



APS Risk and Medical Insurance Fiscal Year 2017

Legislative Education Study Committee

Representative Dennis Roch, Chair

Senator John Sapien, Vice-Chair

September 14, 2016

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SEPTEMBER 13 2016
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Risk Management Overview

The Risk Management department has been a separate department within Albuquerque Public Schools (APS) for over forty years. The APS Risk Management Program continues to be both self-insured and self-administered. The primary function of the Risk Management Department is to preserve the assets of Albuquerque Public Schools by providing our employees and the public with the highest level of Safety and Claims management services. The Risk Management department's two main areas of operation are loss control and claims management.

The loss control department is charged with the oversight of the safety programs for all of the various schools and departments within the District. The department visits and inspects each school facility every year with over 140 schools inspected annually. They report on safety issues and suggest areas of improvement to prevent and mitigate losses. This department is also in charge of the District's hazardous waste management program as well as chemical safety management and bio-hazardous waste management. The department works in conjunction with the State's Workers' Compensation Administration (WCA), State and Federal Occupational Health and Safety Administration (OSHA), local Fire Safety officials and other governmental entities. The Risk Management department continues to monitor all school fire drills and works closely with fire safety officials and school administrators to develop site safety and evacuation plans

The Risk Management claim department handles first and third party claims made by entities and individuals against the school district. The Albuquerque Public Schools is self-insured for all workers compensation, property and casualty exposures. Although self-insured, the Albuquerque Public School district has insurance for large claims in excess of the self-insured limit. All claims for these loss exposures are self-administered with APS claims staff. The self-insured program has existed for decades. Since January 2012, the district's liability and property claims have been self-administered with its own claim staff. Prior to January of 2012 the claims involving Albuquerque Public Schools were handled by third party administrators. The District is currently in the RFP review process for Third-Party Claims management services.

The risk management department provides support services and research to other departments. These support services such as research of types and locations of accident. Our Facilities and Design Department and Risk Management collaborate on analysis of playground accidents for site development. We also work with our Community Support for issues with volunteers and other related insurance issues.

Our claim volume has remained consistent over the past several years for most lines of coverage. We have noticed an inflationary measure in all lines of coverage. In our Workers' Compensation Program, there has been a significant reduction (>18%) in the average cost (severity/claim) per workers' compensation claim. In addition, the number of workers' compensation claims (claim frequency) for the District are well below its 10-yr historical average. That is, the Frequency and Severity numbers for the District are trending favorably. These two factors are the key to controlling workers' compensation costs.

Appropriations FY12 – FY17

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
W.C. Budget	\$12,199,641.00	\$13,212,386.00	\$11,686,595.00	\$11,401,327.00	\$10,474,953	\$7,598,839
P.C. Budget	\$8,866,469.00	\$11,313,023.00	\$14,255,634.00	\$14,162,342.00	\$15,571,064.00	\$13,530,022.00
Total Budget	\$21,066,110.00	\$24,525,409.00	\$25,942,229.00	\$25,563,669.00	\$26,046,017.00	\$21,128,561.00
W.C. Payments	\$3,564,649.00	\$5,034,941.00	\$4,133,816.00	\$5,246,160.00	\$6,215,929	\$0.00
P.C. Payments	\$3,216,531.00	\$3,221,343.00	\$4,314,509.00	\$3,504,831.00	\$5,044,715.00	\$0.00
Total Payments	\$6,781,180.00	\$8,256,284.00	\$8,448,325.00	\$8,750,991.00	\$11,260,644.00	\$0.00

Actuarial Confidence Level for W/C

Actuarial Confidence level for W/C	70%	80%	90%
Five-Year average	\$10,623,778	\$11,084,241	\$12,010,183
Estimated Outstanding Losses			
2016	\$10,971,974	\$11,493,012	\$12,270,033
2015	\$10,551,576	\$10,942,375	\$12,212,473
2014	\$10,332,960	\$10,715,663	\$11,481,067
2013	10,512,911	11,008,804	11,802,231
2012	10,749,471	11,261,350	12,285,109
2011	11,114,679	11,643,950	12,702,491
2010	8,770,444	11,576,986	13,857,302
2009	7,562,928	9,983,065	11,949,426

Actuarial Confidence Level for P/C

Actuarial Confidence level for P/C	70%	80%	90%
Five year average	5,524,174	6,272,763	7,808,581
Estimated Outstanding Losses			
2016	\$6,087,002	\$6,917,965	\$9,441,967
2015	\$5,749,787	\$6,570,355	\$7,872,634
2014	\$4,495,136	\$5,158,335	\$6,334,097
2013	4,748,641	5,401,190	6,661,792
2012	6,540,305	7,315,972	8,732,415
2011	7,805,775	9,077,527	11,478,710
2010	7,443,841	8,805,251	11,311,155
2009	7,606,353	9,102,888	11,513,885

ALBUQUERQUE PUBLIC SCHOOLS 10 - YEAR RETENTION & DEDUCTIBLE HISTORY

COVERAGE						
POLICY TERM	* PROPERTY	EXCESS LIABILITY	SCHOOL BOARD LEGAL LIABILITY	EXCESS WORKER'S COMPENSATION	* BOILER & MACHINERY	CRIME
2015-2016	\$250,000	\$350,000	\$350,000	\$650,000	\$5,000	\$350,000
2014 - 2015	\$250,000	\$350,000	\$350,000	\$550,000	\$5,000	\$350,000
2013 - 2014	\$250,000	\$350,000	\$350,000	\$550,000	\$5,000	\$350,000
2012 - 2013	\$250,000	\$350,000	\$350,000	\$550,000	\$5,000	\$350,000
2011 - 2012	\$250,000	\$350,000	\$350,000	\$500,000	\$5,000	\$350,000
2010 - 2011	\$250,000	\$350,000	\$350,000	\$500,000	\$5,000	\$350,000
2009 - 2010	\$250,000	\$350,000	\$350,000	\$500,000	\$5,000	\$250,000
2008 - 2009	\$250,000	\$350,000	\$350,000	\$500,000	\$5,000	\$250,000
2007 - 2008	\$500,000	\$350,000	\$350,000	\$500,000	\$5,000	\$250,000
2006 - 2007	\$100,000	\$350,000	\$350,000	\$500,000	\$5,000	\$100,000
2005 - 2006	\$100,000	\$350,000	\$350,000	\$400,000	\$5,000	\$100,000
2004 - 2005	\$100,000	\$350,000	\$350,000	\$350,000	\$5,000	\$100,000

Footnote(s):

* Deductible in lieu of self - retention (SIR)
Boiler & Machinery: \$25,000 deductible for Transformers/MEA



Property & Casualty Market Trends

- Two major areas affecting insurance pricing and becoming key drivers to changing trends in the market place:
- **Market Consolidation** - within the insurance carrier community organic growth is becoming more difficult to come by. As interest rates remain low and continue to challenge investment returns, carriers are pursuing inorganic growth measures to increase revenues. For example, the recent merge of ACE Limited purchasing Chubb Corporation for \$28.3 billion, now becoming the world's largest publicly traded property and casualty insurer. As for Health insurance, the mergers of Anthem/Cigna and Aetna/Humana also signify the trend of large consolidations occurring to obtain revenue growth.

How does this affect P&C rates and pricing?

- Even though consolidations thin competition, for the last few years the market has been “overcapitalized” which means there is a lot more than the required amount of capital available to insurance carriers. Thus, creating and continuing a “soft-market” pricing cycle of lower rates and premiums until the difference of supply and demand are brought into balance.

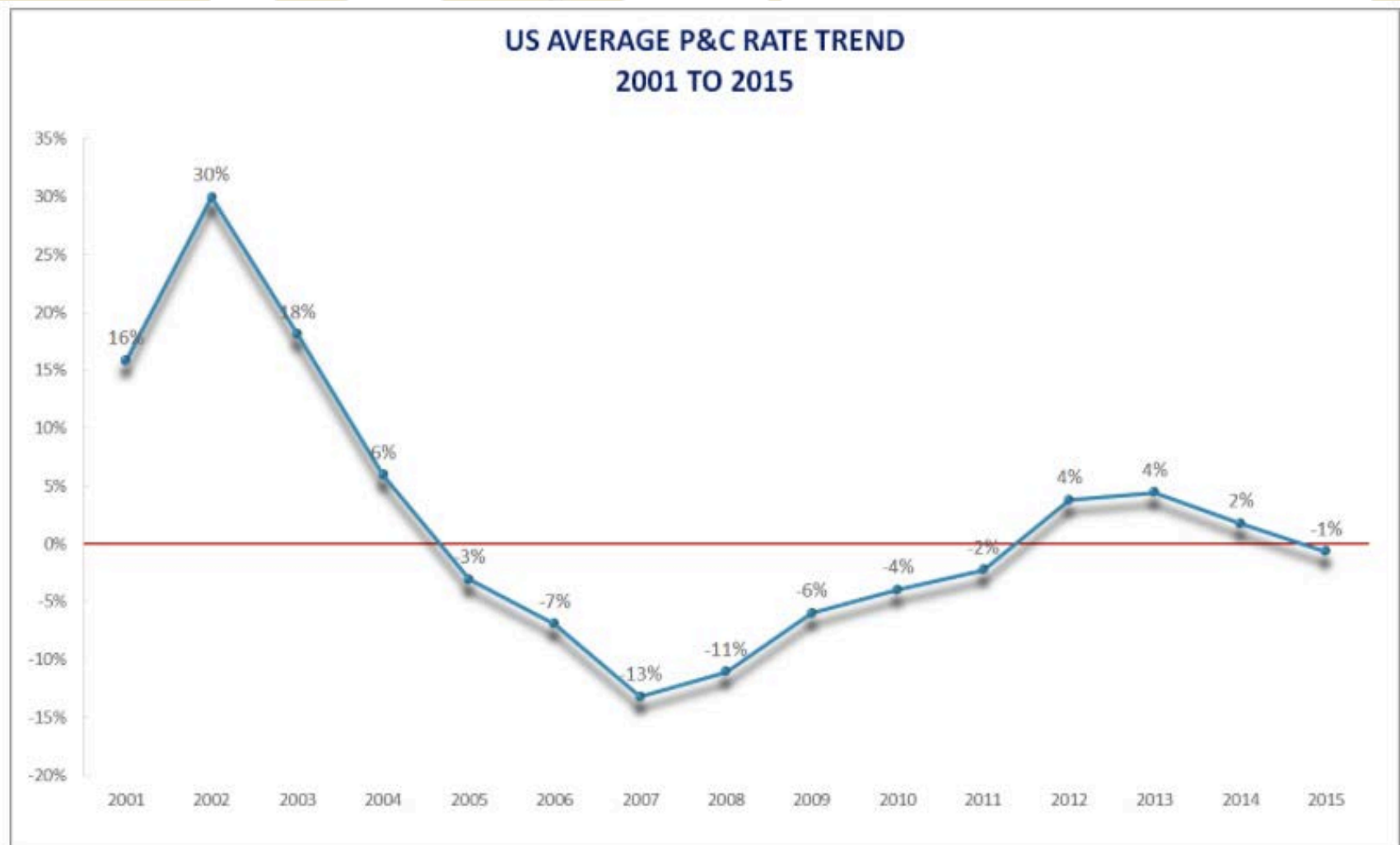
Property & Casualty Market Trends

- **Alternative Capital** – In sum, other than traditional capital that is generated in the reinsurance (i.e. insurance for insurance companies) market which determines the amount of business insurance a carrier can write or offer, the large influx of alternative or non-traditional capital produced from financial vehicles and structures such as hedge funds, catastrophe bonds, mutual funds and sovereign wealth funds are pouring into the reinsurance market further increasing capital availability and capacity for carriers to provide higher thresholds of business insurance.

How does this affect rates and pricing?

- Alternative capital is driving reinsurance prices lower and creating a trickle-down-effect to the purchase cost for individual lines of property and casualty insurance programs. With favorable loss histories, many coverage rates are projected to experience decreases while others will remain “flat” throughout 2016. Yet, Cyber Liability, Environmental, Errors and Omissions, Employee Benefits and Fidelity coverage are expecting single and/or double digit increases.

Property & Casualty Rate Trend Analysis



Fiscal Planning

- APS has consistently drawn down fund balance over the last two fiscal years to avoid the need for risk insurance appropriations from the Legislature
 - This means APS has set its payroll collection rate (a.k.a. employer contribution rate) to cover all claims paid out in a single year PLUS additional funds necessary to maintain appropriate reserves
- In FY14 – FY16 APS payroll collection rates did not anticipate increases which occurred in Workers Compensation medical costs
 - APS needs a influx in the Workers Compensation fund to bring our reserves up to appropriate levels
- In order to meet the increased medical costs associated with workers compensation claims, APS will need to increase the payroll collection rate
 - This increase will generate \$750,000 - \$900,000 in FY17 revenue and the same revenue in FY18
 - This payroll collection rate increase is a recurring operational cost
- APS will move forward with an increase in payroll collection rates at a cost of \$750,000-\$900,00 to the operational budget

History of Health Plan Changes

2014 - Major PPACA changes exacerbate doctor shortages

- Consolidated health plan offerings to a single plan (Eliminated Low Option Plan)
- Made more benefits subject to deductible and coinsurance vs co-pay in order to increase member awareness of the “true” cost of services
- Moved to exclusive dialysis network for Presbyterian Health Plan members
- Increased Employee Wellness financial incentives
- Commenced On-site/Near -site Health Clinic discussions – Conducted Request for Information (RFI)
- Conducted On-Site Visits to Large Employer School Districts On-site Health Clinics, (Polk County School District, Pasco County School District), Tampa, Florida

2015 - Completed a dependent audit resulting in removal of 448 ineligible dependents from APS medical plan - Overall estimated cost savings of \$1,500,000

- APS became founding member in the newly formed New Mexico Coalition for Healthcare Value – Value-Based Purchasing, Cost Transparency, Improve Value of healthcare in New Mexico

Health Plan Changes in 2016

▪ **Medical Plan Changes**

- There were no plan changes for the medical plan. Due to our favorable renewal, there were no increase to employees either.

▪ **Dental Plan Changes**

- Due to the projected increase of 5.5%, we increased the dental costs. This was about \$1 more a month for employees and about \$5 more a month for families.

▪ **Vision Plan Changes**

- With the reduction in costs, we held the rates flat for 2016 and did not pass on an increase to employees.

▪ **Flexible Spending Maximum Increase to \$2550**

- Negligible savings on taxes from payroll

▪ **Changes to the Prescription Drug Plan**

- Detailed prior authorization for PCSK9 drugs (already implemented)

▪ **Other Plan Change Options**

- Changed Eligibility Requirement for Dental and Vision plan administration to cover children until age 26

▪ **Onsite Health Clinic**

- RFP for Onsite Health Clinic issued week of August 10th, 2015
- THIS RFP IS ON HOLD UNTIL THERE IS RESOLUTION OF THE PIDOCK V. APS LAW SUIT

Life, Dental and Vision Plan Changes In 2017

Life Insurance

- No change to plan design or contribution structure for Basic Life and Additional Life Insurance

Dental Plan

- No change to plan design or contribution structure for either the Basic or Comprehensive Dental Plans

Vision Plan

- Recommending plan design changes to offset the 8.1% increase needed
 - Increase eye exam copay from \$10 to \$15
 - Increase lenses copay from \$15 to \$20

Prescription Drug Coverage Changes In 2017

Prescription Drug Plan

- Retail Pharmacy – these recommended copays are under review by Express Scripts and may change
 - Generic – 20% coinsurance with \$8.00 minimum and **\$25.00** maximum
 - Formulary Brand – 30% coinsurance with **\$30.00** minimum and **\$60.00** maximum
 - Non-Formulary Brand – 40% coinsurance with **\$60.00** minimum and **\$120.00** maximum

- Mail-order Pharmacy – copays are under review by Express Scripts (probably 2 to 2.5 times the maximum retail copays)
 - Generic – under review
 - Formulary Brand – under review
 - Non-Formulary Brand – under review

- Implement 3-tier Specialty copay structure and remove separate specialty out-of-pocket maximum
 - Generic Specialty Medication: \$70 copay
 - Preferred Brand Specialty Medication: \$100 copay
 - Non-Preferred Brand Specialty Medication: \$150 copay

- Implement a Home Delivery Incentive Program that includes the Smart 90 Walgreens option
 - Members can fill 90-day prescriptions at either Walgreens or mail-order

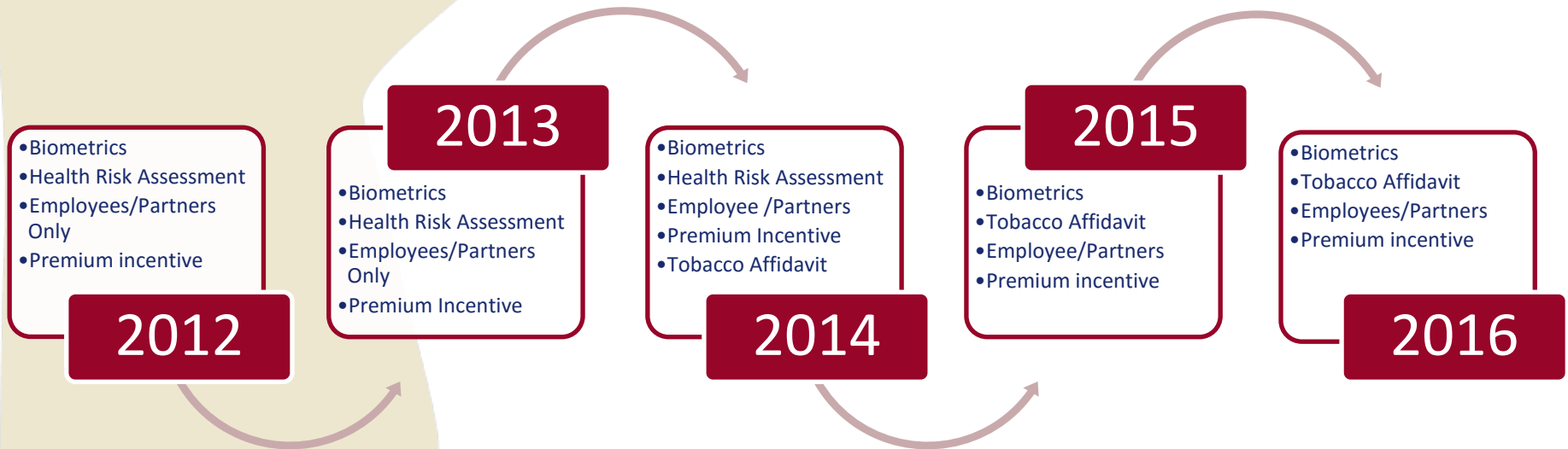
2017 Increased Medical Cost Projections

- If APS continued on the same course and offered the same health plans in 2017 as it did in 2016, APS would experience a **13.2% increase** in overall medical costs.
- 13.2% increase requires an appropriation of \$10.95 million, to hold both APS as an employer and its employees harmless.

Fiscal Planning

- §10-7-4 NMSA 1978 requires that every public school district contribute MINIMUM percentage amounts of premiums for health care costs.
- This statute constrains employers ability to increase premiums unless there are matching funds for employers to increase the premium on themselves
- The APS portion of the **13.2%** is \$7.12 million
 - This means that APS would require a minimum of a \$7.12 million appropriation if APS were going to manage health insurance increases by premiums alone.
- APS understands the fiscal situation of FY17 and potentially FY18 and is, therefore, exploring more “value-based” plans to offer its employees

History of Employee Wellness Incentive Program



2017 Wellness Incentive Program

Identified Top Risk Areas

- BMI
- Blood Pressure
- Waist Circumference
- Cholesterol
- Blood Glucose

Recent Population Health Assessment Revealed

- APS above norm for Gaps in Preventive Care

Recommended Strategy

- Connect individuals to a primary care physician.
- Individuals without established primary care relationships
 1. Delay preventive care
 2. Access more costly urgent/emergency room care
 3. Have fragmented care for chronic conditions, and all at a higher expense to themselves and the medical plan

CURRENT INITIATIVE

PHYSIAN ENGAGEMENT PROGRAM WITH TOBACCO AFFIDAVIT

Benefits Program Costs 2014-2016

- **Affordable Care Act**

- Reinsurance Fee FY14 \$1,074,780.00
- Reinsurance Fee FY15 \$ 737,469.33
- PICORI Fee through FY15 \$ 35,641.00
- PICORI Fee through FY 16 \$ 36,355.00

- **Vaccine Purchasing Act 2015**

- 2015 Vaccine Cost - \$100,436.36
- 2016 Vaccine Cost - \$232,096.80

Plan Year 2017 Strategy

- Introduce New Mexico Health Connections (NMHC) based on IBAC commissioned study for most valuable plan on the market
- NMHC used the creation of the NM Health Exchange to leverage negotiations for more favorable provider rates meaning doctors would be charging less for the same quality of care for patients
 - NMHC has performance bonuses for well managed care to incentivize providers to keep their population healthy
- Narrow network/no out-of-network care

NMHC PY2017 v. current PY2016

NMHC Rates

	PY2016	PY2017	Difference
Single	\$448.72	\$448.72	0
EE + 1	\$897.49	\$897.49	0
Family	\$1,211.74	\$1,211.74	0
80/20 Rate Split (<\$30k)			
	APS Cost	EE Cost	
Single	\$355.29	\$93.43	
EE + 1	\$710.58	\$186.91	
Family	\$959.29	\$252.45	
60/40 Rate Split (>\$30k)			
	APS Cost	EE Cost	
Single	\$266.47	\$182.25	
EE + 1	\$532.93	\$364.56	
Family	\$719.46	\$492.28	

*Employees will have a premium discount opportunity via the APS Wellness Program

Benefit	BCBS/PHP In-Network 2014-2016	NMHC Plan
Deductible	\$250 (3x family)	\$250 (3x family)
Coinsurance	20%	20%
Coinsurance Max	\$2,000	\$2,000
Out-of-Pocket Max (ded + coins)	\$2250 (3x family)	2250 (3x family)
PCP & Primary Care Co-Pays	\$25	\$15
Specialist Co-Pays	\$40	\$40
IP Hospital Admission	Ded/Coins	Ded/Coins
OP Surgery	Ded/Coins	Ded/Coins
Advanced Radiology	\$100 copay, then Ded/Coins	\$100 copay, then Ded/Coins
Emergency Room	\$150 copay, then Ded/Coins	\$150 copay, then Ded/Coins
Urgent Care Co-Pays	\$50	\$50
Radiation, Dialysis, Chemotherapy	Ded/Coins	Ded/Coins

Plan Year 2017 Strategy (Cont.)

- To experience the most financially responsible health plan management we are providing employees with value-based plan options.
- Due to §10-7-4 NMSA 1978, employers cannot change the amount of money they will contribute to a premium unless it complies with the statutory minimums.
- Self-funded Health plans have only two ways to increase revenues – premium contributions and plan design changes.
- APS will focus on plan design changes to the current Blue Cross Blue Shield and Presbyterian Health Plans to encourage our employees to enroll in more value-based plans.

Presbyterian & Blue Cross Blue Shield Premiums PY2016 v. PY2017

Presbyterian & Blue Cross Blue Shield Rates

	PY2016	PY2017	Difference
Single	\$448.72	\$448.72	0
EE + 1	\$897.49	\$897.49	0
Family	\$1,211.74	\$1,211.74	0

80/20 Rate Split (<\$30k)

	APS Cost	EE Cost
Single	\$355.29	\$93.43
EE + 1	\$710.58	\$186.91
Family	\$959.29	\$252.45

60/40 Rate Split (>\$30k)

	APS Cost	EE Cost
Single	\$266.47	\$182.25
EE + 1	\$532.93	\$364.56
Family	\$719.46	\$492.28

Presbyterian Multi-Tier Health Plan

Benefit	BCBS/PHP In-Network 2014-2016	PHP EDN 2017
Deductible	\$250 (3x family)	\$250 (3x family)
Coinsurance	20%	20%
Coinsurance Max	\$2,000	\$2,000
Out-of-Pocket Max (ded + coins)	\$2,250 (3x family)	\$2,250 (3x family)
PCP & Primary Care Co-Pays	\$25	\$15
Specialist Co-Pays	\$40	\$40
IP Hospital Admission	Ded/Coins	Ded/Coins
OP Surgery	Ded/Coins	Ded/Coins
Advanced Radiology	\$100 copay, then Ded/Coins	\$100 copay, then Ded/Coins
Emergency Room	\$150 copay, then Ded/Coins	\$150 copay, then Ded/Coins
Urgent Care Co-Pays	\$50	\$50
Radiation, Dialysis, Chemotherapy	Ded/Coins	Ded/Coins

Benefit	BCBS/PHP In-Network 2014-2016	PHP Narrow Network Plan 2017
Deductible	\$250 (3x family)	\$1,500 (3x family)
Coinsurance	20%	30%
Coinsurance Max	\$2,000	\$2,500
Out-of-Pocket Max (ded + coins)	\$2,250 (3x family)	\$4,000 (3x family)
PCP & Primary Care Co-Pays	\$25	\$25
Specialist Co-Pays	\$40	\$40
IP Hospital Admission	Ded/Coins	Ded/Coins
OP Surgery	Ded/Coins	Ded/Coins
Advanced Radiology	\$100 copay, then Ded/Coins	\$100 copay, then Ded/Coins
Emergency Room	\$150 copay, then Ded/Coins	\$150 copay, then Ded/Coins
Urgent Care Co-Pays	\$50	\$50
Radiation, Dialysis, Chemotherapy	Ded/Coins	Ded/Coins



Blue Cross Blue Shield Multi-Tier Health Plan

Benefit	BCBS/PHP In-Network 2014-2016	BCBS Preference Network 2017
Deductible	\$250 (3X family)	\$500 (3x family)
Coinsurance	20%	20%
Coinsurance Max	\$2,000	\$2,500
Out-of-Pocket Max (ded + coins)	\$2250 (3x family)	\$2500 (3x family)
PCP & Primary Care Co-Pays	\$25	\$25
Specialist Co-Pays	\$40	\$40
IP Hospital Admission	Ded/Coins	Ded/Coins
OP Surgery	Ded/Coins	Ded/Coins
Advanced Radiology	\$100 copay, then Ded/Coins	\$100 copay, then Ded/Coins
Emergency Room	\$150 copay, then Ded/Coins	\$150 copay, then Ded/Coins
Urgent Care Co-Pays	\$50	\$50
Radiation, Dialysis, Chemotherapy	Ded/Coins	Ded/Coins

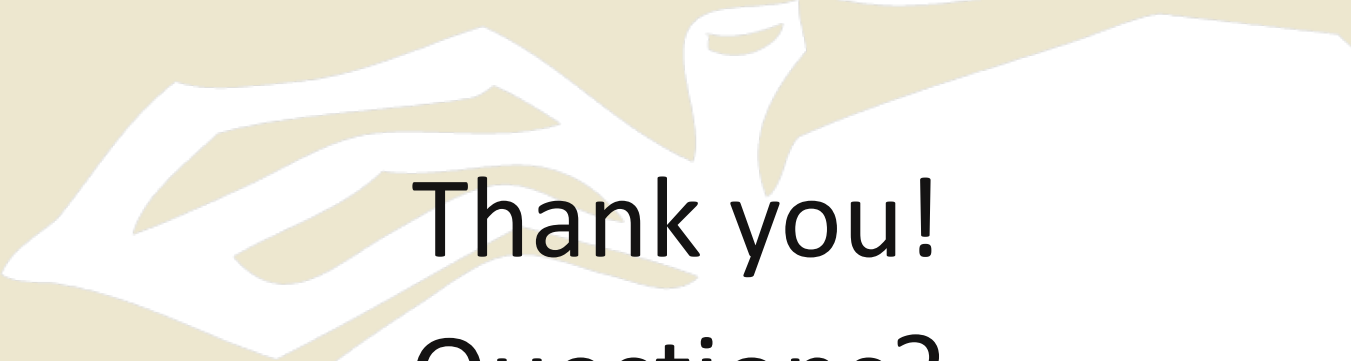
Benefit	BCBS/PHP In-Network 2014-2016	BCBS Open Network 2017
Deductible	\$250 (3X family)	\$2000 (3x family)
Coinsurance	20%	30%
Coinsurance Max	\$2,000	\$2,500
Out-of-Pocket Max (ded + coins)	\$2250 (3x family)	\$4500 (3x family)
PCP & Primary Care Co-Pays	\$25	\$50
Specialist Co-Pays	\$40	\$75
IP Hospital Admission	Ded/Coins	Ded/Coins
OP Surgery	Ded/Coins	Ded/Coins
Advanced Radiology	\$100 copay, then Ded/Coins	\$100 copay, then Ded/Coins
Emergency Room	\$150 copay, then Ded/Coins	\$250 copay, then Ded/Coins
Urgent Care Co-Pays	\$50	\$75
Radiation, Dialysis, Chemotherapy	Ded/Coins	Ded/Coins



Medical Fund Balance: January – July 2016

ALBUQUERQUE PUBLIC SCHOOLS
 TOTAL MEDICAL INSURANCE
 RESERVES
 FISCAL YEAR 2015-16

DESCRIPTION	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	June 2016	July 2016
BEGINNING RESERVE BALANCE	17,417,737.11	15,608,383.73	15,880,656.82	15,060,646.00	15,021,383.50	15,388,062.60	20,020,276.29
CONTRIBUTIONS:							
Employee Premiums	2,358,197.43	2,352,916.40	2,366,942.65	2,368,519.48	2,365,369.15	2,341,173.02	2,331,500.80
Premium Refunds	<u>(1,649.79)</u>	<u>(35.84)</u>	<u>(370.94)</u>	-	<u>(297.14)</u>	-	-
Net Employee Premiums	2,356,547.64	2,352,880.56	2,366,571.71	2,368,519.48	2,365,072.01	2,341,173.02	2,331,500.80
Employer Premiums	4,327,275.65	4,323,757.17	4,326,741.10	4,310,930.81	4,310,247.29	9,607,077.96	398,636.54
Rebate	157,407.32	-	169,186.86	263,921.13	180,970.30	-	-
Cigna - Refund of Account Balance	-	-	-	-	-	-	-
COBRA/LOA Premiums	<u>38,388.84</u>	<u>36,803.54</u>	<u>40,063.63</u>	<u>33,881.07</u>	<u>33,812.37</u>	<u>40,004.48</u>	<u>50,439.39</u>
TOTAL CONTRIBUTIONS	6,879,619.45	6,713,441.27	6,902,563.30	6,977,252.49	6,890,101.97	11,988,255.46	2,780,576.73
PLAN COSTS							
Medical Claims	6,341,161.94	4,851,484.18	6,131,579.44	5,417,398.64	4,717,174.14	5,656,306.75	5,631,956.16
Rx Claims	1,180,380.93	992,136.62	1,241,985.73	1,142,744.56	1,316,173.18	1,288,027.54	77,969.19
Professional Services and Premiums	61,723.71	293,624.72	43,101.57	20,683.20	60,361.04	(52.80)	77,058.95
Administration Fees	1,063,324.30	261,617.03	263,850.63	373,960.14	387,956.49	349,562.26	351,448.16
Salary and Benefits	44,677.09	44,321.47	44,084.44	63,778.04	43,772.74	64,136.17	22,532.11
TOTAL PLAN COSTS	8,691,267.97	6,443,184.02	7,724,601.81	7,018,564.58	6,525,437.59	7,357,979.92	6,160,964.57
INTEREST EARNINGS	2,295.14	2,015.84	2,027.69	2,049.59	2,014.72	1,938.15	2,111.24
ENDING RESERVE BALANCE	<u>15,608,383.73</u>	<u>15,880,656.82</u>	<u>15,060,646.00</u>	<u>15,021,383.50</u>	<u>15,388,062.60</u>	<u>20,020,276.29</u>	<u>16,641,999.69</u>



Thank you!
Questions?

