

Investments and Pensions Oversight Committee

October 31, 2016

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NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

Introduction and Background

New Mexico Retiree Health Care Authority Act

- Created in July 1990 (no appropriation/ no material prefunding period)
- Began paying full benefits for over 16,000 members in January 1991 w/statutory limitations to premium increases until 2008
- Board of Directors has broad authority to set plan parameters
- Legislature retains authority over employer/employee contributions levels

Purpose

- In 2016, financial planners Fidelity and Nationwide assume a couple retiring at the age of 65 can expect to incur \$260,000 of medical expenses during retirement.
 - Average PERA Pension – \$2,431 per month
 - Average ERB Pension - \$1,819 per month
 - Average Social Security Benefit \$1,349 per month

Composition

- 300 Public Employer Groups – 50% schools/25% state agencies/25% local government
- Approximately 100,000 active employees
- 60,892 covered retirees and eligible dependents (November 1, 2016)
 - 36,395 Medicare
 - 17,404 Pre-Medicare
 - 7,093 – 100% retiree pay all/voluntary plans (e.g., dental, vision, life insurance)

Introduction & Background Cont.

Budget & Finance

- Long Term Investment Account - \$483.9 million (September 2016)
 - Required by statute to invest through State Investment Council (SIC)
- FY17 Operating
 - Program Support \$3.1 million (27 FTE)
 - Healthcare - \$309.9 million
- FY17 Sources of Income:
 - Employee/Employer Contributions – \$103.7 million
 - Retiree Premiums – \$149.2 million
 - Tax & Rev Suspense Fund - \$32.4 million*
 - Miscellaneous - \$27.7 million (mostly rebates and federal subsidies from RX coverage)
- Programs Offered
 - Medicare – Supplement/Medicare Advantage
 - Pre-Medicare – Premier/Premier Plus
 - Dental – Comprehensive/Basic
 - Vision
 - Life Insurance – Basic/Voluntary

*Per Approved Operating Budget / Pre-SB7

NMRHCA 5-Year Strategic Plan

In October 2012 the NMRHCA Board of Directors approved a 5-year plan, which included the elements below. The steps taken within each of these categories as well as other significant action is also noted.

1. Phase out “family coverage” subsidies for retirees with multiple dependent children
2. Increase cost sharing on prescription-drug coverage
3. Increase cost sharing of pre-Medicare plans
4. Implement graduated minimum-age requirement
5. Increase years of service required to receive maximum subsidy
6. Reduce pre-Medicare retiree subsidies
7. Reduce pre-Medicare spousal subsidies
8. Implement enhanced-wellness programs
- [9. Increase Employee/Employer contribution levels](#)

Other Significant Actions

Conversion of \$6,000 basic life (NMRHCA-paid) insurance to supplemental (retiree-paid) life insurance over four years beginning in 2018

Plan designs to be modified to keep plan value under threshold for “Cadillac Tax”

5-Year Strategic Plan Status

Strategic Item	2013	2014	2015	2016	2017
1	Reduced Subsidy 100 - 50%	Reduced Subsidy 50 - 37.5%	Reduced Subsidy 37.5 - 25%	Reduced Subsidy 25 - 12.5%	Eliminated Subsidy 12.5 - 0%
2	Intro coinsurance on mail order prescriptions (including Medicare)				Elimination of coverage for drugs available over the counter (OTC)
3	Introduced \$15 copayment differential for specialty office visits				Elimination of Premier Plus plan/Introduction of Value HMO Plan
4			Minimum Age of 55 to receive subsidies for new retirees after January 1, 2020 (excludes PERA enhanced plans)		
5			Increased years of service requirement from 20 to 25 years for new retirees after January 1, 2020 (excludes PERA enhanced plans)		
6				Reduced maximum pre-Medicare retiree subsidy from 65 - 64%	
7			Reduced maximum pre-Medicare Spousal Subsidy from 40 - 38%	Reduced maximum pre-Medicare Spousal Subsidy from 38 - 36%	
8				Implementation of enhanced wellness programs including financial incentive w/emphasis on smoking cessation	Continuation of wellness programs
9	Legislative proposal to increase contributions 2.5%	Legislative proposal to increase contributions 2.5%	Legislative proposal to increase contributions 1.25%	Legislative proposal to increase contributions 1.25%	Legislative proposal to study long-term solutions

Board Action for 2017

- Elimination of Premier Plus Plan
 - \$300 deductible/\$3,000 annual OOP max
- Default Premier Plus Plan Members to Premier PPO Plan
 - \$800 deductible
 - Increase OOP max by \$500 to \$4,500 to include deductible and copayments
- Creation of Value HMO Plan
 - \$1,500 deductible/\$5,500 OOP max
- Introduction of Value-Based Incentives
- Adjustment of rates commensurate with new risk pools
 - Premier PPO \$225 per month (20 years of service)
 - Value HMO Plan \$175 per month (20 years of service)
- Begin defaulting eligible members into the most appropriate Medicare Advantage Plan in January 2018
 - Medicare Supplement - \$188 per month (20 years of service)
 - Medicare Advantage - \$19 to \$94 per month (20 years of service)
- Elimination of coverage for drugs available over the counter (OTC)
- Elimination of multiple-dependent subsidy
- Implement and enforce open-enrollment period

Solvency Update

2007 Status

- Projected Solvency – 2014 (7 years)
- Trust Fund Balance \$122.8 million
- \$4.1 billion unfunded liability (3% funded)
- \$5.7 million withdrawn from Trust Fund

2014 Status

- Projected Solvency – 2033 (19 years)
- Trust Fund Balance – \$381.4 million
- \$3.4 billion unfunded liability (10.08% funded)

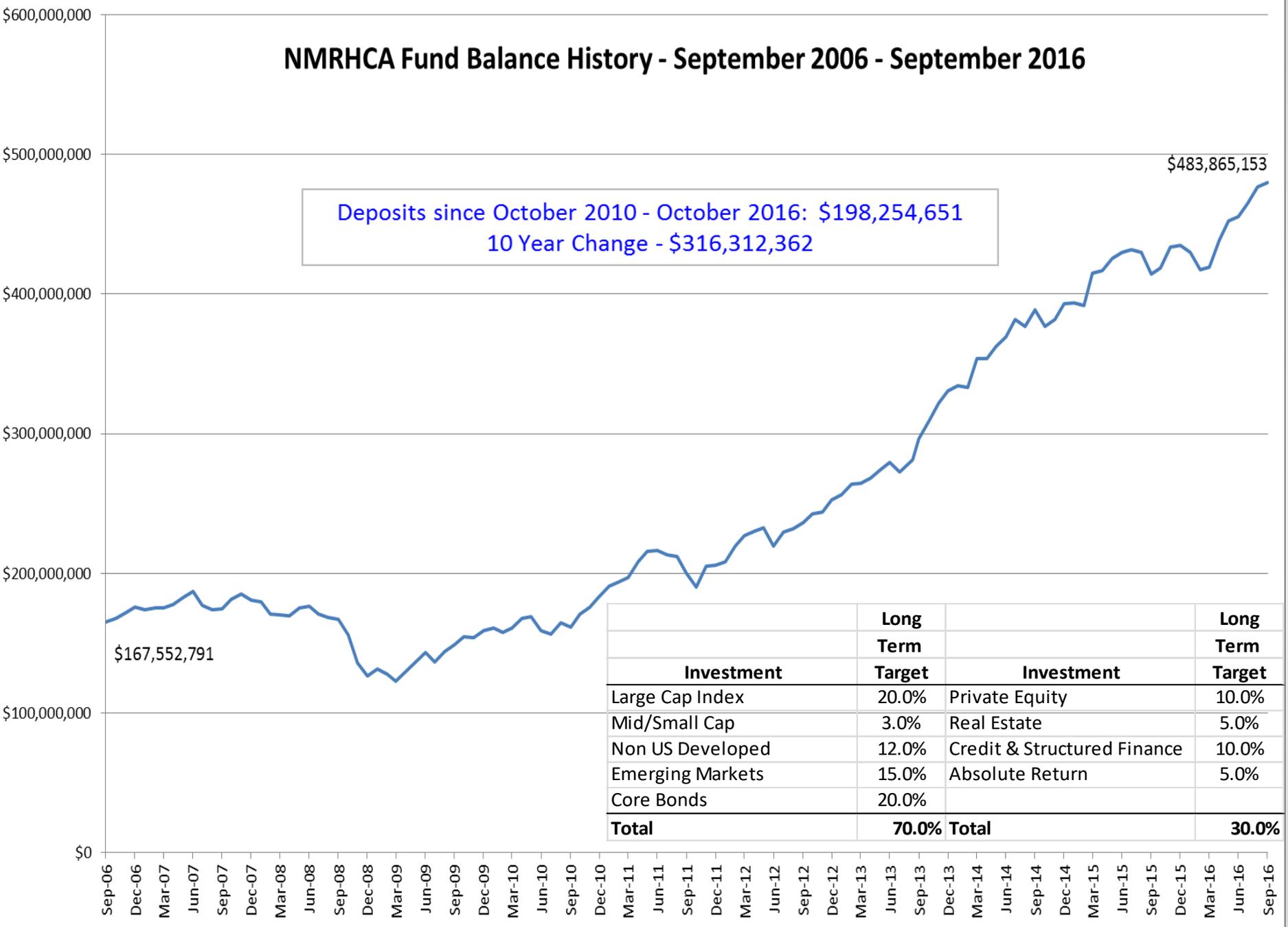
2016 Status

- Projected Solvency – 2036 (20 years)
- Trust Fund Balance - \$464.5 million
- \$3.8 billion unfunded liability (11% funded)

Impact of SB7 Special Session

- 3-4 year reduction in solvency period (2032/2033)
- \$350 million reduction in revenue
- Cost-shifting measures will need to be implemented at accelerated pace, i.e., increased premiums, copays, deductibles and coinsurance

NMRHCA Fund Balance History - September 2006 - September 2016



Investment	Long Term Target	Investment	Long Term Target
Large Cap Index	20.0%	Private Equity	10.0%
Mid/Small Cap	3.0%	Real Estate	5.0%
Non US Developed	12.0%	Credit & Structured Finance	10.0%
Emerging Markets	15.0%	Absolute Return	5.0%
Core Bonds	20.0%		
Total	70.0%	Total	30.0%

GASB Reporting Requirement Updates

GASB 43: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)

- Implemented GASB Statement 43 for the year ending June 30, 2006 (GASB 45 for individual employer groups)
- Accounting and reporting standards similar to pension plans
- Valuation performed biannually
- Results are included as notations to that state's financial statements

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

- Replaces the requirements of GASB Statements 43
- Proposes new standards for financial reporting for OPEB benefit plans
- Effective for fiscal years beginning after June 15, 2016 (FY2017)

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)

Major Changes With New GASB Requirements

- Statements just issued in July and are still being evaluated by NMRHCA actuaries
- Similar methodology to GASB pension statements 67 and 68
- Net liabilities will be reported as part of the employer's balance sheet
 - NMRHCA will use GASB 74
 - Participating employers will use GASB 75
 - State
 - Municipalities
 - Counties
- Discount rates based on AAA Municipal Bond Yields (most likely to be less than 5% currently used)
- Changes will most likely result in an increase to liability calculations as well as increased actuarial costs

Potential 2017 Legislation

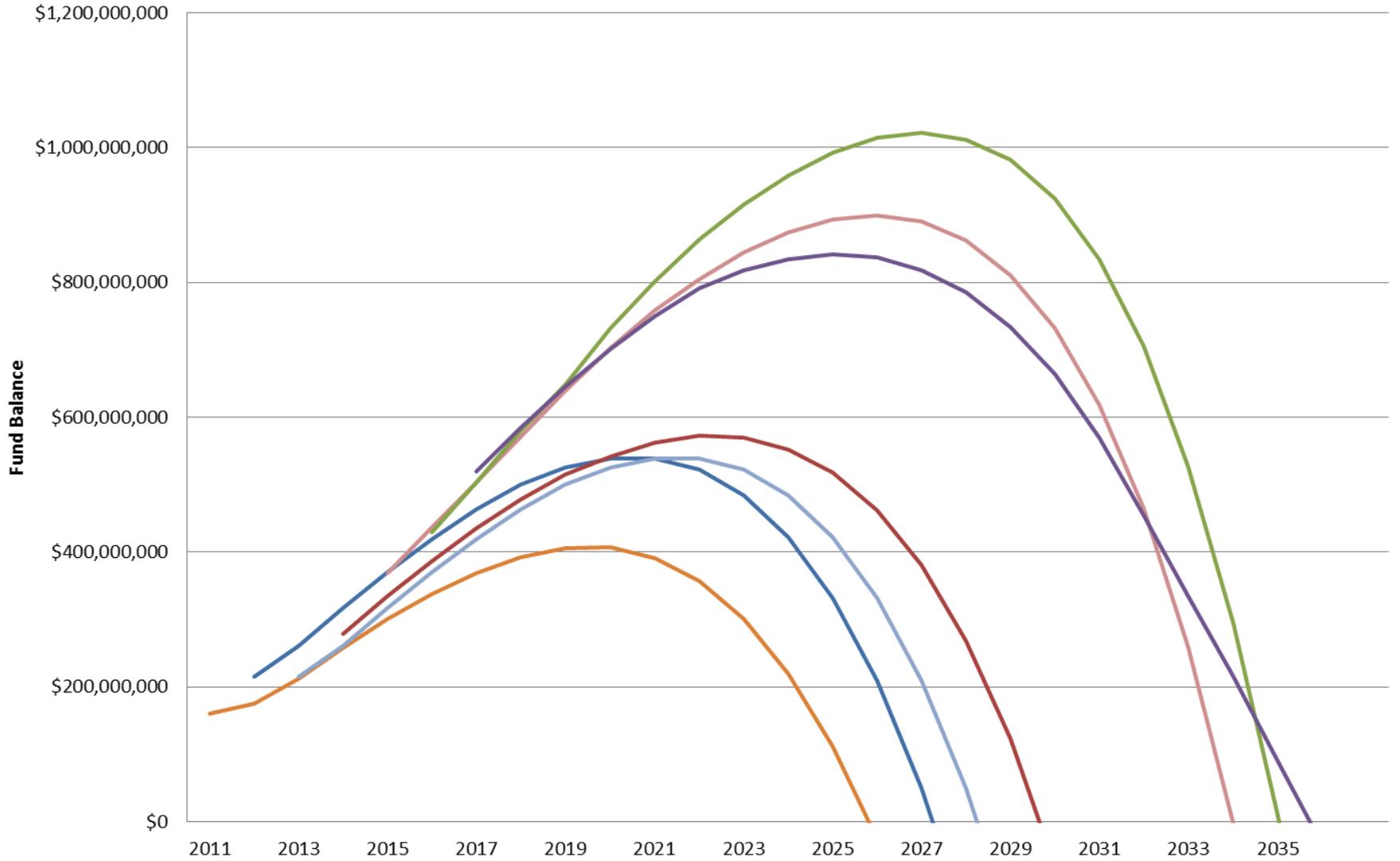
Introduced Legislation:

- 2013 – Introduced legislation requesting 2.5% total contribution increase – passed through multiple committees in both chambers, but received no floor votes
- 2014 – Introduced legislation requesting 2.5% total contribution increase – passed through multiple committees in both chambers and passed house floor vote
- 2015 – Introduced legislation requesting 1.25% contribution increase – passed through multiple committees in both chambers and passed house floor vote
- 2016 – Introduced legislation requesting 1.25% contribution increase – passed through multiple committees in both chambers and passed house floor vote
- 2017 - No Request for Increase from Employee/Employer Contributions

Introduction of Memorial:

- NMRHCA is an important benefit to many people in New Mexico and a major source of health care financing
- Past financial problems overcome when working together with the legislature
- Impact of additional improvements made through increased cost sharing for retirees
- Legislative collaboration with Board of Directors to improve the long-term viability of the program

NMRHCA Solvency Projections - 2010 through 2016



— 2010 Projection — 2011 Projection — 2012 Projection — 2013 Projection — 2014 Projection — 2015 Projection — 2016 Projection