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FISCAL IMPACT REPORT

SPONSOR: Altamirano DATE TYPED: 03/01/01 HB _____
 SHORT TITLE: Retiree Health Care Contribution Levels SB 71/aSFC
 ANALYST: Carrillo

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY01	FY02		
		See Fiscal Implications			

(Parenthesis () Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
		See Fiscal Implications		

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

- LFC Files
- Retiree Health Care Authority
- New Mexico Gaming Control Board
- Office of the State Auditor
- Department of Game and Fish
- New Mexico State Highway and Transportation Department
- No Response:
- New Mexico Health Policy Commission
- Public Employees Retirement Association
- Educational Retirement Board
- Department of Finance and Administration

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State Personnel Office – No Response
 Public School Insurance Authority
 General Services Department
 Administrative Office of the Courts
 Taxation and Revenue Department
 State Department of Public Education
 Commission on Higher Education

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment to Senate Bill 71 does the following:

Adds a new section removing the 9 percent cap on group health care trend increases after FY08. After FY08, the increase shall not exceed the Retiree Health Care Authority’s group health care trend.

Deletes the original bill’s proposed employer 1.85 percent and employee .925 percent increases beginning in FY08.

The portion of the Fiscal Implications section referring to FY08 and beyond is no longer valid. The remainder of the Fiscal Implications section remains unchanged. The fiscal impact of SB 71/a is:

(\$6,020.0)/year	Recurring	General Fund
(\$ 362.9)/year	Recurring	Other State Funds
(\$ 153.2)/year	Recurring	Internal Services/Interagency Transfers
(\$ 821.9)/year	Recurring	Federal Funds
\$7,357.8/year	Recurring	Retiree Health Care Fund
FY02-FY08	(\$9,107,391)*	Recurring General Fund
FY02-FY08	\$9,107,391*	Recurring Retiree Health Care Fund

*The detail is presented in the Fiscal Implications Section.

The remainder of the FIR is unchanged.

Synopsis of Original Bill

Senate Bill 71 proposes to increase the Tax Administration Suspense Fund distribution and the employer and employee contribution rates made to the Retiree Health Care Fund. The following illustrates the proposed increases.

Tax Administration Suspense Fund	
Current Distribution	Proposed Distribution
106% of the prior fiscal year’s distribution	112% of the prior fiscal year’s distribution

Employer Contribution	
Current Contribution	Proposed Contribution
1% of each participating employee's annual salary	FY02 through FY07 – 1.3% of each participating employee's annual salary FY08 and beyond – 1.85% of each participating employee's annual salary

Employee Contribution	
Current Contribution	Proposed Contribution
.5% of the employee's annual salary	FY02 through FY07 – .65% of each participating employee's annual salary FY08 and beyond – .925% of each participating employee's annual salary

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%

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, employees, employees and retirees. These options may include:

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

FISCAL IMPLICATIONS

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SB 71 contains no appropriation. However, the following table illustrates the fiscal impact to the various funds. The FY00 actual payroll valuation for PERA and ERA members used for the calculations are from the respective actuarial studies for the period ended June 30, 2000. NOTE: No adjustment has been made for cost-of-living or classification adjustments.

APPROPRIATION (To the Retiree Health Care Fund)			
Fiscal Year	Estimated Additional Impact	Recurring or Non-Recurring	Fund Affected
FY02-FY07	(6,020.0)/year (362.9)/year (153.2)/year (821.9)/year 7,357.8/year	Recurring Recurring Recurring Recurring Recurring	General Fund Other State Funds* Internal Services/Intragency Transfers Federal Funds Other State Funds (Retiree Health Care Fund)
FY08 & Beyond	(1,1036.7)/year (665.4)/year (280.9)/year (1,506.3)/year 13,89.3/year	Recurring Recurring Recurring Recurring Recurring	General Fund Other State Funds* Internal Services/Intragency Transfers Federal Funds Other State Funds (Retiree Health Care Fund)
FY02-FY08	(9,107,391)** 9,107,391	Recurring Recurring	General Fund Other State Funds (Retiree Health Care Fund)

*Other State Funds include: Land Income, Road Fund, Fee Income, Retirement Funds, Alcohol Detox Fund, Investment Income, Interest Income, Canteen Sales.

** The detail is presented in the following chart.

EMPLOYER (dollars in thousands)					
Contribution Period	General Fund	Other State Funds	Internal Services/ Interagency Transfers	Federal Funds	Total
Proposed FY02-FY07 Rate (1.3%)					
PERA	872.9/year	362.9/year	153.2/year	550.7/year	1,939.8/year
ERA	<u>5,147.1/year</u>			<u>270.9/year</u>	<u>5,418.0/year</u>
TOTAL	6,020.0/year	362.9/year	153.2/year	821.9/year	7,357.8/year
Proposed FY08 & Beyond Rate (1.85%)					
PERA	1,600.3/year	665.4/year	280.9/year	1,009.6/year	3,556.2/year
ERA	<u>9,436.4/year</u>			<u>496.7/year</u>	<u>9,933.0/year</u>
TOTAL	11,036.7/year	665.4/year	280.9/year	1,506.3/year	13,489.3/year

The following shows the negative impact to the Tax Administration Suspense Fund (General Fund) and the positive impact to the Retiree Health Care Fund. The calculation is based on information from the Taxation and Revenue Department and RHCA's actuarial study for the period ended June 30, 2000. The impact is compound annually because the distribution formula is based on the previous years distributed amount.

Tax Administration Suspense Fund (General Fund) and Retiree Health Care Fund (dollars in thousands)		
Fiscal Year	General Fund	Retiree Health Care Fund
FY03	(322,352)	322,352
FY04	(702,729)	702,729
FY05	(1,149,251)	1,149,251
FY06	(1,671,088)	1,671,088
FY07	(2,278,580)	2,278,580
FY08	(2,983,391)	2,983,391

The employee impact is illustrated below.

EMPLOYEE (dollars in thousands)					
Contribution Period	General Fund	Other State Funds	Internal Services/ Interagency Transfers	Federal Funds	Total
Proposed FY02-FY07 Rate (.65%)					
PERA	436.4/year	181.5/year	76.6/year	275.4/year	969.9/year
ERA	<u>2,573.6/year</u>			<u>135.5/year</u>	<u>2,709.0/year</u>
TOTAL	3,010.0/year	181.5/year	76.6/year	410.8/year	3,678.9/year
Proposed FY08 & Beyond Rate (.925%)					
PERA	800.2/year	332.7/year	140.5/year	504.8/year	1,778.1/year
ERA	<u>4,718.2/year</u>			<u>248.3/year</u>	<u>4,966.5/year</u>
TOTAL	5,518.3/year	332.7/year	140.5/year	753.1/year	6,744.6/year

According RCHA staff, these proposed changes will extend the solvency period of the fund to 2026.

ADMINISTRATIVE IMPLICATIONS

RHCA staff indicated in the agency bill analysis that without these changes the board “will be forced to strip befits by approximately 23% or again pass significant premium contribution increases of approximately 40% to current participants, or a combination thereof, in order to attain the 25-year solvency period.”

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 Operating Budget	FY02 Projected
Number of Participants	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%
Prescription 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.

Participants	FY98 Actual	FY99 Actual	FY00 Actual	FY01 Operating 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.

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