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September 12, 2007

MEMORANDUM

TO: Legislative Education Study Committee

FR: Frances R. Maestas *F.R.M.*

**RE: STAFF REPORT: NEW MEXICO PUBLIC SCHOOL INSURANCE
AUTHORITY (NMPSIA)**

Introduction

Each year, the Legislature appropriates dollars to the State Equalization Guarantee Distribution (Public School Funding Formula) to fund increases in the employer's group insurance contribution rate for member school districts and charter schools participating in the New Mexico Public School Insurance Authority (NMPSIA).

The dollars appropriated are based on an appropriation request by NMPSIA that is based on projected contribution rates that NMPSIA considers to be adequate for its member districts and charter schools to provide for anticipated insurance claims, administrative costs, and reserves in the ensuing fiscal year. These increases are often offset by NMPSIA board action that allows the agency to use unrestricted cash balances to reduce the projected increases for both the employer and the employee.

FY 08 Budget Update

During the September 2006 interim meeting of the Legislative Education Study Committee, NMPSIA reported a base cost estimate of approximately \$15.4 million to fund the employer's share of the projected FY 08 insurance premium increases. However, using \$7.2 million from its benefits fund balance, the requested \$15.4 million could be reduced to an \$8.2 million appropriation to fund the increases.

NMPSIA now reports that the updated FY 08 projections indicate additional revenues will be available in the current year. As a result, the NMPSIA board has decided to return dollars back to its members and has voted to use \$9.2 million, rather than \$7.2 million, from the fund to:

- provide two additional enhancements effective January 1, 2008: (1) a decrease to \$15 from \$20 in primary care office visit co-pays; and (2) a zero co-pay for formulary diabetic prescriptions; and
- defer the FY 08 medical insurance increases to February 1, 2008 instead of October 1, 2007.

FY 09 Appropriation Request

- For FY 09, NMPSIA reports that an appropriation of approximately \$17.3 million would be required to cover the employer's share of increased insurance premiums for public schools statewide. According to NMPSIA, the agency is using \$2.0 million of its health benefits fund balance to offset increases for its members' districts and charter schools.
- The benefits portion of the FY 09 budget request includes a:
 - 9.9 percent increase in medical insurance premiums for NMPSIA that would go into effect for public school employees October 1, 2008;
 - 4.7 percent increase in dental insurance premiums; and
 - no increases for vision, life, and disability insurance.
- Regarding the risk program, the FY 09 request reflects an overall 10.2 percent increase in property, liability, and worker's compensation increase premiums.

Issue

The risk program request, according to NMPSIA staff, does **not** include premium increases resulting from due process reimbursements incurred by school districts or charter schools authorized in legislation that was enacted in 2007. The legislation defines the term "due process reimbursement" as "the reimbursement of a school district's expenses for attorney fees, hearing officer fees and other reasonable expenses incurred as a result of a due process hearing conducted pursuant to the federal *Individuals with Disabilities Education Improvement Act* (IDEA).

Among its provisions, the 2007 legislation authorized the NMPSIA board to collect due process reimbursement premiums from school districts and charter schools based on their claims experience and other criteria determined by the board and set a limit of \$300,000 for any single due process reimbursement.

Since September 1 was the statutory deadline for a state agency to submit its FY 09 budget request, the committee may wish to consider requesting NMPSIA to provide options for reimbursing school districts and charter schools for due process costs in FY 09 that comply with the provisions in current law.

About NMPSIA

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 its 61 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 the Albuquerque Public Schools, APS).

Health coverage by NMPSIA includes basic life and accidental death and dismemberment, voluntary life, long-term disability, two medical plans, a dental plan with basic and comprehensive coverage, and a vision plan. Risk coverage includes property insurance, liability insurance, worker's compensation, student catastrophic insurance, student accident insurance, boiler and machinery insurance, and underground storage tanks coverage.

NMPSIA's medical plans are "self-insured" which means 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, the contribution rates have to be increased to cover any deficit.

The 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. According to NMPSIA, Los Lunas Public Schools and a number of charter schools are utilizing this provision in FY 09.

In 2007, the Legislature amended the act to require the risk program in NMPSIA to include reimbursement coverage for special education due process expenses incurred by school districts or charter schools beginning in FY 08. Other provisions authorize the NMPSIA board to collect due process reimbursement premiums from school districts and charter schools based on their claims experience and other criteria determined by the board, and set a limit of \$300,000 for any single due process reimbursement.

Related Legislation and Initiatives

- In 1997, the *Health Care Purchasing Act* was enacted to ensure public employees, public school employees and retirees of public employment and the public schools access to more affordable and enhanced quality of health insurance through cost containment and savings effected by consolidated purchasing of public-financed health insurance plans. Among its provisions, the act requires NMPSIA, APS, the Risk Management Division of the General

Services Department, and the Retiree Health Care Authority to enter into a cooperative, consolidated, single purchasing effort to provide health care plans for the benefit of eligible participants of the respective agencies.

To comply with the requirements of the act, the four agencies formed the Interagency Benefits Advisory Committee (IBAC). According to NMPSIA, IBAC meets on a regular basis to discuss cost containment and savings initiatives that ensure more affordable and enhanced quality of health insurance for their respective members. Currently, NMPSIA reports, the IBAC is in the process of soliciting bids for medical, dental, and vision care benefit coverage for its members with a July 1, 2008 effective date.

- In 2005, legislation was introduced to create a 10-member joint interim committee to solicit public input and to examine current law and the financial health of funds supporting the retirement programs for state and educational employees. Although the legislation did not pass; in the 2005 interim the Legislative Council created a subcommittee to receive public testimony and to review the benefit programs of the General Services Department's Risk Management Division, the Retiree Health Care Authority, NMPSIA, and APS, to determine whether the entities are providing the best possible programs for their employees and are operating in a fiscally sound manner.
- Based on the recommendations of this interim subcommittee, legislation was introduced in 2006 to amend the *Public School Insurance Authority Act* to increase the employer's share of health insurance benefit costs; consolidate APS' health benefits program into NMPSIA; and change the composition of the NMPSIA board of directors to include APS. In a separate piece of legislation, the 2006 Legislature also considered legislation to require NMPSIA and APS to provide general liability coverage for after hours' community use of facilities but to limit that coverage to \$1.0 million per event. **Neither of these two bills passed.**
- In the 2006 interim, NMPSIA and APS entered into a contract with an independent consultant, Reden & Anders, to determine the financial feasibility of consolidating certain benefit programs of NMPSIA and APS, including medical, prescription drug, vision, dental, basic, voluntary, and dependent life, and long-term disability. The analysis resulted in the consideration of two consolidation scenarios that resulted in increased employee costs and, in some instances, benefit levels. In its Executive Summary, the consultant also noted that "Beyond just the numbers, the consolidation will involve intangible consideration that cannot be fully addressed by this or any actuarial analysis."

During the 2007 legislative session, both the NMPSIA and APS boards voted to oppose the consolidation of NMPSIA and APS into one authority.

Presenters

Mr. Sammy Quintana, Executive Director; Ms. Christy Edwards, Deputy Executive Director; and Mr. Robert Romero, Comptroller, NMPSIA, will discuss the projected increases in NMPSIA's FY 09 appropriation request.