LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
55th Legislature, 2nd Session, 2022

Bill Number HB59 **Sponsor** Lara/Romero, GA/Allison/ Figueroa/Madrid

Tracking Number .221662.1 **Committee Referrals** HEC/HAFC

Short Title School Group Insurance Contributions

Original Date 1/21/2022

Analyst Simon **Last Updated** 1/25/2022

BILL SUMMARY

Synopsis of Bill

House Bill 59 (HB59) would increase the required employer contribution for group health insurance benefits for school districts, charter schools, and other entities covered by the Public School Insurance Authority (NMPSIA). Employers would be required to cover 80 percent of health insurance premiums for all employees. The bill includes a $52.2 million appropriation to the Public Education Department (PED).

The bill has an effective date of July 1, 2022.

FISCAL IMPACT

The bill would increase school district and charter school costs for employee health insurance but would likely increase take-home pay for many public school employees. The bill would apply to all school districts, apart from Albuquerque Public Schools (APS), and all charter schools. Currently, school districts and charter schools covered by NMPSIA are required to pay for a share of the total health insurance premium that ranges from 60 to 75 percent of the total health insurance premium, although some school districts and charter school opt into a provision allowing the employer to cover 80 percent of premiums. Statutorily required employer contributions vary based on the employee's salary. Lower-paid employees receive a higher subsidy than higher paid employees. HB59 would adopt a flat rate of 80 percent for all employees. Table 1 provides a breakdown of current contribution requirements and those proposed by HB59.

Statutory NMPSIA Contributions

Salary Tier	Current Law	HB59	Change
< $15K	75%	80%	5%
$15K - $20K	70%	80%	10%
$20K - $25K	65%	80%	15%
$25K+	60%	80%	20%

Source: LESC Analysis

Data from NMPSIA indicate total health insurance premiums of $322.4 million per year. Employers are responsible for $205.3 million, or 63.7 percent of total premiums. HB59 would increase that amount to $258.6 million, an increase of $53.2 million. Of that amount $49.9 million would come from public school employers and $3.3 million would come from higher education institutions. Other entities covered by NMPSIA generally pay at least 80 percent of health insurance premiums and would not see an increase in costs.

HB59 includes a $52.2 million appropriation to the PED for distribution to school districts, charter schools, and other entities covered by NMPSIA, about $1 million less than the estimated increase in costs.

Notably, HB59 does not include APS, and the cost estimate for HB59 does not include the costs of a similar increase in the employer share of health insurance premiums for employees for APS. To account for this, HB59 allocates the money to the department, not through the public school funding formula, limiting the total cost of the program. To ensure NMPSIA-covered entities received enough through the formula to cover the $49.9 million cost to school districts and charter school, an estimated $64.8 million would need to be added to the state equalization guarantee, from which formula funds are allocated.

SUBSTANTIVE ISSUES

The Public School Insurance Authority Act was created to assist school districts statewide with procuring affordable health insurance benefits for employees, as well as property and liability insurance, at a time when many school district struggled to find insurance coverage. The act's definition of school district excludes any school district with a student enrollment of more than 60 thousand; consequently, APS is not bound by its provisions and maintains a separate, self-insured employee benefits program. All other school districts are covered by NMPSIA and subject to the provisions of the act, as are all charter schools, including state- and locally chartered charter schools in Albuquerque.

Under current law, there is significant inequity between public school employees and many other public employees in employer funding of health insurance benefits. Section 10-7-4 NMSA 1978 requires state agencies, boards, and commissions to pay more toward employee benefits than is required under the Public Schools Insurance Authority Act. In addition, APS currently covers 80 percent of the health insurance premiums for employees earning less than $39,500, more than required by current law for NMPSIA-covered employees.

State Agency Share of Health Insurance Premiums

Salary Range	Employer Share
Less than $50,000	80%
$50,000 to $59,999	70%
$60,000 or more	60%

Source: LESC

Albuquerque Public Schools Share of Health Insurance

Salary Range	Employer Share
Less than $39,500	80%
$39,500 to $44,999	70%
$45,000 or more	60%

Source: LESC

Total health insurance premiums are also higher for NMPSIA. For example, a Blue Cross and Blue Shield preferred provider organization (PPO) plan with single coverage has a total premium of $6,528 per year for APS employees, $7,484 per month for a state employee, and $10,571 for NMPSIA-covered employees. While coverage levels of the plans differ—APS plans have higher deductibles and out-of-pocket costs—NMPSIA also faces higher cost of healthcare because more of its members live in rural areas, where medical costs are higher.

FY22 Comparison Annual Health Insurance Premium Costs

Based on Single Coverage and Income of $41 Thousand

	NMPSIA High Option	State Blue Cross PPO	APS Blue Cross Preferred
Deductible	$750	$500	$1,000
Max Out of Pocket	$3,750	$4,000	$5,000
State Cost	$6,348	$5,984	$4,570
Member Cost	$4,223	$1,500	$1,958
Total Premium	$10,571	$7,484	$6,528

Source: Legislative Finance Committee

ADMINISTRATIVE IMPLICATIONS

Impact on Equalization. Generally, the state distributes funding to cover employee benefits costs through the state equalization guarantee distribution, a student-centered funding formula based primarily on enrollment but with considerations for other factors that increase school costs, such as the number of students with special needs or enrollment in small, isolated schools and school districts. However, HB59 would appropriate funds to PED, bypassing the funding formula and allowing PED to allocate additional funding to certain school districts and charter schools. The language of the appropriation in HB59 limits the distribution of that appropriation to “pay for increased employer contributions,” potentially making some school districts and charter schools that currently pay more than the statutory minimum ineligible for additional funding or eligible for less funding than if the school district had only paid the statutory minimum. Additionally, HB59 does not assume any change in the employer share of health insurance benefits for APS, which presumably would not be eligible for funding from this appropriation.

Providing funding to school districts and charter schools outside of the funding formula has the potential to disequalize operational funding for school districts and charter schools, particularly if some school districts and charter schools would not be eligible for the additional funding. Because the costs to cover 80 percent of employee health insurance would be recurring, the Legislature would need to make an appropriation outside the funding formula each year, or school districts required to pay the higher rates would need to make up the costs from other funding sources, most likely the state equalization guarantee distribution.

OTHER SIGNIFICANT ISSUES

Prior to FY05, state agencies covered the same percentage of health insurance premiums as public school employers but Laws 2004, Chapter 82, phased in an increase to the minimum percentage for state agencies. Fiscal impact report for that bill note the legislation was pursuant to a collective bargaining agreement between the American Federation of State, County and Municipal Employees and the state. That law did not increase the employer contribution for public school employees, but it amended the Public Schools Insurance Authority Act to provide that school districts, charter schools, and participating entities in NMPSIA could contribute up to 80 percent of the cost of insurance if the entity had sufficient revenue to do so.

Educator Compensation. Group health insurance benefits are an important component of total compensation for public school educators. While requiring employers to cover a larger share of health insurance premiums will help to increase take-home pay for school district and charter school employees, there is little evidence that an increase compensation related to health insurance plans is more effective than providing an equivalent increase in employee salary.

Anecdotally, some school districts have reported school districts in other states, particularly in southwest Texas, have effectively recruited new teachers to their school by increasing cash compensation, sometimes by offering signing bonuses. These school districts often provide relatively meager subsidies for health insurance, and some teachers in these school systems have complained that, as health insurance costs rise, they face reduced paychecks due to higher insurance costs. In New Mexico, school employees are partially shielded from such increases because school districts and charter schools are required to pay a percentage of the total cost, rather than a set dollar amount. Increasing benefits-related compensation could lead some employees to believe school districts that skew compensation more toward salary and less toward benefits offer more attractive employment terms, even if the costs of total compensation are the same.

ALTERNATIVES

Program evaluations from the Legislative Finance Committee (LFC) have noted the state has failed to take full advantage of possible costs savings from the Health Care Purchasing Act of 1997, which created the Interagency Benefits Advisory Council (IBAC) to combine the purchasing power of public employers, including NMPSIA, APS, the General Services Department, and the Retiree Health Care Authority. These evaluations note potential for cost savings through combining the IBAC entities.

FY22 budget recommendation guidelines from LFC note continued division in purchasing employee health insurance leads to both increased costs as well as disparities in the costs of insurance coverage based on employer. The committee has said analysts will examine the possibility of reducing health insurance costs by increasing insurance pool size.

RELATED BILLS

The LFC recommendation includes a $15 million in federal funds from the American Rescue Plan Act to NMPSIA for the costs of Covid-19 testing and treatment, which would prevent a premium increase to cover those costs.

HB59 conflicts with Senate Bill 101, LESC-endorsed legislation to increase the employer share of health insurance premiums for low-paid employees. That bill would provide for an employer share of 80 percent for employees earning less than $25 thousand; employers would pay a smaller share for employees that earn more.

SOURCES OF INFORMATION

- LESC Files
- Public School Insurance Authority

JS/mb