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

ORIGINAL DATE 09/30/16
SPONSOR Smith **LAST UPDATED** 10/03/16 **HB**

SHORT TITLE Public Fund Distribution Changes **SB** 7

ANALYST Clark/Hanika-Ortiz

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY17	**FY18**	**FY19**	**FY20**	**FY21**		
$4,764.0	$11,593.0	$17,446.0	$20,503.0	$23,793.0	Recurring	General Fund
($1,673.0)	($3,438.0)	($5,299.0)	($7,258.0)	($9,319.0)	Recurring	Fire Protection Grant Fund
($3,091.0)	($8,155.0)	($12,147.0)	($13,245.0)	($14,474.0)	Recurring	Retiree Health Care Authority Fund

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Retiree Health Care Authority (NMRHCA)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

The bill has two functions to increase general fund revenues. The first function permanently removes a monthly $250 thousand transfer from the general fund to the retiree health care authority (RHCA) fund and removes an annual 12 percent increase in transfers from the general fund to the RHCA fund beginning on the effective date of the bill and ending June 30, 2019. Beginning on July 1, 2019, the 12 percent increase resumes.

The second function permanently halts increases in the percent of distributions from the fire protection fund to the fire protection grant fund (FPGF), keeping the percent of distributions at the existing FY16 level, which is significantly higher than in prior years. Statute currently has a schedule for increasing distributions to the FPGF over time from 6.7 percent in FY07 to 40.2 percent in FY16 and 100 percent in FY25. The reversions to the general fund simultaneously decrease to 0 percent by FY25. Under the bill's proposal, the percent distributions to the FPGF and the general fund would stay at FY16 levels, with the actual amounts distributed to both funds projected to grow slightly over time because of natural growth in revenues to the fire protection fund.

The effective date of the provisions of the bill is January 1, 2017, and the bill has an emergency clause.

FISCAL IMPLICATIONS

For the RHCA fund impact, there is no fiscal impact for the first half of FY17, so the impact for the fiscal year is half what it would be for the full year. The impacts from both changes related to the RHCA fund in the bill are in full effect in FY18 and FY19. After FY19, the impact from elimination of the $250 thousand increase continues, and there is a lingering benefit from removal of the 12 percent increase in the prior periods.

For the FPGF impact, because the transfer does not occur until the last day of the fiscal year, FY17 has a full year's impact. The impact rises significantly each year due to the increasing savings from holding at a constant percent distribution rate.

The NMRHCA reports SB7 will reduce total projected revenue to the agency by approximately $250 million. This reduction in future revenue reduces the projected solvency period (positive trust fund balance) by approximately 3 years. Reductions to current benefit levels will need to be contemplated by NMRCHA's board of directors to regain a 20 year solvency period.

SIGNIFICANT ISSUES

This bill increases general fund revenues and reduces revenues to the RHCA fund. The bill does not contemplate changes in contributions that may need to occur to maintain long-term solvency of the RHCA fund, although options exist such as increasing employee and/or employer contributions. The estimated impact from the bill moves the projected year of insolvency by three years – from FY2035 to FY2032.

The RHCA fund distribution started years ago when the state started taxing pension benefits from the Educational Retirement Board and Public Employees Retirement Association. This was offered as a way to offset that loss – by funding retiree health care. All but $3 million is indexed at a 12 percent annual growth rate. It occurs as an operating transfer from the Taxation and Revenue Department. Since 2007, all of the annual distributions have gone into the long-term trust fund and have not been used to pay current retiree health care benefits. Of the total amount, $3 million is a separate annual distribution to the fund that was prevented from sunsetting in 2007 in a bill that also increased employer and employee contributions to 3 percent of payroll.

RHCA offers Medicare and pre-Medicare health plans for New Mexico's retired public employees. Nearly 100 thousand state, local government, and school employees contribute to the fund through contributions, and 55 thousand retirees and their dependents are receiving benefits.

To ensure funding for a rolling 20-year period, in 2014, the board increased the age to participate in the plan to 55 and increased the required number of years to work to receive a full subsidy of 50 percent to 25 years from 20 years. In 2015, the board decreased pre-Medicare premium subsidies for spouses and retirees to 36 percent and 64 percent, respectively. The board also converted a $6,000 life insurance policy (RHCA-paid) to a supplemental (retiree-paid) policy beginning 2018. In 2016, the board approved additional changes that include lower cost pre-Medicare plan options, eliminating coverage for drugs available over the counter, and establishing an open enrollment period. These changes helped to delay insolvency until 2035.

Changes in progress under Governmental Accounting Standards Board Statements 74 and 75 for post-employment benefit liabilities other than pensions will soon impact RHCA and all of its participating employers' financial statements similar to the new pension standards which require employers to report their portion of the fund's total liability. Because of the low investment return environment, those changes will likely involve RHCA adopting a lower investment return assumption, which could mean a loss of an additional three years of solvency if required to use a risk free rate. If that happens, the fund could run out of money to pay claims as early as 2029, which will require the program to look at additional changes to eligibility, subsidies, and benefits.

The bill does not reduce revenues to the FPGF but maintains percent distributions to the fund at the FY16 level. Due to growth in the fire protection fund and other estimated distributions, from FY17 to FY21 transfers from the fire protection fund to the FPGF are estimated to grow from $10 million to $11.2 million, and reversions to the general fund are estimated to grow from $14.9 million to $16.6 million.

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