

LFC Requester:

Eric Chenier

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION**WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO****[AgencyAnalysis.nmlegis.gov](https://agencyanalysis.nmlegis.gov) and email to billanalysis@dfa.nm.gov*****(Analysis must be uploaded as a PDF)*****SECTION I: GENERAL INFORMATION***{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}***Date Prepared:** 3/13/2025*Check all that apply:***Bill Number:** SB 376csOriginal ☐ Correction ☒Amendment ☐ Substitute ☐

Senator Elizabeth "Liz"
Stefanics and Senator George
Sponsor: Muñoz
Short STATE EMPLOYEE HEALTH
Title: BENEFIT CONTRIBUTIONS

Agency Name**and Code**HCA-630**Number:****Person Writing**Colin Baillio**Phone:** 505-629-2684**Email** Colin.Baillio@hca.nm**SECTION II: FISCAL IMPACT****APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
None	None	None	None

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
None	None	None	None	None

(Parenthesis () indicate revenue decreases)

ADDITIONAL OPERATING BUDGET (dollars in thousands)

	FY 25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
GF – State Premium Contributions		\$38,245.3	\$41,496.2	\$79,741.5	Recurring	State General Fund (through the State Health Benefits Fund)
OSF – State Premium Contributions		\$18,849.4	\$20,451.7	\$39,301.1	Recurring	Other State Funds
FF – State Premium Contributions		\$11,200.4	\$12,152.4	\$23,352.8	Recurring	Federal Funds
TOTAL State Premium Contributions Under 80/20		\$68,295.1	\$74,100.2	\$142,395.4	Recurring	GF/OSF/FF
Admin Costs		\$493.8	\$493.8	\$987.6	Recurring	Health Care Affordability Fund
Program Costs – Lower Income State Employee Program		\$11,534.5	\$12,514.9	\$24,049.4	Recurring	Health Care Affordability Fund
Program Costs – National Guard TRICARE Select Reserve		\$551.4	\$551.4	\$1,102.8	Recurring	Health Care Affordability Fund
TOAL HCAF Impact		\$12,579.7	\$13,560.1	\$26,139.8	Recurring	Health Care Affordability Fund
State Employee Premium Savings Under 80/20		(\$36,351.1)	(\$39,440.9)	(\$75,792.0)	Recurring	Employee Premiums
State Employee Premium Savings Under HCAF Program		(\$11,534.5)	(\$12,514.9)	(\$24,049.4)	Recurring	Employee Premiums
TOTAL Employee Premium Savings		(\$47,885.6)	(\$63,490.3)	(\$111,375.9)		Employee Premiums

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:

Duplicates/Relates to Appropriation in the General Appropriation Act:

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis: Senate Bill 376 (SB376) modernizes the statute governing state employee contributions for health insurance and would adopt the following provisions:

- Replacement of the existing statutory salary tiers for the State Health Benefits (SHB) plan with fixed state/employee contribution levels, establishing the state's portion at 80% of the cost and the employee portion at 20% of the cost of total health premiums;
- Require the Secretary of the Health Care Authority (HCA) to submit budget requests that reflect actuarially sound premium rates for State Health Benefits;
- Prohibit balance billing for in- and out-of-network care in the event that a state agency responsible for providing state health benefits establishes a reference-based pricing program for hospital services;
- Require the HCA Secretary to establish a program for SHB-eligible state employees and dependents who earn less than 250% of the Federal Poverty Level (FPL) and who do not qualify for Medicaid to cover a portion or all of the employee premiums using funds from the Health Care Affordability Fund (HCAF);
- Require HCA to offer a variety of plans for members to choose; and
- Allow for use of the HCAF to reduce or eliminate premiums for members of the New Mexico National Guard who qualify for TRICARE Reserve Select.

FISCAL IMPLICATIONS

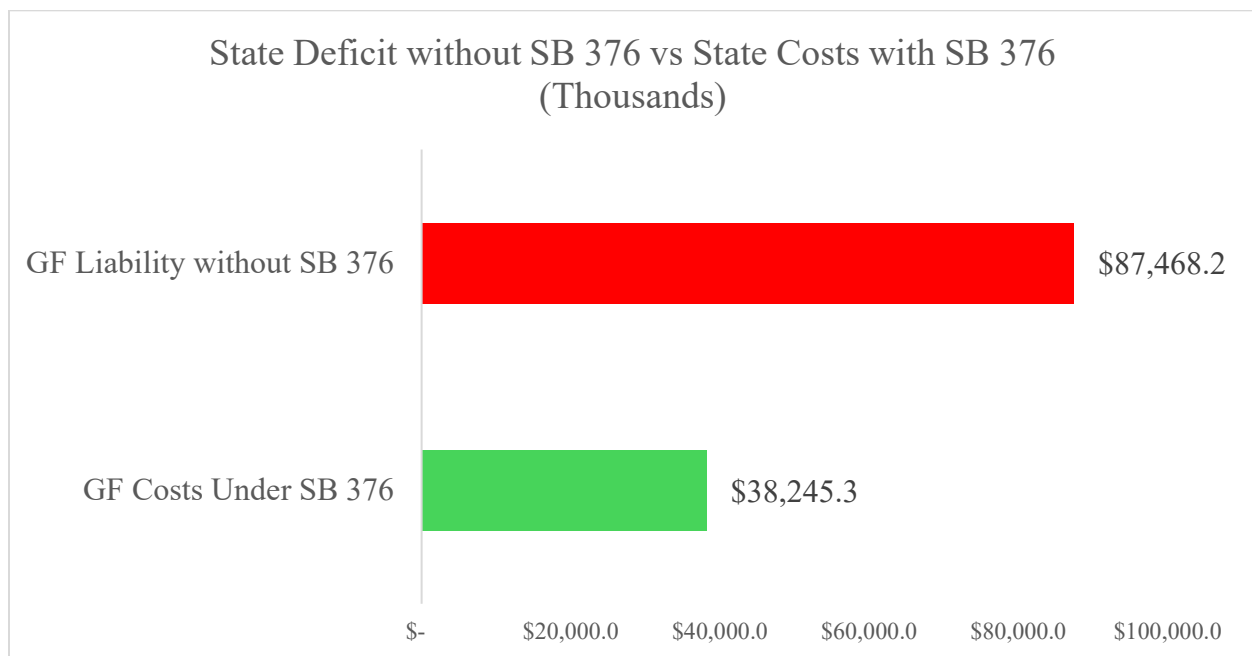
State Health Benefits

The SHB plan provides coverage to state and local government employees and their families. As of January 31, 2025, 60,360 people were enrolled in the SHB plan, 36,433 of whom are affiliated with the State of New Mexico and 23,954 of whom are affiliated with a Local Public Body. The state contributes a portion of premiums for state employees and local governments participating in the plan to establish their own contribution levels. In recent years, the SHB fund has faced a significant deficit in large part because the state has not established adequate rates to cover expenses. At the same time, the state covers just 65% of premiums on average, the lowest level in the nation, resulting in higher premiums for state employees. SB 376 will eliminate the projected FY26 SHB shortfall, reduce state employee premiums, and save the State GF through a coordinated strategy of cost containment, adherence to actuarially sound budgeting practices, and investments in employees.

Without SB376, HCA projects a SHB shortfall of \$87.5 million in FY26. SB 376 will require an appropriation of \$68.3 million, which eliminates the shortfall by charging adequate rates to Local Public Bodies (LPBs) and state employees, saving the State GF \$49.2 million in FY26.

Fund Impact	FY26
General Fund	\$38,245.3
GF Cost without SB 376	\$87,468.2
GF Savings	\$49,222.9
Other State Funds	\$18,849.4
Federal Funds	\$11,200.4
TOTAL	\$68,295.1

In recent years, SHB has charged inadequate rates and the legislature has backfilled the shortfall using exclusively General Fund resources. If SB 376 is passed and the correct rates are charged in FY 26, the General Fund need will be reduced to \$38.2 million, as Other State Funds and Federal Funds will be leveraged appropriately to cover costs.



State Costs and Savings

- **Net Total Cost: \$68.3 million** (\$36.96 + \$48.32 - \$16.98)
 - Actuarially Sound Rates: \$36.96 million
 - 80/20 Contribution: \$48.32 million
 - Urban Hospital Medicare Reference-based Pricing: **-\$16.98 million**

Under SB 376, the projected GF liability is **\$49.2** million lower than it would be without the bill.

State Employee Costs and Savings

- **Net Total Cost: -\$36.35 million** (\$16.22 - \$48.32 - \$4.25)
 - Actuarially Sound Rates: \$16.22 million
 - 80/20 Contribution: **-\$48.32 million**

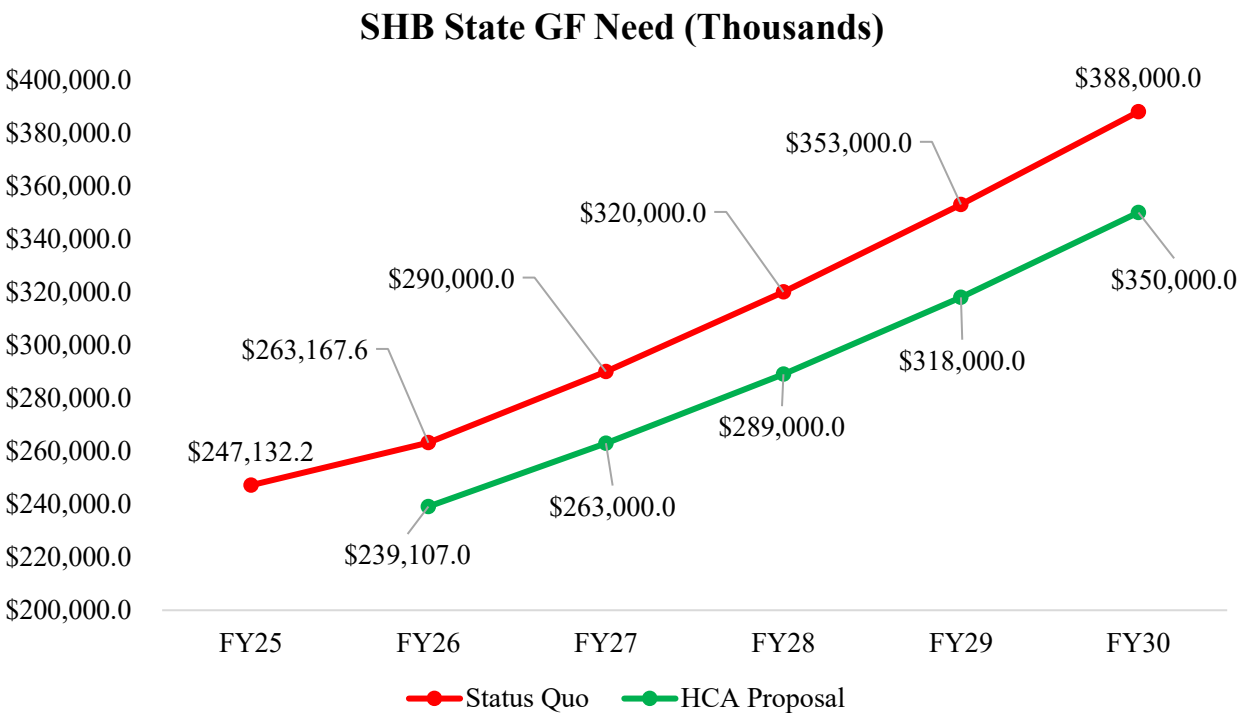
- Urban Hospital Medicare Reference-based Pricing: **-\$4.25 million**

Under SB 376, employee premiums would be 46.2% lower on average than under the current FY26 Exec/LFC Budget Recommendation.

Local Public Body Costs and Savings

- **Net Total Cost: \$19.86 million** (\$36.22 - \$16.36)
 - Actuarially Sound Rates: \$36.22 million
 - 80/20 Contribution: State statute does not dictate the contribution levels for LPBs
 - Urban Hospital Medicare Reference-based Pricing: **-\$16.36 million**

Under SB 376, LPB rates will be sufficient to cover costs, giving local entities cost predictability while reducing their liabilities by \$16.36 million through HCA's cost-containment initiatives.



Health Care Affordability Fund

Program for Certain State Employees Under 250% FPL

To make State of New Mexico health benefit premiums more affordable for certain employees, Health Care Affordability Fund monies will be used to offset premium costs for those up to and including 250% FPL. HCA will work with the Taxation and Revenue Department to streamline and automate enrollment in this program to the greatest extent possible.

For the 2026 plan year, there will also need to be a system established to process eligibility determinations for employees who are not automatically determined to be eligible. Based on standard vendor costs on the State pricing agreement list, the annual cost for maintaining such a system will be a recurring fee of \$50.0. For a vendor to process the applications, verify the

documentation, answer employee questions, address renewals, and other relevant tasks, the cost would likely be a recurring annual cost of \$443.8.

To support the State employees at or below 250% FPL, \$9,769.6 in premium costs will be needed in FY26 and \$10,600.0 in FY27. The eligibility criteria for employees purchasing single-only coverage if they make \$50,000 or less will cost \$1,764.9 in FY26 and \$1,914.9 in FY27. There will be recurring premium costs for this program, and the increase is due to medical inflation, which HCA's actuaries project to be 8.5% based on current market trends. Employees and their families whose household income is below 138% FPL will likely qualify for Medicaid and will not access this premium support. For employee households between 138-250%, their children will likely qualify for Medicaid, so only the adults in the household will access these HCAF-funded supports. Further, those employees and their household members enrolled in Medicaid would be leveraging federal dollars to support payment of their medical coverage. While it is not known how many individuals would switch to Medicaid coverage, HCA is in the process of developing estimates.

New Mexico National Guard TRICARE Reserve Select

To cover all of the net premiums for members of the New Mexico National Guard who qualify for a federal TRICARE Reserve Select Policy and are not currently enrolled, \$551.4 in premium assistance costs will be needed on a recurring basis starting in FY26. The federal government establishes the contribution level for this policy irrespective of medical inflation, which is why HCA has not included an inflation adjustment in this estimate for FY27.

No additional staff will be needed for HCAD to support the administration of this initiative.

Total HCAF Costs

Total HCAF costs, inclusive of administrative costs, would be \$12,579.7 for FY26 and \$13,560.1 for FY27 (recurring). The 8.5% increase in costs for FY27 is due to medical inflation projections. No additional staff will be needed for HCAD to support the administration of this initiative.

SIGNIFICANT ISSUES

State Health Benefits

Actuarially Sound Rates

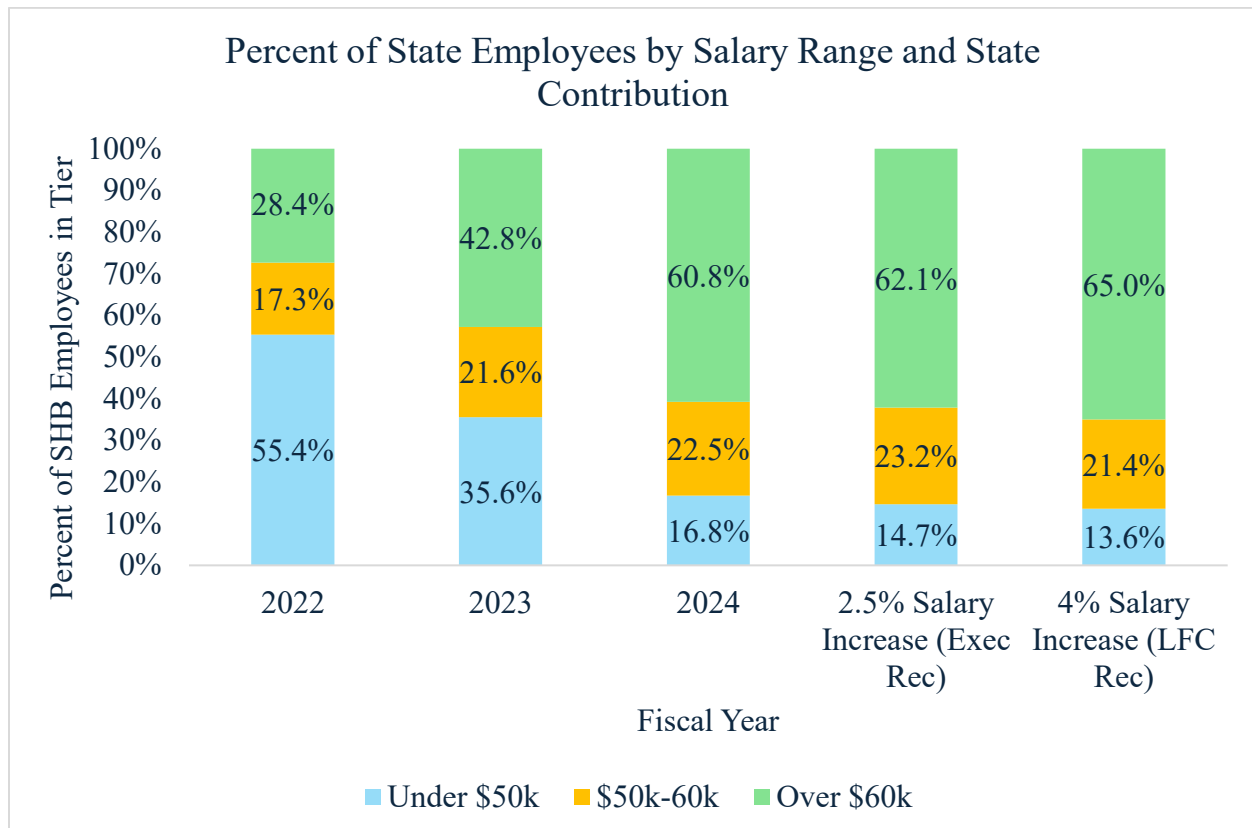
When the state does not establish adequate rates for the SHB plan, it incurs significant GF liabilities that would otherwise be shared with LPBs and state employees. By setting actuarially sound rates, the state can ensure that all parties are contributing the correct share of costs. SB 376 would require HCA to submit budget requests that are sufficient to cover liabilities so that the legislature can accurately budget for SHB needs.

Member Affordability

Currently, state employees contribute a portion of SHB premiums based on their salary under a formula established in state law in 2005. This formula has not been revised since it was adopted. Employees making under \$50,000 pay 20% of the premium; employees making between \$50,000 and \$60,000 pay 30% of the premium; and employees making over \$60,000 pay 40% of the premium.

Salary Bracket	Employee Contribution	Employer Contribution
Under \$50,000	20%	80%
\$50,000 to \$60,000	30%	70%
More than \$60,000	40%	60%

Nationally, just 6% of governmental entities use salary bands for state employee contribution levels. Generally, employers attempt to offer favorable premium sharing arrangements to all employees to attract and retain talent.



While recent salary increases have improved quality of life and the economic well-being of state employees, the interaction of these changes with the state's outdated salary tiers for health insurance contributions has shifted costs to state employees. In 2022, just 28.4% of state employees were in the salary tier that requires a 40% employee contribution. By 2024, 60.8% were in this salary tier. HCA estimates that if employees had the same salary distribution in 2024 as in 2022, employees would pay \$20 million less in premiums. This trend would be further exacerbated by additional salary increases, which are being contemplated for FY26.

Under current salary tiers, New Mexico has the **lowest employer contribution level among state governments** in the country, according to a [study by Georgetown University](#). As noted above, in 2024 New Mexico covered just 65% of the premium for state employees on average.

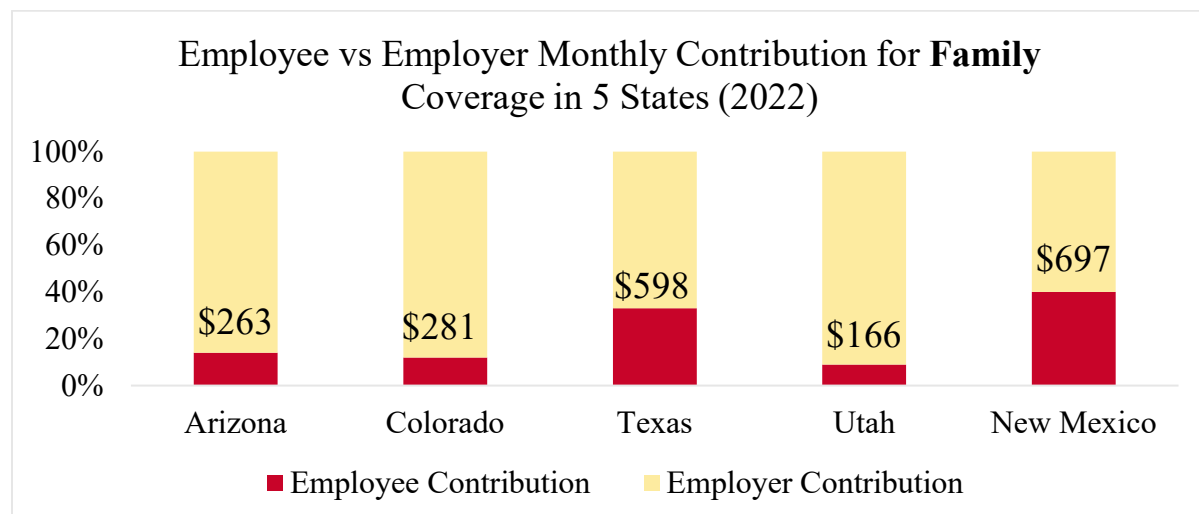
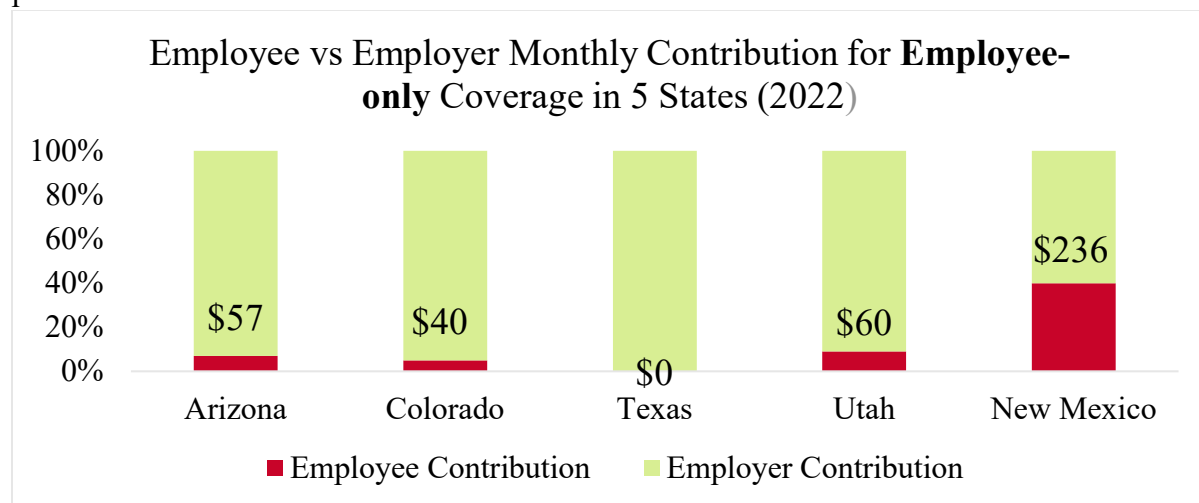
- Twenty-three states contribute between 90-100% of the employee's premium as the employer, with employees paying less than 10% of the premium.

- Many (20) states contribute between 80-89% of the employee's premium as the employer. Only four states (New Mexico, Louisiana, Nebraska, and Massachusetts) contribute less than 80% for the employee's premium, with the State of New Mexico contributing the lowest share.

The State of New Mexico also contributes less than most local governments (i.e., City of Santa Fe, Santa Fe County, Bernalillo County, and the City of Albuquerque) where the State is competing for public service employees.

- The City of Santa Fe contributes 77% of the premium with no salary tiers;
- Santa Fe County contributes an average of 75% of the premium with salary tiers;
- Bernalillo County contributes 80% of the premium with no salary tiers; and
- The City of Albuquerque contributes 80% of the premium with no salary tiers.

A recent compensation study commissioned by the New Mexico Legislative Finance Committee, Department of Finance, and State Personnel Office found that SHB is far out-of-step with surrounding states. The charts below demonstrate the difference between individual and family premiums.



The SFC Committee Substitute requires HCA to offer a variety of plans that maximize benefits for the least cost by July 1, 2026. This is an important strategy to give members meaningful choices while ensuring coverage is cost-effective.

Medicare Reference-based Pricing for Urban Hospitals and Balance Billing Protections

The HCA plans to implement Medicare Reference-based Pricing with urban hospitals for the SHB in FY26. This is a strategy adopted in, or being considered by, many other states (including Montana, Oklahoma, Oregon, South Carolina, and Washington) to manage state employee health plan costs. (After implementing Medicare reference-based pricing for hospital services, [Oregon](#) did not experience hospital closures or network exits). HCA would focus these efforts on urban hospitals to ensure rural communities that face greater access challenges are not negatively impacted. SHB pays hospitals, on average, three times what Medicare pays for the same services. Hospitals cite low payments from public programs as a reason for these higher rates paid by private insurers. [According](#) to a Congressional Budget Office (CBO) analysis of data from the American Hospital Association, hospitals were reimbursed 144.8% of the cost of providing care for privately insured patients in 2018.

New Mexico is especially well-positioned to establish fair prices for SHB, given the major investments in Medicaid provider reimbursement rates, including historic increases in hospital reimbursement rates through the Health Care Access and Delivery Act (2024), which reimburses most hospitals at the average commercial reimbursement rate for Medicaid patients. On net, New Mexico hospitals will receive \$1.59 billion in FY26 under the 2024 Act. These historic investments fundamentally reshape the landscape for how much a large employer like the State of New Mexico should pay hospitals for services provided under the state health plan, since investments in Medicaid reimbursement now match average commercial reimbursement rates.

When public payment rates reach these levels, it is reasonable for employers to negotiate rates that more closely align with hospital costs while ensuring improved access to care through the state's investments in Medicaid rates. As noted above, many states, even those without the investments made in New Mexico's Medicaid program, have adopted or are considering adopting reference-based pricing programs.

A major barrier to this proven cost savings approach is the practice of "balance billing" patients for the amount that the provider wishes to be paid above the amount the state sets as a payment maximum. SB 376 ensures state employees and members of other IBAC plans will not be penalized if an agency adopts reference-based pricing policies. HCA projects savings between \$37.6 million and \$39.5 million in SHB costs with reference-based pricing. [According](#) to the health research organization KFF, "Health care debt can have significant financial consequences, including having bills going to collections, lowering credit scores, and for some can contribute to bankruptcy, home foreclosures or evictions... Health care debt can have significant financial consequences, including having bills going to collections, lowering credit scores, and for some can contribute to bankruptcy, home foreclosures or evictions." [According](#) to Business Insider, medical debt remains the top cause of bankruptcy in the United States. Providing balance billing protections is critical to ensure that state can implement cost containment initiatives without risking the financial well-being of the state and local government workforce.

Health Care Affordability Fund

The program that will provide premium assistance for state employees under 250% FPL who do not qualify for Medicaid plays a critical role in ensuring that rate increases do not impact lower-income state employee members. The HCAD has implemented similar programs in the Health Insurance Marketplace and views these types of programs as critical for those with lower-incomes. Determining eligibility for members is also likely to identify those who qualify for Medicaid, which HCA can use as an opportunity to direct certain state employees towards Medicaid coverage, which provides no-cost services and leverages federal funding, saving SHB and members money. HCA estimates that between 2,500 to 2,700 state employees could benefit from this program.

Additionally, the Health Care Affordability Fund will support eligible New Mexico National Guard (NMNG) as it offers TRICARE Reserve Select to those who are:

- Not on Active Duty orders for more than 30 days;
- Not covered under the Transitional Assistance Management Program; and,
- Not eligible for, or enrolled in, the Federal Employees Health Benefits.
 - If a member's spouse is a member of the Selected Reserve and qualifies to purchase TRS coverage (not eligible for, or enrolled in FEHB), the member may be covered under TRS through their enrollment.

While this health plan benefits from significant federal funding, the NMNG has found many of its members remain uninsured. According to a survey conducted by NMNG, 23% of respondents reported being uninsured, far higher than the average state uninsured rate of 9%. NMNG reports that this puts eligible members at significant risk of medical debt and financial hardship while limiting access to regular, preventative care. This option has a very low fiscal impact due to the significant share of the premium already covered by the federal government.

PERFORMANCE IMPLICATIONS

SB 376 will have a positive impact on a number of SHB performance measures. The bill is projected to bring the annual loss ratio for the Health Benefits Fund to 100% compared to the current loss ratio of 120%. **The bill is projected to bring the projected year-end fund balance of the health benefits fund from an \$87.5 million deficit to \$0. The bill is projected to reduce state employee medical premiums by 46.2%.**

ADMINISTRATIVE IMPLICATIONS

SHB will need to educate members about changes in the regular course of member communications. The HCAD would need to establish an eligibility system for the program for state employees under 250% FPL, as described above. SHB would need to work with DFA to ensure the additional assistance could be processed through central payroll or determine a different methodology to ensure members can receive the benefits. HCAD would also work with NMNG to administer the program for eligible members. HCAD anticipates NMNG would play the primary role in submitting invoices to HCAD for processing and approval. This can be completed using existing staff.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

None.

TECHNICAL ISSUES

None.

OTHER SUBSTANTIVE ISSUES

The HCA was established to ensure New Mexicans can attain their highest level of health by providing whole-person, cost effective, accessible, and high-quality health care and safety-net services. HCA has set ambitious but achievable goals for the SHB plan that serves 60,360 New Mexicans, including:

1. Achieving financial solvency of the SHB fund;
2. Ensuring accurate claim cost and premium collection projections, including main cost-drivers and acuity of the population;
3. Implementing cost-containment and cost-growth control strategies;
4. Reforming employee/employer contribution levels and modernize plan design; and,
5. Improving communication and transparency with the Legislature, our members, and our stakeholders.

SB 376 is the first step toward unlocking better coverage and economic security for the state workforce by improving the state's health insurance plan. These changes are just one piece of a broader strategy to modernize and enhance the state's health plan, which include negotiating better pharmaceutical purchasing agreements, effectively managing GLP-1 costs, improving plan design to prioritize member cost predictability and incentivize the use of the most cost-effective care, ensuring fair prices for hospital services, leveraging federal resources whenever possible, prioritizing wellness, and leveraging the state's purchasing power to get the best deal for the people we serve.

ALTERNATIVES

None.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

SHB would continue to face a significant shortfall and state employees would experience high medical premiums. Patients could potentially be billed excessive amounts outside their health plan's cost-sharing limits under reference-based pricing arrangements or state agencies may pull back from implementing this important cost containment tool due to the hardship balance billing could create for members. Members of the National Guard who are eligible for TRICARE Select Reserve would be more likely to remain uninsured.

AMENDMENTS

None.