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

		ORIGINAL DATE	1/27/2020		
SPONSOR	Salazar	**LAST UPDATED**	2/18/2020	**HB**	45/aHAFC
SHORT TITLE	Changes to Retiree Health Care Fund			**SB**	
				ANALYST	Jorgensen

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
$9,580.6	$ 9,580.6	$ 9,580.6	$ 28,741.8	Recurring	General Fund
$1,802.7	$ 1,802.7	$ 1,802.7	$ 5,408.1	Recurring	Other State/Federal Funds
$3,716.7	$ 3,716.7	$ 3,716.7	$ 11,150.0	Recurring	Non-State Employers
$7,400.0	$ 7,400.0	$ 7,400.0	$ 22,200.0	Recurring	Employee Contributions
$22,500.0	**$22,500.0**	**$22,500.0**	**$67,500.0**	**Recurring**	**Total**

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Retiree Health Care Authority (RHCA)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee Amendment to House Bill 45 removed the $12.4 million appropriation from the general fund to the retiree health care fund.

Synopsis of Original Bill

House Bill 45 increases employee and employer contributions to the Retiree Health Care Authority as follows:

1. Increases employer contributions for normal (non-public safety) members from 2 percent of salary to 2.33 percent of salary;
2. Increases employer contributions for enhanced plan (public safety) members from 2.5 percent of salary to 2.9 percent;
3. Increases employee contributions for normal members from 1 percent of salary to 1.17 percent;

4. Increases employee contributions for enhanced plan members from 1.25 percent of salary to 1.47 percent.

Additionally, HB45 appropriates $12.4 million from the general fund to the retiree health care fund.

FISCAL IMPLICATIONS

HB45 will increase recurring employee and employer contribution revenue to the retiree health care fund by $22.5 million per year. Based on an affected state agency payroll of $1.16 billion, enactment of the provisions of HB45 will cost the State of New Mexico approximately $11.4 million per year. This amount is comprised of $9.6 million from the general fund and $1.8 million from other state and federal fund sources as shown in the estimated additional operating impact table.

In addition to increases state employer costs, local government employers will pay $3.7 million per year.

Finally, increased employee for all covered employees are expected to raise $7.4 million per year. The total recurring revenue generated for the retiree health care fund by the provisions of HB45 is $22.5 million.

The HAFC amendment to HB45 removed a $12.4 million nonrecurring appropriation from the general fund to the retiree health care fund.

There is not an appropriation in the General Appropriation Act of 2020 to cover the additional costs. Should HB45 be enacted, agencies will have to absorb the increased costs in their existing budgets.

SIGNIFICANT ISSUES

There is not an appropriation in the General Appropriation Act of 2020 to cover the additional costs. Should HB45 be enacted, agencies will have to absorb the increased costs in their existing budgets. HB45 will increase employee contributions for retiree health care and reduce take home pay.

As of June 30, 2018, the net other post-employment benefits (OPEB) liabilities reported for several of the state's largest employer groups were as follows:

State of New Mexico (all state agencies)	$1,049,290,625
Albuquerque Public Schools	$480,522,776
Bernalillo County	$125,875,740
City of Albuquerque	$305,426,268
Las Cruces School Districts	$133,203,588

The addition of these liabilities to the financial statements of the 302 participating employer groups may impact their future bonding capacity similar to the pension plan liabilities. Total OPEB liabilities are $4 billion.

RHCA faces a low funding ratio and medical costs that increase at a rate that exceeds payroll, and therefore revenue growth. In order to maintain the program, the RHCA has reduced benefits and increased premiums to bolster fund balances. In 2006, the program had a liabilities of $4.27 billion and assets of $154.5 million resulting in a funded ratio of 3.62 percent. Cost saving and revenue increasing measures undertaken by the board increased the trust fund balance to over $700 million, resulting in a funded ratio of 18.92 percent in 2019.

Despite the progress made in increasing fund balances and controlling costs, RHCA projects that program expenditures will outpace revenue generated in FY24 and the trust fund will be exhausted and the program insolvent by FY44.

LFC analysis of total compensation in six surrounding shows that New Mexico state employees receive the second lowest proportion of total compensation in the form of salary. Additionally, New Mexico state employees have the lowest proportion of take home pay in the region. The relatively rich benefit package offered by the state reduces take home pay and may prove a disincentive to state employment.

OTHER SUBSTANTIVE ISSUES

The Retiree Health Care Act was created in 1990 for the purpose of providing comprehensive core group health insurance for persons who retire from public service. The program was not established with a material pre-funding period and began paying benefits on behalf of 15,000 members six months after the agency was created. This resulted in the agency incurring significant liabilities immediately after creation, effectively starting the program in a deficit.

ALTERNATIVES

RHCA reports the following:

RHCA's strategic plan includes a commitment to continued plan modifications, combined with an increase in employee and employer contributions in order to support the continued viability of the program for existing and future retirees. However, as the deficit spending period approaches and ultimately the period of insolvency, RHCA will have to consider one or a combination of the following options:

1. Elimination of the Medicare Supplement Plan — only offer Medicare Advantage
2. Conversion to the defined contribution type of program — provide a flat monthly contribution toward the purchase of coverage regardless of cost
3. Elimination of spousal subsidies (current and future participants)
4. Decrease or eliminate pre-Medicare participant subsidies – Medicare only plans
5. Limit access to care by narrowing the network of providers, facilities and hospitals

CJ/sb/rl