AGENCY: General Services Department, New Mexico Public School Insurance Authority, Albuquerque Public Schools and New Mexico Retiree Health Care Authority

DATE: August 25, 2016

PURPOSE OF HEARING: Review of publicly-funded group health benefits programs

WITNESS: AJ Forte, Director, Risk Management Division, GSD, Ernestine Chavez, Deputy Director, NMPSIA, Vera Dallas, Director, Employee Benefits Program, APS, Mark Tyndall, Director, NMRHCA

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EXPECTED OUTCOME: Informational

IBAC Group Membership	
GSD	61,717
NMPSIA	53,300
APS	16,392
NMRHCA	53,635
TOTAL	**185,044**

Source: LFC Files

Consolidating IBAC agencies under one authority and contracting directly with the provider community instead of through commercial carriers may save tens of millions of dollars in fees paid to carriers to guarantee discounts and manage provider networks -- and allow the state to have more control over pricing including bringing Medicaid and commercial payments to NM's providers closer to parity.

Providing healthcare benefits for public employees has become a significant portion of the state's healthcare spending, second only to Medicaid. How the state manages its group benefit plans not only affects the state's fiscal health but also the amount of funding available for other high priority programs that serve New Mexico's children and families.

BACKGROUND INFORMATION Rising benefits costs mean wages are accounting for a smaller share of public employee compensation. According to the Department of Labor, nationally, salaries make up 65 percent and health benefits 12 percent of public employee compensation, on average. For New Mexico, that percentage is 57 percent and 20 percent, respectively. Private sector employees have also seen costs go up, but not as much, as health benefits account for 8 percent of their compensation.

General Services Department (GSD), New Mexico Public School Insurance Authority (NMPSIA), Albuquerque Public Schools (APS) and the New Mexico Retiree Health Care Authority (NMRHCA) form the Interagency Benefits Advisory Committee (IBAC), the largest commercial healthcare purchaser in New Mexico. The committee was created by the Health Care Purchasing Act to consolidate the purchasing of health benefits; however does not extend to the procurement of actuarial and benefit consulting services which could help reduce costs. Despite a 4 percent decline in membership in FY16, healthcare costs increased by $40 million, almost 5 percent, to over $900 million. In FY16, about 92 percent of premiums and other revenue went to pay healthcare claims – the remainder to administrative costs. IBAC paid $4,900 per member for care, on average, up from $4,500. NMPSIA incurred the highest total costs per member for the employee health plans followed by GSD; APS the lowest.

Creating Effective Health Benefits Programs

Benefit Eligibility APS requires a 30 hour work week to qualify for benefits; GSD has a 20 hour minimum and has not proposed increasing eligibility; and NMPSIA has a 20 hour minimum but will allow coverage for 15 hours if requested by a school board. NMPSIA has discussed with schools increasing eligibility to 30 hours to meet the federal minimum requirement for employers under the ACA, achieving savings for schools. Some schools have changed their eligibility to require a longer work week.

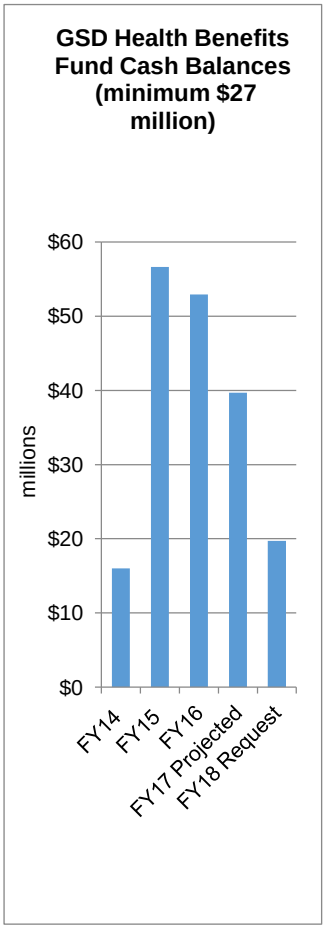
Funding Structure The state provides premium subsidies to make health coverage more affordable for lower-wage employees. The employer's cost is spread over a three or more tier structure, with lower-wage workers paying relatively less than higher-wage workers. The subsidy is based on the employee's annual income and does not take into account the plan type such as single, single plus spouse, single plus child, or family plan.

Because salary-based premiums fail to consider other household income, such as a spouse's salary, the state could reconsider premiums by family size. For example, a 50 percent employer subsidy for employees with

spouse or family coverage if he or she is earning higher than the median salary. This approach may achieve savings by reducing subsidies for non-state employees. According to the National Business Group on Health, one-third of employers will be looking at implementing spousal surcharges for spouses with alternative coverage available. Another cost savings measure could be to reduce the statutory premium contributions that state agencies and schools pay on behalf of an employee from 80 percent to 60 percent. This may achieve savings of at least $20 million on a recurring basis and allow the IBAC to have more control over health benefit designs.

Over the past decade, annual health premium growth has averaged about 5 percent.

The "Big Bid." This year, IBAC entered into its fifth cooperative purchasing cycle to secure contracts for medical, dental and vision benefits. The contracts include performance metrics for care and disease management and encourage alternatives to fee-for-service pricing. APS, NMPSIA and NMRHCA 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 and was further along in terms of value-based purchasing agreements. Since 2010, pharmacy benefits management has been provided by Express Scripts -- although some costly drug therapy still comes through the medical plans.



Review of Agency Plans

General Services Department. As reflected below, over the past three years, GSD's total costs increased only 1.4 percent per year, on average. Over this same time period, program revenue remained relatively flat despite premium increases of 28 percent because of a smaller contributing workforce. This helped keep fund balances high. On a per member basis, however, total costs increased 8 percent in FY16 driven by higher prices.

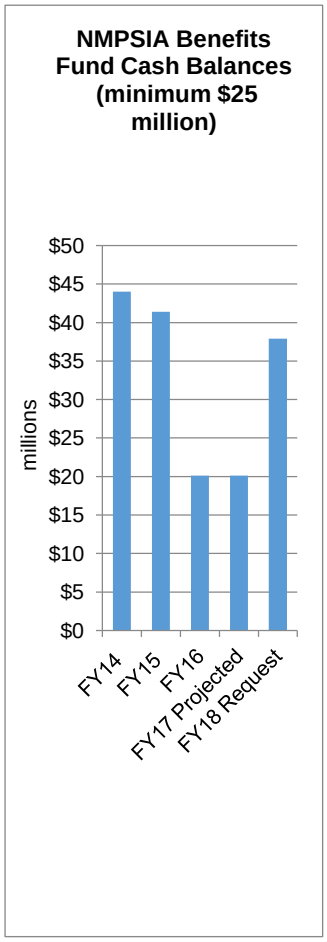
GSD Claims Cost Trend for Medical/Rx
(in thousands)

	FY14	FY15	FY16	Change (FY15-FY16)
Covered Lives	68,658	66,016	61,717	-4,299
Medical costs	$227,666	$229,075	$230,695	$1,620
Costs per member	$3,316	$3,470	$3,738	7.7%
Prescription costs	$41,012	$47,512	$48,980	$1,468
Costs per member	$597	$720	$794	10.3%
Total medical/drug costs	$268,678	$276,587	$279,675	$3,088
Total costs per member	$3,913	$4,190	$4,532	8.2%

Source: GSD and LFC Files

Over the past few decades, healthcare inflation has exceeded the general rise in price inflation by about 2.5 percent per year.

Projections may not include all "incurred but not reported claims" that come due after the year-end which is why agencies have BAR authority.



Source: LFC files

By statute, APS is the only New Mexico public school not part of the NMPSIA pool.

For FY18, GSD is proposing an increase in premiums of 1 percent, lower than trend. Because agencies under GSD plans pay 80 percent of the premium on average for employees earning $50 thousand or less -- 65 percent of state enrollment -- the impact to take home pay will be minimal.

New Mexico Public School Insurance Authority. As reflected below, between FY15 and FY16, total medical and prescription drug costs and total costs on a per member basis increased 10 percent, the highest among the IBAC. Over the past few years, however, revenue increased by only 2.4 percent per year despite premium increases of about 4 percent per year, on average, as more members moved to plans with lower premiums.

NMPSIA Claims Cost Trend for Medical/Rx
(in thousands)

	FY14	FY15	FY16	Change (FY15-FY16)
Covered lives	53,877	53,292	53,300	8
Medical costs	$194,562	$204,157	$225,683	$21,526
Costs per member	$3,611	$3,831	$4,234	10.5%
Prescription costs	$44,980	$49,652	$52,764	$3,112
Costs per member	$835	$932	$990	6.25%
Total medical/drug costs	$239,542	$253,809	$278,447	$24,638
Total costs per member	$4,446	$4,763	$5,224	9.69%

Source: NMPSIA and LFC Files

This October, NMPSIA will increase premiums 8 percent on average. For teachers, monthly take-home pay will be reduced $16.00 for single coverage and $44.00 for family coverage, on average, under the lowest cost plan for those earning $25 thousand or more. NMPSIA has also begun a series of benefit changes for prescription drug coverage, deductibles and out-of-pocket maximums so members with higher cost claims pay more.

For FY18, NMPSIA may request about $19 million from the general fund in the state equalization guarantee appropriation to schools for their share of proposed premium increases of 8 percent, on average. The board also identified changes such as increased co-pays for office and emergency room visits valued at $6 million that could be used to reduce the request.

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 FY18 to the superintendent on August 19 and report the outcome at the LFC hearing in Red River.

APS Claims Cost Trend for Medical/Rx
(in thousands)

	FY14	FY15	FY16	Change (FY15-FY16)
Covered lives	17,127	16,901	16,392	-509
Medical costs	$60,785	$71,794	$68,473	($3,321)
Costs per member	$3,549	$4,248	$4,177	-1.7%
Prescription costs	$12,470	$15,403	$16,110	$707
Costs per member	$728	$901	$983	9.1%
Total medical/drug costs	$73,255	$87,197	$84,583	($2,614)
Total costs per member	$4,277	$5,159	$5,160	0.0%

Source: APS and LFC files

As reflected above, between FY14 and FY15, APS's total costs on a per member basis increased 20 percent, twice what the actuaries projected. However, between FY15 and FY16, total costs on a per member basis were flat which the agency attributes to employee wellness programs. Moreover, recent changes that increased member cost-sharing most likely also helped.

Wellness Initiatives. GSD opened an employee health clinic last fall and reports utilization is high. APS is also proposing opening a health clinic but is meeting resistance from the community. Other strategies in place to control costs include employee assistance programs (EAP) and biometric screenings. Where clinics and EAPs have stronger rates of success in states with provider access issues -- biometric tracking screens members whether or not risk factors are present which can increase costs.

New Mexico Retiree Health Care Authority. In 2014, the board increased the retiree's age to participate to 55 and increased the required number of years to work to receive a full subsidy of 50 percent to 25 years. These changes affect new retirees after 2020. In addition to smaller numbers of pre-Medicare retirees, the plan is seeing more movement from Medicare Supplement plans to Medicare Advantage plans run by health plans that receive a fixed fee from Medicare. These plans cost less overall because they carry the pharmaceutical drug liability for NMRHCA.

The state pays between 20 and 80 percent of the total premium; reducing the cap to 60 percent may release more funding for salaries.

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%

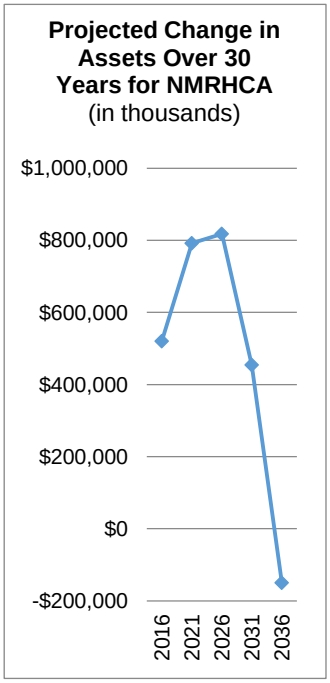
The average annual single premium were $6,251 and family premium $17,545, in 2015 according to the Kaiser Foundation. For IBAC, most single and family plans are lower.

IBAC Premium Options
(in dollars, for most earning less than $50 thousand)

	APS	PSIA	GSD
Single			
EE	194	204	97
ER	308	306	389
Total	**502**	**510**	**486**
Family			
EE	525	571	287
ER	840	857	1,149
Total	**1,365**	**1,428**	**1,436**

Source: LFC files

According to the most recent actuarial valuation, NMRHCA has a $3.4 billion unfunded liability and a funded ratio of 10 percent. The projected year of insolvency for the fund is estimated to be FY36.



As of last July, the market value of the NMRHCA fund was $455 million, the highest ever; however, it's less than the $500 million expected at that same time last year which meant a loss of one year of solvency. This was due to slower growth in payroll contributions and lower investment returns.

Changes under GASB 74 and 75 for other-post-employment-benefits (OPEB) trust funds will impact the NMRHCA and all participating employers' financial statements similar to new pension standards.

NMRHCA Claims Cost Trend for Medical/Rx
(in thousands)

	FY14	FY15	FY16	Change (FY15-FY16)
Covered lives	50,582	51,685	53,635	1,950
Medical costs	$147,646	$156,751	$156,851	$100
Costs per member	$2,918	$3,033	$2,924	-3.57%
Prescription costs	$84,413	$88,434	$101,697	$13,263
Costs per member	$1,668	$1,711	$1,896	10.8%
Total medical/drug costs	$232,059	$245,185	$258,548	$13,363
Total costs per member	$4,587	$4,744	$4,821	1.62%

Source: NMRHCA and LFC files

As reflected above, NMRHCA's total medical and prescription drug costs increased 5 percent per year primarily because of growth in membership. However, on a per member basis, total costs are tracking below inflation with drug spend somewhat offset by medical costs which have decreased.

Pharmaceutical Drug Trends. All IBAC agencies, except for NMRHCA, have experienced a decline in membership but have seen a substantial increase in prescription drug costs on a per member basis. The 2016 drug costs for the IBAC were about $220 million, 24 percent of total healthcare costs, slightly higher than FY15. The increase in pharmaceutical drug costs from 2015 to 2016 added nearly $20 million to IBAC expenses. The reasons were the demand and increasing unit costs of specialty drugs.

For Future Years. To balance components of compensation, the state should consider high-deductible health plans, employer health benefit contributions, hybrid pension plans, and restructuring retiree healthcare plans. The state should also require all payers to participate in an all payer claims database (APCD). To date, 12 states have legislatively-mandated APCD's and 5 states have voluntary APCD submissions from payers.