



NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

Investments & Pensions Oversight Committee

Representative Tomas E. Salazar, Chair

Senator George K. Muñoz, Vice Chair

Proposed Legislation

November 26, 2018

Tom Sullivan, President

Joe Montañó, Vice President

Doug Crandall, Secretary

David Archuleta, 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
 - Nothing in the Act shall prohibit the legislature from increasing or decreasing participating employer or employee contributions, eligible retiree premiums or group health insurance coverage
- 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

Retiree Health Care Authority Act Continued

2009 Session

- HB 351 – Retiree Health Care Act Contributions, Chapter 287
 - Increased funding to NMRHCA by increasing employee and employer contributions from 1.95 percent to 3 percent over a 4 year period / 1.95 percent to 3.75 percent for “enhanced plans”
 - Removed sunset on \$3 million yearly supplemental distribution from Tax Suspense Fund initiated in 2007
- HB 573 – Adjustment of Retirement Plans, Chapter 288
 - PERA and ERB adjustments in addition to changes included in HB 351
 - *Chapter 10-7C-15. Section G – 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*

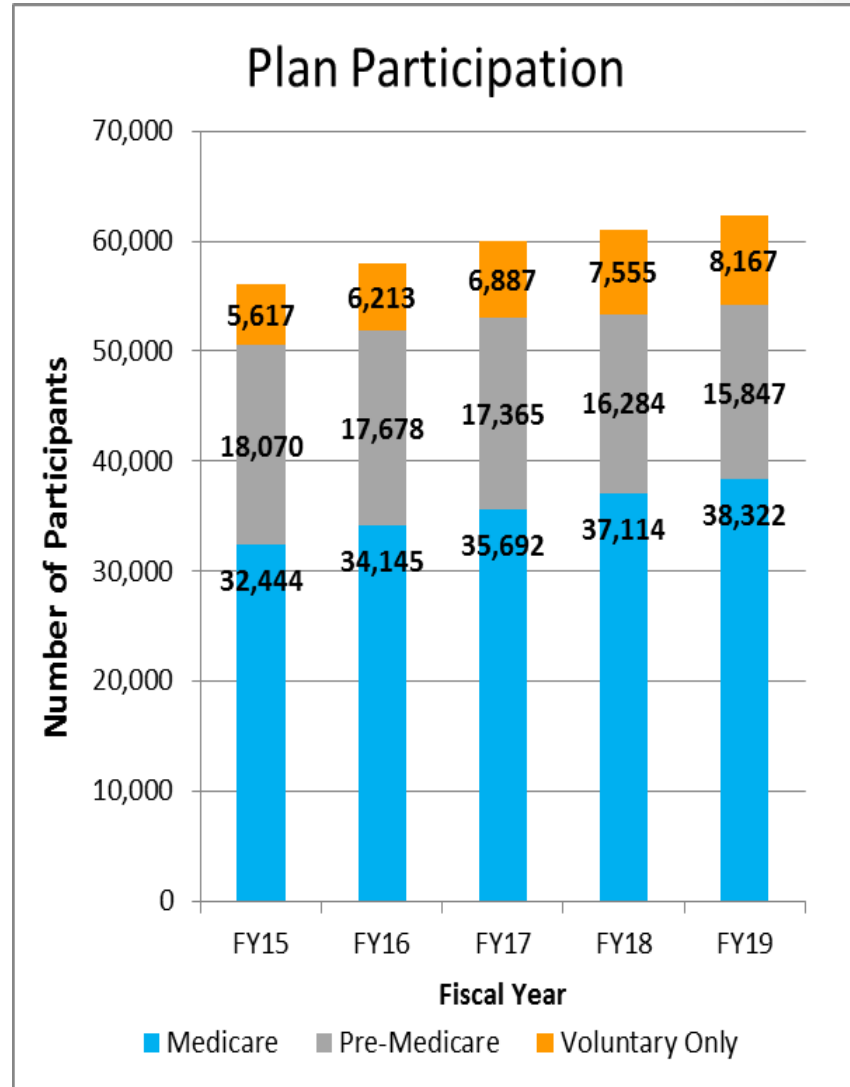
Program Composition and Participation

Active participation – 93,349 (6/30/18)

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

Retiree participation – 63,167 (11/1/18)

- Medicare - 38,844
- Pre-Medicare - 15,881
- Voluntary Only - 8,442
- Retirees - 39,660
- Spouses/DP – 13,072
- Dependent Children – 1,993
- Average Age – 67.06
 - Enrollment – 60.56 (2018)
- Members Under age 55 - 2,320



Budget & Finance

FY19 Budget

Healthcare Benefits Administration

- Uses:
 - Benefits - \$332.5 million
 - ACA Fees - \$35,000
 - Other Financing Uses - \$3 million (operations)
- Sources:
 - EE/ER Contributions - \$128.3 million
 - Retiree Contributions - \$150.5 million
 - Tax & Rev Suspense Fund - \$29.4 million
 - Misc. Revenue - \$27.2 million
 - Interest - \$60,000

Program Support (27 FTE)

- Salaries & Benefits - \$1.9 million
- Contractual Services - \$566,000
- Other Costs - \$544,000

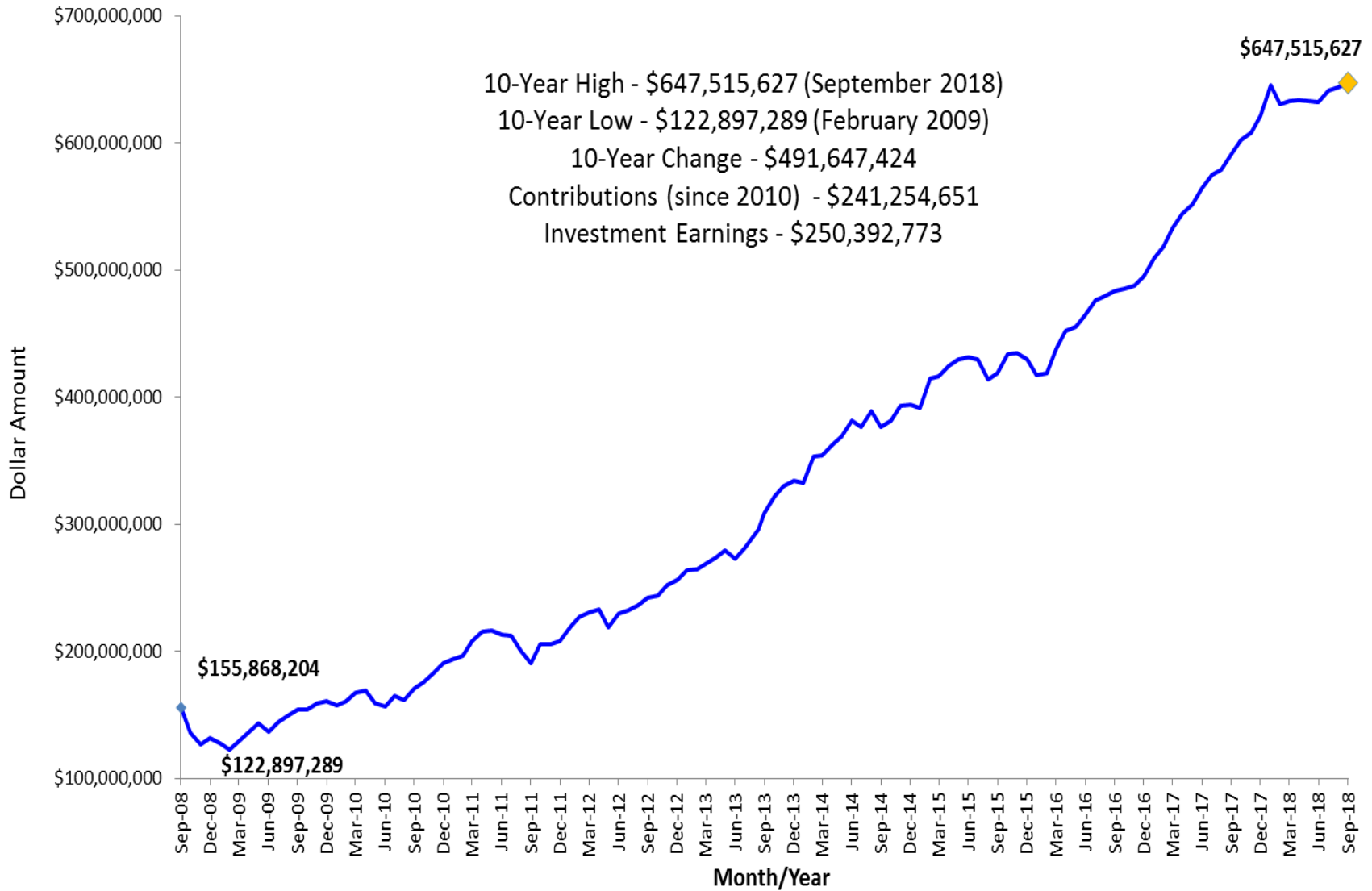
Finance

NMRHCA Trust Fund

- Investments held by State Investment Council (SIC)
- NMRHCA charged pro rata portion of investment fees
- 2018 Asset Allocation – performed by Wilshire
- September 30, 2018 Balance - \$647.5 million

| <u>Current Allocation</u> | <u>Percent</u> |
|-------------------------------|----------------|
| • US Large Cap | 14 |
| • US Small Cap | 2 |
| • Non US Dev Index | 14 |
| • Emerging Markets | 10 |
| • Core Bonds | 20 |
| • Private Equity | 10 |
| • Real Estate | 10 |
| • Credit & Structured Finance | 15 |
| • Real Return | 5 |

NMRHCA Trust Fund Balance History September 2008 - September 2018



Program Benefits

Pre-Medicare

- Premier PPO Plan (BCBS and Presbyterian) -- \$260.76 per month*
 - \$800 deductible / \$4,500 annual out-of-pocket maximum
- Value HMO Plan (BCBS and Presbyterian) -- \$203.69 per month*
 - \$1,500 deductible / \$5,500 annual out-of-pocket maximum

Medicare

- Medicare Supplement (BCBS) -- \$211.96 per month*
- Medicare Advantage Plans -- Costs range: \$22.15 - \$94.68 per month*
 - Presbyterian, BCBS, Humana and UnitedHealthcare

Voluntary Coverages

- Dental (Delta Dental and United Concordia) -- \$17.78 - \$42.93 per month
 - Comprehensive & Basic
- Vision -- \$4.76 per month
 - Davis Vision
- Life Insurance (\$2,000 - \$60,000) -- \$0.68 - \$164.00 per month
 - The Standard

*20 years of service

Market Plan Comparison

2019 Market Comparison of Commercially Available Plans (Pre-Medicare)

| New Mexico Health Care Exchange Plans | Retiree Premium | Spouse Premium | Ret + Spouse Premium | Plan Type | Plan Level | Deductible Individual | Out-of-Pocket Max Individual | First Dollar Coverage: Y/N |
|--|------------------------|-----------------------|-----------------------------|------------------|-------------------|------------------------------|-------------------------------------|-----------------------------------|
| Blue Cross Blue Shield - Age: 60 - Albuquerque | \$884 | \$884 | \$1,767 | HMO | Gold | \$350 | \$7,900 | N |
| NM Health Connections - Age: 60 - Albuquerque | \$740 | \$740 | \$1,480 | HMO | Gold | \$500 | \$7,900 | Y |
| Blue Cross Blue Shield - Age: 60 - Albuquerque | \$907 | \$907 | \$1,813 | HMO | Silver | \$1,100 | \$7,900 | N |
| NM Health Connections - Age: 60 - Albuquerque | \$725 | \$725 | \$1,451 | HMO | Silver | \$5,000 | \$7,900 | Y |
| Blue Cross Blue Shield - Age: 60 - Albuquerque | \$713 | \$713 | \$1,427 | HMO | Bronze | \$3,150 | \$6,650 | N |
| NM Health Connections - Age: 60 - Albuquerque | \$605 | \$605 | \$1,210 | HMO | Bronze | \$6,750 | \$6,750 | N |
| Blue Cross Blue Shield - Age: 60 - Santa Fe | \$1,007 | \$1,007 | \$2,014 | HMO | Gold | \$350 | \$7,900 | N |
| NM Health Connections - Age: 60 - Santa Fe | \$831 | \$831 | \$1,662 | HMO | Gold | \$500 | \$7,900 | Y |
| Blue Cross Blue Shield - Age: 60 - Santa Fe | \$1,038 | \$1,038 | \$2,077 | HMO | Silver | \$1,100 | \$7,900 | N |
| NM Health Connections - Age: 60 - Santa Fe | \$815 | \$815 | \$1,629 | HMO | Silver | \$5,000 | \$7,900 | Y |
| Blue Cross Blue Shield - Age: 60 - Santa Fe | \$827 | \$827 | \$1,654 | HMO | Bronze | \$3,150 | \$6,650 | N |
| NM Health Connections - Age: 60 - Santa Fe | \$679 | \$679 | \$1,359 | HMO | Bronze | \$6,750 | \$6,750 | N |
| Blue Cross Blue Shield - Age: 60 - Las Cruces | \$1,138 | \$1,138 | \$2,276 | HMO | Gold | \$350 | \$7,900 | N |
| NM Health Connections - Age: 60 - Las Cruces | \$810 | \$810 | \$1,619 | HMO | Gold | \$500 | \$7,900 | Y |
| Blue Cross Blue Shield - Age: 60 - Las Cruces | \$1,180 | \$1,180 | \$2,359 | HMO | Silver | \$1,100 | \$7,900 | N |
| NM Health Connections - Age: 60 - Las Cruces | \$794 | \$794 | \$1,588 | HMO | Silver | \$5,000 | \$7,900 | Y |
| Blue Cross Blue Shield - Age: 60 - Las Cruces | \$947 | \$947 | \$1,894 | HMO | Bronze | \$3,150 | \$6,650 | N |
| NM Health Connections - Age: 60 - Las Cruces | \$662 | \$662 | \$1,324 | HMO | Bronze | \$6,750 | \$6,750 | N |

Rule Change – Effective January 1, 2021

- Minimum Age
 - Minimum Age 55 to receive subsidy
 - Does not apply to members who retire from an enhanced retirement plan as defined by Section 10-7C-15 NMSA 1978
- Increased Years of Service Requirements

| | | Percent of Subsidy | | | | Percent of Subsidy | |
|---------------------------|---------|--------------------|--|---------------------------|---------|--------------------|--|
| Years of Credited Service | Current | 1/1/2021 | | Years of Credited Service | Current | 1/1/2021 | |
| 5 | 6.25 | 4.76 | | 16 | 75.00 | 57.14 | |
| 6 | 12.50 | 9.52 | | 17 | 81.25 | 61.90 | |
| 7 | 18.75 | 14.29 | | 18 | 87.50 | 66.67 | |
| 8 | 25.00 | 19.05 | | 19 | 93.75 | 71.43 | |
| 9 | 31.25 | 23.81 | | 20 | 100.00 | 76.19 | |
| 10 | 37.50 | 28.57 | | 21 | 100.00 | 80.95 | |
| 11 | 43.75 | 33.33 | | 22 | 100.00 | 85.71 | |
| 12 | 50.00 | 38.10 | | 23 | 100.00 | 90.48 | |
| 13 | 56.25 | 42.86 | | 24 | 100.00 | 95.25 | |
| 14 | 62.50 | 47.62 | | 25 | 100.00 | 100.00 | |
| 15 | 68.75 | 52.38 | | | | | |

GASB 74 & 75

- GASB 74: Financial Reporting for Postemployment Benefits Other Than Pension Plans
 - Completed October 2017
 - Total OPEB Liability - \$5.1 billion
 - Fiduciary Net Position - \$575 million
 - Net OPEB Liability - \$4.5 billion
 - Net position as percentage of total liability – 11.26%
- GASB 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
 - Completed June 15, 2018
 - Employer Allocations at of June 30, 2017
 - Employer Contributions
 - Employer Allocation Percentage
 - Applies to 301 employer groups
 - Rating agency impact - TBD

NMRHCA GASB History

| Year | Actuarial Accrued Liability/Total OPEB Liability | Actuarial Value of Assets/Plan Fiduciary Net Position | Unfunded Actuarial Liability/Net OPEB Liability | Funded Ratio | Covered Payroll | Total Participants |
|------|--|---|---|--------------|-----------------|--------------------|
| 2006 | \$ 4,264,180,967 | \$ 154,538,668 | \$ 4,109,642,299 | 3.62% | \$4,073,731,873 | 140,292 |
| 2008 | \$ 3,116,915,900 | \$ 170,626,271 | \$ 2,946,289,629 | 5.47% | \$4,020,508,902 | 130,381 |
| 2010 | \$ 3,523,664,871 | \$ 176,922,935 | \$ 3,346,741,936 | 5.02% | \$4,001,802,240 | 146,166 |
| 2012 | \$ 3,915,114,104 | \$ 227,487,895 | \$ 3,687,626,209 | 5.81% | \$3,876,220,608 | 146,590 |
| 2014 | \$ 3,740,369,299 | \$ 377,087,017 | \$ 3,363,280,282 | 10.08% | \$3,941,587,760 | 155,098 |
| 2016 | \$ 4,277,042,499 | \$ 471,978,347 | \$ 3,805,064,152 | 11.04% | \$4,271,183,612 | 159,642 |
| 2017 | \$ 5,111,141,659 | \$ 575,649,501 | \$ 4,535,492,158 | 11.26% | \$4,165,647,340 | 160,035 |

Major changes (2006-2017) include:

- AAL/Total OPEB Liability Change: \$846,960,692
- AVA/Plan Fiduciary Net Positions Change: \$421,110,833
- UAAL/Net OPEB Liability Change: \$425,849,859
- Funded Ratio Change: 7.64%
- Covered Payroll Change: \$91,915,467
- Total Participants Change: 19,743

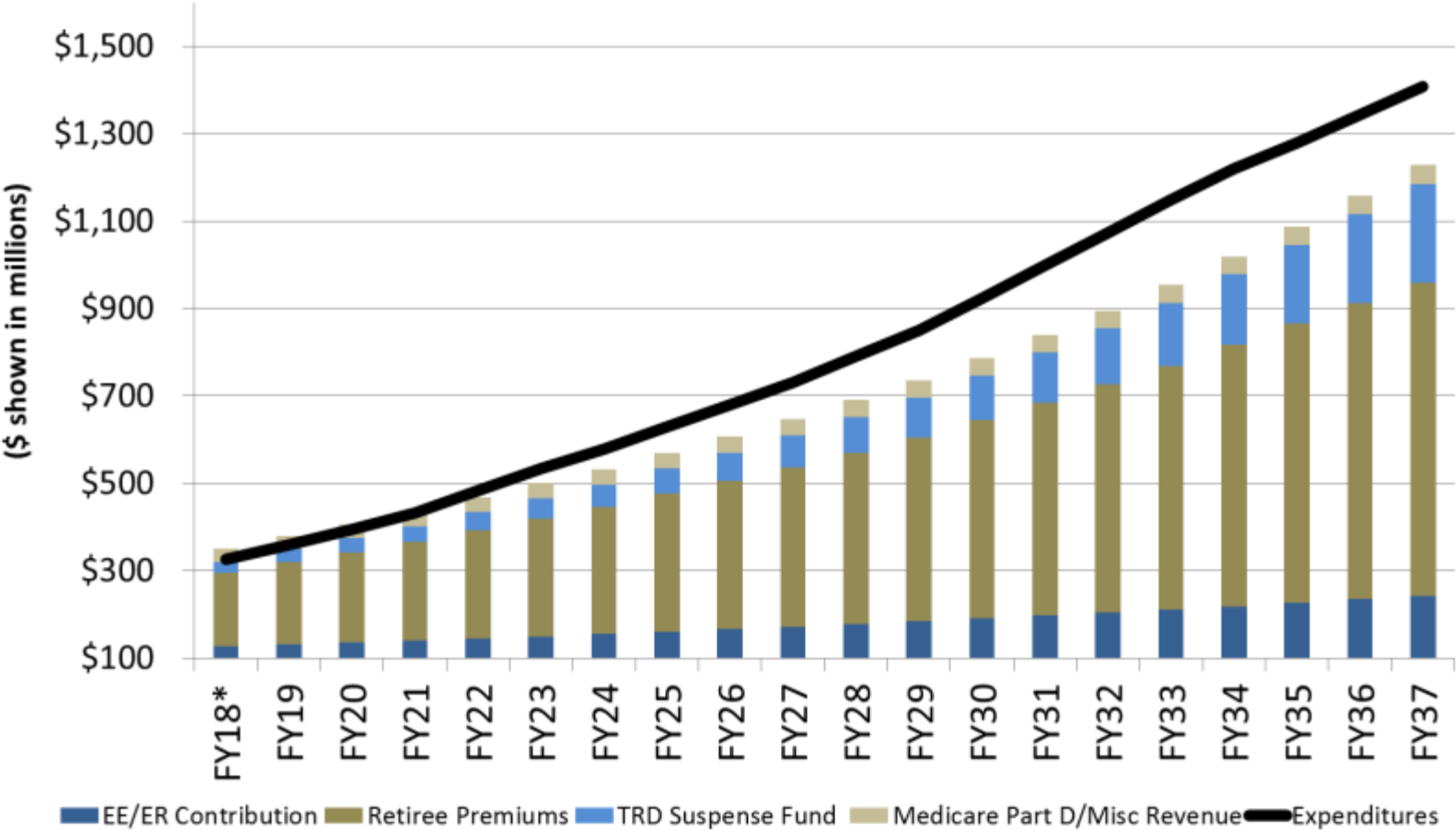
Solvency Analysis

- Solvency Study Performed Annually
 - Analysis of future cash inflows and outflows
 - Used for strategic planning purposes
 - Plan design i.e., copays, deductibles, coinsurance
 - Subsidy levels
 - Network/medical and prescription drug access
- 2018 Projected Year of Deficit Spending - 2022
 - Expenditures exceed revenues - \$15.3 million
- 2018 Projected Year of Insolvency: FYE 2037 (18 years)
 - FY37 Projected Expenditures - \$1.3 billion
 - FY37 Projected Revenues - \$1.2 billion

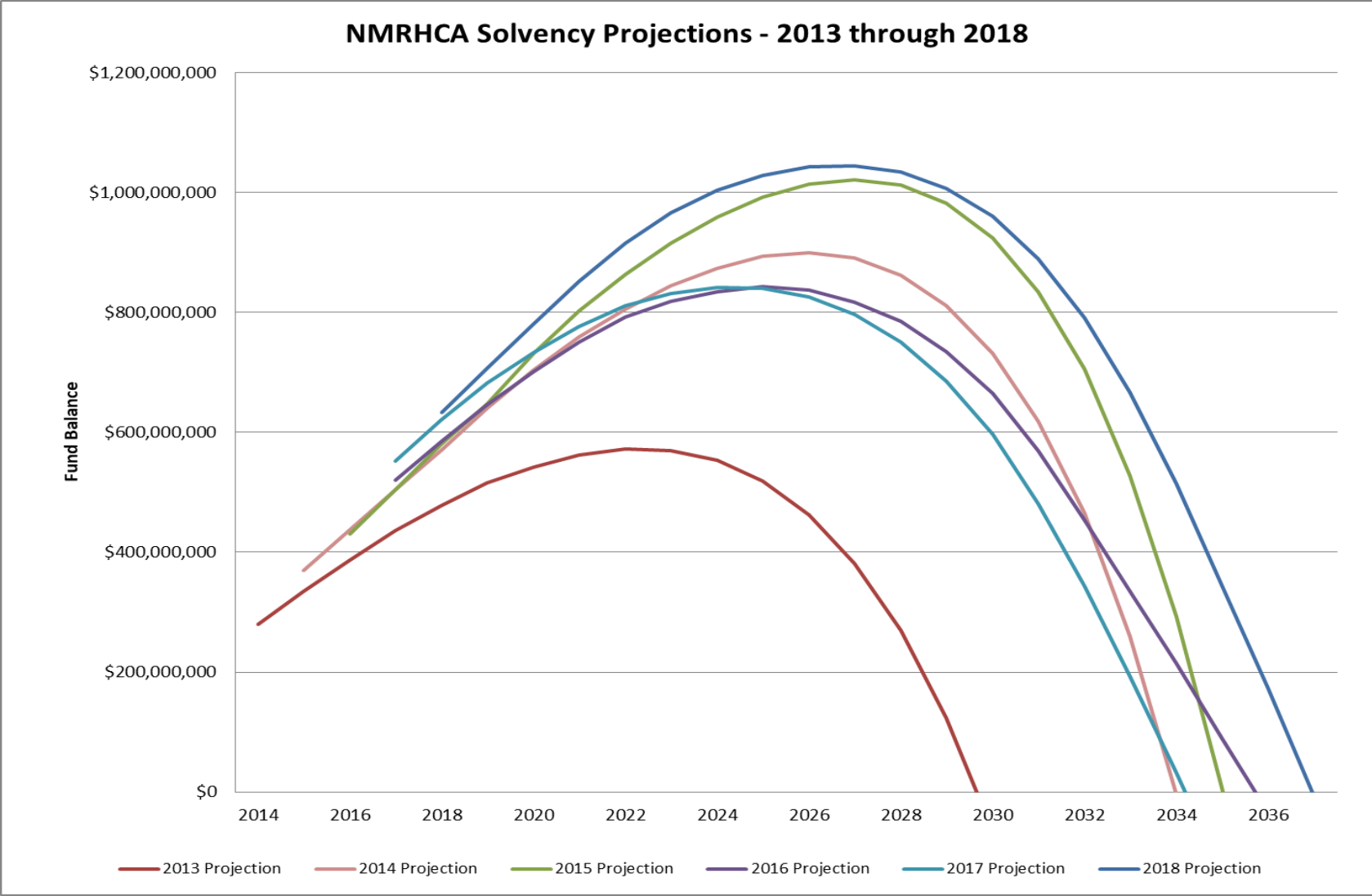
2018 Solvency Analysis

*Unaudited

Projected Revenues and Expenditures
 FY18 Actuals, FY19 - FY37 Projected



Solvency Results (2013 -2018)



Legislation

NMRHCA Sponsored

- 2013 – Introduced legislation requesting 2.5% total contribution increase – passed through multiple committees in both chambers, but received no floor votes
- 2014 – Introduced legislation requesting 2.5% total contribution increase – passed through multiple committees in both chambers and passed house floor vote
- 2015 – Introduced legislation requesting 1.25% contribution increase – passed through multiple committees in both chambers and passed house floor vote
- 2016 – Introduced legislation requesting 1.25% contribution increase – passed through multiple committees in both chambers and passed house floor vote

Enacted Legislation

- 2016 Special Session – SB7 Public Fund Distribution Changes
- Permanent removal of \$3 million annual special distribution from taxation and revenue suspense fund
- Removal of annual 12 percent increase in transfers received from taxation and revenue suspense fund regular distribution

Resulting Impact

- Solvency period reduced to 2030 (post SB7 implementation)
- Projected deficit spending 2020
- Reduction of \$350 million revenues over life of Trust Fund
- Need for increase in employee & employer contributions

Sustainability

Benefits

- Reduce Pre-Medicare retiree subsidies -- Currently 64 percent
- Reduce Pre-Medicare spousal/DP subsidies -- Currently 36 percent

Revenues

- Retiree Premiums
 - Projected to grow in accordance with medical/prescription trend
- Employee/Employer Contributions
 - Employee 1% / 1.25% (enhanced)
 - Employer 2%/ 2.5% (enhanced)
- Tax Suspense Fund Revenue
 - Growth prescribed by statute
- Medicare Subsidies and Prescription Drug Rebates
 - Moderate/minimal growth projected

Legislative Proposal

- Increase employee/employer contributions from 3 percent to 4.5 percent incrementally from FY20 – FY23

Legislative Proposal

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- Increase employee/employer contributions from 3 percent to 4.5 percent incrementally from FY20 – FY23

| | Legislative Proposal | | | Employee | Employer | Total | Additional Revenue | Est. GF Impact |
|-------------|----------------------|----------|--------|------------------|-------------------|------------------|--------------------|------------------|
| | Employee | Employer | Total | | | | | |
| FY20 | 1.000% | 2.500% | 3.500% | \$ 43,549,337.00 | \$ 110,280,010.00 | \$153,829,347.00 | \$23,181,336.00 | \$ 11,590,668.00 |
| FY21 | 1.000% | 3.000% | 4.000% | \$ 43,549,337.00 | \$ 134,509,088.00 | \$178,058,425.00 | \$47,410,414.00 | \$ 22,657,464.50 |
| FY22 | 1.250% | 3.000% | 4.250% | \$ 52,983,880.00 | \$ 134,509,088.00 | \$187,492,968.00 | \$56,844,957.00 | \$ 22,657,464.00 |
| FY23 | 1.500% | 3.000% | 4.500% | \$ 63,527,672.00 | \$ 134,509,088.00 | \$198,036,760.00 | \$67,388,749.00 | \$ 22,657,464.00 |

Results

- Solvency period extends beyond 30 years
- 2049 (30 years) projected trust fund balance exceeds \$5 billion

Employee Impact --- \$40,000 annual salary

- FY19-FY21 - \$400 per year / \$15.38 per pay period
- FY22 - \$500 per year / \$19.23 per pay period (\$3.85 per pay period increase)
- FY23 - \$600 per year / \$23.08 per pay period (\$7.70 per pay period increase)

Alternatives

- Convert to a defined contribution program
 - Flat monthly contribution toward purchase of coverage regardless of overall cost
- Eliminate subsidies for spouses and domestic partners (Pre-Medicare/Medicare)
- Eliminate subsidies for all Pre-Medicare coverage
 - Medicare Only Plan
- Eliminate Medicare Supplement Plan
- Limit access to care i.e., narrow/limited network for doctors, facilities and hospitals
- Implement mandatory mail order for all maintenance medications (Pre-Medicare Plans)

New Mexico Retiree Health Care Authority

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