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September 27, 2010 (revised)

## MEMORANDUM

**TO:** Legislative Education Study Committee

**FR:** Eilani Gerstner

**RE: STAFF REPORT: FY 12 BUDGET REQUESTS: NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY (NMPSIA) AND ALBUQUERQUE PUBLIC SCHOOLS (APS)**

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## **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 Schools 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:

- updates on FY 11 plan changes and insurance premium increases by NMPSIA and APS;
- FY 12 budget requests for NMPSIA and APS;
- the use of one-time discretionary *American Recovery and Reinvestment Act (ARRA)* funds from the Governor to offset insurance premiums for teachers and school employees and to provide professional development to educational assistants in APS; and
- background information on public school insurance in New Mexico.

Attachments to this report include:

- Attachment 1 includes NMPSIA's presentation;
- Attachment 2 includes APS' FY 12 request; and
- Attachment 3 includes a summary of the effect of the one-time ARRA dollars on employees' medical insurance premiums.

## **FY 11 PLAN CHANGES AND PREMIUM INCREASES**

### ***New Mexico Public Schools Insurance Authority***

NMPSIA reports that no plan changes occurred for FY 11. However, the agency reports medical and dental premium increases of 6.4 percent effective October 1, 2010.

NMPSIA reports an unaudited benefits fund balance of \$6.1 million as of June 30, 2010.

### ***Albuquerque Public Schools***

APS reports that as of July 1, 2010, the unaudited fund balance for medical, dental, and vision reserves was \$17.4 million, and that the APS Board of Education approved the use of \$8.8 million from reserves to offset FY 11 costs.

In addition to the use of reserves in FY 11, the APS Board of Education approved the following FY 11 plan changes, which result in a savings of just over \$1.1 million:

- increasing the specialist office copay from \$30 to \$35;
- increasing the urgent care copay from \$35 to \$40;
- increasing the emergency room copay from \$100 to \$120;
- charging actual COBRA<sup>1</sup> (*Consolidated Omnibus Budget Reconciliation Act*) rates: APS reports that the district has been setting medical premiums, including COBRA, lower than their actual cost in an effort to "burn" reserves, and that cost savings could be realized by charging actual rates; and

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<sup>1</sup> According to the US Department of Labor, COBRA gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances such as voluntary or involuntary job loss, reduction in the hours worked, transition between jobs, death, divorce, and other life events.

- APS also assumes that 25 percent of employees will not participate in the \$20 per month premium discount for the incentive biometric screening program.

## **FY 12 REQUESTS**

### ***New Mexico Public Schools Insurance Authority***

For FY 12, effective October 1, 2011, NMPSIA has requested an approximately 2.0 percent *decrease*, or approximately \$5.6 million, from the FY 11 funding level. NMPSIA reports that this request is based on the use of \$8.5 million from the benefits fund balance and \$9.1 million from the risk fund balance. For FY 12, NMPSIA reports no plan changes and no premium increases for members.

At the end of FY 11, NMPSIA projects an unaudited benefits fund balance of approximately \$20.4 million.

### ***Albuquerque Public Schools***

For FY 12, effective January 1, 2012, APS is requesting an appropriation of \$4.7 million to provide for the employer's share of increased insurance premiums for members, including:

- a 4.7 percent increase for medical insurance;
- an 8.6 percent increase for vision insurance;
- a 10 percent increase for life and disability insurance; and
- no increase for dental insurance.

Included in the request is a 5.9 percent increase, or \$517,000, in property and liability premiums and 4.0 percent, or \$194,000, for worker's compensation claims. APS indicates that the districts may recommend to the board additional plan changes for FY 12.

The district reports a projected fund balance of \$8.6 million on December 31, 2011.

## **FEDERAL ARRA DOLLARS FOR INSURANCE PREMIUMS AND PROFESSIONAL DEVELOPMENT**

For FY 11, the Governor allocated \$2.0 million in discretionary ARRA dollars to offset insurance premiums for teachers and school employees, including \$1.5 million to the Public Education Department (PED) for NMPSIA and \$500,000 for APS. Both NMPSIA and APS report that eligible employees will receive a one-time decrease in their insurance premium payments, effectively providing a one-time increase, or subsidy, in their paychecks. Employees whose employer contributes the statutory maximum of 80 percent of the employees' insurance premiums are not eligible since the allotment would increase the employer contribution beyond 80 percent. Attachment 3 includes these subsidies for both NMPSIA and APS employees, according to each medical plan type.

### ***NMPSIA Insurance Premiums***

According to NMPSIA, the 6.4 percent FY 11 medical insurance premium increase effective October 1, 2010 will be offset by the one-time distributions of the Governor's discretionary ARRA dollars by reducing employees' medical contribution in one paycheck.

NMPSIA reports that:

- eligible employees will receive their one-time subsidy in one pay period in October, according to their employer's pay schedule;
- the agency will bill PED for up to the \$1.5 million allotted to provide the subsidies, and that if the total subsidies exceed the \$1.5 million; and
- NMPSIA will cover any amount over from fund balances.

### ***APS Insurance Premiums***

APS reports that their employees received their one-time subsidy in their September 24, 2010 paycheck. APS calculated the subsidies based on the number of employees in each medical insurance plan and the total amount available (\$500,000), excluding those employees earning less than \$29,000 per year, for whom APS covers the statutory maximum of 80 percent of their insurance premiums.

According to the Legislative Education Study Committee (LESC) staff calculations, the total subsidies for APS employees may exceed the \$500,000 by approximately \$1,000; if so, APS reports that any excess over \$500,000 will come out of fund balances.

## **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 policy<sup>2</sup> 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<sup>2</sup> to be followed by participating members relating to the use of school facilities by private persons, provided that the policy:
  - Ø relate only to liability and risk issues; and
  - Ø 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:
  - Ø no more than \$1.0 million may be paid for each occurrence; and
  - Ø the coverage applies only if the participating member was following the policy adopted by NMPSIA.

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<sup>2</sup> 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.

## New Mexico Public Schools Insurance Authority

Legislative Education Study Committee  
September 2010

### FY 12 Budget Request

- \$280,744,300 FY 12
- \$286,308,100 FY 11
- 2% reduction
  
- Request assumes the use of \$8.5 million in Benefits Fund Balance and \$9.1 million in Risk Fund Balance

## Risk Program Update

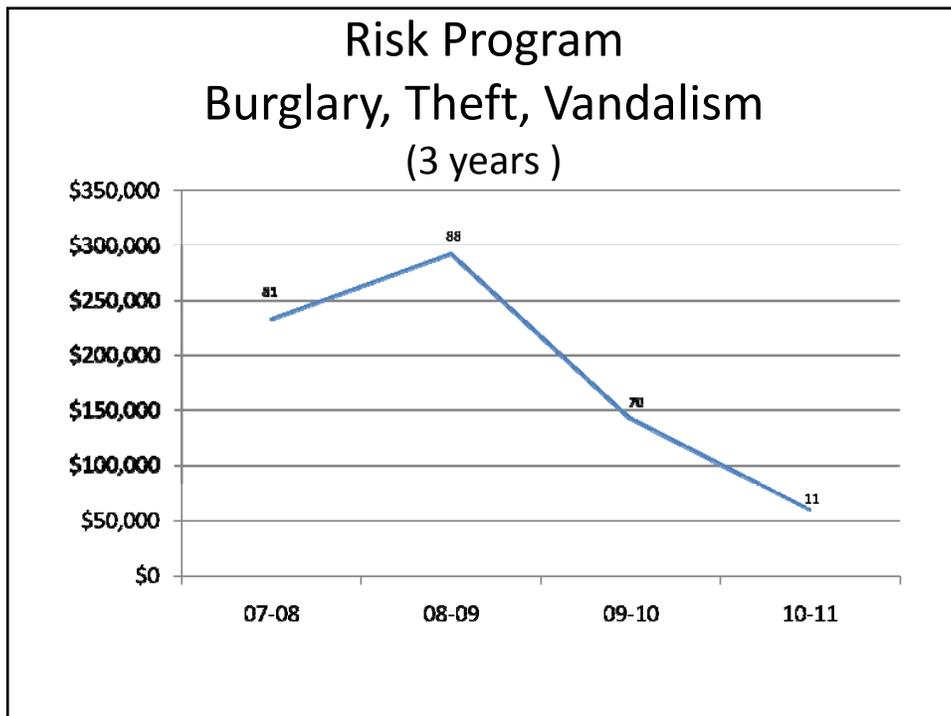
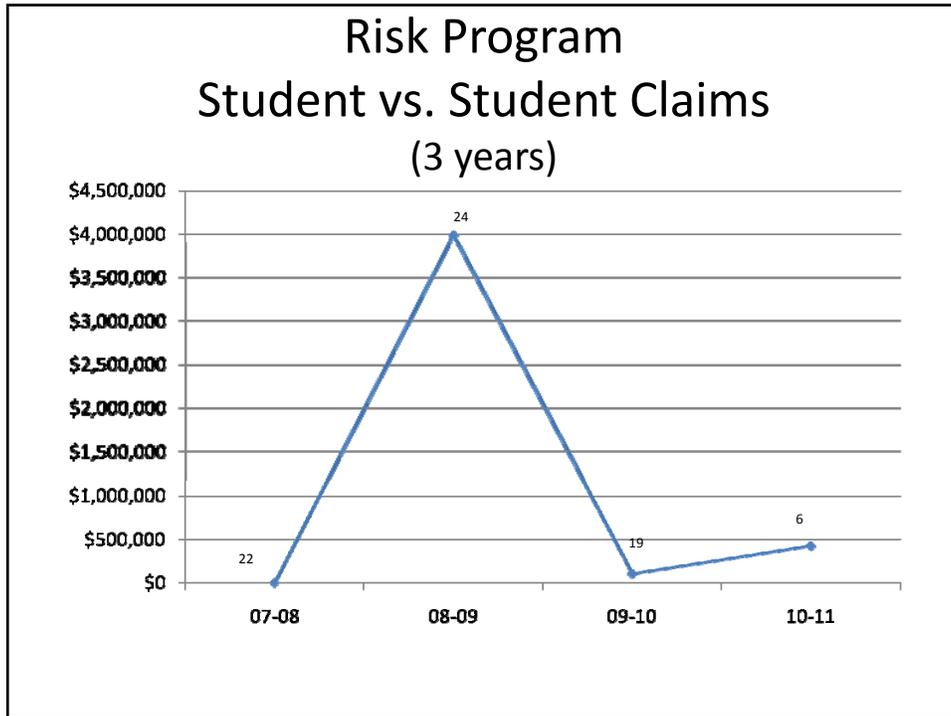
- Incurred But Not Reported (IBNR) reserve reduction as of 6/30/10
- Property /Liability from \$7.3 million to \$5.9 million
- Workers' Compensation from \$13.36 million to \$13.29 million
- Total reduction of \$1.45 million

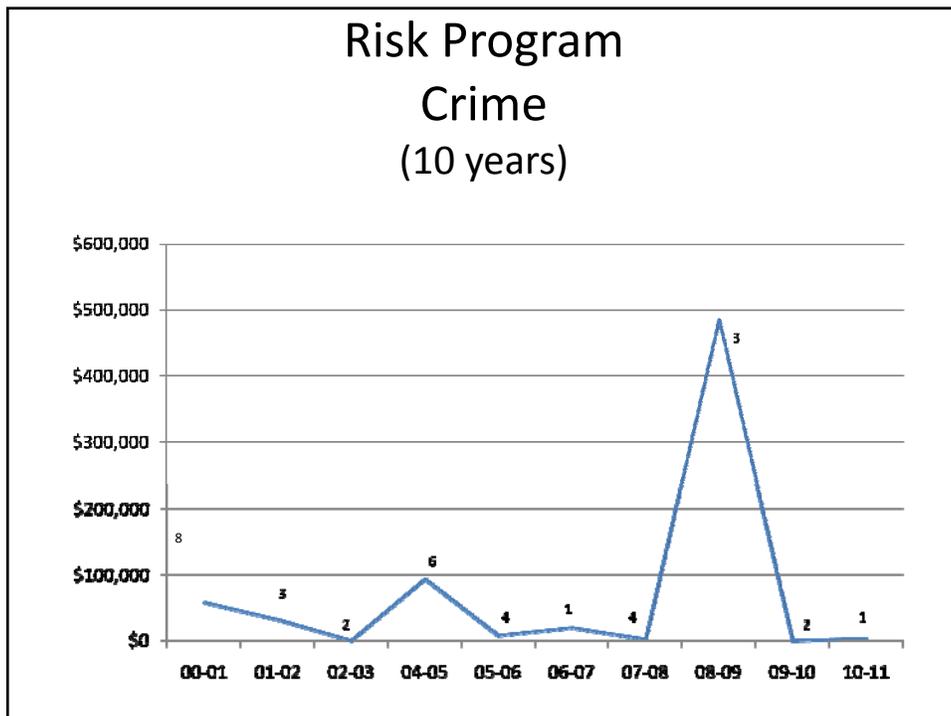
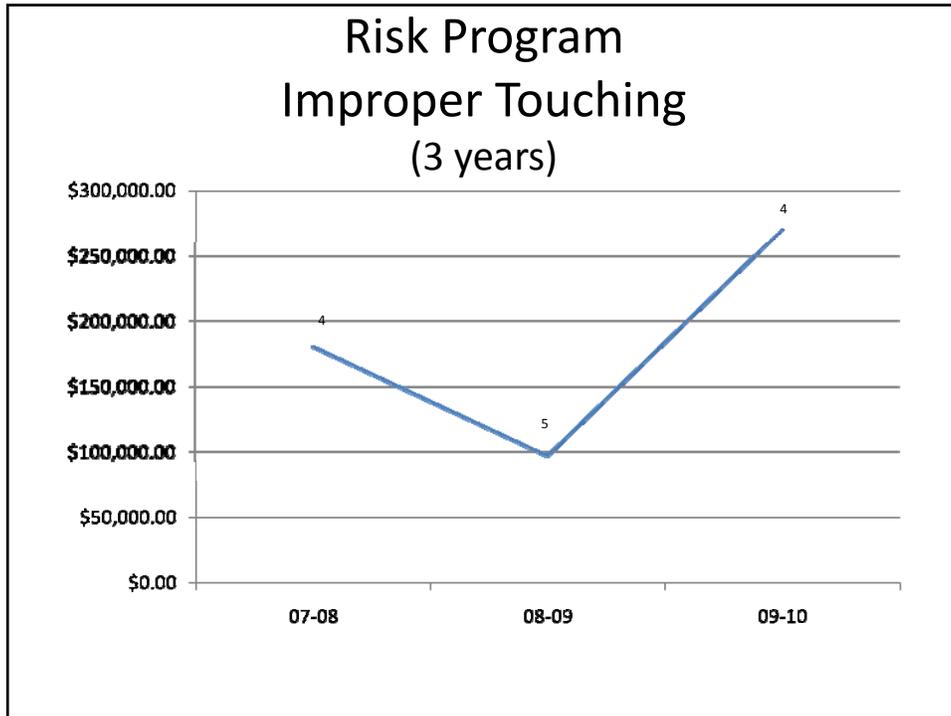
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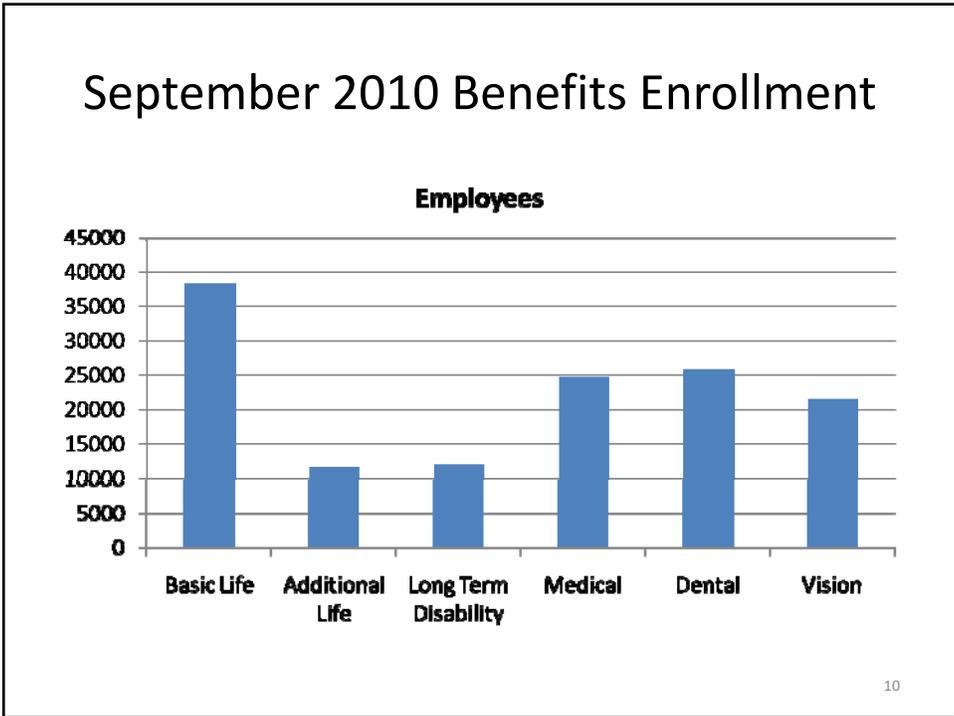
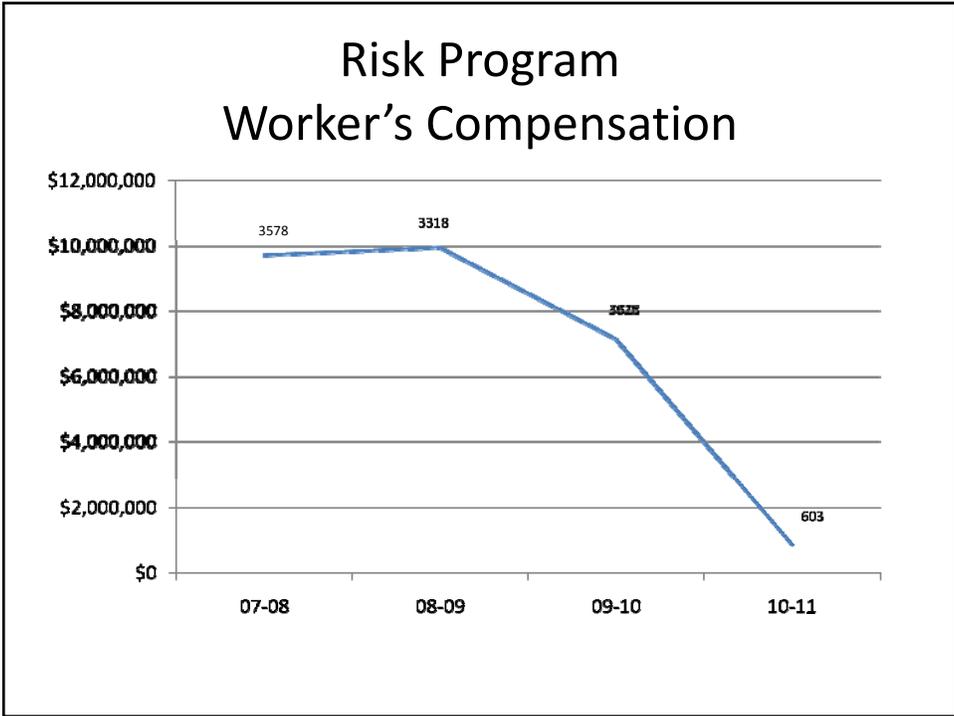
## Risk Program - Claims

- Jemez Mountain embezzlement
- Gallup student alcohol-related death
- Mesa Elementary School, Central Schools, arson expected to cost \$400,000 +
- Monitoring student vs. student claims

4







## Governor's Subsidy Methodology

- One time credit in the October deductions
- Represents the whole year
- Only Medical premium subsidized
- Excludes non-public school employees
- Excludes any employees where employer pays 80% of the insurance (Anansi Charter, Bernalillo, Cesar Chavez Community School, Grants/Cibola, Jemez Valley, Los Lunas, & Loving)

11

## Impact of Governor's Subsidy (Before taxes)

	Plan	Single	Two party	family
40%-60% SPLIT (\$25K +)	BCBS HIGH	\$46.82	\$89.05	\$118.92
	BCBS LOW	\$39.332	\$74.80	\$99.90
	PRES HIGH	\$37.86	\$79.50	\$106.02
	PRES LOW	\$31.80	\$66.78	\$89.04
35%-65% SPLIT (\$20K-25K)	BCBS HIGH	\$40.96	\$77.92	\$104.06
	BCBS LOW	\$34.42	\$65.44	\$87.42
	PRES HIGH	\$33.12	\$69.56	\$92.76
	PRES LOW	\$27.84	\$58.44	\$77.92

12

## Impact of Governor's Subsidy (Before taxes)

	Plan	Single	Two party	family
30%-70% SPLIT (\$15K - \$20K)	BCBS HIGH	\$ 35.12	\$ 66.78	\$ 89.20
	BCBS LOW	\$ 29.50	\$ 56.10	\$ 74.92
	PRES HIGH	\$ 28.40	\$ 59.62	\$79.52
	PRES LOW	\$ 23.86	\$ 50.08	\$ 66.78
25%-75% SPLIT (Under \$15K)	BCBS HIGH	\$29.26	\$ 55.66	\$74.32
	BCBS LOW	\$ 24.58	\$ 46.75	\$ 62.44
	PRES HIGH	\$ 23.66	\$49.68	\$66.26
	PRES LOW	\$ 19.88	\$ 41.74	\$55.66

13

## Employer Contribution Comparison

APS	NMPSIA	RMD
Annual Salary less than \$29,000:	<\$15,000 75%	<\$50,000 80%
APS contributes 80%	\$15,000 – \$20,000 70%	\$50,000 – \$60,000 70%
Annual Salary \$29,000 or more:	\$20,000 - \$25,000 65%	\$60,000 or more 60%
APS contributes 60%	\$25,000 or more 60%	

14

## NMPSIA Cost Management Strategies

- Cost savings from Plan design changes shifting more of the cost to members: \$27 million
- Active role in provider negotiations
- Vendor initiatives – case management & UM
- Prescription utilization management by PBM (Selection of Medco as sole PBM is projected to save IBAC \$11.4 million in 1<sup>st</sup> year over current agreements - \$2 million for NMPSIA)

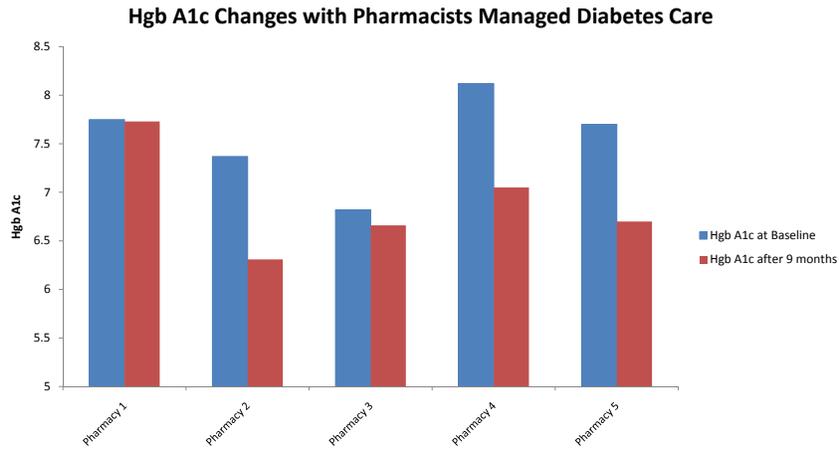
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## Diabetes Pilot Program in Rural NM

- Pharmacists were trained as diabetes care extenders to provide diabetes management on a monthly basis to NMPSIA members.
- Members are offered a zero dollar copay for diabetes medications and testing supplies for visiting their local pharmacists monthly for diabetes management
- Expanding to Taos and Santa Fe

16

## Diabetes Pilot Program Results



17

## Member Satisfaction with Health Plans

APS		NMPSIA		NMRHCA		RMD	
2008	2010	2008	2010	2008	2010	2008	2010
86%	86%	89%	65%	87% (Non-Medicare)	82% (Non-Medicare)	87%	78%
				94% (Medicare)	96% (Medicare)		
IBAC Overall Satisfaction 2008:				IBAC Overall Satisfaction 2010:			
88%				75%			

18

## SJM 1 options adopted

- Consolidating pharmaceutical formularies and pharmacy benefits management for all public and quasi-public entities should be explored
- Implement a fixed payment methodology for rural hospitals' outpatient services (i.e., similar to Medicare).
- Design value-based benefits that lower barriers for individuals with chronic diseases (i.e., no charge for insulin for diabetics)


**ALBUQUERQUE PUBLIC SCHOOLS**

Office of the Superintendent

 Winston Brooks  
 SUPERINTENDENT

September 15, 2010

**MEMORANDUM**

 To: New Mexico Legislative Education Study Committee  
 Albuquerque Area Legislators

From: Winston C. Brooks, APS Superintendent

Re: Albuquerque Public Schools: Projected FY 12 Insurance Request

For FY 12, Albuquerque Public Schools (APS) is requesting an appropriation of approximately \$4,695,384 to provide for the employer's share of increased insurance premiums for its members. The benefits portion of the FY 12 budget request considers:

- a 4.7 percent increase in medical insurance premiums
- no increase in dental insurance premiums;
- a 8.6 percent increase in vision insurance premiums; and
- a 10 percent increase for life and disability insurance.

Albuquerque Public Schools reports that, as of July 1, 2010, our unaudited fund balance for medical, dental and vision reserves was \$17.4 million. Albuquerque Public Schools Board of Education has approved the use of \$8.8 million from the fund balance to offset the cost for the current plan year. The projected fund balance on December 31, 2011, will be \$8.6 million. This will bring the fund balance to the recommended incurred but not reported (IBNR) level.

Albuquerque Public Schools may recommend to the Board of Education additional plan design changes for FY 12.

During the current plan year the APS Board of Education approved the following plan design changes that will save the district approximately \$1.129 million.

- |   |                     |
|---|---------------------|
| • Increase Specialist Office Copay to \$35  | \$ 375,000          |
| • Increase Urgent Care Copay to \$40  | \$ 23,000           |
| • Increase ER Copay to \$120  | \$ 76,000           |
| • Charge true COBRA Rates (relative value)  | \$ 25,000           |
| • Biometric Screenings – Incentive to participate = \$20/Month<br>Premium discount for Employee and Spouse (Assumes 25% do not<br>Participate and pay higher premium) | \$ 600,000          |
| Total Projected Savings:  | <u>\$ 1,129,000</u> |

Regarding the risk program, the FY 12 request includes a 5.9% percent increase or \$517,000 in property and liability premiums and 4.0% percent increase or \$194,000 for worker's compensation claims.

Governor Bill Richardson allocated \$500,000 to the employees of APS to help offset the cost of insurance from ARRA funds. APS employees will receive a one-time reduction of approximately 56.9% of their current medical contribution based on level of coverage in the September 24, 2010 paycheck.

Since the APS Board of Education has chosen to fund 80% of benefits for those employees making less than \$29,000 per year, these employees could not receive any of the benefits from these ARRA funds. The Governor also allotted \$500,000 for Professional Development for Educational Assistants. The district is working with the Educational Assistant Union to create a training plan where these employees will receive much needed professional development with paid stipends.

If you have specific questions or concerns, there are APS staff members who are available to discuss the district's benefit plans.

**EFFECT OF ONE-TIME AMERICAN RECOVERY AND REINVESTMENT ACT  
DISCRETIONARY DOLLARS ON EMPLOYEES' INSURANCE PREMIUMS**

ALBUQUERQUE PUBLIC SCHOOLS	SINGLE		TWO-PARTY		FAMILY	
	Regular Bi-monthly Payment	One-time "Subsidy"	Regular Bi-Monthly	One-time "Subsidy"	Regular Bi-Monthly Payment	One-time "Subsidy"
<i>For employees earning \$29,000 or more (Employee contribution 40% APS contribution 60%)</i>						
Lovelace - High Option	\$78.82	\$44.85	\$157.11	\$89.39	\$210.68	\$119.87
Lovelace - Low Option	\$58.52	\$33.30	\$128.99	\$73.39	\$177.20	\$100.82
Presbyterian - High Option	\$83.80	\$47.68	\$167.60	\$95.36	\$226.29	\$128.76
Presbyterian - Low Option	\$62.22	\$35.40	\$137.64	\$78.32	\$190.46	\$108.37

Source: APS

NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY		SINGLE		TWO-PARTY		FAMILY	
Employee/Employer Split (percent)	PLAN	Regular Monthly Payment	One-time "Subsidy"	Regular Monthly Payment	One-time "Subsidy"	Regular Monthly Payment	One-time "Subsidy"
40/60	BCBS High	\$195.10	\$46.82	\$371.04	\$89.04	\$495.56	\$118.92
	BCBS Low	\$163.88	\$39.32	\$311.66	\$74.80	\$416.28	\$99.90
	PRES High	\$157.78	\$37.86	\$331.28	\$79.50	\$441.76	\$106.02
	PRES Low	\$132.54	\$31.80	\$278.28	\$66.78	\$371.06	\$89.04
35/65	BCBS High	\$170.72	\$40.96	\$324.66	\$77.92	\$433.62	\$104.06
	BCBS Low	\$143.40	\$34.42	\$272.70	\$65.44	\$364.24	\$87.42
	PRES High	\$138.06	\$33.12	\$289.88	\$69.56	\$386.54	\$92.76
	PRES Low	\$115.98	\$27.84	\$243.50	\$58.44	\$324.68	\$77.92
30/70	BCBS High	\$146.32	\$35.12	\$278.28	\$66.78	\$371.66	\$89.20
	BCBS Low	\$122.90	\$29.50	\$233.74	\$56.10	\$312.22	\$74.92
	PRES High	\$118.34	\$28.40	\$248.46	\$59.62	\$331.32	\$79.52
	PRES Low	\$99.40	\$23.86	\$208.72	\$50.08	\$278.30	\$66.78
25/75	BCBS High	\$121.94	\$29.26	\$231.90	\$55.66	\$309.72	\$74.32
	BCBS Low	\$102.42	\$24.58	\$194.78	\$46.74	\$260.18	\$62.44
	PRES High	\$98.62	\$23.66	\$207.06	\$49.68	\$276.10	\$66.26
	PRES Low	\$82.84	\$19.88	\$173.94	\$41.74	\$231.92	\$55.66

Source: NMPSIA

BCBS = Blue Cross Blue Shield

PRES = Presbyterian