

Investments & Pensions Oversight Committee

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Sustainability and Solvency
September 7, 2017

Tom Sullivan, Board President

Joe Montano, Vice President

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Solvency Study

- Performed Annually
- Assists the Board of Directors and agency management in developing strategic direction
- Analysis of future cash inflows and outflows
- Not a guarantee of future results
- Subject to following variables:
 - Changes in the regulatory environment
 - Local market pressure
 - Changes in demographic makeup
 - Overall inflation rates
 - Claim volatility
- Changes in size of membership are projected, however, health status of future members is not known

Solvency

Revenue Components

- Beginning of Year Invested Assets (Trust Fund Balance)
- Employer Contributions (2 percent / 2.5 percent enhanced plans)
- Employee Contributions (1 percent / 1.25 percent enhanced plans)
- Retiree Medical (ranges by years of service and pre-Medicare/Medicare)
- Retiree Ancillary (100% paid by retiree)
- Taxation and Suspense Fund Revenue (FY16 levels through June 30, 2019)
- Medicare PDP & Manufacture Discounts (direct subsidies, coverage gap, LIS)
- Miscellaneous (performance penalties, subrogation recoveries, buy-in revenue)
- Investment Income

Expenditure Components

- Medical and Prescription Costs (self-insured, fully-insured)
- Basic Life (phased out by January 2021)
- Ancillary Premiums (100% paid by retiree)
- ASO and ACA Fees (admin fees, PCORI Fee, Reinsurance Fee, Health Insurer Fee)
- Program Support (agency operations)

New Mexico Retiree Health Care Authority
July 2017 Long-Term Solvency Modeling
Sensitivity to Specific Assumption Changes within Baseline Scenario

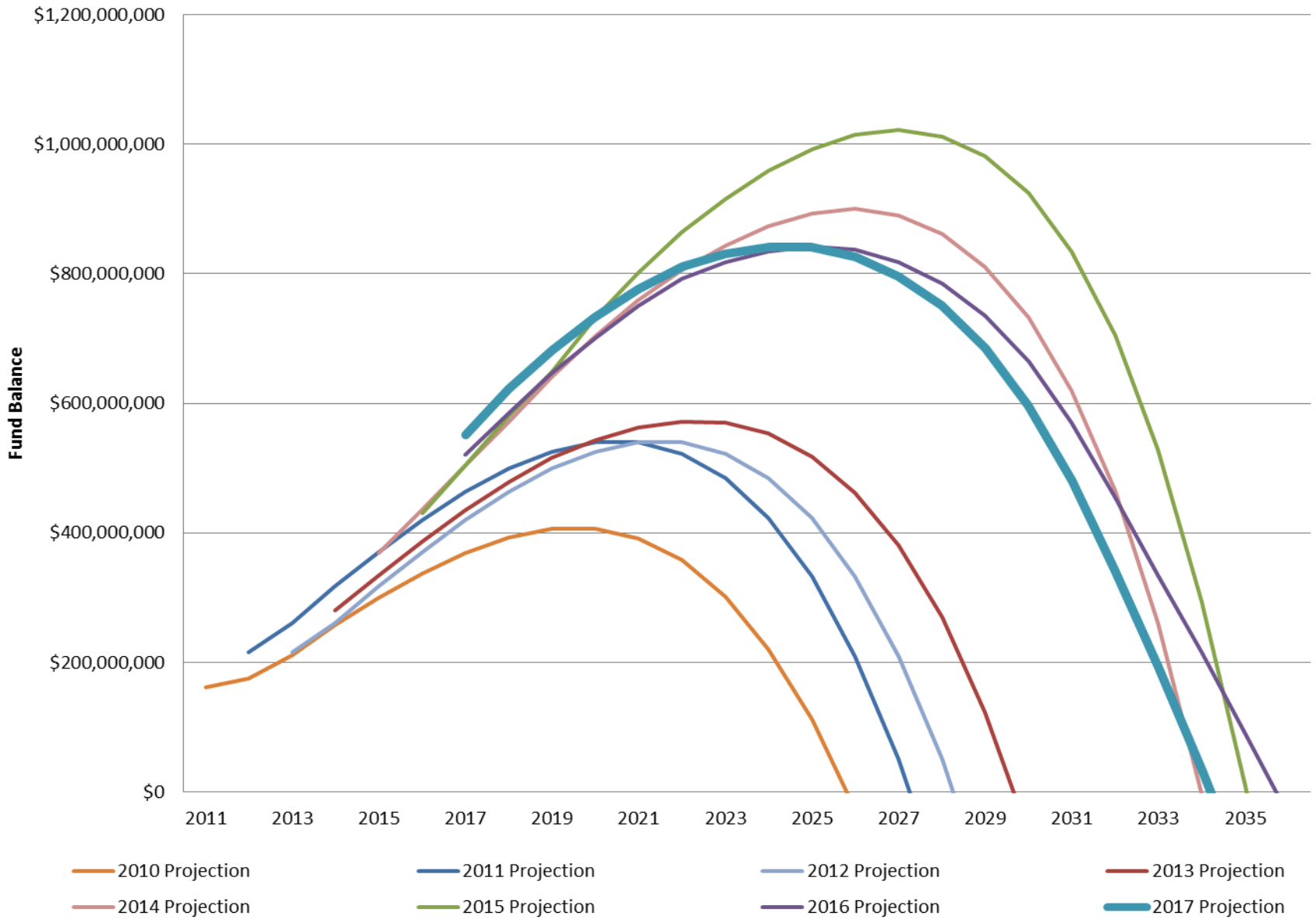
Scenario Summary

	Baseline Scenario	Low Trend: -1%	High Trend: +1%	Low Payroll Growth: -0.5%	Increase Non-Medicare Retiree Rate Share: +4%	Increase Non-Medicare Spouse Rate Share: +9%
Changing Cells:						
Annual Payroll Growth - Starting CY2021	3.50%	3.50%	3.50%	3.00%	3.50%	3.50%
Annual Investment Return	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Non-Medicare Medical Claims Trend	8.00%	7.00%	9.00%	8.00%	8.00%	8.00%
Medicare Medical Claims Trend	8.00%	7.00%	9.00%	8.00%	8.00%	8.00%
Non-Medicare Retiree Rate Share	36.00%	36.00%	36.00%	36.00%	40.00%	36.00%
Non-Medicare Spouse Rate Share	64.00%	64.00%	64.00%	64.00%	64.00%	73.00%
Non-Medicare Rate Increase - CY2018 to CY2022	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Medicare Supplement Rate Increase - CY2018 to CY2031	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Result Cells:						
Assets as of July 1, 2034	\$32,360,816	\$727,788,083	(\$488,617,997)	(\$91,381,433)	\$201,138,893	\$159,722,894
Projected Year of Fiscal Insolvency	2035	2042	2032	2034	2036	2036

Scenario Summary

	Baseline Scenario	High Short-term Non-Medicare Rate Increase: +1%	Low Short-term Non-Medicare Rate Increase: -1%	High Short-term Medicare Supplement Rate Change: +1%	Low Short-Term Medicare Supplement Rate Change: -1%	Low Investment Return: -1%	Low Investment Return: -2%
Changing Cells:							
Annual Payroll Growth - Starting CY2021	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Annual Investment Return	7.25%	7.25%	7.25%	7.25%	7.25%	6.25%	5.25%
Non-Medicare Medical Claims Trend	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Medicare Medical Claims Trend	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Non-Medicare Retiree Rate Share	36.00%	36.00%	36.00%	36.00%	36.00%	36.00%	36.00%
Non-Medicare Spouse Rate Share	64.00%	64.00%	64.00%	64.00%	64.00%	64.00%	64.00%
Non-Medicare Rate Increase - CY2018 to CY2022	8.00%	9.00%	7.00%	8.00%	8.00%	8.00%	8.00%
Medicare Supplement Rate Increase - CY2018 to CY2031	6.00%	6.00%	6.00%	7.00%	5.00%	6.00%	6.00%
Result Cells:							
Assets as of July 1, 2034	\$32,360,816	\$147,716,651	(\$77,809,612)	\$67,596,454	(\$2,803,265)	(\$153,417,847)	(\$299,763,818)
Projected Year of Fiscal Insolvency	2035	2035	2034	2035	2034	2034	2033

NMRHCA Solvency Projections - 2010 through 2017



GASB Overview

GASB 43/45

- Effective fiscal years 2006/2007
- Applicable to State and Local Governments
- Considers post-retirement benefits a form of deferred compensation
- Measures accumulated value of other post-employment benefits (OPEB) over participants active working lifetimes
- Calculations based on the benefits provided at time of evaluation
- Accrual-basis accounting required
- Calculation includes demographic information, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions
- Compares existing assets available to support future expenditures
- Does not account for future revenues

NMRHCA GASB History

	2016	2014	2012	2010	2008	2006
Actuarial Accrued Liability	\$ 4,277,042,499	\$ 3,740,369,299	\$ 3,915,114,104	\$ 3,523,664,871	\$ 3,116,915,900	\$ 4,264,180,967
Actuarial Value of Assets	\$ 471,978,347	\$ 377,087,017	\$ 227,487,895	\$ 176,922,935	\$ 170,626,271	\$ 154,538,668
Unfunded Actuarial Accrued Liability	\$ 3,805,064,152	\$ 3,363,280,282	\$ 3,687,626,209	\$ 3,346,741,936	\$ 2,946,289,629	\$ 4,109,642,299
Funded Ratio	11.04%	10.08%	5.81%	5.02%	5.47%	3.62%
Covered Payroll	\$ 4,271,183,612	\$ 3,941,587,760	\$ 3,876,220,608	\$ 4,001,802,240	\$ 4,020,508,902	\$ 4,073,731,873
Total Participants	159,642	155,098	146,590	146,166	130,381	140,292

Major changes include:

- Refined data reporting methodology by PERA/ERB 2006/2008
- Changes to pre-Medicare subsidy-levels 2006/2008
- 5 percent discount rate on investments used given funding levels
- Over \$226 million contributed to trust fund since 2010 (excluding investment returns)

GASB Reporting Requirement Updates

GASB 74: Financial Reporting for Postemployment Benefits Other Than Pension Plans

- Replaces the requirements of GASB Statement 43
- Discount rates based on AAA Municipal Bond Yields
- New standard for financial reporting for OPEB benefit plans
- Effective for fiscal years beginning after June 15, 2016 (FY2017)
- Likely to result in increase to liability calculation
- Applies to NMRHCA

GASB 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

- Supersedes the requirements of GASB Statement 45
- Deals w/individual employer reporting
- Effective for fiscal years beginning after June 15, 2017 (FY2018)
- Applies to employer groups (state, municipalities, counties)
- Net liabilities will be reported as part of the employer's balance sheet

Similar methodology to GASB pension statements 67 and 68

Sustainability

Strategic Plan (2018 – 2022)

- Apply downward pressure on prescription drug costs for all members (network, contracts, cost-sharing)
- Apply downward pressure on pre-Medicare medical plans (network, contracts, cost-sharing)
- Reduce pre-Medicare retiree subsidies
- Reduce pre-Medicare spousal subsidies
- Evaluate existing and emerging wellness/population health programs for inclusion in either plan coverage or incentive support
- Develop and implement value-based purchasing initiatives either through existing health plan partners or directly with health care delivery systems
- Evaluate emerging and ongoing demographic trends and make program adjustments commensurate with fiduciary responsibilities
- Provide members with information necessary to better manager their individual health care
- Increase employee/employer contribution levels (requires legislative action)

Sustainability Continued

Examples Cost Containment Strategies

- PBM contract negotiations
- Smart90 Program for prescription services
- Increase maximum copay levels
- Encourage members to shop around for their health care needs
- Develop networks that discount services for attribution
- Incentivize healthy behaviors and disease management programs
 - Management of chronic illness
 - Management of acute care episodes
 - Integrating prescription data as part of members care management
 - Reduction in preference sensitive surgeries

Challenges

- Future changes to revenues received from Tax Suspense Fund
- Prescription drug costs
- Limited growth in public payroll
- Volatility in the health insurance market
- The President's and Congress's disposition toward Medicare is unclear at the federal level
- Competition w/other state priorities

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