LFC Requester:	Joseph Simon

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO
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(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

1.22.25

Bill Number: SJR 2

Check all that apply:
Original X Correction __
Amendment __ Substitute __

Sponsor: Roberto "Bobby" J. Gonzalas
Cynthia Borrego

Short Title: Public Employees Retiree Health Care Funds

Agency Name and Code Number: New Mexico Retiree Health Care Authority 34300

Person Writing Mark Hayden

Phone: 505-377-9012 **Email** mark.hayden@rhca.nm.gov

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
0	0		RHCA Trust

(Parenthesis ( ) indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
0	0	0		RHCA Trust

(Parenthesis ( ) indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	0	0	0	0		RHCA Trust

(Parenthesis ( ) Indicate Expenditure Decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:
The proposed joint resolution seeks to amend Article 20 of the Constitution of New Mexico by adding a new section to prohibit the expenditure or encumbrance of trust funds created for public employees' retiree health care except for the sole and exclusive benefit of the trust beneficiaries. In addition, providing for the administration of the trust funds and affirming certain property rights. The joint resolution provides the amendment question be put before the voters at the next general election or a special election before that time called for the purpose of considering the amendment

FISCAL IMPLICATIONS

As of December 31, 2024, the NMRHCA Trust Fund is valued at approximately $1.6 billion (specifically, $1,588,448,686.70). Established in 1990, the fund has received contributions from both employees and employers. The Constitution of New Mexico state does not protect the NMRHCA Trust Fund from being repurposed by the legislature for other uses.

The growth and protection of this fund are crucial not only for the financial stability of participating government entities but also for preserving their bond ratings. These entities include state, county, and local governments.

SIGNIFICANT ISSUES

If the nearly $1.6 billion in the NMRHCA Trust Fund is diverted for purposes other than retiree health care, approximately 66,000 retirees (as of 2025) who have contributed to this fund throughout their careers would require appropriate compensation. Additionally, such a misallocation could undermine the purchasing power that the agency was established to leverage in 1990.

The fund serves as a reserve to help manage the ongoing rise in healthcare costs and can be used for deficit spending if necessary. This trust fund enables the New Mexico Retiree Health Care Authority to make strategic and cost-effective adjustments for retirees each year. It safeguards retirees from significant and unexpected increases in healthcare expenses that could cause financial strain while ensuring they have access to comprehensive medical coverage.

Over time, a reduction in this trust fund could negatively affect retiree benefits and may force retirees to seek individual insurance without the specialized guidance offered by the New Mexico Retiree Health Care Authority.

Furthermore, the trust fund impacts the unfunded status that is allocated to participating governmental entities. Approximately 93,000 employees who contribute as a condition of employment (as of 2025) working for the 304 participating entities in the retiree health care program reasonably expect that retiree benefits will be available to them upon retirement. These contributions, made by employees and employers, are intended to secure future retiree benefits. Its significance cannot be overstated, as it ensures eligible retirees, along with their spouses and dependents, have access to health insurance funded by their contributions to the retiree health care fund. Any dissolution or misuse of this fund for other purposes would jeopardize or potentially eliminate the healthcare benefits for which the program was created.

If the fund is misused, both retirees and active employees would likely pursue lengthy litigation against the state to preserve their benefits. This potential risk highlights the urgency of protecting the fund. Furthermore, despite the substantial balance of $1.6 billion, this amount is insufficient to reimburse employees individually, further emphasizing the potential risk involved.

PERFORMANCE IMPLICATIONS

Senate Joint Resolution 2 safeguards the trust fund, which is a valuable asset for the program and is utilized in calculating the Governmental Accounting Standards Board (GASB) requirements for Other Post Employment Benefits (OPEB). While not explicitly stated in the state's constitution, both the benefits and future obligations are regarded as equivalent, thereby necessitating specific reporting requirements.

Governmental Accounting Standards (GAS)

The Retiree Health Care Act was established in 1990 to provide comprehensive core group health insurance for individuals who retire from public service. The program was initiated without a significant pre-funding period and began paying benefits for 15,000 members just six months after the agency was created. As a result, the program operated on a "pay as you go" basis.

However, accounting standards for "other post-employment benefits" (OPEB) changed under Governmental Accounting Standards Board (GASB) Statements 43 and 45. These changes required the New Mexico Retiree Health Care Authority (NMRHCA) to report the extent of the program's pre-funding. This information is provided as a footnote in NMRHCA's financial statements and is also referenced by contributing employer groups in their own financial statements.

In 2006, the GASB 43 report estimated the program's actuarial accrued liabilities to be $4.2 billion, backed by $154 million in assets, resulting in a funded ratio of 3.62% for the 140,000 retired and active members. The most recent GASB 74 report estimates the actuarial accrued liability to be $3.3 billion, supported by $1.5 billion in assets, leading to a new funded ratio of 46.99%.

Please see the chart below for a history of NMRHCA's GASB valuations for 2006, 2017, and 2024:

	2006	2017*	2024
GASB Statement	43	74	74
Actuarial Accrued Liability	$ 4,264,180,967	$ 5,111,141,659	$ 3,366,766,868
Actuarial Value of Assets	$ 154,538,668	$ 579,468,641	$ 1,581,966,829
Unfunded Actuarial Accrued Liability	$ 4,109,642,299	$ 4,531,673,018	$ 1,784,800,039
Funded Ratio	3.62%	11.34%	46.99%
Covered Payroll	$ 4,073,731,873	$ 4,165,647,340	$ 5,609,136,993
Total Participants	140,292	160,035	159,125

*Beginning 2017:

Actuarial Accrued Liability = Total OPEB Liability
Actuarial Value of Assets = Plan Fiduciary Net Position
Unfunded Actuarial Accrued Liability = Net OPEB Liability

In 2017, accounting standards underwent further evolution with the introduction of GASB

Statement 74, which replaced GASB Statement 43, and GASB Statement 75. GASB Statement 74 effectively lowered the discount rate applied to the growth of the program's long-term assets. Meanwhile, GASB Statement 75 mandates that employer groups include their pro-rated share of the program's net Other Post-Employment Benefits (OPEB) liabilities on their financial statements' balance sheets.

As of June 30, 2023, several of the state's largest employer groups reported the following Net OPEB Liabilities:

State of New Mexico (all state agencies)	$405,284,734
Albuquerque Public Schools	$190,881,161
Bernalillo County	$ 46,839,511
City of Albuquerque	$112,182,507
Las Cruces School Districts	$ 58,086,942

This is an improvement from 2018 reported Net Liabilities for the same employer groups as shown below:

State of New Mexico (all state agencies)	$1,049,290,625
Albuquerque Public Schools	$ 480,522,776
Bernalillo County	$ 125,875,740
City of Albuquerque	$ 305,426,268
Las Cruces School Districts	$ 133,203,588

The addition of these liabilities to the financial statements of the 303 participating employer groups may affect their future bonding capacity, much like the liabilities associated with the pension plan. This potential impact highlights the serious consequences that may arise from any misuse of the fund.

ADMINISTRATIVE IMPLICATIONS
None.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP
None

TECHNICAL ISSUES
None.

OTHER SUBSTANTIVE ISSUES
One commonly used measure of a program's financial health is the annual solvency study. This study analyzes projected revenues and expenditures over a 30-year period and incorporates assumptions related to factors such as participant growth, payroll, operational costs, medical trends, investment earnings, and Medicare Part D reimbursements. Since 2010, NMRHCA has contributed over $750 million to its long-term trust fund, extending its projected solvency period beyond 2054. However, it is anticipated that NMRHCA will experience a deficit from July 2034 to July 2038, during which projected expenditures will exceed projected revenues. During this period, some of the trust fund balances will need to be utilized to support the program.

ALTERNATIVES
Statutory protections are an alternative but not as effective as a Constitutional Amendment.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The New Mexico Retiree Health Care Fund is not protected by the state constitution. If the fund is used for purposes other than intended, the New Mexico Retiree Health Care Authority (NMRHCA) may need to implement significant reductions in benefits, increase monthly premiums for retirees, impose stricter participation requirements, or raise payroll deductions for both employees and employers.

Furthermore, both retirees and active employees would likely pursue lengthy legal action against the state to protect their benefits. Safeguarding these funds is also essential for maintaining the financial stability of the participating governmental entities. Misusing the fund could deplete resources, increase liabilities, and negatively impact the bond ratings of these entities, which include state, county, and city governments.

AMENDMENTS
None.