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FISCAL IMPACT REPORT

SPONSOR Salazar, T **ORIGINAL DATE** 01/20/17
LAST UPDATED 3/18/17 **HJM** 1/aSPAC

SHORT TITLE Importance of Affordable Health Insurance **SB** _____

ANALYST Hanika-Ortiz

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY17	FY18		
	See fiscal impact		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Retiree Health Care Authority (NMRHCA)

SUMMARY

Synopsis of Senate Public Affairs Committee

The SPAC amendment calls on the Legislative Finance Committee to identify options, and make recommendations, for extending NMRHCA solvency and provide information before the next session.

Synopsis of Bill

House Joint Memorial 1 (HJM 1) seeks to recognize the importance of affordable health insurance for retired public employees and requests legislation to improve and ensure the long-term financial viability of the New Mexico Retiree Health Care Authority (NMRHCA).

HJM 1 includes the following assumptions:

- in enacting the Retiree Health Care Act, the state committed to providing group health insurance for persons retired from public service in New Mexico;
- ten percent of New Mexico's adult population is or will soon be covered by the authority;
- the program is an important public employee recruitment and retention tool;

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- measures taken by the authority and legislature have reduced the trust fund's actuarially accrued unfunded liability by \$300 million to \$3.8 billion, as of June 30, 2016;
- in the past four years, legislation has been introduced to address long-term financial viability of the NMRHCA program, but none have passed;
- Senate Bill 7 of the 2016 legislative special session reduced future revenue to the authority by \$350 million over the life of the trust fund; and
- that reduction decreases solvency by between three and four years.

HJM 1 requests legislation that would, by increasing employee and employer contribution rates in statute, improve the long-term financial viability of the NMRHCA, increase the program's funding ratio and ensure that the program's benefits continue for future participants.

FISCAL IMPLICATIONS

NMRHCA reports that HJM 1 does not amend the Retiree Health Care Act or request a specific contribution increase this year, given the impact to public employee pay and the general fund.

In 2009, the Legislature amended the Retiree Health Care Act to increase employer contributions from 1.3 percent to 2 percent, and increase employee contributions from 0.65 percent to 1 percent, with the first year deferred, given the economic outlook for the state at that time. This legislation, combined with changes the board has made in recent years to eligibility, subsidies and benefits, has reduced liabilities and helped contribute \$200 million to its trust-fund balance.

SIGNIFICANT ISSUES

In 1990, NMRHCA was established as a “pay-as-you-go” program with a six-month pre-funding period. In 2006, accounting standards changed. These new rules (GASB 43 and 44) required organizations to report projected costs associated with providing future benefits, as compared to existing assets available to pay those future benefits, without consideration of future revenues.

NMRHCA provides health insurance benefits for over 60,000 retired public employees and eligible dependents. These benefits are a form of deferred compensation intended to help teachers, state employees and other employees from local governments manage their health care costs in retirement. In addition, about 100,000 public employees currently contribute to the program with some expectation that an affordable benefit will be provided to them in the future.

Currently, the average age of a retiree joining NMRHCA is 60, or 5 years prior to becoming eligible for Medicare benefits. Once a retiree reaches Medicare eligibility, program costs decrease.

PERFORMANCE IMPLICATIONS

NMRHCA has broad authority to make changes to the program but requires statutory changes to increase employer and employee contribution rates, which are currently 3 percent of payroll.

The New Mexico Constitution does not afford the same level of protection for public retiree healthcare benefits, as it does for pension benefits. The benefit may be extinguished at any time, although employees currently contribute 1 percent of pay towards an expected future benefit.

AMENDMENT

The bill may be improved by requesting a stakeholder group look at sustainability options.

AHO/sb/jle/al