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

ORIGINAL DATE 02/19/15
SPONSOR Kernan **LAST UPDATED** 03/18/15 **HB**

SHORT TITLE Retiree Health Care Contribution Rates **SB** 169

ANALYST Hanika Ortiz

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19		
$10,000.0 (from schools and other public employers)	$20,000.0 (from schools and other public employers)	$30,000.0 (from schools and other public employers)	Recurring	RHCA Fund
$3,750.0 (from teachers and other state employees)	$7,500.0 (from teachers and other state employees)	$11,250.0 (from teachers and other state employees)	Recurring	RHCA Fund
$1,250.0 (from local government employees)	$2,500.0 (from local government employees)	$3,750.0 (from local government employees)	Recurring	RHCA Fund

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY17	FY18	FY19	Recurring or Nonrecurring	Fund Affected
$3,600.0	$7,200.0	$10,800.0	Recurring	90% GF (schools)
$280.0	$560.0	$840.0	Recurring	28% GF (universities)
$1,192.0	$2,385.0	$3,577.0	Recurring	53% GF (state agencies)
$2,178.0	$4,355.0	$6,533.0	Recurring	OSF
$250.0	$500.0	$750.0	Recurring	road fund (DOT)
$2,500.0	$5,000.0	$7,500.0	Recurring	local governments

SOURCES OF INFORMATION

New Mexico Retiree Health Care Authority (RHCA)
New Mexico Municipal League (NMML)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 169 amends the Retiree Health Care Act (Act) by increasing employee and employer contribution rates to the New Mexico Retiree Health Care Fund (Fund). The employee payroll contribution increases from 1 percent to 1.375 percent over a 3-year period, starting FY17. The employer contribution increases from 2 percent to 2.75 percent over this same time period.

FISCAL IMPLICATIONS

Employer contributions in FY14 to the RHCA Fund totaled $81 million. The contribution increases in this bill from school, state agency and local government employers would result in an additional $10 million in FY17, $20 million in FY18, and $30 million in FY19 from all funds.

Employee contributions in FY14 to the RHCA Fund totaled $40.5 million. The contribution increases in this bill from teachers and other public employees would result in an additional $5 million in FY17, $10 million in FY18, and $15 million in FY19 and recur. Overall, net take home pay will be reduced $1.92 each pay period in the first year, $3.84 the second year, and $5.76 the third year for the average teacher and public employee earning $40 thousand annually.

RHCA reports upon full implementation in FY19, an additional $45 million per year ($30 million from employers and $15 million from employees) will be directed to the Fund as compared to FY15. The recurring GF impact from the employer increase is about $15.2 million.

SIGNIFICANT ISSUES

Non-salary benefits are a signficiant portion of total compensation received by state employees and are a greater percentage of the total compensation than is seen in other state governments and the private sector. DFA expressed concern that increases to non-salary benefits may come at the cost of salary increases and impede the state’s ability to compete with private sector salaries.

RHCA reports that for every 0.375 increase in contributions, the period of time the program is expected to have a positive fund balance grows about 3 years while the year the program is expected to deficit spend is deferred about 2 years. SB 169, combined with other elements of the RHCA Board’s 5-year plan to reduce spending, supports a positive fund balance through 2040.

NMML notes local governments may need to increase taxes at the local level or reduce services.

OTHER SUBSTANTIVE ISSUES

As of June 30, 2014, the unfunded actuarial accrued liability (UAAL) is $3.4 billion, a decrease of $324 million from the 2012 valuation. The ratio of assets to liabilities increased to 10 percent, from 5 percent, while the annual required contribution decreased to $293 million, from $354 million. NMRHCA has a positive fund balance until 2033 with $400 million invested with SIC.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The Board may need to increase eligibility to age 60, reduce subsidies, or migrate to a DC plan.

AHO/je/aml/bb