

The State faces rising medical costs which will require increases in health benefit rates, plan design changes to reduce costs to the state, or some combination of the two. Currently, public employee benefits are provided through three agencies: the General Services Department (GSD) for state employees; Albuquerque Public Schools (APS) for all employees of the Albuquerque school district; and the Public Schools Insurance Authority (PSIA) for all non-APS educational employees.

The trifurcated system of providing health benefits has led to different plan designs, costs, and employer and employee contribution rates. The table below compares health insurance plans for single coverage based on an income of \$41 thousand, the average level 1 teacher starting salary.

Comparison of Health Insurance Costs

Based on Single Coverage and income of \$41 thousand

	PSIA-High Option	GSD-Blue Cross PPO	APS- BCBS Preferred
Deductible	\$ 750	\$ 500	\$ 500
Max Out of Pocket	\$ 3,750	\$ 4,000	\$ 1,500
State Cost	\$ 5,201	\$ 5,998	\$ 7,045
Member Cost	\$ 3,468	\$ 1,500	\$ 2,818
Total Cost	\$ 8,669	\$ 7,498	\$ 9,863

Source: LFC Files

While the insurance plans are similar, the costs are dramatically different. For example, a teacher on the PSIA plan may pay \$3.5 thousand for coverage through the Blue Cross Blue Shield (BCBS) network that is very similar to the BCBS PPO plan offered to state employees through GSD, but state employees pay less than half of the PSIA rate for the coverage.

The disparity in employer and employee contribution rates is due to statutory constraint and agency policy. For example, PSIA is mandated to cover at “at least seventy-five percent of the cost of the insurance of an employee whose annual salary is less than \$15 thousand.” This language requires PSIA to provide a minimum coverage amount of 75 percent but allows districts to provide up to an 80 percent subsidy at the discretion of school districts. PSIA’s income thresholds have not been increased since 1989. In contrast to PSIA, statute sets a maximum employer subsidy for state employees covered by GSD (10-7-4 NMSA 1978) of 80 percent.

Surrounding State Comparison

LFC analysis finds that, of the seven surrounding states, New Mexico is the only state to provide health insurance contributions that vary based on income. The

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PURPOSE OF HEARING: Review of group health benefits programs

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EXPECTED OUTCOME: Informational

APS Contributions		
Salary	Employee (EE)	Employer (ER)
< \$34.5	20%	80%
\$34.5-\$40	30%	70%
>\$40	40%	60%

PSIA Contributions		
Salary	EE	ER
< \$15K	25%	75%
< \$20K	30%	70%
< \$25K	35%	65%
\$25K +	40%	60%

GSD Contributions		
Salary	EE	ER
< \$50K	20%	80%
< \$60K	30%	70%
\$60K +	40%	60%

other states use a single rate schedule to assess premiums regardless of employee income level. Additionally, many other states provide a wider array of insurance options. For example, the State of Colorado offers employees \$720 per year in a health savings account if they choose to opt into a high-deductible health plan while the State of Oklahoma offers a set subsidy amount for each plan type and allows employees to choose the plan that best suits them. This fixed subsidy is determined by family size and is sufficient to cover the entire cost of the most basic plan, but is not sufficient to cover higher cost options.

While New Mexico only has three benefit plans to choose from, that is not uncommon in the region. Of the seven states surveyed, four offered three health insurance plans and three offered more than three plans. What makes New Mexico unique is the lack of differentiation in the plans offered; New Mexico offers two HMO plans, one through Blue Cross Blue Shield (BCBS) and the other through Presbyterian. The plan costs are the same and the plan benefits and networks are similar. In addition to the two HMO plans, there is also a PPO plan offered by BCBS.

The seven other states manage their plans in varied ways. For example, Texas offers health insurance benefits for educators through the Teachers Retirement System separately from state employee benefits. Utah, Nevada, and Wyoming procure health benefits at the school district level and state employee benefits through a state agency. Arizona and Oklahoma appear to utilize a consolidated purchasing model in which teachers participate in the same plans as state employees.

Average Annual Cost of Single Coverage Insurance Premium, 2018		
U.S. Average		
Payer	Cost	Split
EE	\$1,427	21%
ER	\$5,288	79%
Total	\$6,715	
New Mexico Average		
Payer	Cost	Split
EE	\$1,558	24%
ER	\$5,066	76%
Total	\$6,624	

Source: Kaiser Family Foundation

EE=employee

ER=employer

Benefit Cost and Trends

Nationally, rising benefit costs mean wages are accounting for a smaller share of compensation for state and local government workers. According to U.S. Department of Labor statistics, between June 2018 and June 2019, U.S. workers received wage and salary increases of 2.9 percent and benefit increases of 2.3 percent. However, for state and local government workers, wages increased only 2.7 percent and benefits costs rose 3.5 percent.

In New Mexico, benefit costs have increased faster than salaries. State employee salaries increased an average of 12.6 percent between 2013 and 2018. GSD reports that actual per-member medical spending over this period increased by 43 percent. The rapid growth in benefit costs forces the state to absorb these increased costs often at the expense of providing salary increases.

GSD, PSIA, and APS Total Claims Cost for Medical/Rx

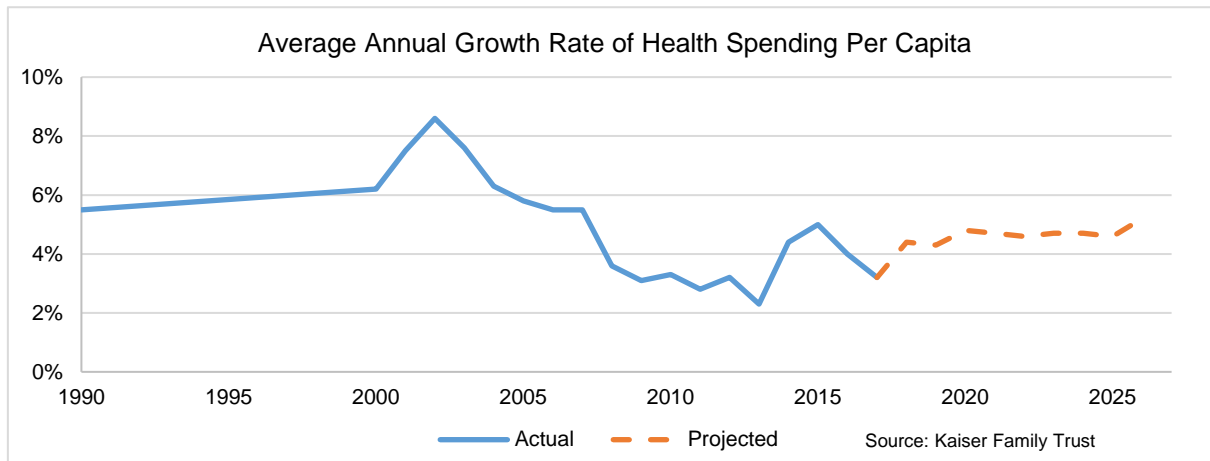
(in thousands)

	FY16	FY17	FY18	FY19	Change (FY16-FY19)
Covered lives	131,321	126,666	121,192	120,421	-8.3%
Medical costs	\$523,204	\$543,570	\$545,129	\$554,225	5.9%
Costs per member	\$3,984	\$4,291	\$4,498	\$4,602	15.5%
Prescription costs	\$106,533	\$98,684	\$93,256	\$82,371	-22.7%
Costs per member	\$811	\$779	\$ 769	\$ 684	-15.7%
Total medical/drug costs	\$629,736	\$642,255	\$638,385	\$636,596	1.1%
Total costs per member	\$4,795	\$5,070	\$5,268	\$5,286	10.2%

Source: LFC Files

The Kaiser Family Foundation estimates that health insurance costs increased at approximately 5 percent annually since the year 2000 though the rate of growth has slowed to around 3.8 percent over the past 5 years. Overall costs have risen dramatically; between 1999 and 2017, the cost for single and family coverage plans increased by over 200 percent. This rate of growth is referred to as medical trend.

The Center for Medicare and Medicaid Services (CMS) estimates health spending will grow at an average rate of 5.5 percent per year from 2018 to 2027 and that health spending will likely grow 0.8 percent faster than gross domestic product over this period. Under this scenario, the share of health care as a percent of GDP is expected to increase from 17.9 percent to 19.4 percent by 2027.



In an effort to gain market power and drive cost down, the GSD, PSIA, APS, and the New Mexico Retiree Health Care Authority (NMRHCA) formed 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 the consolidation does not extend to the procurement of actuarial and benefit consulting services which could help reduce costs. IBAC estimates it saves approximately \$25 million per year through joint purchasing, about \$10 million of which is associated with pharmacy spending.

The Governor signed Laws 2019, Chapter 91 (Senate Bill 131) creating the pharmaceutical purchasing council. The council will be made up of representatives of nine constituent agencies and administratively attached to GSD. The council is tasked with coordinating cost-containment strategies for the statewide procurement of pharmaceuticals and pharmacy benefits management. The council cannot make decisions that bind participating agencies to a specific course of action, but there may be savings that result from the council’s action. According to the fiscal impact report for SB131:

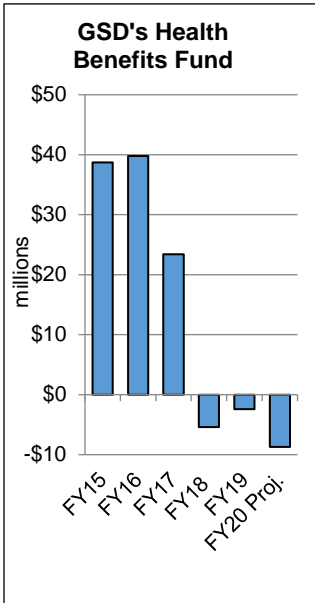
“The nine constituent state agencies spent a combined total of over \$703 million on prescription drugs in FY18, a 59 percent increase from the \$442 million spent in FY14. According to some reports, just one cost-containment technique, bulk purchasing of pharmaceuticals, can save between 2 and 5 percent of spend. Using that metric, the state could potentially save between \$14 million and \$35 million annually with bulk purchasing alone.”

Members of the Interagency Pharmaceutical Purchasing Council:

1. General Services Department
2. Human Services Department
3. Department of Health
4. Children, Youth and Families Department
5. Corrections Department
6. Retiree Health Care Authority
7. Public School Insurance Authority
8. Albuquerque Public Schools
9. University of New Mexico
10. Two Governor-Appointed Members

Review of Agency Plans

Membership in APS, GSD, and NMPSIA plans declined by 8.3 percent between FY16 and FY19 while total healthcare costs increased by \$6.8 million, or 1 percent, to \$636 million in FY19. These agencies paid \$5,286 per member for care, on average, up 10 percent from \$4,795 in FY16.



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.

General Services Department. Total costs increased 9.7 percent between FY16 and FY19. Over this same time period, the number of total covered lives fell by 7 percent resulting in total costs increasing by 18 percent on a per member basis from FY16-FY19.

Program revenue has not kept pace with medical cost increases and GSD's health benefits fund balance has fallen from \$23.4 million in FY17 to a deficit of \$2.4 million at the close of FY19 and is projected to end FY20 with a deficit of \$8.7 million. The department intends to request supplemental funding of \$30.7 million in FY21; \$21.7 million to bring the group health benefits fund to a zero balance and another \$9 million to increase the balance to approximately one month of claims cost.

GSD Claims Cost Trend for Medical/RX (dollars in thousands)

	FY16	FY17	FY18	FY19	Change (FY16-FY19)
Covered Lives	61,717	59,530	58,063	57,377	-7.0%
Medical costs	\$237,242	\$254,292	\$264,317	\$273,692	15.4%
Costs per member	\$3,844.00	\$4,217	\$4,552	\$4,770	24.1%
Prescription costs	\$48,980	\$41,512	\$46,146	\$40,302	-17.7%
Costs per member	\$794	\$697	\$794	\$702	-11.6%
Total medical/drug costs	\$286,222	\$295,804	\$310,463	\$313,994	9.7%
Total costs per member	\$4,638	\$4,969	\$5,347	\$5,472	18.0%

Source: GSD

For FY20, GSD is proposing a health insurance premium increase of 3 percent. GSD estimates this increase would result in a \$4.6 million increase in state spending on medical insurance of which approximately half comes from the general fund.

New Mexico Public School Insurance Authority. PSIA provides medical and prescription benefits to teachers in public and charter schools outside of APS. Because teachers in the APS are not accounted for, approximately 85 percent of PSIA's membership is located in rural areas of the state. The highly rural nature of the membership contributes to increased healthcare costs because of a lack of providers and limited competition in rural areas.

Total costs decreased about 9 percent between FY16 and FY19. Over this same time period, the number of total covered lives fell by 11 percent resulting in total costs increasing by 2.6 percent on a per member basis. Between FY16 and FY19, the total number of members fell by 6,076. A large portion of the membership decrease is attributable to Central New Mexico Community College exiting PSIA in FY18.

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

	FY16	FY17	FY18	FY19	Change (FY16-FY19)
Covered lives	53,311	50,896	47,058	47,235	-11.4%
Medical costs	\$225,679	\$227,032	\$217,846	\$216,038	-4.3%
Costs per member	\$4,233	\$4,461	\$4,629	\$4,574	8.0%
Prescription costs	\$44,586	\$43,329	\$34,696	\$29,802	-33.2%
Costs per member	\$836	\$851	\$737	\$631	-24.5%
Total medical/drug costs	\$270,265	\$270,361	\$252,542	\$245,840	-9.0%
Total costs per member	\$5,070	\$5,312	\$5,367	\$5,205	2.7%

Source: NMPSIA

This October, PSIA will increase premiums for their high option and EPO plans by 5.9 percent and the low option plan by 3.1 percent. The increases in health insurance premiums will generate an additional \$20 million in fund revenue of which the employer will cover at least 60 percent, or \$12 million.

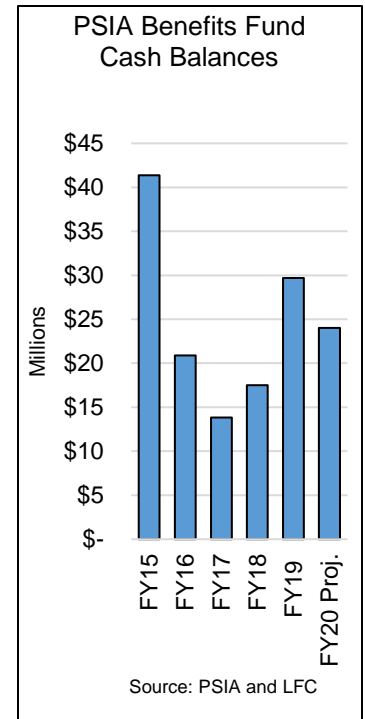
Albuquerque Public Schools. APS plans are governed by a seven-member elected school board that meets monthly. For 2020, APS will increase medical insurance rates by 4.5 percent. In addition, APS will increase the income thresholds which determine the subsidy rate by \$5 thousand.

Between FY16 and FY19, total costs increased 4.8 percent. Over this same time period, the number of total covered lives fell by 3 percent resulting in total costs per member increasing by 8 percent.

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

	FY16	FY17	FY18	FY19	Change (FY16-FY19)
Covered lives	16,293	16,240	16,071	15,809	-3.0%
Medical costs	\$60,283	\$62,246	\$62,966	\$64,495	7.0%
Costs per member	\$3,700	\$3,833	\$3,918	\$4,080	10.3%
Prescription costs	\$12,967	\$13,843	\$12,414	\$12,267	-5.4%
Costs per member	\$796	\$852	\$772	\$776	-2.5%
Total medical/drug costs	\$73,249	\$76,090	\$75,380	\$76,762	4.8%
Total costs per member	\$4,496	\$4,685	\$4,691	\$4,856	8.0%

Source: APS



Source: PSIA and LFC

APS Health Insurance Contribution Salary Threshold Change		
ER Contribution	Current Threshold	Proposed Threshold
80%	< \$34.5	< \$39.5
70%	\$34.5- \$40	\$39.5- \$45
60%	> \$40	> \$45

Source: APS

For Future Years. To balance components of compensation, the state should consider high-deductible health plans, employer health benefit contributions, and pension and retiree healthcare plan reform. The state should also consider requiring all healthcare purchasers to participate in an all payer claims database (APCD) to

track healthcare spending statewide. To date, 17 states have APCD's. PSIA entered into a contract to provide data warehousing services to bring greater transparency to medical benefit costs, however GSD has voiced concerns about the costs of these types of data gathering projects.

Prior LFC analysis has noted there are further opportunities for state savings on employee benefits through greater IBAC agency participation in negotiating provider rates rather than continued and potentially unsustainable cost-shifting to members. True consolidation of the IBAC agencies could likely facilitate greater influence over rates, as may a shift away from straight fee-for-service payments.