# F I S C A L   I M P A C T   R E P O R T

**SPONSOR** HHGAC **ORIGINAL DATE** 02/27/13 **LAST UPDATED** **HB** CS/654/aHHGAC

**SHORT TITLE** Public Peace, Health, Safety and Welfare **SB**

**ANALYST** Hanika-Ortiz

## ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY13 | FY14 | FY15 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|---|---|
| | | ($972.8) | | | | Various |

(Parenthesis ( ) Indicate Expenditure Decreases)

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
General Services Department (GSD)

**SUMMARY**

Synopsis of HHGAC Amendment

The amendment added an emergency clause.

Synopsis of Original Bill

The House Health and Government Affairs Committee substitute for House Bill 654 (HB 654) amends Section 10-7-4 NMSA 1978 and changes the bi-weekly employer/employee contribution rates for basic life and disability insurance benefits.

HB 654 also amends Section 15-7-11 NMSA 1978 and adds the group self-insurance fund to the list of funds that the Risk Management Division (RMD) may transfer money between to address a temporary shortfall for a particular fund.

**FISCAL IMPLICATIONS**

The GSD reports that total employer contributions to provide the basic life insurance benefit for employees is $785,387. This translates into $1.94 per bi-weekly pay period for an employee earning less than $50,000; $0.39 from the employee through payroll deductions and $1.55 from the employer. Under the bill, the employer would pick up the entire employee portion after July 1, 2013.

The GSD reports that total employer contributions to provide the disability benefit for employees is $1,758,234. This translates into $4.34 per bi-weekly pay period for an employee earning less than $50,000; $0.87 from the employee through payroll deductions and $3.47 from the employer. Under the bill, the employee would pick up the entire employer portion if the employee elects to continue coverage after July 1, 2013.

The net effect of the contribution rate changes would be about $2.40 less take-home pay per bi-weekly pay period for an employee earning less than $50,000. The table above reflects savings for employers from employees picking up a larger percentage of total costs. In return, according to the RMD, if the employee becomes disabled the income is treated as tax-free by the IRS.

## SIGNIFICANT ISSUES

The GSD is proposing increases in employer and employee premiums to raise additional revenue and plan design changes to decrease spending that will require greater cost-sharing from employees beginning July 1, 2013. However, it will take time for these measures to have the intended effect and the program will need temporary assistance to address a projected shortfall in the group self-insurance fund for the employee group health benefits program.

The bill amends two sections of law that govern the RMD practices. First, it would allow for the temporary transfer of money from one or more risk funds to the group self-insurance fund. The employee group health benefits program will be required to repay any loan amounts to the originating risk fund within one year plus interest.

The second section of law being changed relates to group insurance contributions. Under the bill, instead of being subject to contribution rates based on an employee’s annual salary, employers would pay 100 percent of the cost of basic life and employees would pay 100 percent of the cost of disability insurance. Disability coverage would become voluntary after July 1, 2013.

The current contribution rates for the employee group health benefits program is 80 percent for the employer and 20 percent for the employee if earning less than $50,000; 70 percent for the employer and 30 percent for the employee if earning between $50,000 and $60,000; and 60 percent for the employer and 40 percent for the employee if earning over $60,000. The cost to employers providing basic life and disability benefits are also subject to these percentages.

## PERFORMANCE IMPLICATIONS

Section 15-7-11 NMSA 1978 provides that the temporary transfer of monies between the RMD funds requires State Board of Finance prior approval; may not exceed thirty percent of balances in the originating fund; and shall be repaid within one year plus interest. If the program cannot repay the loan amounts in one year, repayments may be made as soon as monies are available.

As a general matter, if one is paying premiums for disability insurance, then the benefits received in turn are tax free and not subject to income tax. If, on the other hand, disability insurance premiums are paid for by the employer and the employee becomes disabled and begins receiving benefits, those disability benefits are eligible for income taxes.

## ADMINISTRATIVE IMPLICATIONS

Under the bill, the RMD will no longer have the administrative burden of withholding taxes for disability payments.

## TECHNICAL

Page 4, line 22, the bill proposes to replace the letter “D” with “F”. The bill may be made clearer if “D” is replaced with “E” as “F” refers only to state legislator contributions.

## OTHER SUBSTANTIVE ISSUES

The RMD reports approximately 21,000 state employees enrolled in basic life insurance and disability coverage. In 2012, there were 503 employees receiving disability benefits.

The trend occurring nationally is to have employees cover a greater percentage of their benefits through increased premiums and higher co-pays, coinsurance and deductibles. This passes a greater cost on to the employee and reduces the cost to the employer. This may also provide an incentive to employees to better manage their health than if the employer is bearing most of the cost. Of course, the success of this strategy largely depends upon employers continuing to cover annual wellness exams, labs and related tests at 100 percent.

The state should review the amount of the bi-weekly insurance premium paid by state employers and employees. An increasing number of organizations are paying 100 percent of coverage for the employee while requiring employees to pick up a greater portion of family coverage. Under the GSD plan, the employer pays 80 percent of the premium to insure an employee’s family if the employee is earning less than $50,000 per year.

## WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The RMD will not be able to temporarily loan monies from its risk funds to its group self-insurance fund to meet projected shortfalls. Basic life insurance and disability benefits would continue to be subject to the bi-weekly insurance premium rate schedule in statute.

AHO/svb