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## FISCAL IMPACT REPORT

SPONSOR Serrato LAST UPDATED \_\_\_\_\_  
ORIGINAL DATE 2/26/2025  
BILL \_\_\_\_\_  
SHORT TITLE State Employee Benefit Contributions NUMBER House Bill 575  
ANALYST Chenier

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

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Eliminate Salary Tiers		\$40,863.3	\$40,863.3	\$81,726.6	Recurring	General Fund
NMPSIA		\$65,554.9	\$65,554.9	\$131,109.8	Recurring	General Fund

Parentheses ( ) indicate expenditure decreases.

\*Amounts reflect most recent analysis of this legislation.

Relates to a supplemental appropriation of \$85 million in General Appropriation Act  
Relates to Senate Bill 376, which also eliminates brackets for state employees

### Sources of Information

LFC Files

#### Agency Analysis Received From

Health Care Authority (HCA)

Retiree Health Care Authority (RHCA)

New Mexico Public School Insurance Authority (NMPSIA)

## SUMMARY

### Synopsis of House Bill 575

House Bill 575 (HB575) would eliminate existing tiered salary thresholds for employer premium contributions by requiring the employer contribution of the state and public schools to be 80 percent.

The effective date of this bill is July 1, 2025.

## FISCAL IMPLICATIONS

This bill impacts State Health Benefits, the New Mexico Public School Insurance Authority (NMPSIA), and Albuquerque Public Schools. All these would contribute a higher percentage of the cost of insurance than under the current schedule and employees would contribute a lower percentage.

The Health Care Authority (HCA) said that currently, the state contributes an average of 65 percent of premiums for the State Health Benefits plan. The fiscal year 2026 budget for the program currently in HB2 is \$480,998.5. Of that amount, \$7,000 is basic life insurance, of which the state pays 100 percent. Local Public Bodies contribute \$194,102.3. After accounting for these amounts, \$279,896.2 falls under the regular contribution schedule. Under that contribution schedule, the state contributes \$181,932.5 and employees contribute \$97,963.7. If the state contributed 80 percent instead of 65 percent, the state share would be \$223,917.0 (an increase of \$41,984.4) and the employee share would be \$55,979.2 (a decrease of \$41,984.4).

Under the bill, the state would no longer pay 100 percent of the basic life insurance for employees and instead would pay 80 percent, resulting in the state paying \$5,600.0 and state employees paying \$1,400.0.

NMPSIA provides the following:

The New Mexico Public School Insurance Authority currently follows the tiers outlined in NMSA 22-29-10. At least 80 percent of the cost of the insurance of an employee whose annual salary is less than fifty thousand dollars (\$50,000); at least 70 percent of the cost of the insurance of an employee whose annual salary is fifty thousand dollars (\$50,000) or more but less than sixty thousand dollars (\$60,000); and at least 60 percent of the cost of the insurance of an employee whose annual salary is sixty thousand dollars (\$60,000) or more; with an option for members to contribute up to 100 percent of the premium.

NMPSIA breaks down membership into three categories: 1) School Districts and Charter Schools, which pay for premiums through the State Equalization Guarantee (SEG); 2) higher educational institutions, which pay for premiums through Instruction and General Funding (I&G); and 3) Other Educational Entities, which pay for premiums from other revenues.

The table below displays the cost of bringing all NMPSIA members to an 80 percent contribution. The first column, labeled Tier Difference Per Statute, is the amount needed if all institutions followed the statutory tier contributions. The second column, labeled Tier Difference Per Current Contributions, is the amount needed with members' current contributions.

SB376 Contributions	Tier Difference Per Statute	Tier Difference Per Current Contributions	Difference
School Districts and Charter Schools	\$ 59,317,963	\$ 36,683,759	\$ (22,634,204)
Higher Educational Institutions	\$ 5,483,748	\$ 2,038,695	\$ (3,445,053)
<b>Total Educational Contributions</b>	<b>\$ 64,801,711</b>	<b>\$ 38,722,454</b>	<b>\$ (26,079,257)</b>
Other Educational Entities	\$ 753,175	\$ 387,448	\$ (365,727)
<b>Total</b>	<b>\$ 65,554,886</b>	<b>\$ 39,109,902</b>	<b>\$ (26,444,984)</b>

## SIGNIFICANT ISSUES

HCA states the State Health Benefits Plan provides coverage to state and local government employees and their families. As of January 31, 2025, 60,360 people were enrolled in the state health benefits 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 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 percent of premiums on average, the lowest level in the nation, resulting in higher premiums for state employees.

Several factors lead to the current structural funding deficit in the State Health Benefits (SHB) Program:

- New Mexico has continued to experience total health benefit program costs exceeding employee premium revenues since 2021 when the state first suspended employee premium increases.
- Financial deficiencies continued to grow during the two succeeding years (2022 and 2023) when the state once again suspended employee premium increases.
- The state once again implemented employee premium increases in FY24, taking the first steps toward reducing ongoing annual deficits.
- However, at current trend, annual program deficits are expected to continue due to **both**:
  - The cumulative effects of three years of zero employee premium increases, and
  - Program medical cost trends that appear to exceed national trends.

Analysis of Benefit Program Shortfalls Due to Excess Medical Costs and Not Increasing Rates Annually (millions)						
	FY20	FY21	FY22	FY23	FY24	FY25
Revenue Increase		\$0.0	\$0.0	\$0.0	\$42.0	\$35.2
National Medical Cost Trend		5%	8%	4%	7%	7%
Estimated Needed Revenue Increase at National Trend		\$19.6	\$29.2	\$15.1	\$30.4	\$28.9
Annual Deficit Due to National Trend and Not Raising Rates		-\$18.4	-\$29.2	-\$15.1	\$11.6	\$6.3
<b>Cumulative Deficit Due to Not Raising Rates</b>			<b>-\$47.6</b>	<b>-\$62.7</b>	<b>-\$51.1</b>	<b>-\$44.8</b>
<b>Deficit Due to Excess Medical Costs</b>			<b>-\$40.7</b>	<b>-\$40.7</b>	<b>-\$92.8</b>	<b>-\$79.4</b>
<b>Total Deficit</b>	<b>-\$10.4</b>	<b>-\$18.4</b>	<b>-\$88.3</b>	<b>-\$103.4</b>	<b>-\$143.3</b>	<b>-\$124.2</b>

- Plan medical costs reset at higher levels exceeding national trends in 2022 and then again in 2024 and 2025. Although the pandemic likely contributed to initially higher costs, it is unclear what has caused this permanent reset at higher levels. Typically, this could result from any of the following:
  - Specific high-cost claims for a limited number of beneficiaries, and with no mechanism to mitigate those unanticipated excess costs (stop-loss/reinsurance, mechanisms to negotiate single case agreements, benefit limits).
  - Program design or administration changes including benefit design, administrator contracts, reimbursement methods/levels, provider network design, utilization, and care management practices, claims payment and management including adjudication coordination of benefits/third party liability practices.

<b>Monthly Per Member Per Month 7-2023 through 7-2024</b>				
Category	BCBS	Pres	Dif	% Dif
Covered Lives	26,758	30,987	4,229	15.80%
Medical Costs/Covered Life	\$759.25	\$760.03	\$0.78	0.10%
Administrative Costs/Covered Life	\$23.08	\$25.68	\$2.60	11.30%
Total Costs/Covered Life	\$782.33	\$785.71	(\$89.52)	-10.20%
Revenue/Covered Life	\$639.59	\$556.62	(\$82.97)	-13.00%
Deficit/Covered Life	(\$235.64)	(\$229.09)	(\$6.55)	-2.80%

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