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### FISCAL IMPACT REPORT

SPONSOR:	Lujan	DATE TYPED:	02/03/00	HB	369
SHORT TITLE:	School Group Insurance Costs			SB	
				ANALYST:	Carrillo

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY00	FY01	FY00	FY01		
See Fiscal Impact Section					

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to

### SOURCES OF INFORMATION

State Department of Education

Commission on Higher Education

Health Policy Commission

## SUMMARY

### Synopsis of Bill

House Bill 369 proposes to amend Section 10-7-4 NMSA 1978 to allow public school districts and institutions of higher education to contribute up to 100% of the cost of group insurance. This section provides for all state agencies, institutions and political subdivision (excluding municipalities, counties and political subdivisions of the state with 25 or fewer employees) to provide group term life, medical or disability income insurance to employees or salaried officers. Limits are also set on percentages of premiums these public entities can pay based on the salaries of the employee.

### Significant Issues

The table illustrates the current percent employer contributions to the total cost of group insurances:

<b>Employee Gross Salary</b>	<b>Employer Contribution</b>
Less than \$15,000	75 percent
Less than \$20,000	70 percent
Less than \$25,000	65 percent
Greater than \$25,000	60 percent

According to Commission on Higher Education staff, the proposed permissive language can be interpreted as favorable to higher education. However, since an appropriation is not included, institutions may not be in a

position to take advantage of it since they would probably have to fund increased employer contributions out of institutional resources. Additionally, the benefits of implementation would allow greater flexibility in putting together compensation packages for employees, increasing the competitive advantage New Mexico institutions might have in hiring.

The State Department of Education staff states a school district with a Section 125 cafeteria plan would lose its FICA and FUTA savings if it paid 100% of the insurance premium for an employee because technically no cafeteria plan would exist. There would be no cafeteria plan because the employee would have no insurance deductions, and therefore, no reduction in taxable income. As a result, the employer's share of FICA and FUTA contributions would increase, as would the employer's insurance costs.

## **FISCAL IMPLICATIONS**

The State Department of Education staff has based its comments on information received from the New Mexico Public School Insurance Authority, which has indicated that districts and educational entities are currently contributing an average of 65% of the cost of employee and dependent coverage elected by the employee. Under a 100% scenario, assuming all public school districts and institutions of higher education chose to pay 100% of the cost of insurance for their employees, the districts' and institutions' contributions would increase between \$22 and \$23 million annually. School districts with cafeteria plans would incur increased employer taxes of approximately \$1.7 to \$1.8 million annually. This range does not include the additional cost of paying for eligible, but not enrolled family members. Non-contributory coverage language in insurance contracts requires that all those eligible must be enrolled, even if they have other coverage through another plan or program (including Medicaid).

The Commission on Higher Education staff does not calculate a fiscal impact but notes the legislation has the potential to be quite costly for institutions. Currently there are approximately 14,000 FTE faculty and staff employed at New Mexico's public higher education institutions.

WJC/gm