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

SPONSOR Varela **ORIGINAL DATE** 2/1/07 **LAST UPDATED** 3/15/07 **HB** 728/aSFC

SHORT TITLE Distributions to Retiree Health Care Fund **SB**

ANALYST Francis

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
100.0		Nonrecurring	Cash Balances

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	($3,000.0)	($3,000.0)	Nonrecurring	General Fund
	$3,000.0	$3,000.0	Recurring	Retiree Health Care Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
New Mexico Retiree Health Care Authority (NMRHCA)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amended House Bill 728 replacing the change in monthly distribution with a supplemental monthly distribution of $250 thousand for FY08, FY09 and FY10. The amendment also requires a study relating to the Retiree Health Care Fund conducted by a joint staff working group from the Legislative Finance Committee, the Legislative Council, the governor's office and the Retiree Health Care Authority. This working group will look at long-term actuarial trends, contribution rate equity between retirees and current employees, comparisons of the state and the local entities and the feasibility of creating two separate programs and whether or not the fund should be placed in an irrevocable trust. The working group will report its findings no later than December 15, 2007.

Synopsis of Original Bill

House Bill 728 increases the distribution to the retiree health care fund from the tax administration suspense fund. Under current law, there is monthly distribution equivalent to one-twelfth of the distribution in the prior fiscal year plus 12 percent for inflation. HB728 changes the distribution in FY08 to $1.25 million per month and then subsequent fiscal years will grow from this new base using the 12 percent growth rate.

The effective date is July 1, 2007.

FISCAL IMPLICATIONS

The fiscal impact is a nonrecurring distribution from the general fund of $3 million for three years: FY08 through FY09.

SIGNIFICANT ISSUES

The Retiree Health Care Authority (RHCA) faces unique challenges that could impact the long-term soundness of the system. Last year, RHCA reported a solvency period of 25 years. The authority questioned some assumptions in that projection: the sustainability of the federal Medicare Part D prescription drug subsidy over a 25-year period, the sustainability of recent rates of return on investments over a 25-year period, and the adequacy of current planning for premium and membership increases. They now believe the solvency period is 9 to 11 years which makes shoring up the fund urgent.

Additionally, it appears that some entities that have joined RHCA may have done so under a formula that significantly underestimated the full and correct buy-in costs. RHCA has begun a rule-making proceeding to determine and implement an appropriate rate for future entrants, and to determine if recoupment from past entrants is possible. The lack of certainty in such a fundamental function of the authority only adds to concern about the accuracy of recent long-term projections and the long-term health of the program.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The RHCA faces the challenge of a narrow (9 to 11 years) solvency period that must be addressed either by increased distributions, as proposed here, increased premiums charged to the retirees, or decreased benefits.

RHCA:

> For the past several years, NMRHCA has operated at a deficit. The deficit has been fueled by membership growth of 8% per year and double-digit claims cost increases. This bill assists NMRHCA to continue to operate and provide much needed health care benefits to eligible retirees and their dependents of participating public institutions.

NF/nt