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

SPONSOR Lujan, B
ORIGINAL DATE 02/14/06
LAST UPDATED
HB 867/aHEC

SHORT TITLE Public Employee Health Benefit Changes
SB

ANALYST Geisler

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
	$6,400.0	Non-Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY06	FY07	FY08	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		See fiscal impact			Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB 92

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public School Insurance Authority (PSIA)
Retiree Health Care Authority (RHCA)
Albuquerque Public Schools (APS)
General Services Department (GSD)

SUMMARY

Synopsis of HEC Amendments

The House Education Committee amendments to House Bill 867:

1. Ensure that the premiums for group health insurance assessed by PSIA to APS upon consolidation do not increase for a period of one year;

2. Add a second APS member to the PSIA board (upon consolidation) and clarify that those two members shall be selected by employees of the APS who are enrolled in the group health insurance program.

Synopsis of Original Bill

House Bill 867 for the Public Employees Benefit Oversight Committee (PEBO) has the following major provisions:

1. Section 1 adjusts the employer share of benefits costs and related brackets to provide for a higher employer share of benefits costs for the lower paid employees. It sets minimum and maximum employer contributions. It eliminates the current provision which allows PSIA employer groups and APS to pay "up to 80% within available revenue". Effective October 1, 2006.

2. Sections 2 through 4 provide for the consolidation of the APS health benefits program into PSIA. Section 2 states that any school district with student enrollment in excess of 60,000 students (APS) are excluded from PSIA's risk-related coverage. Effective December 1, 2006.
   Section 3 amends the PSIA Board composition to allow Albuquerque Public School Board to appoint a member to serve on the PSIA Board, when APS is participating in PSIA. Section 4 amends the definition of school district to remove the exemption for APS (60,000 or more students). Effective December 1, 2006.

3. Section 5 amends the Retiree Health Care Authority (RHCA) Act to update the definition of child to include unmarried children up to age 25 and grandfathers the dependent status of active members who retire and join the RHCA. Also amended is the definition of "participating employer". Effective July 1, 2006.

4. Section 6 requires the Group Benefits Committee of the Risk Management Division to meet at least quarterly. Effective immediately.

5. Section 7 retains the 80% maximum contribution language for PSIA groups and institutions of higher education subject to the limitations in Section 1. Effective October 1, 2006.

6. Section 8 appropriates $6.4 million to the Public Education Department to fund the increases in employer contributions. Any unexpended or unencumbered balance remaining as of June 30, 2007 will revert to the general fund. Effective October 1, 2006.

7. Section 9 assigns effective dates by section. (Effective dates are noted above).

FISCAL IMPLICATIONS

As RHCA estimates a minimal fiscal impact for any additional dependents that would qualify under section 5 of the bill, the major fiscal impacts to be examined are the cost impact of the change in employer & employee share of benefits costs and the costs and savings related to consolidation of APS benefit programs at PSIA. In the context of a combined benefits budget of close to $300 million for APS and PSIA, it appears the net fiscal impact from the bracket changes and consolidation is minimal. Additional details follow:

1. Change in benefit brackets: the bill provides an appropriation of $6.4 million to cover the cost of the bracket changes in FY07. A key change in the brackets is the higher employer share of benefits costs for employees that earn less than $30,000 annually. For example, employees that earn under $20,000 would have 80% to 90% of their premium covered by the employer, compared to the current brackets, which only covers 70% to 75% of costs. APS and PSIA provided the following charts to illustrate the impact on employees from these changes:

Impact on PSIA covered employees:

No. of Medical Employees In Salary Bracket	Description of Brackets	Monthly Payroll Deduction for employee earning $12K	Monthly Payroll Deduction for employee earning $38K	Monthly Payroll Deduction for employee earning $100K
	Current Minimums			
3,476 2,231 1,488 17,282	Under $15K – state pays 75% $15K-$20K – state pays 70% $20K-$25K – state pays 65% $25K + over – state pays 60%	$93 Single $236 Family (based on minimum state share)	$149 Single $378 Family	$149 Single $378 Family
	HB 867			
5,707 1,488 1,046 16,195 41	Under $20K – state pays 80%-90% $20K-$25K – state pays 75%-85% $25K-$30K – state pays 70%-80% $30K-$100K – state pays 60%-70% $100K + over – state pays 50%-60%	$74 Single $189 Family (based on minimum state share)	$149 Single $378 Family	$186 Single $472 Family

Impact on APS Covered employees:

Total Number of APS Employees Medical Plans By Salary Tier	Description of Salary Tier	Monthly Payroll Deduction for employee earning $12K	Monthly Payroll Deduction for employee earning $38K	Monthly Payroll Deduction for employee earning $100K
	Current Minimums			
970 338 593 5,811	Under $15K – state pays 75% $15K-$20K – state pays 70% $20K-$25K – state pays 65% $25K + over – state pays 60%	$87.03 Single $235.02 Family (based on minimum state share)	$139.25 Single $376.04 Family	$139.25 Single $376.04 Family
	HB 867			
1,308 593 204 5,601 6	Under $20K – state pays 80%-90% $20K-$25K – state pays 75%-85% $25K-$30K – state pays 70%-80% $30K-$100K – state pays 60%-70% $100K + over – state pays 50%-60%	$69.62 Single $188.02 Family (based on minimum state share)	$139.29 Single $376.04 Family	$174.06 Single $470.05 Family

As the chart shows, an APS or PSIA employee earning $12,000 purchasing family coverage would save a minimum of $565 annually under this bill. The impact on an employees earning greater than $30,000 depends on the employer choice of the percentage of costs they will pick up—the bill allows ranges of 60% to 70% for those earning more than $30,000 and 50% to 60% for employees earning $100,000 or over. The charts above assume no change for a sample employee earning $38,000 and an increase in premium costs for an employee earning $100,000 because of the employer choosing to only cover 50% of the premium costs.

Because of the larger employer share being paid for lower paid employees, APS and PSIA will have increased costs. If all employers choose to pay the lowest share of costs allowed under the bill, APS and PSIA estimate an impact of approximately $2.6 million in FY07. Assuming that employers will likely pay more than the minimum share allowed in the bill it appears that the appropriation of $6.4 million contained in the bill should be adequate to cover the changes in brackets in FY07. Note that since bill provisions are implemented on October 1, 2006 the cost estimate are pro-rated for the remainder of FY07. Annualizing the full year cost in FY08 would cost an additional $1.5 million minimum, with costs being higher if more employers chose to pay the highest share allowable in the bill. These costs would have to be included in the FY08 appropriation for public school support.

2. Costs and Savings Related to Consolidation of APS Benefits Programs at PSIA: both APS and PSIA have addressed five categories of possible cost savings due to consolidation: office personnel costs, consulting costs, administrative services only (ASO) fees, premium/claims costs, and provider reimbursements. PSIA estimates approximately $2.5 million in total savings, with about $2.3 million of this amount being from premium savings and about $150 thousand from other costs savings. APS disputes specific aspects of PSIA's cost saving estimates and questions whether or not the savings are worth the disruption and transition costs to APS employees. Please see additional discussion of costs and savings under "significant issues."

SIGNIFICANT ISSUES

There are a number of differences between the benefit plans offered by APS and PSIA that complicate analysis of the financial impact of HB 867. For example, while both entities utilize Presbyterian for medical administration services, they differ in their second medical plan—APS offers Cigna and PSIA offers Blue Cross Blue Shield (BCBS). In addition, APS co-pays for service are typically lower, but PSIA has lower premiums for its Presbyterian plan. As noted above, PSIA estimates approximately $2.5 million in net savings from consolidation which APS disputes. Additional detail follows:

1. Administrative related cost savings. PSIA estimates about $150 thousand net savings ($429 thousand of savings offset by $281 thousand of additional expenses). Savings would occur from elimination of 4 of 8 APS benefits positions, elimination of medical consulting fees, and elimination of separate medical carrier administrative service (ASO) fees. Additional costs would be incurred for 1 more staff member at PSIA as well as higher fees to PSIA's third party eligibility administrator. APS questions if PSIA has included enough funding to provide customer service to over 8,000 APS employees enrolled in benefit plans. In addition, APS notes that additional spending on consultants may be necessary, and operating costs relating to the transition (such as employee education and communications) have not been taken into account.

2. Medical Premium savings. PSIA estimated approximately $3.6 million net in annual premium savings, of which $2.3 million or 65% would be the employer (or state) share. The majority of these savings come from moving APS employees into the lower cost PSIA Presbyterian medical plan and into the PSIA United Concordia dental plan. Total savings are offset by the increased costs of moving APS Cigna plan members into the higher premium PSIA

BCBS medical plan.

APS believes that PSIA has overstated the cost savings from moving APS Presbyterian plan members and dental plan members to PSIA. In addition, APS believes that PSIA's analysis understates the financial value of the medical provider discounts APS receives from Cigna. This would increase the transition costs of APS Cigna members to BCBS. Also, APS notes that since their plan year starts two months later than PSIA, PSIA's cost estimates should be trended upward to reflect medical inflation.

ADMINISTRATIVE IMPLICATIONS

PSIA notes that because APS and PSIA are separate it complicates the state budget process and has led to inequities in benefits dollars available between APS and other school districts. Bringing APS into PSIA eliminates this problem of separate insurance estimates and separate plans, at least for the benefits program, and will eliminate concerns resulting in divisions between APS and other districts.

APS expresses concerns that the high level of customer service they provide to their employees could be at risk in a consolidation. In addition, APS expresses concern that APS employees would receive reduced benefits (due to higher PSIA co-pays and deductibles). APS also is concerned that 3,170 APS Cigna members would face higher premiums if moved to BCBS.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 92 adjusts the employer benefit contribution percentage for APS and PSIA members to a uniform 80%, regardless of salary level

TECHNICAL ISSUES

Requests to waiver out of PSIA are allowed only during the bid cycle. The effective date of December 1, 2006 would mean APS would not be permitted to explore a waiver out of PSIA until the July 1, 2008 bid for medical, dental, and vision. The life and disability coverages will be bid for a July 1, 2007 effective date, which means the next opportunity to waive the life and disability coverages would be July 1, 2011.

APS states that if they are mandated to join PSIA effective December 1, 2006, a provision to allow current APS CIGNA members to be grandfathered in until such time as APS is allowed the opportunity to secure an independent study and request a waiver for participation is strongly recommended.

APS and PSIA agree that reversion of any unencumbered or unused appropriation would be difficult to determine if the $6.4 million appropriation is distributed to the districts via the funding formula. See suggested amendment to strike the reversion.

RHCA believes that since the dependent limiting age was increased from 19 to 25 in the Health Care Purchasing Act, then Section 10-7C-4((F)(3) (in HB867 on page 12, lines 13-22) is moot. Students up to age 25 are a subset of dependents up to age 25. Section 10-7C-4(F)(3) originally existed to allow coverage of dependents over the old limiting age of 19 if they are students—now all dependents are covered to age 25, regardless of student status.

ALTERNATIVES

APS suggests that delaying the proposed mandate to have APS join with NMPSIA until such time as APS has the opportunity to complete a comprehensive study and analysis to support the projected net savings against the disruption and transition costs to its employees and taxpayers. The timeframe for this request is the next scheduled bid process for IBAC scheduled for July 1, 2008.

AMENDMENTS

PSIA and APS suggest on page 26, line 2 & 3, delete “Any unexpended or unencumbered balance remaining at the end of fiscal year 2007 shall revert to the general fund.

RHCA suggests striking page 12, lines 13-22 as noted under technical Issues above.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The employer share of benefit costs will remain unchanged. APS and PSIA will operate independent benefit programs, although they will continue to bid through joint purchasing with RMD and RHCA under the Health Care Purchasing Act. The Retiree Health Care Act will not match the Health Care Purchasing Act regarding dependent age limit for eligibility. Certain dependents carried on an employer’s plan will continue to be ineligible for RHCA coverage, forcing the retiree to drop those dependents from coverage upon enrollment in RHCA.

GG/nt:mt