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FISCAL IMPACT REPORT

ORIGINAL DATE 2/20/07

SPONSOR Lujan, B. LAST UPDATED _____ HB 1086

SHORT TITLE Retiree Health Care Fund as Irrevocable Trust SB _____

ANALYST Propst

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Retiree Health Care Authority (RHCA)

Higher Education Department (HED)

SUMMARY

Synopsis of Bill

House Bill 1086 establishes the Retiree Health Care Fund an irrevocable trust. It is intended to help ensure that the assets of the Fund are used solely for the provision of health care benefits for eligible participating retirees, their spouses and dependents. Additionally, HB 1086 provides that administration of the benefits will be an allowable expenditure.

SIGNIFICANT ISSUES

HB 1086 creates the Retiree Health Care Fund, an irrevocable trust that will hold in trust all funds, assets, proceeds, income, contributions and payments from any source whatsoever paid to or otherwise accruing to the Fund. The Board of RHCA will serve as the trustees of the Fund, and have the responsibility for administration and investment of the Fund. Investment of the assets of the fund shall continue to be managed by the NMSIC. The Board of RHCA will also provide for the collection of premiums from eligible retirees and eligible dependents of participating public institutions. That money, when combined with other money appropriated to the Fund, should be sufficient to provide the required group health insurance coverage and to pay the expenses of the Authority. Assets held in trust will be legally protected from creditors of the

employers participating in or eligible to participate in the Retiree Health Care Act and from creditors of all members of the Board of RHCA. All money in the Fund shall be invested and all income earned from investment of the Fund shall be credited to the Fund. Funds remaining at the end of any fiscal year will not revert to the State General Fund.

RHCA reports that in addition to protecting the assets of the fund for the provision of retiree health care benefits, HB 1086, if passed, will reduce the valuation of the agency's unfunded actuarial accrued liability (UAAL) from \$5,000,000.0 to \$3,730,000.0. This valuation is the result of a new General Accounting Standard Board requirement 43. Although bond rating agencies have said they will not revise state bond ratings in the first year of GASB 43 implementation, this bill seeks to lower the unfunded liability prior to any revision of the State Bond Rating by placing the assets (and all future assets) in an irrevocable trust. Several states have already placed their post employment other than pension benefits (OPEB) in irrevocable trusts for the very same reason. Please note that if the State Bond Rating is dropped, this will affect the State's rate at which it borrows capital.

ADMINISTRATIVE IMPLICATIONS

RHCA reports that, all premiums and other money collected by RHCA will be received and disbursed directly by the RHCA. Receipts and disbursements are subject to audit by the State Auditor. The Board of RHCA will determine which money in the fund constitutes the long-term reserves of the Authority. The State Investment Officer will invest the long-term reserves of RHCA in accordance with the provisions of Sections 6-8-1 through 6-8-16 NMSA 1978. All premiums and other money collected by RHCA will be received and disbursed directly by the Authority.

WEP/csd