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FISCAL IMPACT REPORT

SPONSOR Lujan, B DATE TYPED 3/08/05 HB 812/aHF1#1/aHF1#2

SHORT TITLE Retiree Health Care Accountability SB _____

ANALYST Geisler

APPROPRIATION

| Appropriation Contained | | Estimated Additional Impact | | Recurring or Non-Rec | Fund Affected |
|-------------------------|------|-----------------------------|---------------|----------------------|---------------|
| FY05 | FY06 | FY05 | FY06 | | |
| | | | See narrative | | |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Retiree Health Care Authority (RHCA)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of House Floor Amendment #2

House Floor Amendment 2 to House Bill 812 clarifies that “the fund shall be maintained in actuarially sound condition as evidenced by the annual written certification of a qualified actuary using nationally recognized actuarial standards of practice.”

Synopsis of House Floor Amendment #1

House Floor Amendment 1 to House Bill 812 exempts RHCA administration related activities from a list of disbursements which shall be made only upon warrant drawn by the Secretary of Finance and Administration.

Synopsis of Original Bill

House Bill 812 amends Section 10-7C-8 of the Retiree Health Care Act to:

- 1) Requires that disbursements from the fund other than benefit and related payments shall be made only upon warrant drawn by DFA pursuant to vouchers signed by the director of the authority;

- 2) Requires the board to obtain investment advice from the state treasurer, the state investment council/state investment officer, and the board of finance.
- 3) Requires that the fund be maintained in actuarially sound condition and be independently certified as such annually by a qualified actuary.

Significant Issues

The bill is intended to ensure that RHCA is managed in a fiscally-sound manner. Specific comments on bill provisions by DFA and RHCA follow:

1) Vouchering through DFA.

RHCA already vouchers payments for all its budgeted programs through DFA. The bill would codify in statute that the agency is required to voucher for payments for administrative costs (program support) but not necessarily for those related to the processing of insurance claims (benefits program). The language proposed in the bill is similar to, but not the same as, language in the Public School Insurance Authority's (PSIA) enabling statute regarding vouchering payments through DFA (Section 22-29-6(F) NMSA 1978).

2) Requirement for RHCA to seek investment advice.

DFA notes that the provision requiring RHCA to receive advice from other state agencies on designation of its long-term reserves should ensure increased oversight and lead to long-term stability of the Fund. RHCA believes that the bill adds layers of oversight that may not be necessary or prudent, and in some cases are duplicative. RHCA does not believe additional oversight is necessary, since the current status in these areas is the best it has ever been and exceeds comparable funds in performance, and no valid performance deficiencies have been identified or documented. Investments are currently valued at \$151 million and actuarial solvency is projected at over 20 years, which is a 5-year cushion beyond the legislatively established performance measure of 15 years (careful monitoring by the board will be necessary over the next 5 years to avoid falling below that measure).

RHCA supports accountability, but already believes adequate and effective oversight already exists: RHCA's independent actuary for benefits and solvency, and that State Investment Council and their consultant for investments, with LFC and DFA overseeing all, and independent public accountant and State Auditor Office reviews. The State Treasurer already holds a statutorily appointed position on the RHCA's board of directors and currently serves on the board's investment committee, so this proposal would in effect give that position three votes on RHCA investments and reserves. When a State Treasurer promotes policies contrary to advice from the majority of the board, SIC and its consultant, and the independent actuary, this proposal would give a minority opinion undue weight.

Currently, long-term reserves are considered to be all monies not needed for current year expenditure. They are invested through SIC. Only funds needed for current operations and expenses are held in the "overnights" at the State Treasurer's Office, and earn less than 1% interest.

RHCA continues: of the other entities named to give investment advice, RHCA already obtains

advice from SIC and the state investment officer, but it is not clear for what reason the state board of finance is included, except that nearly all positions are related to the executive. RHCA notes the language of section 1 (D) is problematic: “Before deciding which money in the fund constitutes the long-term reserves..., the board shall obtain investment advice from state agencies with investment expertise...” RHCA does not believe that advice on what constitutes reserves from agencies whose expertise is not on health care issues would be credible.

3) Annual Independent Certification of Retiree Health Care Fund Actuarial Position.

DFA notes that requiring an annual actuarial study to ensure that the Fund is actuarially sound in statute would help ensure the long-term stability of the Fund. RHCA currently contracts for annual actuarial studies. However, because RHCA's record in meeting its solvency targets has been uneven, it may be prudent to also include a requirement that an independent review of the actuarial studies be performed every few years in order to gauge the difference between the performance predicted by recent actuarial analyses and actual performance at the time of the independent review (see proposed amendment). RHCA notes that they are already in compliance with the language regarding actuarial soundness and certification, although the intent of the bill amendment is unclear without a definition of “actuarially sound condition.” (See proposed amendment below).

FISCAL IMPLICATIONS

DFA notes that the increased oversight requirements and statutory requirement for actuarial soundness should improve the long-term stability of the Retiree Health Care Fund. RHCA states that HB 812 could negatively affect the growth of the fund.

ADMINISTRATIVE IMPLICATIONS

RHCA notes that additional layers of bureaucracy would slow the work of the RHCA.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

Per RHCA, status quo. Per DFA The agency would not be required by statute to voucher payments, seek the advice of agencies with investment expertise regarding long-term reserves, and to conduct an annual actuarial study to ensure actuarial soundness of the Retiree Health Care Fund.

AMENDMENTS

DFA suggests amending Subsection E of Section 1 of the bill to require that an independent review of RHCA's actuarial studies be conducted every 3-4 years. This independent review should be paid for by RHCA but contracted through another agency to ensure that the review is truly independent.

RHCA suggests deleting the amendments proposed in Section 10-7C-8(D) relating to RHCA seeking independent investment advice and defining “actuarially sound condition” in Section 10-7C-8(E).