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FISCAL IMPACT REPORT

SPONSOR: Vigil DATE TYPED: 02/27/01 HB 755
 SHORT TITLE: Tobacco Settlement to Retiree Health Care SB _____
 ANALYST: Carrillo

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY01	FY02		
	\$ 2,025.0			Recurring	Retiree Health Care Fund

(Parenthesis () Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (2,025.0)	\$ (2,025.0)	Recurring	Tobacco Settlement Program Fund
	\$ 2,025.0	\$ 2,025.0	Recurring	Retiree Health Care Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to SB 71, Retiree Health Care Contribution Levels

SOURCES OF INFORMATION

Retiree Health Care Authority
 Health Policy Commission

SUMMARY

Synopsis of Bill

House Bill 755 proposes to distribute 10 percent of the money in the Tobacco Settlement Program Fund to the Retiree Health Care Fund.

Significant Issues

Revenue sources to the Retiree Health Care Fund include payroll assessments on employers and employees, retiree premiums, income taxes paid on state pension income (Tax Administration Suspense Fund), interest income and charges for optional coverage. The first chart shows the percentage derived from each source of revenue. The second chart illustrates the annual revenue trends. The percentage contribution from the retirees has steadily increased, while the remaining revenue sources have decreased.

Revenue Source	FY98 Actual	FY99 Actual	FY00 Actual	FY01 Operating Budget	FY02 Projected
Employer	27.0%	24.4%	25.1%	24.6%	22.7%
Employee	13.6%	12.1%	12.4%	12.3%	11.3%
Retiree	28.7%	34.2%	38.3%	44.6%	48.6%
Investment	24.9%	23.3%	18.1%	12.4%	11.6%
State Pension	5.4%	5.0%	5.0%	5.0%	4.8%
All Other*	0.4%	1.0%	1.1%	1.1%	1.0%

* Rebates and refunds.

Revenue Source	FY98 Actual	FY99 Actual	FY00 Actual	FY01 Operating Budget	FY02 Projected
Employer	21,073.8	22,279.0 5.7%	24,033.5 7.9%	24,754.5 3.0%	25,497.1 3.0%
Employee	10,624.1	11,066.9 4.2%	11,839.7 7.0%	12,377.3 4.5%	12,748.6 3.0%
Retiree	22,460.6	31,148.3 38.7%	36,615.8 17.6%	44,769.2 22.3%	54,820.1 22.5%
Investment	19,453.5	21,205.8 9.0%	17,294.8 -18.4%	12,414.5 28.2%	13,000.6 4.7%
State Pension	4,255.6	4,510.9 6.0%	4,781.5 6.0%	5,068.4 6.0%	5,372.5 6.0%
All Other*	320.0	933.3 191.9%	1,083.6 13.7%	1,083.6 0.0%	1,083.6 0.0%

Total	78,187.6	91,144.2 16.6%	95,648.9 4.9%	100,467.5 5.0%	112,522.5 12.0%
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During the 2000 legislative session, the Retiree Health Care Act was amended to include provisions for service-to-benefit credit. This amendment authorized the board to establish a subsidy scale for retirees and their eligible dependents commensurate with the retiree’s years of credited service with a participating employer. This affects members retiring as of July 1, 2001. This change added one year of solvency to the reserve fund. With this change, the actuarial consultant projects the Retiree Health Care Fund solvent to 2012. The RHCA board adopted a policy for a rolling 25-year solvency period. This projection is 13 years short of complying with the Board’s solvency policy. The Legislative Finance Committee continues to encourage the Retiree Health Care Authority Board to reconsider its policy and target a more realistic rolling solvency period. The Board could amend the policy to a rolling 15-year solvency period and, when that target is met, amend the policy.

For FY00, 53.2 percent (\$19.1 million) of the employer and employee contributions were used to pay costs of current retirees, and the remaining 46.8 percent (\$16.8 million) was credited to the reserve fund. The revenue credit is used to pre-fund benefits for future retirees. The chart below illustrates that the revenue credit to the reserve fund will be exhausted by FY04.

Reserve Fund Revenue				
FY98 Actual	FY99 Actual	FY00 Actual	FY01 Operating Budget	FY02 Projected
21,117.6	26,801.9	16,788.7	9,647.7	4,045.6

Section 10-7C-13 NMSA 1978 was amended to limit the premium increase on retiree contributions to 9 percent per year. The projected costs of the current retirees for FY02 will be subsidized by 49.7 percent. If current healthcare trends continue, RHCA will begin to use the reserve to subsidize retiree costs in FY05.

The following chart shows the projected reserve fund balances.

Reserve Fund Projected Activity FY98 through FY1					
Fiscal Year	Beginning Balance	Projected Revenue	Projected Expenditure	Ending Balance	Percentage Change
FY98	79,078.5	78,187.4	55,726.8	101,539.4	
FY99	101,539.4	91,144.2	64,342.3	128,341.1	26.4%
FY00	128,341.1	95,648.8	76,553.8	147,436.1	14.9%
FY01	147,436.1	100,467.4	90,819.7	157,083.8	6.5%
FY02	157,083.7	112,522.5	107,793.1	161,813.2	3.0%
FY03	161,813.2	119,695.5	115,132.6	166,576.1	2.9%
FY04	166,576.1	129,285.2	127,372.7	168,488.6	1.1%

FY05	166,488.6	139,029.6	139,616.3	167,901.9	(0.3%)
FY06	167,901.9	149,517.1	152,833.4	164,785.6	(1.9%)
FY07	164,785.6	150,752.4	156,619.1	158,868.9	(3.6%)
FY08	158,868.9	173,209.8	182,833.9	149,244.8	(6.1%)
FY09	149,244.8	186,489.6	200,050.5	135,683.9	(9.1%)
FY10	135,683.9	201,125.9	219,492.9	117,316.9	(13.5%)
FY11	117,316.9	217,100.6	241,115.4	93,302.1	(20.5%)
FY12	93,302.1	234,017.1	264,515.2	62,804.0	(32.7%)
FY13	62,804.0	251,627.5	289,556.0	24,875.5	(60.4%)
FY14	24,875.5	270,363.9	316,593.4	(21,354.0)	(185.8%)
FY15	(21,354.0)	293,784.5	345,205.1	(72,774.6)	(240.8%)

The LFC continues to encourage the Board to seek options that are beneficial to the Fund, employers, employees and retirees. These options may include:

- Ⓒ Restructuring the current subsidy levels for retirees residing instate;
- Ⓒ Restructuring the current subsidy levels for retirees residing out-of-state;
- Ⓒ Alternative premium schedules for retirees that work full- and part-time;
- Ⓒ Amending Section 10-7C-13 NMSA, the 9-percent limitation;
- Ⓒ Rethinking the length of the rolling solvency period; and
- Ⓒ Redefining benefit packages.

FISCAL IMPLICATIONS

House Bill 755 appropriates 10 percent of the annual distributions from the Tobacco Settlement Permanent Fund to the Retiree Health Care Fund. The estimated distribution for FY02 is \$20,250.0.

RELATIONSHIP

House Bill 755 is related to SB71, Retiree Health Care Contribution Levels

OTHER SUBSTANTIVE ISSUES

The following shows benefits-related trends. The percentage indicates the change from one fiscal year to the previous fiscal year. The largest increases occur in the medical and prescription drug areas. These increases are in line with nationally projected increases. The non-Medicare participants are responsible for 65 percent of the medical utilization and 30 percent of prescription drug costs.

UTILIZATION					
	FY98 Actual	FY99 Actual	FY00 Actual	FY01 Operat- ing Budget	FY02 Pro- jected
Number of Partici- pants	25,369	27,210 6.7%	28,865 6.1%	30,334 5.1%	31,985 5.4%
Medical	37,901.5	41,934.9 10.6%	50,978.5 21.6%	55,241.5 8.4%	64,412.6 16.6%
Prescrip- tion Drugs	13,067.1	15,062.6 15.3%	17,431.0 15.7%	26,360.1 51.2%	33,433.0 26.8%
Ancillary*	1,343.1	1,426.9 6.2%	1,531.6 7.3%	1,689.4 10.3%	1,791.5 6.0%
Dental	1,850.4	2,476.4 33.8%	3,098.0 25.1%	3,321.8 34.1%	3,758.8 13.2%
Vision	470.7	536.4 14.0%	635.1 18.4%	723.2 13.9%	813.8 12.5%
Other**	1,034.3	1,195.4 15.6%	1,358.4 13.6%	1,527.4 12.4%	1,642.1 7.5%
Total	55,667.1	62,632.6 12.5%	75,032.6 19.8%	88,863.4 18.4%	105,851.8 19.1%

* Basic Life and Accidental Death & Dismemberment.

** Voluntary Life and Long-term Care.

The chart shows a breakdown of non-medicare-and medicare-eligible members including growth rate in percent.

Partici- pants	FY98 Actual	FY99 Actual	FY00 Actual	FY01 Operat- ing Budget	FY02 Projected
Non- Medicare	12,367	12,572 1.7%	13,089 4.1%	13,528 3.4%	14,133 4.5%
Medicare	13,002	14,638 12.6%	15,776 7.8%	16,806 6.5%	17,852 6.2%
Total	25,369	27,210 7.3%	28,865 6.1%	30,334 5.1%	31,985 5.4%

The Medicare-eligible participants are increasing at a faster rate than the non-Medicare eligible participants. The Medicare-eligible participants are responsible for approximately 70 percent of the prescription drug costs and 35 percent of the medical utilization. As noted on the utilization chart, medical and prescription drug trends are projected to increase 16.6 percent and 26.8 percent respectively for FY02.

WJC/prr