LFC Hearing Brief

NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Public employee health benefits are provided through three agencies: the Health Care Authority (HCA) for state employees, employees of some local governments, and higher education institutions; the Public School Insurance Authority (NMPSIA) for employees of 88 school districts, charter schools, and some higher education institutions; and Albuquerque Public Schools (APS) for all employees of the Albuquerque school district. Property and Liability coverage is provided by NMPSIA, APS, and the state General Services Department.

AGENCY: Health Care Authority, Public School Insurance Authority, General Services Department

DATE: August 21, 2024

PURPOSE OF HEARING: Review of group health benefits and risk insurance programs

WITNESS: Alex Castillo Smith, Health Care Authority; Patrick Sandoval, NMPSIA, Robert Doucette, GSD

PREPARED BY: Joseph Simon, Analyst, LFC

EXPECTED OUTCOME: Informational

Health Benefits

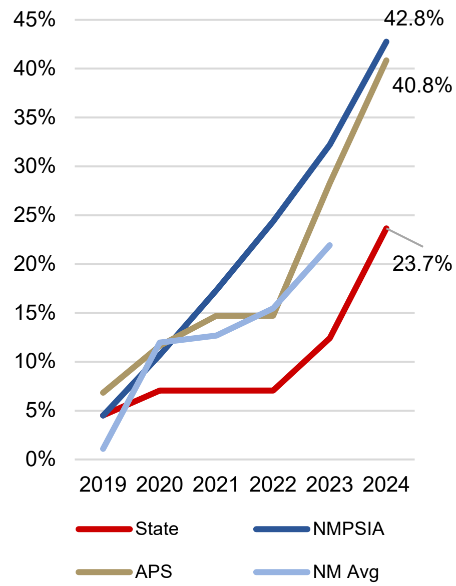
New Mexico, like most other states, operates several self-insured health plans, providing participating public employees with medical, dental, vision, and prescription drug coverage. Self-funded plans, typically favored by large employers that have the scale to spread risk with a larger insured population, cover the cost of medical care, contracting with external entities for access to their coverage networks and for third-party administrative services, such as claims processing. New Mexico's public employee plans place health premiums into a fund, which are then used to pay medical claims. A self-insured benefits plan must match health expenditures with program revenue raised through assessed premiums while balancing the need to provide coverage benefits that are competitive in the marketplace to ensure public employers can recruit and retain qualified staff.

While most state governments operate self-insured health plans, two states—Idaho and North Dakota—only offer fully insured options. Published research has found that employers who provide self-insured plans pay marginally higher costs for medical services versus fully insured plans. Researchers argue even large employers lack sufficient market power to effectively negotiate prices.

According to data from the federal Agency for Healthcare Research and Quality, the average total premium for single health insurance plans for New Mexico workers was $8,333 per year in 2023 (the most recent available data), slightly more than the national average of $8,182. New Mexicans paid an average $1,672 for single coverage, or about 21 percent of the total premium. For family coverage, total premiums averaged $24,207, with the employee covering $6,380, or 26 percent. However most public sector workers in New Mexico pay a larger share of the total premium. State law requires public schools to pay at least 80 percent of the premium for employees earning less than $50 thousand per year, 70 percent for employees earning between $50 thousand and $60 thousand, and 40 percent for employees earning more than $60 thousand. State agencies pay the same percentages, but unlike public schools cannot pay more. Because of recent pay increases, many more workers are now paying a larger percentage of their health premium. The State Personnel Office (SPO) now reports an average salary of state workers of $60,500, just over the cut-off for the top tier.

Data from SPO and the federal Bureau of Labor Statistics show the average compensation package of state employees is more concentrated on employee benefits than is typical. Nationally, 69 percent of total compensation comes in the form of salary, while 31 percent comes from benefits. State and local government workers typically have more generous benefits packages, totaling 38 percent of total compensation. In New Mexico, benefits are an even large piece: SPO reports state employees receive an average of 39.7 percent of their compensation through employee benefits. While, on average, health insurance benefits account for 7.6 percent of total compensation, these benefits account for 11 percent of state and local government workers compensation and 12.4 percent of compensation for state employees in New Mexico.

Cumulative Growth in Health Insurance Premiums From 2018



Note: NMPSIA and state health premiums reflect calendar year averages. 2024 data for average New Mexico plans is not yet available.

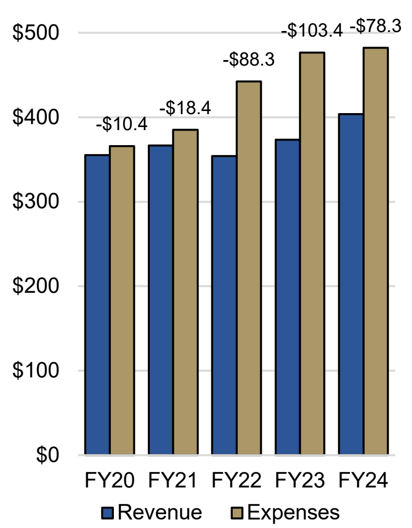
Source: Medical Expenditure Panel Survey, U.S. Dept. of Health and Human Services; LFC files

Health Insurance Costs Trends

The total cost of most state-funded plans has increased more rapidly than that of health premiums generally in New Mexico. For the Public School Insurance Authority, rate increases since 2018 have totaled more than 40 percent, with the costs of one popular plan rising from $7,950 in 2018 to $10,511 in 2023. Over that same period, average plans in New Mexico increased from $6,624 to $8,333.

Premiums for state agencies and local government and higher educational institutions remain much lower; however, this is largely because plan premium rates have not been set to meet the total cost of the plan. Between FY20 and FY23, the state held health insurance premiums flat, despite rising medical costs, instead, using direct appropriations from the general fund to meet plan costs. Between 2019 and 2024, the Legislature appropriated $218 million from the general fund to the group benefits fund to allow for claims payment despite ongoing shortfalls, effectively subsidizing health coverage for non-state employees whose employers chose to participate in the state plan rather than a plan offered by NMPSIA or purchase a plan independently from the state. While many local governments and higher education institutions purchase plans from the state, some do not, leading to an inequity in how those entities are treated regarding state subsidies for healthcare purchasing.

Health Benefits Fund Recurring Revenue vs. Expenses



Source: SHARE

FY25 Comparison of Annual Health Insurance Premium Costs

(Based on Single Coverage and Income of $50 Thousand)

	NMPSIA-High Option	GSD-Blue Cross PPO	APS- Blue Cross PPO	UNM - Pres	BernCo-Blue Cross PPO
Deductible	$750* $1,000**	$700* $3,000**	$1,000* $5,000**	$600* $1,800**	$1,000* $1,500**
Max Out of Pocket	$4,100* $9,500**	$5,600* $9,000**	$5,000* $8,500**	$3,000* $7,500**	$5,000* $10,000**
Employer Cost	$8,526	$6,351	$5,309	$8,916	$6,036
Member Cost	$3,654	$2,722	$2,275	$2,229	$1,509
Total Premium	**$12,180**	**$9,073**	**$7,585**	**$11,145**	**$7,545**

*In-Network Preferred Providers ; **Non-Preferred Providers

Source: LFC Files

Prior to FY25, the General Services Department (GSD) administered the state's group health benefits program, but beginning in FY25, that responsibility shifts to the Health Care Authority, which, as operator of the state's Medicaid program, is the largest purchaser of medical services in New Mexico.

The relationship between plan revenue and expenses is measured by a program's loss ratio; a ratio of less than 100 percent means the program raises more revenue than it spends, while a program with a ratio over 100 percent spends more than it brings in. Because a self-insured program does not need to make a profit, the program should set premiums as close to a loss ratio of 100 percent as possible. Although public, self-insured plans do not need to turn a profit, the plans need to maintain adequate cash reserves to pay claims. The state plan is in the most precarious financial position. The program's loss ratio is consistently over 100 percent, resulting in a deficit. This was largely driven by the lack of consistent premium increases needed to keep pace with medical and prescription cost increases.

The federal Centers for Medicare and Medicaid Services (CMS) estimates health spending will grow at an average rate of 5.6 percent per year from 2023 to 2032 and that health spending will likely grow 1.3 percent faster than gross domestic product over this period. This is an increase from the previous forecast of 5.4 percent between 2022 and 2031, exceeding GDP growth by 0.8 percent.

Loss Ratio and Premium Increase by Plan

Agency	Metric	FY20	FY21	FY22	FY23	FY24*
State Plan	Loss Ratio	98%	105%	118%	118%	119%
	Premium Increase	5%	0%	0%	0%	10%
NMPSIA	Loss Ratio	98%	99%	106%	100%	100%
	Premium Increase	5.9%	6.0%	6.0%	6.0%	7.2%

*FY24 calculation for the state plan excludes one-time special appropriations to maintain fund solvency.

Source: GSD, NMPSIA

Budgeting for Health Insurance. Rates for state employees are built into base budget requests of agencies prior to the appropriations process while NMPSIA and Albuquerque Public Schools (APS) requests funding to be included in the public school support budget for distribution to school districts through the public school funding formula. The NMPSIA board is empowered to set insurance rates assessed to districts regardless of whether funding was included in the public school support budget. APS receives about 25 percent of the formula funding and because costs are generally higher for NMPSIA plans than for APS plans, funding allocated to insurance can generally support a larger rate increase at APS.

For a typical state employee, a rate increase of 10 percent means increased deductions of between $12 and $15 per paycheck for single coverage. Employer costs would increase between $19 to $22.

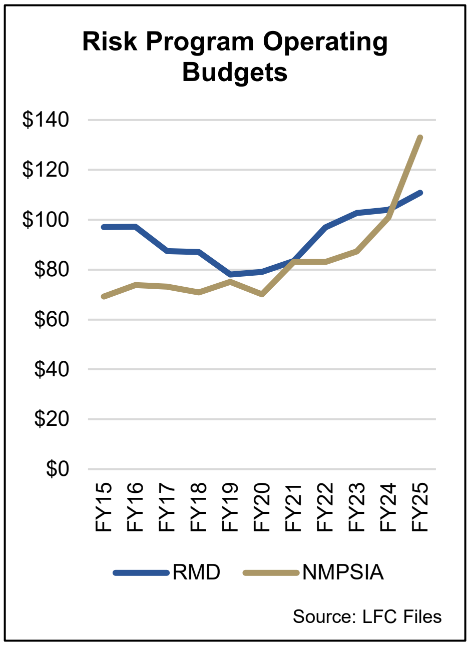
For workers at the average state government salary ($60,500), a 1 percent pay increase would increase pay by $23 per paycheck, before taxes and other deductions.

Initial rate setting from NMPSIA for FY25 included premium rate increases for health insurance of 15.25 percent, due to costs rising more quickly than projected. An increase of 6.5 percent was included the public school budget. During the rate setting process, NMPSIA's actuaries noted a 14.6 percent increase in prescription drug costs, higher than the 7 percent projected. Additionally, legislative changes affecting drug purchasing were expected to cost $2.8 million in FY25. Additionally, due to high costs, some members were opting for lower cost plans, resulting in reduced revenue. Following discussions with LFC and DFA staff, NMPSIA agreed to reduce the health premium increase to 10 percent for FY25, providing schools with some budget relief that could be redirected to classroom spending. Staff discussed the possibility of using one-time appropriations to help the agency rebuild fund balances, which contributed to the large rate increase.

In July, NMPSIA's board received updated projections of what rates would be needed to support the board's goal of rebuilding fund balance from the $4.3 million projected at the end of FY24 to one month of claims (about $54 million) by the end of FY30. With a one-time appropriation of $15 million, actuaries estimate rate increases of 10 percent per year would support this goal. An additional $20 million in one-time funds would reduce this need to 9.7 percent.

The Health Care Authority has agreed to meet monthly with LFC staff to discuss the current financial position of the health benefits fund. To date, no meetings have been scheduled.

For FY26, budget instructions from the Department of Finance and Administration included a 10 percent premium rate increase for medical, dental, and vision plans managed by the Health Care Authority. Even accounting for the 10 percent rate increase built into agency budget requests, total revenue into the health benefits fund could fall short. According to the General Services Department, which managed the health plan in FY24, total expenses from the health benefits fund were $482.2 million, $78 million, or 19.4 percent less than recurring revenue into the fund, although a portion of that deficit was caused by a six month deferral of rate increases for local governments and higher education institutions. For FY25, the Legislature attempted to provide additional funding for increased health benefits rates in the compensation section of the General Appropriation Act, but this strategy was not successful at persuading the executive to increase rates above the amount built into agency budgets. Instead, those funds were distributed to agencies for personnel expenses, without increases to agency costs.



Risk Insurance Programs

The General Services Department (GSD) and Public School Insurance Authority (NMPSIA) provide coverage for workers' compensation, property, liability, unemployment, and other risks faced by public employers. These agencies manage risk through both self-insurance and insurance purchasing.

GSD primarily self-insures but carries excess coverage insurance for larger claims, while NMPSIA relies on a more robust excess insurance program to manage risk. Each entity covers different risks and exposures and carries different lines of coverage and self-insured amounts. For example, NMPSIA does not have prisons, railroads, or hospitals to cover like GSD. NMPSIA has many schools in rural areas with limited access to fire or life safety services while most GSD facilities are more accessible to fire and life safety services. In FY24, NMPSIA and GSD paid out a total of $235 million from agency risk funds.

GSD and NMPSIA budget requests are for expenditure authority; each agency receives premium payments from covered entities rather than from direct appropriations or tax distributions. For state agencies, GSD sets a premium rate for each line of coverage and those rates are built into agency operating budgets. GSD also sets rates for higher education institutions covered by the plans, but those funds are distributed through the higher education funding formula. NMPSIA members receive revenue through the public school funding formula or the higher education funding formula.

Recently, both agencies have seen significant increases in both property and liability payments. Property insurance rates, particularly for NMPSIA, have been influenced by large losses occurring outside of the state. For FY25, NMPSIA's budget includes $46.8 million for property excess coverages, up from $44.7 million in FY24 and $31 million in FY23.

A recent LFC program evaluation found RMD rates are based on a five-year loss history using a two year delay, delaying the impact of a large claim. For example, in July 2023, RMD settled two large civil rights claims for $8 million, but that loss will not begin to impact the university's premiums until FY26.

General Services Department

The Risk Management Division (RMD) of the GSD sets rates to reflect an agency's five-year loss history and exposure to losses with regards to a particular line of coverage. Each spring, RMD collects exposure data from agencies to determine the cost drivers for each line of coverage, for example, payroll, equipment, number of employees, hospital beds, buildings, vehicles, etc. Surveys are important because excess-coverage insurers may limit or deny coverage for undocumented exposures.

RMD Total Budgeted Appropriations

(in thousands)

	FY21	FY22	FY23	FY24	FY25
Budgeted Appropriations	$83,472	$96,928	$102,701	$104,025	$110,828
Payments from GSD Funds	$77,200	$73,854	$92,023	$114,248	TBD

Source: GSD

RMD purchases excess property and fine arts coverage for catastrophic losses. RMD has a self-insured retention, similar to a deductible, for property losses of up to $500 thousand.

Rates for FY26. GSD submitted FY26 rates to the Department of Finance and Administration, in early August, which distributed the rates to state agencies for incorporation in each state agency's budget request, due September 3. Rates submitted by GSD rates reflect an overall increase of 30 percent, mostly in workers' compensation, up 32 percent, and for liability insurance, up 40 percent. Notably, workers' compensation premiums were significantly down in FY25, totaling $21.5 million versus $24.4 million a year earlier. Liability rates have been steadily rising, from $40 million in FY24 to $61.2 million in FY26.

Because GSD bases liability insurance premiums on an agency's loss history, not every agency will see a 40 percent increase in FY26. Instead, rates changes will vary from a 62 percent decrease in premiums (for the State Treasurer) to a 2,961 percent increase for the 13th Judicial District Court. Much of the additional expense will be shouldered by a small number of entities with significant claims history. Of the $17.5 million increase included in the rates, $10.9 million comes from the five agencies with the largest rate increases. However, 34 of the 130 entities covered by GSD will either see no increase or will see a decrease in their liability insurance premium, despite large increases at other agencies.

Under state accounting procedures, liability insurance payments are included in the personal services and employee benefits category of state agency operating budgets. As a result, any increase or decrease to liability insurance rates will show up as an additional personnel expense or as vacancy savings. While the LFC's PSCalc tool, used to estimate agency personnel costs, factors in changes to liability insurance premiums, simply looking at year-over-year changes in personnel appropriations can be misleading. For example, the Adult Parole Board will see $22.6 thousand increase in liability premiums, representing more than 3 percent of the agency's current personnel budget. Most agencies will likely request additional general fund revenue to cover these

Risk Management Premiums
(in thousands)

Coverage	FY24	FY25	FY26	Difference
WC	$24,387.2	$21,521.4	$28,340.7	31.7%
Liability	$40,341.4	$43,671.6	$61,162.2	40.1%
Transportation	$1,649.9	$1,737.1	$1,822.9	4.9%
Property	$11,624.4	$14,991.3	$15,060.5	0.5%
Unemployment	$5,015.9	$2,792.0	$3,152.3	12.9%
Total	**$71,394.4**	**$84,713.4**	**$109,538.6**	**30.3%**

Source: GSD

Entities with Largest Liability Insurance Increases
(in thousands)

Agency	Increase	Percent
Corrections Department	$2,956.6	71.5%
New Mexico State	$1,437.9	43.5%
Children, Youth, and Families	$1,470.2	36.0%
University of New Mexico	$1,755.9	67.3%
University of New Mexico Hospital	$3,276.6	40.1%

Source: GSD

Entities with Largest Liability Insurance Decreases
(in thousands)

Agency	Decrease	Percent
3rd Judicial District Attorney	-$56.3	-45.6%
Public Regulation Commission	-$75.4	-61.9%
Department of Game and Fish	-$280.2	-57.9%
Law Offices of the Public Defender	-$384.6	-50.5%
Department of Transportation	-$432.3	-10.6%

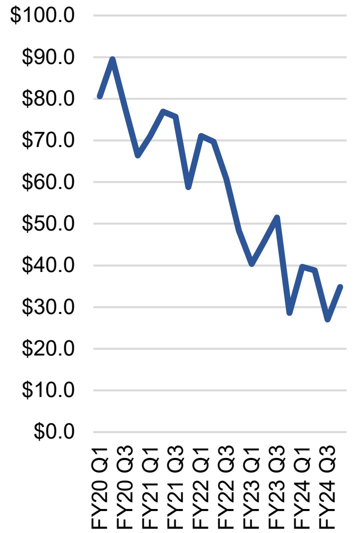
Source: GSD

Entities with Largest Liability Insurance Increases as a Percentage of the Agency's Personnel Budget
(in thousands)

Agency	Increase	Percent of FY25 Budget
Adult Parole Board	$22.6	3.6%
Governor's Office	$202.4	3.5%
Secretary of State	$214.5	3.3%
Racing Commission	$69.0	3.1%
Livestock Board	$188.5	2.3%

Source: GSD

Public Liability Fund Cash Balance Oct. 2020 through July 2024
(in millions)



Source: LFC Cash Balance

costs and agencies with particularly large increases might request outsized increases in the personnel category to offset the increase. However, agencies experiencing a premium decrease are unlikely to request a reduction in the personnel category because of the reduced need for liability insurance.

Liability Fund Sustainability. Initial estimates of need by the General Services Department proposed total liability insurance premiums of $101.7 million, an increase of $58 million over rates in FY25 and $40.5 million higher than the final rates submitted to DFA. Traditionally, GSD has paid liability claims on a cash basis, charging agencies for claims as they see expenses. As a result, an agency with a large payout might not see increased rates for several years after the claim is first filed. However, rapidly increasing costs has significantly reduced the amount available to the department to pay claims, and GSD has decided to begin reserving funds for claims, leading to increased rates. Following discussions with LFC and DFA staff, GSD agreed to reduce planned rate increases to phase in higher rates over three years, reducing a planned 133 percent increase in premiums to a still significant 40 percent increase. Had GSD moved forward with the initial rate increases, it would have likely inflated agency budget requests for FY26.

However, the agency continues to project significant cost increases. Payments from the public liability fund increased from $47 million in FY23 to $68 million in FY24 and the Legislature transferred $20 million in general fund revenue in FY25 to the public liability fund to help shore up cash reserves. Notably, FY26 rates remain $8 million below FY24 payouts. LFC, DFA, and the Risk Management Division have begun monthly meetings to monitor claims payment activity. While reducing the initially proposed rate increases minimized the budget requests from agencies, it presents the Legislature with a decision point regarding the long-term sustainability of the fund.

According to information on the state's sunshine portal, in FY24, RMD reached settlements for the Children, Youth and Families Department from 12 claims, with payments totaling $12 million. Two of those were for more than $4 million each and five claims were for more than $100 thousand.

The Legislature can explore several avenues during the FY26 appropriation process. The Legislature could choose to appropriate additional funds for liability insurance premiums indirectly to state agencies, similar to the mechanism used for compensation increases. This method allows the Legislature to adjust compensation increases throughout the appropriation process without the need to individually adjust every agency's budget. Funds flow through DFA to agencies and increased amounts are reflected in agency operating budgets. Alternatively, the Legislature could consider using one-time appropriations to help GSD manage claims until the rate increases fully phase in. Additionally, the Legislature could build the budgets assuming the rate increases published by DFA. To ensure the ability to pay claims on an ongoing basis, GSD has the authority to level special assessments on entities covered by risk management. If GSD finds a need to raise additional funds, the department could levy special assessments on agencies with high claims. The department issued a special assessment to some agencies this spring to pay claims. However, without including funds in agency budgets, some agencies may struggle to pay these assessments.

Longer term the Legislature could consider some reforms to put a focus on agency loss prevention. A recent program evaluation from LFC made several recommendations, including updating the risk management statute to require additional approvals for large claim payments, capping the maximum coverage amount GSD can offer for settlements or adverse judgments, and requiring agencies to investigate and report on the causes of significant losses. Legislation implementing these recommendations was introduced in 2024, but the bills were ruled non-germane for a 30-day legislative session.

Currently, no additional approval beyond the risk management director needed for the state to agree to settlements, no matter the price, which places an inordinate amount of spending authority on a single individual. Requiring escalating levels of outside approvals for large claims raises the visibility of these settlements. However, risk management is concerned additional approval requirements could interfere with the process of negotiating these settlements and suggest additional reporting requirements as an alternative.

The current unlimited coverage for state agencies against liability claims has several downsides, including a level of morale hazard, encouraging less careful behavior by agency because penalties for risky actions are low or by making plaintiffs less willing to settle for reasonable amounts with the knowledge risk management will cover any judgment quickly. Establishing insurance limits would not eliminate the risk of judgments or settlements at prices beyond the limit, but it would require an additional appropriation by the Legislature to the agency to cover the difference, adding a level of direct agency responsibility for legislative oversight of settlement activity. Some other states, including Washington, Ohio, Maine, and Oklahoma, have taken this approach, providing liability coverage for civil rights settlements only up to a certain limit, such as those delineated in the state's Tort Claims Act.

Additionally, Washington has enacted legislation to direct all state agencies to appoint a loss prevention review team when a death, serious injury, or other substantial loss is alleged or suspected to be caused at least in part by the actions of a state agency. That loss prevention team is also directed in statute to submit a report in writing to the risk management director and the head of the state agency involved in the loss or risk of loss. Enacting similar policies in New Mexico would highlight areas that can be addressed to reduce future liability.

Public School Insurance Authority

NMPSIA's risk program generally self-insures property and liability losses and buys excess coverage for larger claims. In FY24, the program paid $69 million for excess coverage, including for liability, property, crime, and workers compensation. Premiums continue to increase because property insurance markets face increased risk due to climate-related damages and liability rates increase primarily due to sexual assault claims against educational employees in New Mexico. Between FY20 and FY24, excess insurance premiums went from $41.3 million to $69 million, an increase of $27.7 million, or 67 percent. Claims payments over that same increased from $34.5 million to $43.6 million, or 26 percent.

NMPSIA reports a risk fund balance as of May 31, 2024, of negative $641 thousand. However, the agency maintains $96 million in invested and cash reserves to pay long term claims.

	FY21	FY22	FY23	FY24	FY25
Budgeted Appropriations	$83,071	$83,080	$87,249	$100,864	$133,004.6
Payments From Risk Funds	$70,293	$87,031	$86,489	$119,984	TBD

Source: LFC Files

NMPSIA has paid an increasing amount to settle sexual abuse and molestation cases in recent years. Child sex abuse cases often affect multiple victims over many years which can result in huge liabilities when the abuse is brought to light. The excess insurance purchased by NMPSIA has limited the exposure of NMPSIA to many of these claims, but the large losses experienced by insurers has driven up rates and made securing coverage more difficult.

NMPSIA Claims and Excess Insurance Coverage
(in thousands)

	FY20	FY21	FY22	FY23	FY24
Property, Liability, and Crime Excess Insurance	$40,788	$42,620	$48,386	$52,293	$68,715
Total Liability Claims Paid	$26,102	$17,122	$25,658	$11,319	$33,160
Total Property Claims Paid	$8,437	$9,458	$9,059	$23,210	$10,477
Excess Insurance Recoveries	$11,335	$8,514	$13,032	$10,194	$18,122

Source: NMPSIA

For FY25, the public school support budget included $9.9 million for a 9.5 percent premium rate increase. Consistent with the agency's request, the board set the average rate increase at 31.9 percent, projecting a 17 percent rate increase for FY26 and 4 percent rate increase following that. As with health benefits, a significant cost driver for the rate increase was rebuilding risk fund balance. From a projected negative $13 million at the end of FY24 to a positive $11.3 million at the end of FY27. Following discussions with LFC and DFA, NMPSIA's board agreed to reduce the FY25 rate increase to 15 percent, providing school districts with additional funds for educational activity. Updated projections from NMPSIA show annual rates of 11 percent would allow the agency to build fund balance to $5 million by FY29.