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

SPONSOR Beffort **DATE TYPED** 02/16/04 **HB**

SHORT TITLE Public Employee Benefit Contributions **SB** 305/aSPAC

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
			Unknown		

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with: SB 373, HB 283, HB 451

SOURCES OF INFORMATION

General Services Department (GSD)
Public Schools Insurance Authority (PSIA)
Human Services Department (HSD)
LFC files

SUMMARY

Synopsis of SPAC Amendment

The Senate Public Affairs Committee amendment to the bill strikes on page 3, line 13 the sentence that reads: “Annual inflation adjustments shall not be less than the increase in the consumer price index for the state contribution” and replaces it with “The legislature shall annually determine and appropriate the amount available for group insurance benefits and contributions.”

Synopsis of Original Bill

Senate Bill 305, Group Insurance Contributions, proposes to amend Section 10-7-4 NMSA 1978 (Group Insurance–Cafeteria Plan--Contributions from Public Funds.) The table below shows the current contribution structure and the proposed contribution structure.

Employer	Current Employer Contribution Structure	Proposed Employer Contribution Structure
State Departments Less than $15,000 Less than $20,000 Less than $25,000 $25,000 or More	 75% of the total premium 70% of the total premium 65% of the total premium 60% of the total premium	(1) A fixed dollar amount for employees whose annual salary is $20,000 or more (2) A higher fixed dollar amount for employees whose annual salary is less than $20,000 The annual inflation adjustment shall not be les than the increase in the Consumer Price Index (CPI) for the employer contribution.
Higher Education Institutions Less than $15,000 Less than $20,000 Less than $25,000 $25,000 or More	 75% of the total premium 70% of the total premium 65% of the total premium 60% of the total premium	 No Change.
Public School Less than $15,000 Less than $20,000 Less than $25,000 $25,000 or More	 75% of the total premium 70% of the total premium 65% of the total premium 60% of the total premium	 No Change.

The initial dollar amount would be determined by legislative appropriation at a fixed dollar amount and annual inflation adjustments in the employer contribution dollar amount would at least equal the increase in the consumer price index.

Significant Issues

GSD provides that by identifying a fixed dollar amount for employees, each employee would determine the health insurance coverage that suits their needs, and any coverage costs above the specified amount could be covered by the employee. A basic premise of this approach is that a minimum health and dental care plan (or "best value plan") would be offered to all participants at a lower premium, and expanded benefits could be purchased at the employee's choice and employee's cost.

PSIA provides that the defined contribution approach reduces the rate of increase of the employer's cost for health care. It is budgetable and predictable because it fixes the employer contribution and is not tied to claim trends. Cost shifting occurs to employees if the employer contribution does not keep up with medical claim trends.

However, if healthcare costs continue at the current double-digit rate, and adjustments to the employer share are limited to CPI, a higher percentage of the premium cost is passed onto the employee. This could result in employees dropping coverage as it becomes unaffordable, thus increasing the uninsured numbers. This approach encourages employees to pick their plan based on the cost, but may not encourage employees to be wise consumers of health care.

FISCAL IMPLICATIONS

GSD states that it is unclear how the legislature would initially determine the "fixed dollar" amount specified in the Section C of SB 305. It is possible that SB 305 intends that the initial "fixed dollar amounts" to be the current contribution levels set forth in Section 10-7-4 B NMSA 1978. HSD provides that it is hard to determine the fiscal impact of the bill, since an unknown fixed dollar amount is proposed for employees whose annually salary is $20,000 or more, and for employees whose annual salary is less than $20,000 annually.

ALTERNATIVES

PSIA provides that in 2002, the IRS issued two Revenue Rulings (2002-41 and 2002-45), which provide favorable tax treatment to Health Reimbursement Accounts (HRAs). A more employee-oriented approach is to redesign the plan offerings to a high deductible with an employer contribution to an employee's Health Reimbursement account. These types of plans encourage employees to spend their first dollars of health care costs wisely, yet also provide catastrophic coverage through the high deductible plan. The employer funded HRA unused account balances may be carried over from year to year.

CONFLICTS

Conflicts with SB 373, HB 283, and HB 451, all which propose changing the employer contribution for employee health benefits.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

The predictability of budgeting insurance increases for state employees will be more difficult.

AMENDMENTS

Currently the bill's effective date is July 1, 2005, and the provisions of the act apply to pay periods beginning on or after July 1, 2005. If the intent is to implement the bill's provisions in FY05, the bill effective date should be changed to July 1, 2004.

PSIA suggests amending the bill to provide more flexibility in program design. On page three, line 19, insert new Section "D" (and renumber remaining sections accordingly): "The medical plans offered may include high-deductible plans, consumer directed health plans including a health reimbursement account, or traditional plans."

GSD suggests adding language to specify the fixed dollar amount for the employer contribution, and to clarify if the overall consumer price index or a health specific price index would be used to determine the annual inflation adjustment.

GGG/dm:yr