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**FISCAL IMPACT REPORT**

SPONSOR: Komadina DATE TYPED: 02/06/03 HB \_\_\_\_\_

SHORT TITLE: Retiree Health Care Premium Calculations SB 367

ANALYST: Geisler

**REVENUE**

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(Significant)		Recurring	Retiree Health Care Fund

(Parenthesis ( ) Indicate Revenue Decreases)

**SOURCES OF INFORMATION**

Retiree Health Care Authority (RHCA)

**SUMMARY**

Synopsis of Bill

SB367 amends the retiree health care act to provide that retirees who have contributed to the fund continuously from 7/1/90 to retirement shall be deemed to have 25 years of credited service.

Significant Issues

Long-term solvency of the Retiree Health Care Fund would be jeopardized by this proposal.

**FISCAL IMPLICATIONS**

Pursuant to Section 10-7C-13(D) NMSA 1978 (delegating authority to the NMRHCA’s board of directors to determine premiums based on credited service), the NMRHCA board adopted a “normal retirement” service-to-subsidy ratio in 2 NMAC 81.11.8, as follows:

<u>Years of credited service</u>	<u>% of subsidy</u>
5	6.52
6	12.50
7	18.75
8	25.00
9	31.25
10	37.50
11	43.75
12	50.00
13	56.25
14	62.50
15	68.75
16	75.00
17	81.50
18	87.50
19	93.75
20	100.00

Essentially, this bill would modify the service-to-subsidy legislation to grandfather in (make them not subject to the service-to-subsidy ratio) all retirees who were contributing to the fund continuously from 1990 to retirement. Some examples of the effect follow.

*Example #1:* A retiree began work for a participating employer on July 1, 1990 and retired January 1, 2003.

Under current law and rule – He/she would be credited with 12 full years of service and given 50% of the NMRHCA subsidy level established by the board each year.

Under SB367 – He/she would be credited with 25 years of service and given 100% of the subsidy level established by the board each year.

*Example #2:* A retiree began work for a participating employer on January 1, 1978 and retired January 1, 2003.

Under current law and rule – He/she would be credited with 25 full years of service and given 100% of the NMRHCA subsidy level established by the board each year.

Under SB367 – He/she would be credited with 25 years of service and given 100% of the subsidy level established by the board each year. The retiree in Example #1 above with 12 years of service would receive the same benefit as the retiree in this example with 25 years of service, and this retiree (with 25 years of service) would have to pay higher premiums than he does under current law and rule to help cover the additional subsidy for the retiree with only 12 years of service.

Please note that a retiree with 25 years of credited service (as proposed by SB367) receives no greater subsidy than a retiree with 20 years of credited service.

The RHCA actuary has projected that granting full subsidy to this group of retirees completing

less than 20 years of service and making employee contributions to the retiree health care fund for less than 20 years would eliminate approximately 6 years of long-term solvency. The total cost to the fund of approximately \$80,000.0 would run out over that reduced solvency period, from July 1, 2003 through June 30, 2012 (9 years). Currently, the actuarial valuation shows a balance of \$83,639.6 remaining on June 30, 2012; but in reducing the solvency period, from 2018 to 2012, the modification in SB367 would cost us the balance.

Fund solvency could only be maintained by increasing employer and employee contributions, retiree premiums, and income taxes paid on state pension income.

GGG/yr:sb