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F I S C A L I M P A C T R E P O R T

SPONSOR: Leavell DATE TYPED: 02/11/02 HB

SHORT TITLE: Group Insurance Contributions SB 236/aSPAC

ANALYST: Carrillo

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	**FY03**	**FY02**	**FY03**		
			Unknown	Recurring	

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

General Services Department
Public Schools Insurance Authority
Administrative Office o f the Courts
State Department of Education
Department of Public Safety
Corrections Department
Health Policy Commission
Department of Health
Public Regulation Commission
State Personnel Office

SUMMARY

Synopsis of SPAC Amendment

The Senate Public Affairs Committee amendment to SB236 changes the salary cut off to $25,000 from $20,000. The amendment also clarifies the annual inflation adjustments. The remainder of the analysis remains valid.

Synopsis of Original Bill

Senate Bill 236, Group Insurance Contributions, proposes to amend Section 10-7-4 NMSA 1978 (Group Insurance–Cafeteria Plan--Contributions from Public Funds.) The table below shows the current contribution structure and the proposed contribution structure.

Employer	Current Employer Contribution Structure	Proposed Employer Contribution Structure
State Departments Less than \$15,000 Less than \$20,000 Less than \$25,000 \$25,000 or More	 75% of the total premium 70% of the total premium 65% of the total premium 60% of the total premium	(1) A fixed dollar amount for employees whose annual salary is \$20,000 or more (2) A higher fixed dollar amount for employees whose annual salary is less than \$20,000 The annual inflation adjustment shall not be les than the increase in the Consumer Price Index (CPI) for the employer contribution.
Higher Education Institutions Less than \$15,000 Less than \$20,000 Less than \$25,000 \$25,000 or More	 75% of the total premium 70% of the total premium 65% of the total premium 60% of the total premium	 No Change.
Public School Less than \$15,000 Less than \$20,000 Less than \$25,000 \$25,000 or More	 75% of the total premium 70% of the total premium 65% of the total premium 60% of the total premium	 No Change.

The bill employer contributions for state department or agencies, in the executive, legislative or judicial branches shall be as determined initially by legislative appropriation.

The bill's effective date is July 1, 2002, and the provisions of the act apply to pay periods beginning on or after July 1, 2002.

Significant Issues

The General Services Department (GSD) states, with health insurance costs at double-digit inflation for several years, the state must do something to restructure health insurance coverage or risk having health insurance priced out of reach for an increasing number of employees. This proposal would move to stabilize costs by having one amount for each of the three tiers of coverage, single, two-party, and family, in two salary brackets instead of four. The new approach would:

- Identify the "best value" plan to assist employees in selecting the plan which is a combination of the most affordable with the highest quality service.
- Propose an insurance package of basic life, disability, best value medical (including prescriptions) and basic dental coverage.
- Remove the state subsidy for vision and the upgrade from basic dental to comprehensive dental, and use that money to bring the state contribution for all employees from an average of 62.5 percent to a higher percent of the basic package cost (66 percent).
- Continue to provide other options for medical, dental and vision coverage, at the employees cost above the basic plan.
- Allow more flexibility for the state to respond by putting scarce resources directly into health coverage rather than being tied to four employee salary brackets.

- Require a minimum annual CPI inflation increase, with a target of covering the same percentage for the basic insurance package for all employees as the initial appropriation.

GSD comments that for each state dollar spent on benefits, the employee gets a dollar value. For each state dollar spent on salaries, the employee takes home 70 cents and the state contributes an additional 25 cents. (Note: GSD did not submit any data to support this statement.)

The Administrative Office of the Courts (AOC) staff notes this bill reduces the State's (employers) contribution to the employees' current benefit plans (health, dental, vision, life, and disability) by providing a flat contribution rate. The bill fails to define "fixed dollar amount" and does not address quality care. SB 236 provides that increased costs of health care carried by the state will be limited to the consumer price index (single digit) as opposed to the actual cost of health care, leaving each employee with the responsibility for rising (double digit) annual health care costs and 100 percent of the costs of vision and dental care.

AOC further explains the State of New Mexico Group Benefits Committee (GBC) has expressed concerns that one in three employees would be adversely impacted. The greatest impact would be on employees with annual salaries under $20,000. An example of the worst case scenario would be an employee earning under $20,000 with the following family coverages: triple-option-point-of-service plan (medical), vision and comprehensive dental. Under the proposed legislation, the employee's portion of the premium contribution would increase by more than $100 per month.

Finally, AOC comments the proposed changes could negatively impact over 40 percent of the state employees. The continued solvency of the self-insurance reserves for the state benefit plans is of utmost importance. Further investigation, research and analysis of the implications of implementing a defined contribution plan for state employees is required. The GBC should take the lead in this effort.

The Department of Health (DOH) notes it is unclear what this proposal will mean to employee benefits. The current group insurance contributions are clearly defined and articulated. SB236 would change an employee benefits package and it is unknown exactly what the benefits or consequences of the proposed change would be.

DOH staff suggests leaving the current contribution structure in place until an in-depth analysis can be done on the benefits and consequences of the proposed changes.

Staff from the Health Policy Commission (HPC) comments it is difficult to assess the impact both to the State and to its employees without knowing the proposed fixed rate. However, it would seem logical to suggest that the rate could vary from year to year. Also, it would suggest that some individuals would forego carrying insurance, if the State's fixed rate amount was too low for individuals to pay for insurance and also meet their day-to-day living expenses.

Further HPC notes that while the State has made some effort to increase its employees' salary schedule, it is still lower than many other states. One of the attractive features for recruiting and retaining employees has been the benefit package, including the State's contribution available to staff. If the fixed rate of contribution did not meet the current level of contribution, then there would be less incentive to work in the public sector.

HPC staff explains that while the intent of the proposed legislation may be to help set a limit to the State's financial obligation, it may have an adverse effect. More persons may decide to go without insurance, thus cost shifting the expense to uncompensated care, including having employees seeking care at a higher cost facility (i.e., emergency rooms).

The bill establishes different parameters for non-educational employees. According to the State Department of Public Education (SDE) it is unclear whether the defined contribution approach proposed would result in a higher or lower payroll deduction for state employees. The proposed defined contribution inflation adjustment, based on CPI, presumably would not keep pace with medical inflation, resulting in a greater shift in cost to employees. Insurance costs are unpredictable and often experience double digit increases annually; this bill holds increases for the state employer to the CPI but does not do the same for the employee. Employees likely would see lower take-home pay as a result.

According to State Personnel, the current statutory four-tier salary brackets have not been adjusted for many years. As employee salaries increased over the years, the employees have moved up in the salary brackets and consequently pay a higher percentage of the total premium while the employer percentage share has decreased. There are few employees left in the lowest salary bracket where the employer pays the highest percentage of the premium.

FISCAL IMPLICATIONS

According to GSD, the proposal requires the same cost to the state for FY 2003 as the appropriation in the General Appropriation Act of 2002 for the insurance coverage by the current salary brackets contribution. Identifying "best value" plan should increase competition among insurance providers to provide high quality service at a reasonable cost. (Note: GSD did not include any fiscal data to support their bill analysis.)

The Public School Insurance Authority (PSIA) explains 32 percent of the PSIA population (7,600 employees) enrolled in a medical plan earn less than $20,000. The majority (70 percent) of PSIA enrollment is in the triple option point-of-service medical plan. Depending on the basis of the defined contribution, including the actual dollar allocation and which plan is established as the "benchmark" or the "most valued plan", the majority of PSIA employees would be expected to pay more, be forced to reduce their plan selection, or drop medical insurance. In contracts, the state (non educational employees) has only 11 percent of enrolled employees earning less than $20,000 and 52 percent enrollment in health maintenance organization (HMO) medical plans. The state agency's demographics are more favorable to a defined contribution plan than PSIA's demographics.

PSIA also notes the non-core coverage under this approach would require 100 percent employee contribution. These non-core coverage (additional dental and standard vision benefits) were purchased through the consolidated purchasing effort. Changing the contribution strategy for vision impacts the premium rates for the consolidated purchasing pool. PSIA is aware the vision premium may increase for PSIA if this defined contribution approach is adopted for state agency employees.

AOC notes the potential fiscal impact to the solvency of the state employees' benefit plan if funds from the self-insurance reserve fund are used to increase the proposed 70 percent fixed dollar amount of the "best value medical plan" for employees whose annual salary is less than $20,000. Costs associated with communicating the changes are incalculable and include: man hours, print ing, training, information systems programming, and software. The software, Benefit Management

System (BMS) was implemented November 2001 for $200.0.

State Personnel explains the fiscal implications of this bill depend entirely on two issues (1) percentage of employee contribution established in the initial year, and (2) the inflation rate of medical insurance (medical trend). An even larger percentage of the cost could be shifted to employees or to the employer depending on the initial legislated split in the shared premium cost. The bill will do nothing to stop inflation in the total cost of the insurance premium.

ADMINISTRATIVE IMPLICATIONS

GSD states there would be administrative impact to implement the system proposed in this bill.

DOH explains the administrative impact cannot be assessed until clear data can be generated to determine what the exact benefits or consequences of the proposed change would be.

SDE states the enactment of the bill would require additional programming costs to incorporate the defined contribution approach to the current graded percent contribution based on salary approach. The effect date appears to be difficult to meet, considering the need to communicate the changes to participants, the need to make changes to payroll deduction system, etc.

State Personnel believe a two-tier salary/premium system would be easier to administer than a four-tier system.

TECHNICAL ISSUES

According to State Personnel, by placing an actual salary bracket dollar amount in the bill, the same bracket creep will occur as it did with the current brackets. As employee salaries increase over the years, fewer and fewer will fall in the lower salary bracket and cost shifting to employees will occur again. Perhaps the percentage of employees that currently fall into the two suggested brackets should be determined and place into law rather than the salary amounts (i.e., bottom 35 percent and top 65 percent). Also, the bill allows for annual inflation adjustments to be made in the employer contribution level but is silent on the issue of inflation adjustments for employee contributions. If the goal is to keep the percentage split constant, the bill will have to allow for inflation adjustments to the employee contribution as well.

State Personnel suggest amending the bill to include the percentage of employees below and above a current salary value and then construct the working to maintain that percentage in future years. Another solution would be to index the proposed salary brackets so they will also increase with inflation.

Corrections Department explains the language on page 3, line 10, regarding annual inflation adjustment appears to be limited to those employees whose annual salary is less than $20,000. Presumably, the language regarding annual inflation adjustments is also intended to apply to those employees whose annual salary is $20,000 or more. If so, maybe the language should be a separate paragraph.

GSD is requesting the sponsor amend the salary cutoff from $20,000 to $25,000.

WJC/njw