

LFC HEARING BRIEF

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

DATE: August 20, 2015

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

WITNESS: Mark Saiz, Chair, New Mexico Coalition for Health Care Value, AJ Forte, Director, Risk Management Division, GSD, Christy Edwards, Deputy Director, NMPSIA, Vera Dallas, Director, Employee Benefits, APS, Mark Tyndall, Director, Retiree Health Care Authority (invited Ed Burckle, Secretary, GSD)

PREPARED BY: Anne Hanika-Ortiz, LFC analyst

EXPECTED OUTCOME: Informational

Compensation Component	State/Local Government	New Mexico
Wages	65%	57%
Benefits		
Health	12%	20%
Pension	10%	10%
Other	13%	13%
Total	99%	100%

Source: SPO

Providing health care benefits for public employees has become a significant portion of the state's health care spending, second only to Medicaid, and how the state manages its group benefit plans not only affects the state's fiscal health but also the ability to recruit and retain highly qualified staff.

BACKGROUND INFORMATION

Rising benefit costs mean wages are accounting for a smaller share of total public employee compensation. According to the Department of Labor, salaries now make up 65 percent of public employee compensation, down from 68 percent a decade ago. For New Mexico, that percentage is now 57 percent. Health benefits, on the other hand, now make up 12 percent of employee compensation, compared to 10 percent in 2004. For New Mexico, that percentage is 20 percent. Most private employers have also seen similar changes, as health insurance benefits now account for 7.8 percent of total private sector employee compensation, up from 6.6 percent 10 years ago.

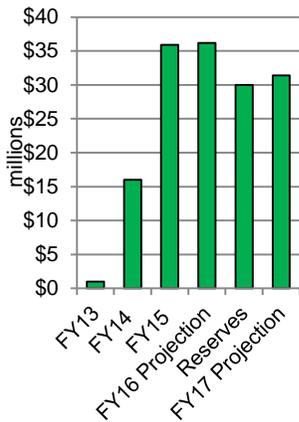
The General Services Department (GSD), New Mexico Public School Insurance Authority (NMPSIA), Albuquerque Public Schools (APS) and the New Mexico Retiree Health Care Authority (NMRHCA) form the Interagency Benefits Advisory Committee (IBAC), the largest health care purchaser in New Mexico. The committee was created by the Health Care Purchasing Act to consolidate the purchasing of health benefits. Collectively, the IBAC and their employee and retiree households spent nearly \$850 million to cover 190 thousand households in FY15, a slight increase from FY14 after adjusting for inflation. The state paid approximately \$600 million, or 70 percent of the cost. The average monthly premium for employee single coverage was \$550, for family coverage \$1,500. The state paid 60 percent of the premium on average, employees contributed the rest.

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 worked if requested by a school. 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 public 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 solely 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.

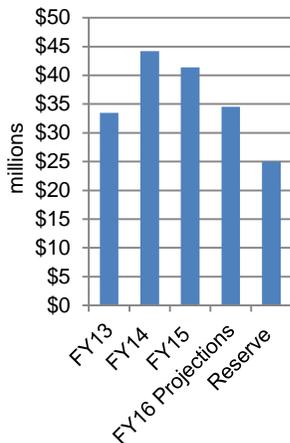
Because salary-based premiums fail to consider other household income, such as a spouse's salary, the state could consider premiums by family size and level of coverage. For example, a 20 percent employer contribution for single coverage not tied to salary and 50 percent for employees with spouse

GSD Group Health Benefits Program Cash Balances



Ending cash balances appear to be higher than required based on agency's minimum reserve requirements.

NMPSIA Benefits Program Cash Balances



Source: LFC files

or family coverage if earning \$30 thousand or more. This approach achieves savings by reducing subsidies for non-state employees.

The "Big Bid." This fall, the IBAC will enter into its fifth cooperative purchasing cycle since 2000 to secure contracts with commercial carriers for medical, dental and vision benefits. Since 2010, pharmacy benefits management (PBM) has been provided to the group by Express Scripts. The new procurement considers more narrow provider networks and requires options for fee-for-service including Patient-Centered- and Intensive-Medical Homes, Accountable Care Organizations, bundled payments for certain episodes of care and reference-based pricing with sensitivity to provider impact. Several commercial carriers have entered the market and expressed interest in responding to the RFP. The increased competition should lead to quality improvements that stabilize costs and add value.

REVIEW OF AGENCY PLANS

General Services Department. In addition to state agencies, local public bodies participate in GSD's employee health plans. This year, one third of GSD's total membership was employees and their families from non-state agencies. Over the past three years, the number of covered lives decreased due to a smaller state agency workforce, and costs on a per member basis for medical costs increased less than industry trends. However, prescription drug costs, although only 17 percent of total plan spend, increased 28 percent on a per member basis despite a generic prescription fill rate of 85 percent.

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

	FY13	FY14	FY15	Change (FY13-FY15)
Covered Lives	70,303	68,151	63,002	-10.4%
Medical costs	\$249,221	\$227,666	\$229,075	-8.1%
Costs per member	\$3,545	\$3,341	\$3,636	2.6%
Percent Change	3.4%	-5.7%	8.8%	
Prescription costs	\$41,265	\$40,308	\$47,218	14.4%
Costs per member	\$587	\$591	\$749	27.7%
Percent Change	6.1%	0.8%	26.7%	
Total medical/drug costs	\$290,486	\$267,974	\$276,293	-4.9%
Total costs per member	\$4,132	\$3,932	\$4,385	6.1%

Source: GSD and LFC Files

Over the past three years, GSD increased premiums 28 percent. For FY17, GSD proposes another increase in employee and employer contributions of 4 percent. The request, if funded from the general fund as opposed to requiring

Employer and Employee Contribution Percentages

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%

Comparison of Monthly PPO Option Premiums (earns less than \$50 thousand)

	APS	PSIA	GSD
Single			
EE	\$222	\$233	\$112
ER	\$332	\$349	\$449
Total	\$554	\$582	\$561
Family			
EE	579	592	331
ER	869	888	1,324
Total	1,448	1,480	1,655

Source: LFC files

use of vacancy savings, would require a general fund increase of \$3 million. Because state agencies under GSD plans pay 80 percent of the premium for employees earning \$50 thousand or less, which is 65 percent of state enrollment, take home pay is reduced by \$4 per month for single coverage and by \$13 per month for family coverage on average. Similarly in FY16, GSD raised premiums 3 percent with no across-the-board salary increases.

New Mexico Public School Insurance Authority. NMPSIA allows schools to decide benefit eligibility based on workforce needs. Over the past three years, number of covered lives decreased 5 percent and costs on a per member basis for medical increased less than industry trends. However, prescription costs, although only 20 percent of total plan spend, increased 29 percent on a per member basis despite a generic fill rate of over 80 percent.

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

	FY13	FY14	FY15	Change (FY13-FY15)
Covered lives	56,000	53,877	53,292	-4.8%
Medical costs	\$192,438	\$194,562	\$204,157	6.1%
Costs per member	\$3,436	\$3,611	\$3,831	11.5%
Percent Change	8.2%	5.2%	4.7%	
Prescription costs	\$40,368	\$44,200	\$49,570	22.8%
Costs per member	\$721	\$820	\$930	29.0%
Percent Change	2.7%	13.8%	13.4%	
Total medical/drug costs	\$232,806	\$238,762	\$253,727	9.0%
Total costs per member	\$4,157	\$4,432	\$4,761	14.5%

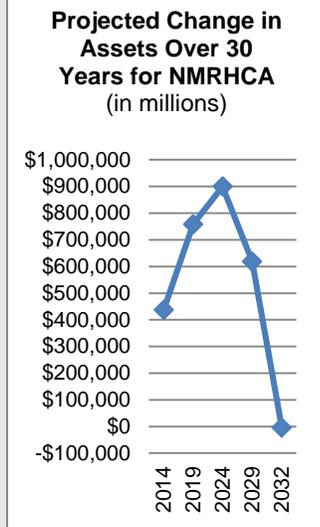
Source: NMPSIA and LFC Files

Over the past three years, NMPSIA increased premiums 12 percent. For FY17, NMPSIA proposes an increase in employee and employer contributions of 16 percent. Because schools and other educational entities pay 65 percent of the premium on average, take home pay will be reduced by \$37 per month for single coverage and \$55 per month for family coverage. The request, whether funded from public school support or from school cash balances, would require an additional \$16 million from schools.

Albuquerque Public Schools. The APS plans are governed by a seven-member elected school board that meets monthly. Effective January 1, 2014, the APS board voted to increase medical insurance premiums and raise out-of-pocket maximums. Co-pays for provider visits stayed the same, but employees and dependents now pay 20 percent of the cost for most other services. These changes brought APS closer to NMPSIA in terms of parity.

IBAC Group Membership	
GSD	63,002
NMPSIA	53,877
APS	16,901
NMRHCA	58,349
TOTAL	192,129

Source: LFC Files



In the past few years, NMRHCA has contributed almost \$150 million to its trust fund which is now over \$400 million; the plan is 10 percent funded as of 2014, up from 6 percent in 2012, which puts NMRHCA in the “middle of the pack” in terms of states’ funding set aside to cover future health care liabilities.

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

	FY13	FY14	FY15	Change (FY13-FY15)
Covered lives	17,434	17,127	16,901	-3.0%
Medical costs	\$56,331	\$60,784	\$71,793	27.4%
Costs per member	\$3,231	\$3,549	\$4,248	31.4%
Percent Change		9.8%	19.6%	
Prescription costs	\$11,325	\$11,009	\$15,630	38.0%
Costs per member	\$650	\$643	\$925	42.3%
Percent Change		13.7%	13.4%	
Total medical/drug costs	\$67,657	\$71,793	\$87,424	29.2%
Total costs per member	\$3,881	\$4,192	\$5,173	33.2%

Source: APS and LFC Files

Over the past three years, the number of covered lives decreased 3 percent and costs on a per member basis increased 31 percent, on average 10 percent per year, and above other IBAC plans. This is disappointing but not surprising because APS was an early adopter of wellness strategies such as biometric screenings which can increase costs in the first five years before realizing savings, if any. Also, access to care is better in Albuquerque which can mean higher plan costs. Prescription drug costs, 18 percent of total costs, increased 29 percent on a per member basis, similar to other IBAC plans. This week, the board hears recommendations for the FY17 budget cycle.

Wellness initiatives. GSD is expected to open its new employee health center next month. Last week, APS issued an RFP to select a vendor to establish an onsite health center for APS employees and dependents. Other strategies in place to minimize the costs of primary care and prescription drugs include an employee assistance program (EAP) and biometric screenings. Where clinics and EAPs have stronger rates of success in states with provider access issues, biometric screenings are known to screen members whether or not risk factors are present, which increases plan costs.

Update on the New Mexico Retiree Health Care Authority. In 2014, the board increased the age of a retiree able to participate in the plans to age 55 and increased the required number of years to work to receive a full subsidy from 20 years to 25 years. However, these changes only affect new retirees after 2020. In addition to smaller numbers of pre-Medicare retirees, the plan is also seeing more movement from Medicare Supplement plans into Medicare Advantage plans run by health plans that receive a fixed fee from Medicare. These plans carry the pharmaceutical drug liability for NMRHCA.

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

	FY13	FY14	FY15	Change (FY13-FY15)
Covered lives	48,265	50,582	51,685	7.0%
Medical costs	\$139,453	\$146,391	\$156,751	12.4%
Costs per member	\$2,889	\$2,894	\$3,033	4.9%
Percent Change		0.1%	4.7%	
Prescription costs	\$68,774	\$76,752	\$74,598	8.4%
Costs per member	\$1,425	\$1,517	\$1,443	1.2%
Percent Change		6.4%	-4.8%	
Total medical/drug costs	\$208,227	\$223,143	\$231,349	11.1%
Total costs per member	\$4,314	\$4,412	\$4,476	3.7%

Source: NMPSIA and LFC Files

Less than 5 percent of the IBAC membership may be candidates for the new specialty drugs, a small percentage of the total pool

To lessen the impact of costly specialty drugs, the IBAC should consider increasing member cost share by adding a separate specialty medication tier; however, increasing cost sharing will not absolve the IBAC of its responsibility to make sure that patients who will **most** benefit receive the new drugs, and once those patients are identified, do not limit coverage

The IBAC should leverage manufacturer discounts to help members with copays cover specialty drug costs

Over the past three years, costs on a per member basis for medical increased less than industry trends for this higher cost risk pool. The plan's drug trend has been offset by the significant growth in participation under the Medicare Advantage Plans as well as the reduction in pre-Medicare membership.

To ensure funding for a rolling 20-year period, the board decreased pre-Medicare premium subsidies for spouses and retirees to 36 percent and 64 percent, respectively; reduced the child subsidy to 12.5 percent (will be zero in 2017); and implemented a wellness program not to exceed \$50 per member or \$500 thousand for the program as a whole. The changes support funding until 2035 at which time the program starts deficit spending.

Pharmaceutical drug trends. All IBAC agencies, except for the NMRHCA, have experienced a decline in membership but have seen a substantial increase in prescription drug costs on a per member cost basis. The 2015 drug costs for all IBAC agencies was \$187 million, 22 percent of total costs, up from 10 percent a few years ago, and that could increase to 50 percent before long according to some reports. The increase in pharmaceutical drug costs from 2014 to 2015 added nearly \$15 million to IBAC expenses. The reasons are the new demand and increasing unit costs of specialty drugs.

FY17 appropriation outlook. For FY17, a 4 percent employer premium increase was built into state agency appropriation requests despite funding constraints for pay increases. To balance components of compensation, the state should reconsider high-deductible health plans, dependent health care contributions, hybrid pension plans, and restructuring retiree health plans.