NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

Investments & Pensions Oversight Committee

Senator Roberto “Bobby” J. Gonzales, Chair
Representative Patricia Roybal Caballero, Vice Chair

Agency Update
November 27, 2023

Therese Saunders, President
Tomas Salazar, Vice President
LeAnne Larrañaga-Ruffy, Secretary
Neil Kueffer, Executive Director

Retiree Health Care Authority Act - 1990

10-7C-1 through 10-7C-16 NMSA 1978

- Purpose to provide comprehensive core group health insurance for persons who have retired from certain public service in New Mexico
- Legislative Findings (10-7C-3)
  - Public employees face a severe problem in securing continuing medical insurance upon retirement citing medical care inflation exceeding general inflation for the past decade (1990)
  - Public employees covered by the Act have entered into public employment in circumstances where they have received in exchange for their services a present salary and an expectation of receiving a future stream of benefits, including certain retirement benefits
- Board Duties (10-7C-7)
  - Administration of program to include: procurement, promulgate and adopting rules, regulations and procedures for the governance of eligibility, participation, enrollment, length of service requirements and other conditions

Eleven Member Board representing retired & active memberships

- NEA-NM, Classroom Teachers Association – Therese Saunders, President
- New Mexico Association of Educational Retirees – Tomas Salazar, Vice President
- PERA Executive Director (Designee) – LeAnne Larranaga, Secretary
- ERB Executive Director – David Archuleta
- State Treasurer – The Honorable Laura Montoya
- NM Association of Counties – Lance Pyle
- NM Municipal League – Sanjay Bhakta
- Classified State Employee – Raquel Alirez
- NM Superintendents Association – Gerry Washburn
- Retired Public Employee of New Mexico – Lee Caruana
- Governor's Appointee – Vacant

Agency Updates

Active participation – 93,595 (6/30/23)

- Public Employer Groups - 302
    - Schools – 50%
    - State agencies – 25%
    - Local government – 25%

Retiree participation – 66,980 (11/1/23)

- Retirees – 48,668
    - Pre-Medicare – 8,559
    - Medicare – 32,609
    - Voluntary – 7,500
- Spouses/DP – 16,027
    - Pre-Medicare – 2,294
    - Medicare – 8,455
    - Voluntary – 5,278
- Dependent Children – 2,285
- Retiree Average Age – 71.3
- Average age upon retirement – 62.75
- Retiree Under Age 55 – 1,490

Funding Sources

- Employee/Employer Contributions
- Retiree Contributions
- Tax Suspense Fund
- Miscellaneous
- Interest Earnings

Investments

- Managed by the State Investment Council
- Biennial Asset Allocation Performed by Wilshire
- Asset Allocation Reviewed June 2023
    - Wilshire reviewed and recommended Board reaffirm the current policy of asset allocation targets as on track for risk adjusted return.
    - Risk Adjusted return on par with other modeled portfolios.

Challenges

Health care mandates (State and Federal) over the years have been passed on to RHCA

- In many cases this has led to higher premiums because of increase in claims paid by Plan, and reduction or elimination of patient financial liability.

Statewide shortage of medical professionals leading to higher commercial reimbursement rates paid to providers to maintain network adequacy.

- New Mexico is one of the states facing a higher rate of physician shortages
- Physician and Hospital consolidations removing competition and resulting in higher reimbursement rates
- Traveling nurses due to shortage leading to higher costs

Medicaid reimbursement has direct correlation to commercial reimbursement rates

- Lower reimbursement from Medicaid leads to providers asking commercial plans for higher reimbursement to offset losses

Increase in prescription drug costs

- New cell and gene therapies capable of curing illnesses but lead to costly drugs
- Specialty drugs driving higher costs to plans while waiting for competition
- Increase in pricing of existing drugs
- Accelerated approvals of new drugs to market

Health Care Authority Transition Report

Questions and Concerns of Retirees, Board, and Stakeholders

What does administratively attached mean for Retiree Health Care Authority?

- Does the 11-member Board of Directors composed of broad representation of retirees and stakeholders lose oversight of the program and Agency?

Consolidation of contracts:

The Board works with the staff on a regular basis and stays informed of ongoing changes to NMRHCA.

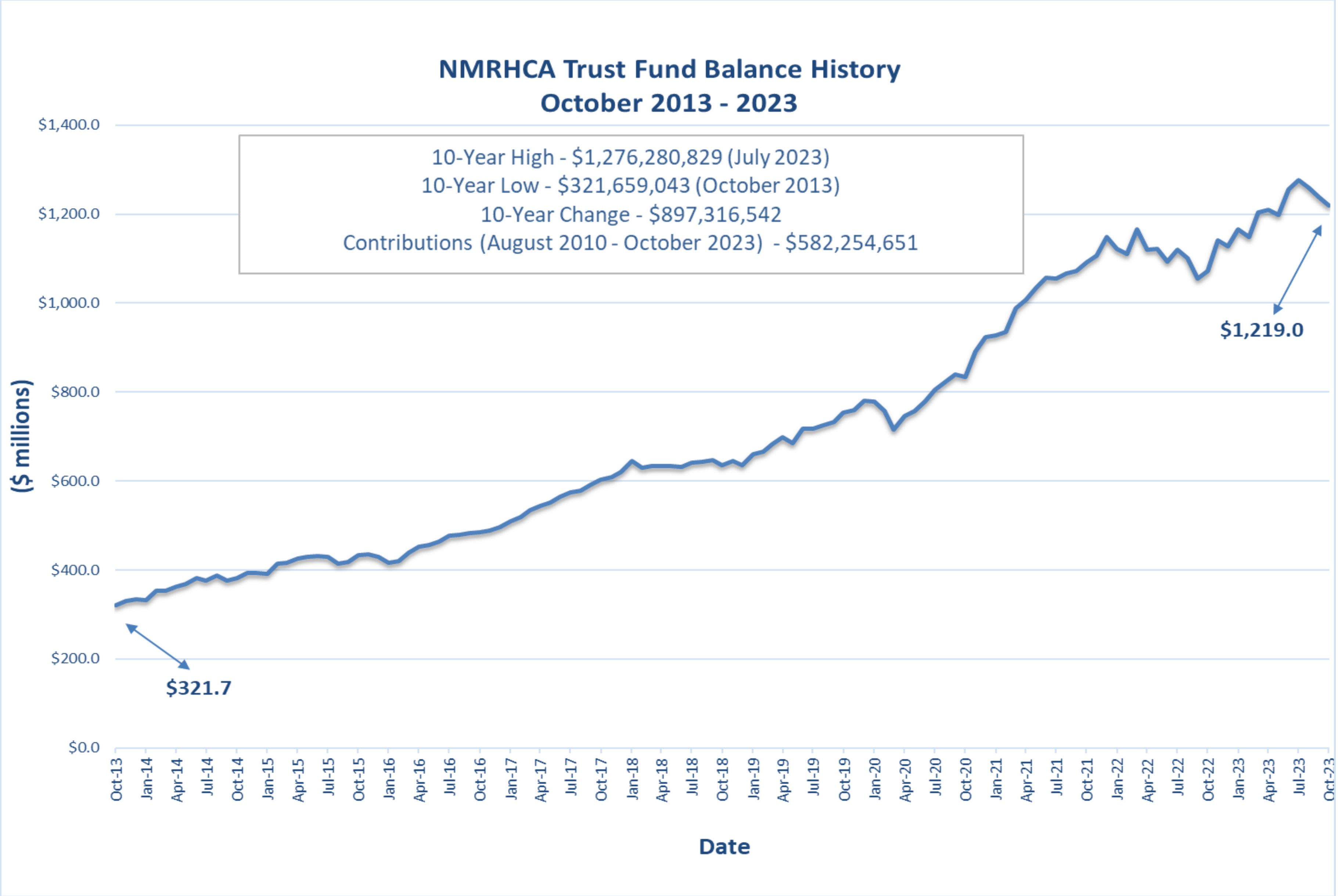
- Will the final decisions impacting RHCA and retirees be made from outside governance?
- Does the board lose control of setting premiums on plans?
- Does the board lose control of setting plan design?
- Can the board implement new cost reduction, clinical outcomes or wellness programs and initiatives?
- RHCA and HCA can work collaboratively hand in hand today with out the need for a proposed mandate.

Possible Alternative:

Postpone for a year to allow time for all stakeholders to evaluate and discuss this change to better identify potential impact (positive or negative) to 67,000 retirees and dependents and 94,000 active employees.

- Based upon findings determine appropriate steps and aspects of program to be included or excluded.

Trust Fund



NMRHCA Trust Fund Balance History
October 2013 - 2023
10-Year High - $1,276,280,829 (July 2023)
10-Year Low - $321,659,043 (October 2013)
10-Year Change - $897,316,542
Contributions (August 2010 - October 2023) - $582,254,651
($ millions)
$1,400.0
$1,200.0
$1,000.0
$800.0
$600.0
$400.0
$200.0
$0.0
$321.7
$1,219.0
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Investment Performance

New Mexico State Investment Council
Retiree Health Care Authority Total Fund Comp

As of June 30, 2023

Overview

The New Mexico Retiree Health Care Authority (NMRHCA) was established in 1990 to provide health care coverage to retirees of state agencies and eligible participating public entities. Approximately 300 public entities including cities, counties, universities and charter schools participate in NMRHCA. The agency provides medical plans for both non Medicare and Medicare eligible retirees and their dependents as well as dental, vision and life insurance. The Authority currently provides coverage to approximately 58,000 retirees and their dependents.

Asset Allocation vs. Target Allocation

	Market Value ($)	Allocation (%)	Target (%)	Difference (%)
US Large Cap Index	207,692,902	16.53	14.00	2.53
US Small/Mid Cap Alt Wtd Index	26,016,328	2.07	2.00	0.07
Non-US Developed Markets Index	162,377,106	12.93	14.00	-1.07
Non-US Emerging Markets Active	95,977,495	7.64	10.00	-2.36
US Core Bonds	199,628,363	15.89	20.00	-4.11
Credit & Structured Finance	184,094,797	14.65	15.00	-0.35
Real Return	61,915,687	4.93	5.00	-0.07
Real Estate	133,520,220	10.63	10.00	0.63
Private Equity	185,050,156	14.73	10.00	4.73
Total Fund	1,256,273,052	100.00	100.00	0.00

Comparative Performance

Comparative Performance

	QTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	2022	2021	2020
Retiree Health Care Authority Total Fund Comp - Gross	**1.83**	**5.07**	**5.52**	**9.00**	**6.71**	**7.99**	**7.38**	**-6.98**	**15.61**	**9.88**
Total Fund Benchmark (Retiree Health Care Authority)	*1.57*	*4.89*	*5.38*	*7.37*	*5.91*	*7.36*	*6.88*	*-8.53*	*12.79*	*10.21*
Difference	0.26	0.18	0.14	1.63	0.80	0.63	0.50	1.55	2.82	-0.33
Retiree Health Care Authority Total Fund Comp - Net	**1.80**	**5.02**	**5.45**	**8.92**	**6.64**	**7.91**	**7.28**	**-7.05**	**15.51**	**9.83**
Total Fund Benchmark (Retiree Health Care Authority)	*1.57*	*4.89*	*5.38*	*7.37*	*5.91*	*7.36*	*6.88*	*-8.53*	*12.79*	*10.21*
Difference	0.23	0.13	0.07	1.55	0.73	0.55	0.40	1.48	2.72	-0.38

Schedule of Investable Assets

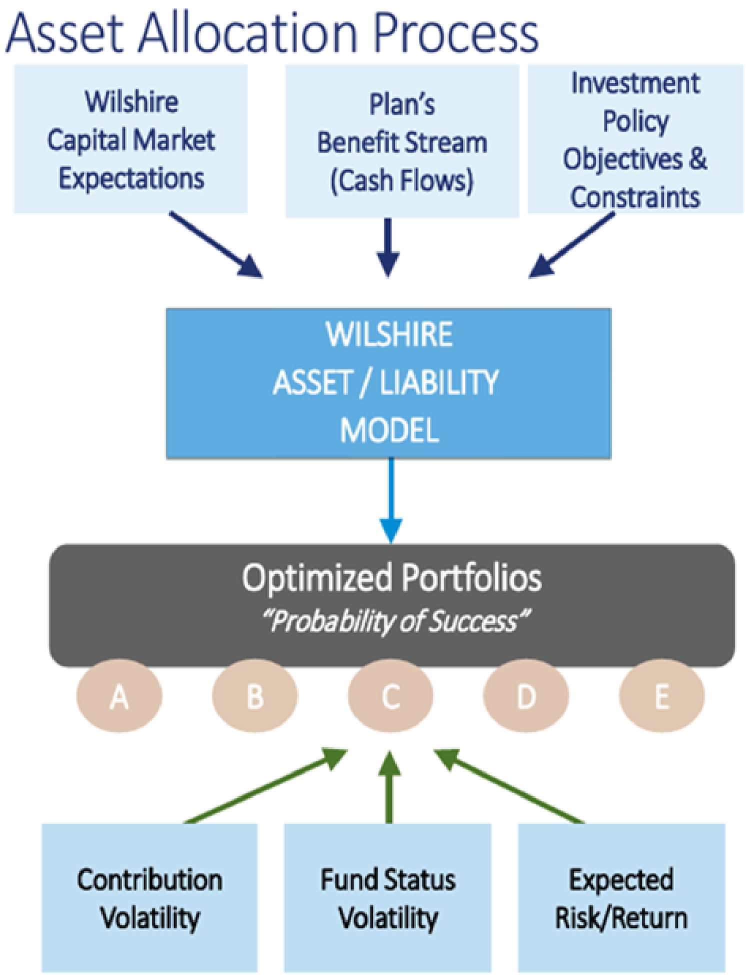
Periods Ending	Beginning Market Value ($)	Net Cash Flow ($)	Gain/Loss ($)	Ending Market Value ($)	% Return
CYTD	**1,127,761,495**	**70,000,000**	**58,511,556**	**1,256,273,052**	**5.02**

Allocations shown may not sum up to 100% exactly due to rounding. Performance shown is net of fees, except where noted otherwise. Performance includes receipt of additional units of the US Large Cap Index Pool effective July 1, 2020.

RVK

Investment Performance

Wilshire



- Wilshire believes the mission of a defined benefit plan is to fund benefits promised to participants
- The role of asset allocation is to manage risk in order to fulfill that core mission
  - **Maximize safety** of promised benefits
  - **Minimize cost** of funding these benefits
- Wilshire's Asset Liability Model provides methodology for selecting a target portfolio that considers both goals
- Rigorously developed capital market assumptions for risk and return (see appendix)
- Given that short-term volatility is also important, we identify the impact of the asset allocation decision on funded ratios, annual contribution requirements, and other metrics
- Strategic asset allocation is not a guide to outperforming in every market … but it should provide a roadmap for success over a market cycle

Investment Performance

Wilshire

Portfolios Modeled

Asset Class	Current Target Policy	Optimization Constraints	-150 Bps Risk Policy	Similar Return/Risk Policy	+150 Bps Risk Policy
US Stock	16.00%	0 - 100% [1]	20.00%	20.00%	21.50%
Non-US Developed Stock	14.00%	0 - 100% [1, 2]	16.00%	16.00%	12.75%
Emerging Markets Stock	10.00%	0 - 100% [1, 2, 3]	4.00%	4.00%	8.50%
Private Equity	10.00%	10 - 15%	10.00%	15.00%	15.00%
Credit and Structured Finance	15.00%	0 - 15%	15.00%	15.00%	15.00%
Total Growth Assets	**65.00%**		**65.00%**	**70.00%**	**72.75%**
Core Bonds	20.00%	0% - 100%	31.00%	21.50%	12.25%
Total Defensive / Rate Sensitive Assets	**20.00%**		**31.00%**	**21.50%**	**12.25%**
Real Estate	10.00%	0 - 10%	4.00%	8.50%	10.00%
Real Return	5.00%	0 - 5%	0.00%	0.00%	5.00%
Total Real Assets / Inflation Sensitive Assets	**15.00%**		**4.00%**	**8.50%**	**15.00%**
Total Assets	**100.0%**		**100.0%**	**100.0%**	**100.0%**
Expected Return - 10 Years (%)	**7.29**		**6.90**	**7.29**	**7.57**
Expected Return - 30 Years (%)	**7.76**		**7.30**	**7.75**	**8.10**
Standard Deviation of Return (%)	**12.19**		**10.69**	**12.21**	**13.70**
+/(-) in Expected Return - 10 Years (bps)			**(39)**	**0**	**28**
+/(-) in Expected Return - 30 Years (bps)			**(46)**	**(1)**	**34**
+/(-) in SD of Return (bps)			**(150)**	**2**	**151**
Sharpe Ratio	**0.30**		**0.30**	**0.30**	**0.29**

- *Growth – Assets with significant growth factor exposure, high expected returns and high risk*
- *Defensive/Rate Sensitive – Assets whose value/return is sensitive to changes in interest rates*
- *Real Assets/Inflation Sensitive – Assets whose value/return is sensitive to inflation*

[1] U.S. Equity, Non-U.S. and Emerging Markets Equity are constrained to be at least 40%.

[2] Non-U.S. and Emerging Markets Equity are constrained to not exceed 50% of Total Equity.

[3] Emerging Markets Equity is constrained to be at least 10% of Total Equity but no more than 20% of Total Equity.

Investment Performance

Wilshire

Observations & Recommendation

- Wilshire recommends that the Board reaffirm the existing Current Policy asset allocation targets
- Alternative asset allocation do not materially improve the risk adjusted return of the portfolio relative to the Current Policy
- Current Policy
  - Risk adjusted return on par with other modeled portfolios
  - Increasing expected returns along the efficient frontier requires adding additional risk to the portfolio
    - Degrades risk-adjusted return at higher risk levels
  - Maintains allocation to private asset classes
    - Exposure across variety of asset classes – equity, credit, real estate and real assets

GASB 74 Now

GASB 74 – Actuarial Valuation Review of Other Postemployment Benefits (OPEB) as of June 30, 2023

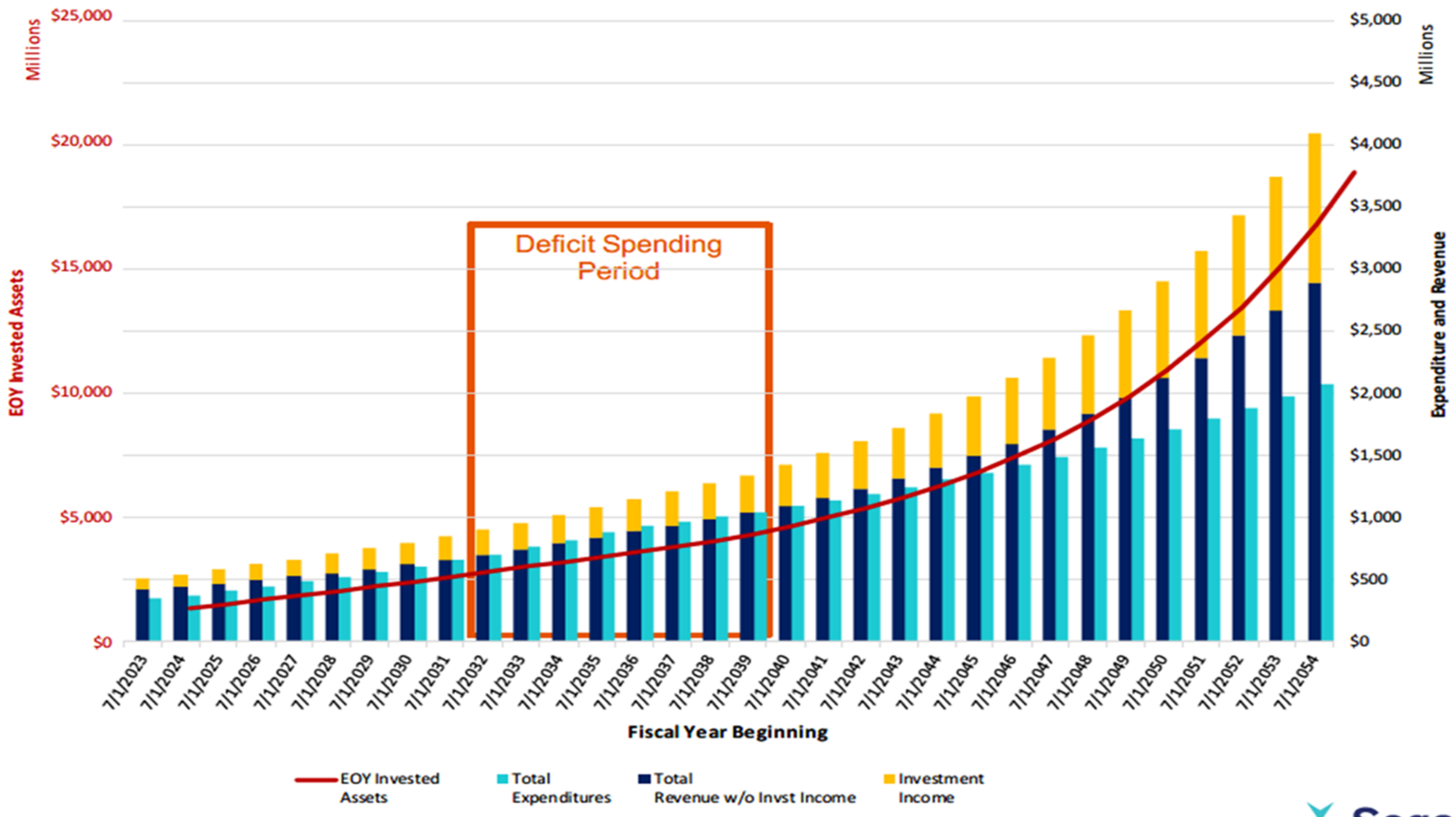
- Total OPEB Liability: $3,049,662,302 (2023) / $3,467,298,517 (2022) / $4,409,849,335 (2021)
- Net OPEB Liabilities (NOL) decreased $609 million from previous year, due to the following:
  - An increase in the blended discount rate
  - Blended Discount rate – 6.22% compared to 5.42% in 2022
    - Blend rate = 7.00% assumed investment return + 20-year tax-exempt general obligation municipal bonds with an average rate of AA/Aa or higher (3.65% as of June 30, 2023)
- NOL: $1,702,935,036 (2023) / $2,311,603,052 (2022) / $3,290,349,790 (2021)
  - 1% Decrease in Discount Rate - $2,146,981,727 or 1% Increase in Discount Rate - $1,342,994,641
  - 1% Decrease in Health Care Cost Trend - $1,409,857,717 or 1% Increase in Health Care Cost Trend - $2,039,527,413
- Funded Status: 44.16% (2023) / 33.33% (2022) / 25.39% (2021)

	2006	**2017**	**2023**
GASB Statement	43	74	74
Actuarial Accrued Liability	$ 4,264,180,967	$ 5,111,141,659	$ 3,049,662,302
Actuarial Value of Assets	$ 154,538,668	$ 579,468,641	$ 1,346,726,647
Unfunded Actuarial Accrued Liability	$ 4,109,642,299	$ 4,531,673,018	$ 1,702,935,655
Funded Ratio	3.62%	11.34%	44.16%

Solvency

2023 Solvency Scenario – Board Approved Rate Action

5% Pre-Medicare, 0% Medicare Supplement increases



Segal

Historical Contributions

Employee and employer contributions since creation of Retiree Health Care Act:

- Started with over 15,000 members
- No pre-material funding
- No trust fund or reserves
- Payroll contributions for comprehensive and affordable benefits in retirement
- Currently about 67,000 members on plans
- 93,595 active employees contributing for future retirement benefits

Non-Enhanced Retirement Plan			
	Employee	Employer	Total
1990 - 2002 (12 years)	0.500%	1.000%	1.500%
2002 - 2010 (8 years)	0.650%	1.300%	1.950%
2010 - 2011 (1 year)	0.833%	1.666%	2.499%
2011 - 2012 (1 year)	0.917%	1.834%	2.751%
2012 - 2023 (11 years)	1.000%	2.000%	3.000%

Enhanced Retirement Plan			
	Employee	Employer	Total
1990 - 2002 (12 years)	0.500%	1.000%	1.500%
2002 - 2010 (8 years)	0.650%	1.300%	1.950%
2010 - 2011 (1 year)	1.042%	2.084%	3.126%
2011 - 2012 (1 year)	1.146%	2.292%	3.438%
2012 - 2023 (11 years)	1.250%	2.500%	3.750%

Past Legislative Actions

Eight Unsuccessful Attempts to Increase Employee & Employer Contributions

- Employee and Employer contribution percentage flat since 2012
- 11 years since increase

Impact of Change

- Reduce unfunded liabilities
- Protect against credit rating downgrades
- Prefund future benefits
- Keep benefits relevant as incentive for employees to stay

Shift in More Plan Cost Share

- SB317 (2021 Regular Session) and other legislation impacting increase to premiums
  - Determination of return yet to be seen and long-term impact
- Affordable Care Act and Inflation Reduction Act

2016 Special Session

- SB7 - Action permanently removed funding of special annual distribution of $3 million and held tax distribution of 12% for period of time, estimated impact $350 million in lost revenue to Trust Fund

Legislative Proposals

Special Appropriations Request

- Request for one-time money of $150 million
- This contribution would help lower our unfunded liabilities and mitigate rising costs to our members.

File a joint resolution for New Mexico Retiree Health Care Authority program to be recognized and protected under the New Mexico Constitution.*

- Similar to our sister agencies Educational Retirement Board and Public Employee Retirement Association.
- Currently the state statute states that this benefit can be modified or extinguished in the future to meet changes in economic or social conditions.
- However, many New Mexicans have been making contributions into this benefit for their careers with the expectation of having a benefit when they retire.

*Request for Endorsement

NEW MEXICO RETIREE HEALTH CARE AUTHORITY

New Mexico Retiree Health Care Authority

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Or visit us at: www.nmrhca.org or www.facebook/nmrhca

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