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

SPONSOR: Vigil DATE TYPED: 02/12/01 HB 266

SHORT TITLE: Group Insurance Contributions SB

ANALYST: Carrillo

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	**FY02**	**FY01**	**FY02**		
			$ 42,617.9	Recurring	General Fund
			$ 2,243.0	Recurring	Federal Funds
			$ 165.0	Recurring	IS/IA

*Internal Service Funds/Interagency Transfers

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	**FY02**			
	$ (42,617.9)		Recurring	General Fund
	$ (2,243.0)		Recurring	Federal Funds
	$ (165.0)		Recurring	IS/IA

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB 384

SOURCES OF INFORMATION

Public School Insurance Authority
State Personnel Office
General Services Department
Office of the Attorney General
Commission on Higher Education

No Response

State Department of Education

SUMMARY

Synopsis of Bill

House Bill 266 proposes to amend Section 10-7-4 NMSA 1978, Group Insurance (Cafeteria Plan Contributions from Public Funds) to allow school districts or institutions of higher learning to contribute any amount up to 100 percent of the cost of the insurance. The minimum employer contribution would remain at the current levels of:

Salary Bracket	Current Employer Contribution Rate	Current Employee Contribution Rate
Less than $15,000	75%	25%
Less than $20,000	70%	30%
Less than $25,000	65%	35%
More than $25,000	60%	40%

Significant Issues

According to the Public School Insurance Authority (PSIA) staff, allowing school districts to contribute up to 100 percent of the cost of group insurance would presumably affect collective bargaining demands to provide 100 percent payment of both employee and dependent coverage. If successfully negotiated, costs would increase. If negotiations concluded after the budgets were finalized, and participation increased, a budget shortfall would develop.

In addition PSIA staff notes, many districts define “eligible employees” as those working 15 or more hours per week. Since all eligible employees (and their eligible family members) must be insured under a non-contributory plan, districts may decide locally to limit their definition of eligible employees in the future to those working more than 20 or 25 or 30 hours per week. If so, those employees would not have easy affordable access to health insurance coverage.

Lastly, PSIA staff states school districts with Section 125 cafeteria plans would lose their FICA and FUTA savings if the district paid 100 percent of the cost. The state would then receive additional state withheld income taxes.

The Office of the Attorney General (AG) staff indicates the provisions of HB 266 would treat public employees of school districts and institutions of higher education more favorably than other public employees and retirees. The provisions would only apply to group insurance programs and not group programs where risk is not underwritten (self-insured programs). The bill would make consolidated purchasing under the Health Care Purchasing Act more difficult.

The State Personnel Office staff comments, the intent of the bill is to find a way to give educational employees more take-home pay by shifting more of the cost to the employer. Since this shift is discretionary on the part of each school district and institution of higher education, the result may be an uneven application of this potential change.

FISCAL IMPLICATIONS

The PSIA staff has provided the following fiscal impact.

Additional school budget appropriation would be needed if the contribution schedule reached 100 percent. A contribution level of less than 100 percent would likely result in increased participation but not to the extent of a decision to pay 100 percent of the cost.

Currently, districts and educational entities contribute an average of 67 percent of the cost of employee and dependent coverages elected by the employee. Under a 100 percent scenario (assuming all participating districts chose to pay 100 percent of the cost) districts' contributions would increase significantly.

The following chart illustrates the impact for PSIA participating districts (excluding Albuquerque Public Schools) and participating institutions of higher education (roughly 10 percent of PSIA). APS is approximately 30 percent the size of PSIA.

Current Employer Contribution (Approximately 67%)	Proposed Employer Contribution (100%)	Difference
Medical Coverage 72,253,380	Medical Coverage 111,436,212	Medical Coverage 39,182,832
Dental Coverage 11,702,952	Dental Coverage 15,798,985	Dental Coverage 4,096,033
Vision Coverage 2,370,084	Vision Coverage 3,199,613	Vision Coverage 829,529
Long-term Disability 2,150,208	Long-term Disability 2,902,781	Long-term Disability 752,573
Total 88,476,624	**Total 133,337,591**	**Total 44,860,967**

Approximately 95 percent ($42,617,919) impacts the general fund, the remaining 5 percent ($2,243,048) is supported from federal funds.

These estimates do not include the cost of paying for all eligible family members, who are eligible but not enrolled. Non-contributory coverage language in insurance contacts require that all those eligible must be enrolled, even if they have other coverage through another plan or program (including Medicaid). New Dependents added to the PSIA plan with prior coverage would receive credit for prior coverage toward the pre-existing conditions limitations. These new family members may have an adverse impact on overall per member per month claim costs.

In addition, the PSIA staff would have to be increased one FTE to accommodate additional enrollment. Third Party Administration (TPA) costs are charged on enrollment for medical coverage; if another 5,000 employees took advantage of the group health benefits, the impact to the PSIA administrative program is estimated to be $165,000 annually.

ADMINISTRATIVE IMPLICATIONS

PSIA staff notes recruitment of teachers and other educational staff would be impacted due to the different contribution schedules among districts. Budget dollars spent on benefits would not be available for salaries.

State Personnel Office staff states the current four level structure for the shared employee/employee group insurance cost is already administratively complicated. This would open the door to having a different employee cost for every school district.

The Commission on Higher Education (CHE) staff explains the removal of the cap on the institutions' contributions allows for increased employee benefits. This could assist in recruiting and retaining faculty and staff at the institutions. However, if implemented, costs would increase at the institutions and there is not a provision for increased funding for the increased benefits.

RELATIONSHIP

HB 266 and HB 384 (Public & Higher Education Group Insurance) are related. While the bills differ, they accomplish the same results.

ALTERNATIVES

The AG staff suggests:
- Adopt identical provisions for all public employees to facilitate consolidated purchasing.
- Expand provision to permit increased employer contributions for self-insured programs.

The PSIA staff suggests: If school districts were to add 20 percent to their current contribution levels (i.e., 60 percent becomes 80 percent; 65 percent becomes 85 percent; 70 percent becomes 90 percent; and 75 percent becomes 95 percent), the estimated additional cost is $22 million. This does not include the Albuquerque Public Schools and assumes current rates and enrollment.

WC/ar/njw