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September 14, 2009 (revised September 20, 2009)

MEMORANDUM

TO: Legislative Education Study Committee

FR: Peter B. van Moorsel

**RE: STAFF REPORT: NEW MEXICO PUBLIC SCHOOL INSURANCE
AUTHORITY (NMPSIA)/ALBUQUERQUE PUBLIC SCHOOLS (APS):
FY 10 PLAN CHANGES AND FY 11 REQUESTS**

INTRODUCTION

Each year, if funding is available, the Legislature appropriates dollars 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. New Mexico's charter schools and most school districts participate in the New Mexico Public School Insurance Authority (NMPSIA), while Albuquerque Public Schools (APS), due to its size, is exempted from participation in NMPSIA, and is self-insured.

The dollars appropriated are based on NMPSIA's and APS' respective appropriation requests, which are based on projected contribution rates considered to be adequate to provide for anticipated insurance claims, administrative costs, and reserves 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 for both the employer and the employee.

The following staff report includes:

- FY 10 plan changes regarding insurance premium increases faced by NMPSIA and APS;
- FY 11 requests for NMPSIA and APS insurance premium increases; and
- background information on public school insurance in New Mexico.

FY 10 PLAN CHANGES

As a result of the budget crisis, during the 2009 session the Legislature appropriated no funds for FY 10 to provide for the employer's share of the increase in insurance premiums for either NMPSIA or APS. Both NMPSIA and APS were requested to develop alternative solutions, such as using reserve fund balances or changing plan benefits, to meet the projected increases in the employer's share of insurance premiums.

New Mexico Public School Insurance Authority

For FY 10, NMPSIA requested an appropriation of approximately \$5.4 million to provide for the employer's share of increased insurance premiums for its members. The FY 10 benefits request did not consider the use of fund balance to offset the increases as NMPSIA had done in the past, because NMPSIA projected the June 30, 2008 unaudited fund balance of approximately \$16.4 million to be "zero" by June 30, 2009. The reason for the zero fund balance, NMPSIA staff reported, was that an analysis of these claims revealed a substantial increase in both the utilization and cost of medical services, including four catastrophic claims of over \$550,000 each.

To cover these increased insurance costs, NMPSIA reduced the plan's benefits, effective July 1, 2009, by:

- implementing a \$2,800 out-of-pocket limit on the copays, co-insurance, and deductible paid by the member. The out-of-pocket limit comprises:
 - a \$300 calendar year deductible on all medical services except free in-network routine screening (copays do not count toward the deductible); and
 - 20 percent co-insurance, meaning that once the deductible is met, the member must pay 20 percent of medical costs until the \$2,800 out-of-pocket limit is reached; and
- requiring the member to pay 70 percent of the cost of non-formulary prescriptions.

Albuquerque Public Schools

For FY 10, APS requested approximately \$5.8 million for FY 10 to provide for the employer's share of increased insurance premiums for its members. According to APS, the FY 10 request did not consider the use of a reserve balance to offset the increases.

However, because no state funds were available to cover the increased insurance premiums, the APS Board of Education, at its August 19, 2009 meeting, approved using approximately

\$3.5 million in reserve insurance funds to offset 5.0 percent of the increase faced by employees, and changing the plan, effective December 1, 2009, by:

- increasing by 5.0 percent the cost of medical insurance for district employees (APS reports that the per-paycheck cost to employees with family coverage will be approximately \$5 for those earning less than \$29,000 per year; and approximately \$11 for those earning \$29,000 or more per year); and
- increasing to \$750 (from \$500) the cost for in-patient hospital visits.

FY 11 REQUESTS

New Mexico Public School Insurance Authority

For FY 11, NMPSIA has requested an appropriation of approximately \$9.5 million to provide for the employer's share of increased insurance premiums for its members. The benefits portion of the FY 11 budget request considers:

- a 15.8 percent increase in medical insurance premiums for NMPSIA that would go into effect for public school employees October 1, 2010;
- a 10.8 percent increase in dental insurance premiums;
- no increases for vision and life insurance; and
- a 35 percent increase for disability insurance.

NMPSIA reports that, as of June 30, 2009, its unaudited fund balance was negative \$7.4 million. If NMPSIA were to retain the FY 10 reduced benefits (see above), and received no appropriation for the increased premiums, the authority reports that the projected fund deficit on June 30, 2011 would be approximately \$30.0 million. NMPSIA adds that in this scenario, it would be required to reduce benefits further, by:

- increasing to \$4,900 (from \$2,800) the out-of-pocket limit on the copays, co-insurance, and deductible paid by the member. The out-of-pocket limit comprises:
 - a \$500 deductible (increased from \$300); and
 - 30 percent co-insurance (increased from 20 percent), meaning that once the deductible is met, the member must pay 30 percent of medical costs until the \$4,900 out-of-pocket limit is reached;
- increasing prescription and office visit copays;
- increasing to \$100 (from \$50) the dental deductible; and
- reducing to 50 percent (from 66 and 2/3 percent) the disability benefit.

Regarding the risk program, NMPSIA reports that the FY 11 request reflects a “zero” percent increase in property, liability, and worker's compensation premiums.

Albuquerque Public Schools

At the time this report was finalized, LESC staff had not yet received the FY 11 APS insurance appropriation request. LESC staff have requested APS to provide a summary of the request during the staff presentation on this item. The report will be revised after the meeting to include the APS request.

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 its 67 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, 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 *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 policy¹ 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 policy¹ to be followed by participating members relating to the use of school facilities by private persons, provided that the policy:
 - relate 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.

¹ The act requires NMPSIA to distribute the policies to participating members and post them on its website. NMPSIA reports that it is currently updating rules to establish these policies.