.

NMPSIA Risk Fund Unaudited Balance Sheet (Partial)

Item	FY15	FY16	FY17	FY18	FY19	Change FY15-FY19
<b>Assets</b>						
Cash and Investments	\$52.7	\$57.5	\$54.3	\$68.6	\$75.5	\$22.8
Other Assets	\$0.4	\$0.8	\$0.6	\$0.4	\$6.5	\$6.1
<b>Total Assets</b>	<b>\$53.1</b>	<b>\$58.3</b>	<b>\$54.9</b>	<b>\$69.0</b>	<b>\$82.0</b>	<b>\$28.8</b>
<b>Liabilities</b>						
Case Reserves/IBNR	\$50.2	\$49.5	\$65.3	\$69.0	\$75.1	\$24.8
Other Liabilities	\$0.3	\$0.7	\$1.6	\$0.8	\$1.3	\$0.9
<b>Total Liabilities</b>	<b>\$50.6</b>	<b>\$50.2</b>	<b>\$66.8</b>	<b>\$69.9</b>	<b>\$76.3</b>	<b>\$25.7</b>
<b>Fund Balance</b>	<b>\$2.6</b>	<b>\$8.1</b>	<b>-\$11.9</b>	<b>-\$0.9</b>	<b>\$5.7</b>	<b>\$5.0</b>

Source: NMPSIA

Over that time, NMPSIA has increased the amount of cash and investments it holds, from \$52.7 million at the end of FY15 to \$68.6 million at the end of FY18. In 2017, the Legislature swept \$16 million from NMPSIA's risk fund to ensure the state remained solvent during the severe revenue downturn in FY17. Despite this, NMPSIA has maintained its cash position, and based on unaudited FY19 data, has increased reserves to cover claims, which NMPSIA notes are growing increasingly costly.

### **Sexual Misconduct Claims**

NMPSIA reports an increase in the number of claims related to sexual misconduct in public schools, with 51 outstanding cases between FY14 and FY19. The authority receives, on average, 9 claims per year. NMPSIA notes a recent study found five root causes for sexual misconduct in New Mexico public schools, including inaction from PED, the lack of a national or state database to track sexual misconduct among school employees, the administrative practices of school districts and charter schools, a lack of knowledge among some school employees that would enable them to recognize indicators of sexual misconduct or lack of knowledge on how to report suspicions, and a lack of coordination with the community to prevent such acts.

Nationwide, policymakers have grown concerned by the ability of some sexual predators to move to another school district after being suspected of sexual misconduct in one school district. This so-called practice of "passing the trash" occurs when a school employee accused of sexual misconduct resigns or is terminated by one school district but is allowed to use their license to obtain employment at another school district without their new employer being notified. The federal Every Student Succeeds Act prohibits a state agency or school district that receives federal funds from assisting employees in obtaining a new job if they know an employee engaged in sexual misconduct. States and local school districts are required to maintain policies that prevent this. Several states have adopted legislation to combat this practice, with some adding requirements to school district hiring practices that require prospective employees to list all former employers that were school entities, all former employers where the applicant worked with children, and a written authorization from these entities ensuring the applicant was not the subject of an abuse or sexual misconduct investigation. These laws have also prohibited confidentiality agreements with a person convicted of a sexual offense with a minor.

In New Mexico, House Memorial 57 requested PED to convene a task force to identify issues related to ethical misconduct and develop a strategic plan to address those concerns, improve hiring practices, improve employee training, and improve reporting practices and policies. According to NMPSIA, the task force has met twice and is preparing recommendations to report to the governor and the Legislature.