LFC Hearing Brief

New Mexico spent the last two years focusing on making state sponsored health insurance programs through State Health Benefits (SHB) located within the Health Care Authority and the New Mexico Public School Insurance Authority (NMPSIA) more affordable for state and public school employees. These efforts included increasing the state and public school employer share for premiums to 80 percent, covering more of the premium for low-income state employees, requiring SHB to annually request premium rates based on actuarial analyses, and consolidating the Albuquerque Public Schools (APS) benefit program with NMPSIA in FY28. While employees face less of a burden, the state is forced to take on increasingly significant costs.

Costs are increasing significantly, with SHB requesting a FY28, 10.1 percent premium increase on top of a 10 percent premium increase in FY27, and a 20 percent increase in FY26. Likewise, NMPSIA increased premiums 10 percent in FY27 and will likely request at least a 26.5 percent increase in FY28, which the agency's actuary shows may not be sufficient given the APS and NMPSIA consolidation. However, these increases are in line with rate increases the state has seen in other health care programs such as a 16.5 percent managed care rate increase in Medicaid in 2026, a 24.4 percent average premium increase among New Mexico Health Insurance Exchange plans for 2027, and a 15 percent increase for exchange plans nationally requested for 2027.

AGENCY: Health Care Authority, NMPSIA, APS

DATE: August 25, 2026

PURPOSE OF HEARING: Review of public employee health benefits

WITNESS: Patrick Sandoval, Executive Director, New Mexico Public Schools Insurance Authority

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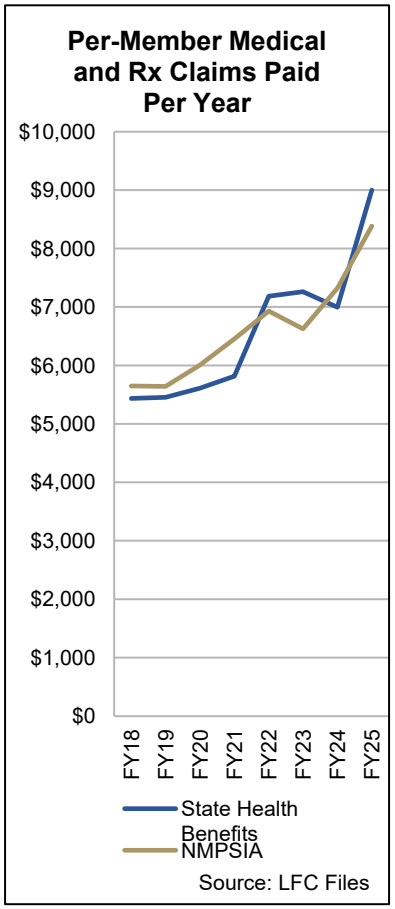
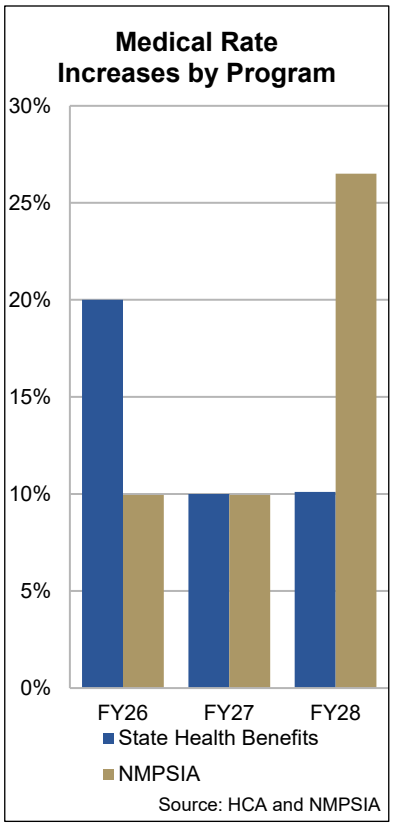
Health Benefits

Each health benefits program sets its own premium rates, plan design, and administration. Their budgets are funded primarily through premium revenue collected from employers and employees with much of the employer funding coming from state general fund revenue. Because of this, each benefit program offers a different set of plans and benefits and at differing rates. For example, SHB offers three carriers, Blue Cross and Blue Shield (BCBS), Presbyterian, and United Healthcare and each of the carriers offers four plans at the gold, silver, and platinum levels with plans at the gold level offered through preferred provider organizations and health maintenance organizations. NMPSIA, on the other hand, offers two carriers BCBS and Presbyterian each with a high and a low plan, and APS offers BCBS and Presbyterian through exclusive provider organization plans.

The Employer Share Rose to 80 Percent in SHB and NMPSIA

With the employer share of premiums for state and public school employees now set at 80 percent, more of the burden of health care cost increases shifted from employees to the state. This comes as NMPSIA is projecting a $41 million shortfall at the end of FY27—based on actuarial projections which consider the merger between Albuquerque Public Schools and the authority—and is requesting to increase premium revenue 26.5 percent for FY28. Additionally, SHB is requesting a double digit increase for the third year in a row. Prior to the recent reforms, the burden of rate increases were split with higher wage employees paying about 40 percent and employers paying about 60 percent, within SHB. SHB's FY28 request





for a 10.1 percent increase amounts to roughly $65.8 million. Under the old system this might have cost SHB employers about $39.5 million (given that most employees fell under the lower subsidy tier) and will now cost employers up to $52.7 million under the new system, up to a $13.2 million increase.

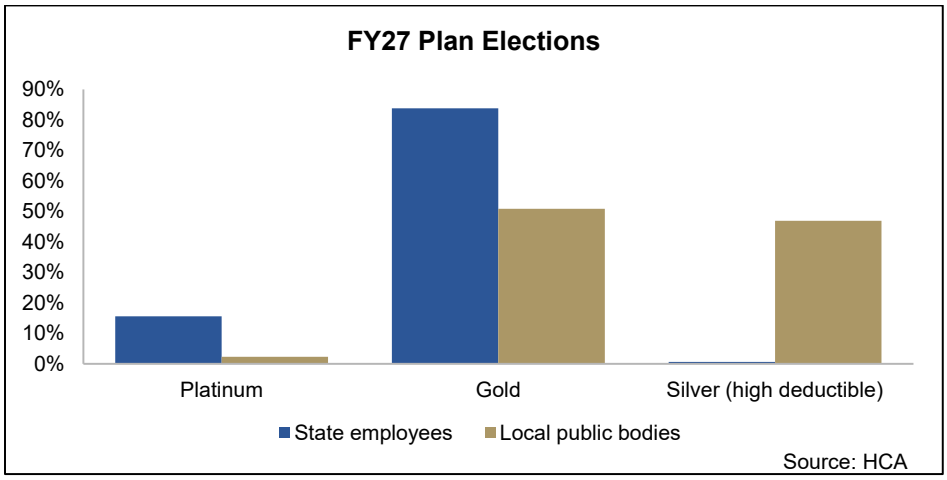
Cost Shift from Employees to Employers within SHB (example)

	Old 60 percent share	New 80 percent share
Additional premium required	$65.8 million	$65.8 million
Paid by employers	$39.5 million	$52.7 million
Paid by employees	$26.3 million	$13.2 million

Source: LFC Files

The 80 Percent Subsidy Changed Which Plans Employees Chose

By the end of the open enrollment period for the SHB FY27 plan year, 99 percent of state employees and dependents chose a higher cost gold or platinum plan for themselves and their families. At the same time, 46 percent of local public body employees, who receive various employer subsidy rates, chose lower cost silver plans and about 51 percent chose gold plans. The primary difference between state employees and local public body employees is the state's more generous 80 percent premium subsidy for its employees.



The new 80 percent premium subsidy for state employees made trading up to a more expensive plan, about half as expensive as it was under the old system when most employees shared about 40 percent of the cost of premiums. In addition to the 80 percent premium subsidy the state also created the State Employee Premium Assistance Program (SEPA), which subsidizes a greater share of low-income employees' premiums, based on income up to 250 percent of the federal poverty level, or $39,125 thousand annually for a single person.

Costs of Employee Plan Upgrades

Upgrade	Employee pays	State pays	State cost per year
Silver PPO to Gold HMO	$32 / month	$128 / month	**$1,539**
Silver PPO to Platinum HMO	$61 / month	$244 / month	**$2,930**
Silver PPO to Gold PPO	$91 / month	$365 / month	**$4,377**

According to a recent projection, SHB indicated that it expected a 17.6 percent premium revenue increase between FY26 and FY27. At the same time, SHB also increased the premium rate by 10 percent, leaving a gap of about 7 percent between the increase in premiums rates and the total projected revenue for the year.

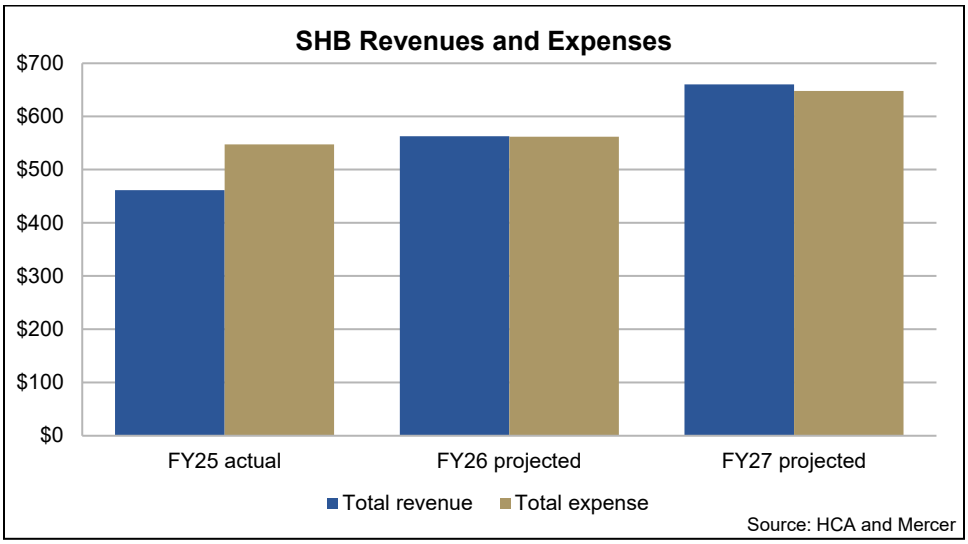
Additionally, enrollment only grew by about 0.5 percent between February and July 2026. Therefore, the additional 7 percent is likely mostly explained by the migration from lower cost plans to higher cost plans.

Rate Adequacy

To ensure state sponsored health insurance plans do not run into financial problems, have enough funding for the cost of care and plan administration, and maintain adequate balances to cover unexpected risk, plans should raise more revenue than they spend. The primary sources of revenue for SHB and NMPSIA are premiums, interest, investment income, and prescription drug rebates. The ratio of the amount of revenue a plan earns and the amount that it spends on care is known as the loss ratio. A loss ratio of less than 100 percent means the plan raises more revenue than it expends while a plan with a ratio of over 100 percent spends more than it brings in. Generally, plans should expect to maintain some reserves to cover risk and raise enough revenue to cover administrative expenses and target a loss ratio as close to 100 percent given these constraints. However, there is no benchmark target for self-insured public plans.

State Health Benefits Recovered After a 20 Percent Rate Increase

After several years of SHB not adequately setting rates to match health expenditures and receiving supplemental funding to make up for the difference, the program increased rates by 20 percent in FY26 and took other measures to reduce costs. Now the program is projecting to essentially break even in FY26 and to begin building a balance of about $12.2 million in FY27. As statutorily required, SHB began using hospital reference-based pricing, a maximum payment rate based on market benchmarks, saving a projected $37.5 million. Additionally, the program made changes to its pharmacy benefits management contract saving an estimated $10.4 million, made pharmaceutical formulary changes saving $2 million, and started managing the use of weight-loss drugs more effectively saving an additional $1 million.



The Public School Insurance Authority Projects a Deficit

NMPSIA projects an ending fund balance of negative $41.5 million for FY27. The authority's operating position improved during FY26: through May 31, 2026, expenditures exceeded revenue by $6.7 million, compared with $24.3 million over

the same period a year earlier. The board approved a 9.95 percent increase in medical and prescription drug rates effective October 1, 2026, and the authority's actuary assumes a further 26.5 percent effective October 1, 2027. Even at that rate, the actuary found no scenario in which the authority reaches a zero fund balance in FY28 once Albuquerque Public Schools joins, and advised the board to consider additional funding or a larger increase. House Bill 47 extended the 80 percent contribution requirement and reference-based pricing to NMPSIA but did not extend the requirement, which applies to the Health Care Authority, that rates be set at actuarially sound levels. Reference-based pricing saved SHB $37.5 million.

However, NMPSIA's actuary assumed the agency would enter FY27 with essentially no fund balance, while the agency now expects to close FY26 with about $20 million. That starting balance improves every projected outcome by roughly the same amount. Under the migration patterns the authority considers most likely, NMPSIA would end FY28 near break-even.

	SHB	NMPSIA
FY25 position	Rate adequacy negative $86.3 million	Eleven-month operating loss of $24.3 million
Action taken	20 percent medical increase effective 7/1/2025, described as necessary for solvency	9.95 percent effective 10/1/2026
FY26 result	Rate adequacy positive $0.8 million	Eleven-month operating loss narrowed to $6.7 million
FY27 projection	Rate adequacy positive $12.2 million	Ending fund balance positive $50.2 million
FY27 loss ratio	98.2 percent (all lines)	108.4 percent (medical and Rx only)
Next ask	10.1 percent (FY28)	26.5 percent effective 10/1/2027

Consolidation Under House Bill 47

House Bill 47, 2026 (Chapter 52) makes three changes on three dates. Effective July 1, 2026, school districts and charter schools must pay at least 80 percent of the cost of health insurance for all employees, and the Health Care Authority (HCA), NMPSIA, and the Retiree Health Care Authority must establish reference-based pricing programs for hospital services. Effective July 1, 2027, the act removes the exemption that allowed Albuquerque Public Schools to operate its own insurance program and requires the district to participate in NMPSIA; after June 30, 2027, the NMPSIA board may no longer grant waivers for health, disability income, or term life coverage. However, there is no requirement that NMPSIA and APS mix their risk pools immediately. The act also directs the Legislative Education Study Committee, working with LFC, NMPSIA, APS, the Public Education Department, and HCA, to study the effects of combining public school employee insurance with other public group health insurance programs and to identify the agency and legislative actions needed to integrate the NMPSIA, HCA, and APS plans by June 30, 2029. That study is due October 1, 2026.

Stabilization of SHB

Since the transfer of SHB from the General Services Department to HCA, SHB has its first projected surplus for the first time in several years. This is due in part to: a) a 20 percent premium rate increase, b) reference-based pricing with hospitals, and c) an improved contract with the state's pharmacy benefit manager that no longer includes spread pricing. While NMPSIA is required to institute reference-based pricing due to HB47, the authority may need to consider other stabilization and cost-saving metrics to avoid budget shortfalls.

Albuquerque Public Schools Joins NMPSIA in FY28

NMPSIA's actuary projects adding APS will generate between $10 million and $36 million in savings by the end of FY28. Even so, the authority projects an ending FY28 fund balance between negative $1.1 million and negative $51.2 million, depending on which plans APS members select, with the most likely outcome between negative $1 million and negative $27 million. The most favorable scenario assumes every APS member enrolls in NMPSIA's high option, the plan carrying the highest premium. APS also carries a projected FY27 ending fund balance of $20 million into NMPSIA, including a $10 million cash infusion

made in May 2026. How the state treats that balance, against a NMPSIA fund projected at negative $41.5 million, is unresolved.

Consolidating NMPSIA and State Health Benefits Raises Different Questions

A larger merger would not bring together programs with materially different costs. Per-member medical and prescription drug claims at the two programs have tracked closely since FY18. NMPSIA premiums run higher than the state's. Its Blue Cross high option costs $1,227.02 a month for single coverage, more than any plan HCA offers state employees. Consolidation would therefore not obviously produce a cheaper pool, and the case for it rests on purchasing power, uniform plan design, and administrative scale rather than on a lower starting cost.

Three structural differences would have to be resolved. The programs change rates on three different dates: July 1 for state health benefits, October 1 for NMPSIA, and January 1 for APS. Rate-setting authority differs, with the secretary of health care authority required to set actuarially sound rates while the NMPSIA board sets its own. And a merger would have to determine which fund absorbs NMPSIA's projected deficit.

However, both plans have differing designs and benefits and both plans likely differ on age, other demographic characteristics, geographical distribution, and health acuity. These differences would complicate rate setting in the first year of consolidation. The state could start with an administrative merger, gain contract uniformity, and report the differences. This would allow the state to take a more measured approach merging the pools once plans, benefits, and contracts are aligned.