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October 13, 2014

**MEMORANDUM**

**TO:** Legislative Education Study Committee

**FR:** David T. Craig

**RE: STAFF BRIEF: INSURANCE APPROPRIATION REQUESTS FOR FY 16**

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**INTRODUCTION**

Each year, if funding is available, the Legislature appropriates funds to the State Equalization Guarantee (SEG) distribution to provide for projected increases in the employer's group health and risk insurance contribution rates of the state's public schools. Current law provides for all of New Mexico's charter schools and 88 of its school districts to participate in the New Mexico Public Schools Insurance Authority (NMPSIA). The remaining school district, Albuquerque Public Schools (APS), is self-insured because the definitions section of the *Public School Insurance Authority Act* exempt "any school district with a student enrollment in excess of sixty thousand students."

NMPSIA's and APS's respective appropriation requests are based on projected contribution rates considered to be adequate to provide for estimated insurance claims, administrative costs, and fund reserve levels in the next fiscal year. These increases may be offset by NMPSIA or APS board action that allows the agencies to use reserve fund balances to reduce the projected increases.

This staff report includes:

- FY 16 appropriation requests for NMPSIA and APS; and
- background information relating to health and risk insurance coverage of public schools statewide.

## **FY 16 APPROPRIATION REQUESTS FOR NMPSIA AND APS**

**In total, approximately \$15.95 million is requested by NMPSIA and APS to support the employer's share of increased insurance costs in FY 16.**

### ***New Mexico Public Schools Insurance Authority (NMPSIA): \$10.56 million***

As outlined in the **Attachment**, NMPSIA is requesting an appropriation of approximately \$10.56 million to provide for the employer's share of increased insurance costs for its members effective October 1, 2015, including:

- *approximately \$4.16 million for the Employee Benefits Program which considers:*
  - a 3.13 percent increase in health/medical insurance costs; and
  - no increase in life, long-term disability, vision, and dental insurance costs; and
- *approximately \$6.40 million for the Risk Program, which considers:*
  - an 11.25 percent increase in property and liability risk insurance; and
  - an 11.25 percent increase attributable to workers' compensation.

### ***Use of Fund Balance***

According to unaudited figures provided by NMPSIA, as of June 30, 2014, ending fund balances were:

- approximately \$44.4 million for the Employee Benefits Fund; and
- approximately \$5.3 million for the Risk Coverage Fund.

### ***Albuquerque Public Schools (APS): \$5.39 million***

According to APS, for FY 16 the district is requesting a total appropriation of approximately \$5.39 million to support the employer's share of increased insurance premiums, effective January 1, 2015, including:

- *approximately \$5.39 million for the Employee Benefits Program which considers:*
  - a projected shortfall for plan year 2016;
  - a current fund balance of \$12.0 million on December 31, 2014; which
  - indicates either the shortfall be funded through:

- the SEG; and/or
  - plan design and employee premium increases; and
- *zero dollar request for the Risk Program.*

### ***Use of Fund Balance***

The APS request for FY 16 does not consider increases in risk premiums because the APS administration will request the Board of Education to draw down reserves for any increases for property/liability premiums and workers' compensation claims.

### **BACKGROUND**

In 1986, NMPSIA was created in the *Public School Insurance Authority Act* to serve as a purchasing agency for public school districts, postsecondary educational entities, and charter schools.

Currently, NMPSIA provides health and risk insurance coverage for 88 of New Mexico's public school districts and charter schools (current law exempts any school district with a student enrollment in excess of 60,000 students from NMPSIA coverage, which applies only to APS).

Health coverage by NMPSIA includes basic life and accidental death and dismemberment, voluntary life, long-term disability, two medical plans with high and low options, a dental plan with basic and comprehensive coverage, and a vision plan. A small minority of employers does not participate in either dental, vision, or disability plans. Risk coverage includes property insurance, liability insurance, workers' compensation, student catastrophic insurance, student accident insurance, boiler and machinery insurance, and underground storage tanks coverage.

NMPSIA's medical plans are self-insured, indicating that NMPSIA is responsible for the design of the plan and the setting of contributions. NMPSIA sets the contribution rates to provide the necessary revenue to pay for the claims its participating members incur. When the claims exceed the contributions from premiums or revenues, the contribution rates have to be increased to cover any deficit.

The *Public School Insurance Authority Act* requires the state to pay for a portion of the group insurance premiums for employees (this portion translates into the employer's share of the insurance costs that the Legislature appropriates every year) based on a percentage of the employee's salary as follows:

- 75 percent of the premium for employees earning less than \$15,000 per year;
- 70 percent for employees earning \$15,000 but less than \$20,000 per year;
- 65 percent for employees earning \$20,000 but less than \$25,000 per year; and
- 60 percent for employees earning \$25,000 or more per year.

In 2004, the Legislature amended the act to allow participating entities, if revenue is available, to contribute up to 80 percent of the cost of insurance for all employees.

In 2009, the Legislature amended the act (effective July 1, 2010) to enable NMPSIA to:

- promulgate rules to establish a policy to be followed by participating members relating to the use of volunteers and the use of school facilities by private persons;
- promulgate rules to establish a policy to be followed by participating members relating to the use of school facilities by private persons, provided that the policy:
  - relates only to liability and risk issues; and
  - does not affect the rights and responsibilities of local school boards to determine how, when, and by whom school district facilities are used; and
- insure, by negotiated policy, self-insurance or any combination thereof, participating members against claims of bodily injury, personal injury, or property damage related to the use of school facilities by private persons. The coverage is subject to the following provisions:
  - no more than \$1.0 million may be paid for each occurrence; and
  - the coverage applies only if the participating member was following the policy adopted by NMPSIA.

Staff from NMPSIA and APS will present information to the committee that further details elements of the FY 16 appropriation request.

# NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY (NMPSIA)

LESC – October 14, 2014

Presented by:

Sammy J. Quintana, Executive Director  
Don Gonzales, Comptroller  
Christy Edwards, Deputy Director

## Creation of the Authority

- Laws 1986. Chapter 22, Article 29
  - NMPSIA created
  - Included retired educational employees
- Laws 1990. Chapter 10, Article 7C
  - NMRHCA created
  - Administratively attached to NMPSIA until 12/31/93
  - Same Executive Director until 12/31/93



## NMPSIA Divisions

- Program Support
  - Financials, Operations, Payroll, Human Resources (HR)
  - Legal, Janitorial, Snow Removal Contracts
- Risk
  - Workers' Compensation (WC) Third Party Administrator (TPA) – Cannon Cochran Management Services, Inc. (CCMSI)
  - Property/Liability TPA - CCMSI
  - Risk Consulting - Poms & Associates
  - Ergonomics – Poms & CCMSI
  - Loss Prevention Trainings and Consulting – Poms & Associates
  - Drivers' Services – SambaSafety (Subsidiary of Safety Holdings Inc.)
  - Incurred But Not Reported (IBNR) calculation – Aon Public Limited Company (PLC)
  - Claims Audits – Farley Consulting

## NMPSIA Divisions (cont'd.)

- Benefits
  - Self-insured medical through Blue Cross Blue Shield (BCBS) and Presbyterian
  - Self-insured Rx through Express Scripts
  - Self-insured dental through United-Concordia
  - Fully insured vision through Davis Vision
  - Fully Insured Life and Disability through The Standard
  - TPA contract with ERISA Administrative Services, Inc.
  - Consulting contract with The Segal Company

## Public School Support Insurance Appropriation Requests - FY 16

- For FY 16, NMPSIA is requesting \$10.56 million be appropriated to Public School Support for the employer's share of increased insurance premiums.
- This is separated into:
  - \$6.40 million for the Risk program; and
  - \$4.16 million for the Employee Benefits program.

## Risk Program Recent History

- 273,000 students
- 44,000 employees
- Recent appraisal \$19.5 billion in insured property values
- 8,400 buses and other school vehicles
- 42,000 sports participants
- 9,000 volunteers

## Risk Review

- Tort notices served in Lovington parking lot fatality and Carlsbad molestation(s)
- Numerous hail claims and other Acts of God occurrences
- Memorandum of Coverage updated to cover whistleblower claims
- New Higher Education division
- Individuals with Disabilities Education Act (IDEA) training

## Benefits Program Enrollment 9/14

Benefit	Employees Covered
Basic Life	38,522
Additional Life	10,823
Long Term Disability	12,038
Medical	23,194
Dental	24,755
Vision	20,809

## Recent Benefits Program Changes

- Interagency Benefits Advisory Committee (IBAC)\* bid for Prescription Coverage to save NMPSIA an estimated 11%
- IBAC bid for Consulting and Actuarial resulted in a no increase award to The Segal Company
- Waive deductible for Diagnostic Laboratory and X-ray with plan design to steer members to lower cost providers for Diagnostic and X-Ray Laboratories (DXL)
- Affordable Care Act (ACA) combined out of pocket for medical/Rx

\*Current provisions in law indicate membership includes: Risk Management Division and the Group Benefits Committee of the General Services Department, Retiree Health Care Authority, Public Schools Insurance Authority; and the publicly funded health care program of any public school district with a student enrollment in excess of sixty thousand students (currently Albuquerque Public Schools).

## IBNR vs. Fund Balance

- Claims Incurred But Not Reported (IBNR) reflects the total amount owed by NMPSIA to all valid claimants who have had a covered loss but have not yet reported it.
- Fund balance is defined as the difference between the assets and liabilities of a fund.

## IBNR as of June 30, 2013 and Fund Balances as of June 30, 2014

	Employee Benefits	Risk
IBNR Reserves	\$22,487,572.00	
IBNR Property & Liability		\$6,347,653.63
IBNR Workers' Comp		\$13,974,580.00
Fund Balance (Unaudited)	\$44,178,612.98	\$5,364,984.96

## In closing . . .



- Thank you!
- Questions?
- Comments?