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

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|---|---|---|---|---|---|
| | | **ORIGINAL DATE** | 01/29/14 | | |
| **SPONSOR** | Trujillo, J | **LAST UPDATED** | | **HB** | 27 |
| **SHORT TITLE** | Retiree Health Care Contributions | | | **SB** | |
| | | | | **ANALYST** | Hanika-Ortiz |

## REVENUE (dollars in thousands)

| **Estimated Revenue** | | | **Recurring or Nonrecurring** | **Fund Affected** |
|---|---|---|---|---|
| **FY14** | **FY15** | **FY16** | | |
| | $15,000.0 | $30,000.0 | Recurring | RHCA Fund |

(Parenthesis ( ) Indicate Revenue Decreases)

## ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| **FY14** | **FY15** | **FY16** | **3 Year Total Cost** | **Recurring or Nonrecurring** | **Fund Affected** |
|---|---|---|---|---|---|
| | $5,000.0 | $5,000.0 | $10,000.0 | Recurring | General Fund |
| | $2,500.0 | $2,500.0 | $5,000.0 | Recurring | Schools |
| | $2,500.0 | $2,500.0 | $5,000.0 | Recurring | LPBs |

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB 135

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Retiree Health Care Authority (RHCA)
Administrative Office of the Courts (AOC)
Central New Mexico Community College (CNM)

**SUMMARY**

Synopsis of Bill

House Bill 27 amends the Retiree Health Care Act by increasing employee and employer contributions paid to the Retiree Health Care Fund (Fund). The employee contribution gradually increases from 1 percent to 1.75 percent over 6 years, from FY15 to FY20. The employer contribution also gradually increases from 2 percent to 3.5 percent, over this same time period. If fully implemented, total contributions to the Fund will increase from 3 percent to 5.25 percent of wages. Contributions for public safety employees and employers will increase slightly more to account for the smaller number of years worked during an average public safety career.

## FISCAL IMPLICATIONS

If fully implemented in FY20, an additional $90 million per year will be directed toward the Fund as compared to FY14. At that time, the total recurring General Fund impact will be about $30 million with the remaining balance coming from other state funds and federal funds.

State agencies, schools, and local public bodies will be expected to cover the employer share of the cost increases for FY15 with vacancy savings. Afterwards, additional funding will be needed for each of the six years of increases to pay for additional employer contributions to the Fund.

## SIGNIFICANT ISSUES

The Retiree Health Care Authority (RHCA) plan was originally set up as a “pay as you go” model and as such does not have enough money set aside to sufficiently invest and “pre-fund” retiree benefits for current employees. Even though the balance in the Fund is now $320 million, the unfunded accrued actuarial liability (UAAL) is $3.6 billion and the funded ratio is 6 percent. In 2029, the program’s expenses are expected to exceed all sources of revenue by $95 million.

According to the RHCA, most retirees receiving benefits from the RHCA since retirement have not make career contributions that match the actual benefits they are now receiving. Currently, an employee earning an annual salary of $40,000 pays $15.39 per pay period and the employer pays $30.77 for a total of $46.16 per pay period. Under the bill, that same employee will pay $26.93 and the employer will pay $53.85 for a total of $80.78 per pay period. Overall, net take home pay will be reduced by $1.92 each pay period the first year, $3.84 the second year, $5.76 the third year, $7.69 the fourth year, $9.62 the fifth year and $11.54 the sixth and final year.

Unlike pension contributions, the employee may not ask for a refund of his or her employee contributions towards the retiree health care benefit when they leave state employment.

The RHCA Board has a five-year plan to extend solvency, defined as having a positive fund balance, from 15 to 30 years. The plan includes a graduated minimum requirement to receive a subsidy, increasing the years of service from 20 to 25 years to receive the maximum subsidy, increasing cost-sharing for retirees and spouses too young for Medicare as primary coverage, and increasing career contributions to 5.25 percent of wages. If the increases in contributions are fully implemented in FY20, the changes will increase annual revenue to the Fund by $90 million, with $30 million from the general fund. This, in combination with the remaining elements of the five-year plan to cut spending, is expected to provide a positive fund balance for 30 years.

## PERFORMANCE IMPLICATIONS

According to the Retiree Health Care Act, the RHCA has broad authority to make changes to benefits and subsidies and only requires a statutory change for contribution increases.

The Retiree Health Care Act, Section 10-7C-15(G) states the following: *Notwithstanding any* *other provision in the Retiree Health Care Act and at the first session of the legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.*

**OTHER SUBSTANTIVE ISSUES**

The RHCA covers 50 thousand retirees with self-insured medical plans if not Medicare-eligible, or Medicare Supplement and Medicare Advantage plans if eligible. The program is the secondary payer once retirees become Medicare-eligible, which significantly reduces claims expenses. Since 2009, participation has grown by 11,183 members, or 27 percent. The average age of a member is 58 for a pre-Medicare retiree and 74 for a Medicare-eligible retiree. About 40 percent of members are under age 65 and 8 percent are under age 55. Upward cost pressures include a 5 percent growth in new retirees each year and medical inflation averaging 4 percent.

**ALTERNATIVES**

To add a couple of more years of solvency, the RHCA could gradually reduce the subsidy for the $6 thousand life insurance benefit and offer an affordable guaranteed issue alternative. Currently, about $120 million of the plan's unfunded accrued actuarial liability is due to the current benefit.

Rather than increasing career contributions to match the value of the current benefit, the RHCA could consider reducing the value of the benefit to match the current career contribution. In any event, preserving the benefit for older retirees should be the primary consideration.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

The program's UAAL and annual required contributions to fund present and future benefits will not decrease in the absence of profound changes to eligibility, benefits and subsidy levels.

AHO/ds