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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 1/21/08  
**LAST UPDATED** 1/26/08     **HB** \_\_\_\_\_

**SPONSOR**     Smith

**SHORT TITLE**     Retiree Health Care Fund & Members     **SB** 67

**ANALYST** Propst

Relates to HB 62, the Health Solutions New Mexico Act, which would fold RHCA and the RHCA Board into a new, comprehensive health care authority. Companion to HB 183. Additionally, HB 7 includes a .2% increase in the employer/employee contribution, expected to provide \$7.3 million to be used to prefund benefits for future retirees.

### REVENUE

	Estimated Revenue				Recurring or Non-Rec	Fund Affected
	FY08	FY09	FY10	FY11		
ER/EE Increase		\$19 Million	\$19.6 Million	\$20.2 million	Recurring	RHCA Fund
Suspense Fund				\$3 million	Recurring	RHCA Fund
Subsidy Change		\$38 Million	\$39.1 Million	\$40.3 million	Recurring	RHCA Fund
ER/EE Increase		(\$9.5 Million)			Recurring	General Fund
ER/EE Increase		(\$9.5 Million)			Recurring	Other State Funds for LPBs, Schools & Universities

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Retiree Health Care Authority (RHCA)  
 Department of Finance and Administration (DFA)  
 Corrections Department (NMCD)  
 Higher Education Department (HED)

### SUMMARY

#### Synopsis of Bill

Senate Bill 67, Relating to Health Care; Changing Provisions Regarding the Membership and Duties of the Retiree Health Care Board; Providing for Additional Distributions and Contributions to the Retiree Health Care Fund; Amending Provisions Regarding Retiree and Dependent Premium Amounts, is endorsed by the Pensions and Investment Oversight Committee and would change the membership of the Retiree Health Care Authority Board of Directors to include additional non-retiree members, increase the employer/employee contribution from the

current 1.95% to 2.4%, make permanent the \$3 million per year additional funding from the Suspense Fund, and establish certain, maximum subsidy levels on a graduated, age-based scale.

## **FISCAL IMPLICATIONS**

The Corrections Department notes that employer/employee increase proposed in SB 67 will cost NMCD an additional \$273,795 per year, beginning on July 1, 2008. However, NMCD also notes that to the extent the contribution increase does effectively prefund unfunded liabilities for active employees, it could perhaps help prevent NMCD and other state agencies from having to pay additional contribution increases in the future.

RHCA notes the following fiscal implications:

- a. Annual reporting cost for reporting to the Executive and Legislature on the financial condition of RHCA.
- b. Funds reserved by SB 67 for prefunding of future liabilities means that RHCA will be able to dip into its reserves that would be used to prefund future retiree benefits under SB 67.
- c. Changes in the RHCA computer systems will have to be implemented to track prefunded contributions from employers and potentially the two plans.

## **SIGNIFICANT ISSUES**

The Retiree Health Care Authority will become insolvent as of June 30, 2014 unless major changes are made to the system. However, the solvency measure is an important but not sufficient measure to completely understand the dire financial condition of RHCA. In addition to the declining solvency period, the New Mexico Retiree Health Care Authority has a \$4.1 billion unfunded accrued actuarial liability (UAAL) and the fund would need an additional \$200.5 million to meet the annual required contribution (ARC) to fully fund the program. And finally, despite having been established to fully fund current benefits and prefund future benefits, the program is prefunding no benefits for future retirees putting the entire system at risk for both current and future retirees.

SB 67 is the result of consensus recommendations made by the House Bill 728 work group that included representation from the Department of Finance and Administration, Office of the Governor, the LFC, RHCA staff and Board members, the Legislative Council Service and the Human Services Department. Taken together, the recommendation would add approximately 13 years of solvency to current seven years, close the ARC by \$64 million and begin to prefund future benefits by:

1. Raising the employer/employer contribution by 19%, from the current 1.95% to 2.4%
2. Permanently extend the \$3 million per year allocation from the Suspense Fund that was contained in HB 728
3. Establishing a graduated maximum subsidy level based on age of retirement as follows: under 50 years of age, no subsidy; age 50 to 54, 25% subsidy; age 55 to 59, 40% subsidy; and, age 60 and over, 50% subsidy
4. Establishing a maximum subsidy level for retirees 60 and over of 50% for the retiree and 25% for spouses and dependents
5. Rebalance the RHCA Board to include representation by the Secretary of the Department

of Finance and Administration, as well as a chief financial officer of one of the state’s universities

6. Requiring the Board to report annually on the fund balance, the amount of the UAAL, the amount of the ARC, the current premium structure and the level of contributions from participating employees

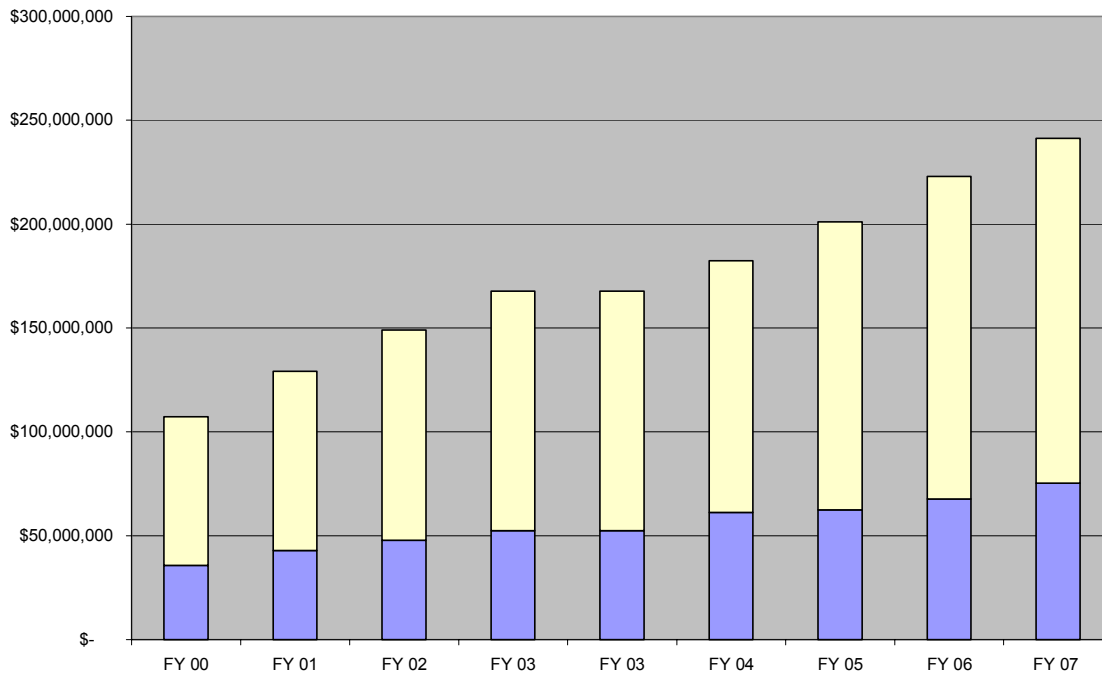
RHCA analysis of the potential increase in premiums under SB 67 for RHCA’s Silver Plan for retirees (with spouse) under age 65 and the Blue Cross Basic Plan for retirees over age 65 may result in the following monthly premium cost changes for members with more than 20 years of service:

	Current cost	SB67 Cost
Under age 50	366.36	894.11
50 – 54	366.36	670.59
55 - 59	366.36	613.61
60 - 64	366.36	575.63
65+	244.83	372.95

However, as noted by both the RHCA Board and the HB 728 Work Group:

1. Premium increases approved by the Board for retirees have not kept pace with increases in medical costs (see graph below). In some years the premium increase approved by the Board was as low as 3% despite double digit increasing in medical costs;

**NMRHCA Historical Premiums (Blue) & Claims (Yellow)**



2. The plans offered by RHCA are not rationalized in terms of true costs and only recently has RHCA begun to try to bring benefits in line with the actual cost.

<b>Current Projected 2008 Retiree Share - Base Plan</b>				
Plan	Total Mo. Cost	RHCA Subsidy	Retiree Cost	Retiree Share
Non-Medicare Retiree	\$372.34	\$255.59	\$116.75	31.40%
Non-Medicare Spouse	\$497.35	\$238.11	\$259.24	52.10%
Self-funded Medicare Retiree	\$282.51	\$187.64	\$94.87	33.60%
Self-funded Medicare Spouse	\$294.59	\$135.88	\$158.71	53.90%
Medicare Advantage Retiree	\$63.34	\$26.73	\$36.61	57.80%
Medicare Advantage Spouse	\$65.30	\$13.84	\$51.46	78.80%

The base plan for Non-Medicare retirees is the Silver Plan

The base plan for self-funded Medicare retirees is the Complementary Plan

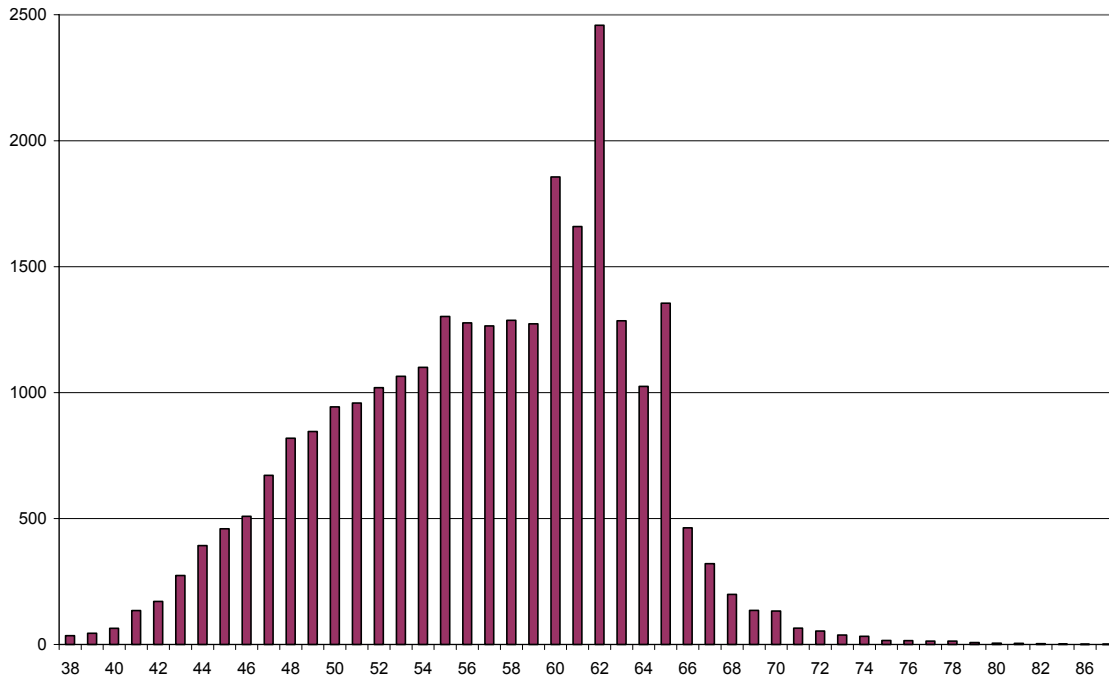
No base plan designated for Medicare Advantage, average reported

In addition to the base plans, RHCA offers premium plans that are more highly subsidized. Recognizing this, RHCA in 2007 agreed to increase the monthly retiree cost for the premium plans more rapidly than the base plans until the retirees had to pay the full actuarial value of the difference between the two plans in addition to their base plan costs. The Board expected to implement this adjustment over a period of two to three years. The retiree share for the premium plans is shown in the following chart.

<b>Current Projected 2008 Retiree Share - Premium Plans</b>				
Plan	Total Mo. Cost	RHCA Subsidy	Retiree Cost	Retiree Share
Non-Medicare Gold Retiree	\$734.31	\$562.93	\$171.38	23.30%
Non-Medicare Gold Spouse	\$701.72	\$385.67	\$316.05	45.00%
Medicare Self-funded Plus Retiree	\$339.86	\$177.95	\$161.91	47.60%
Medicare Self-funded Plus Spouse	\$356.01	\$127.59	\$228.42	64.20%

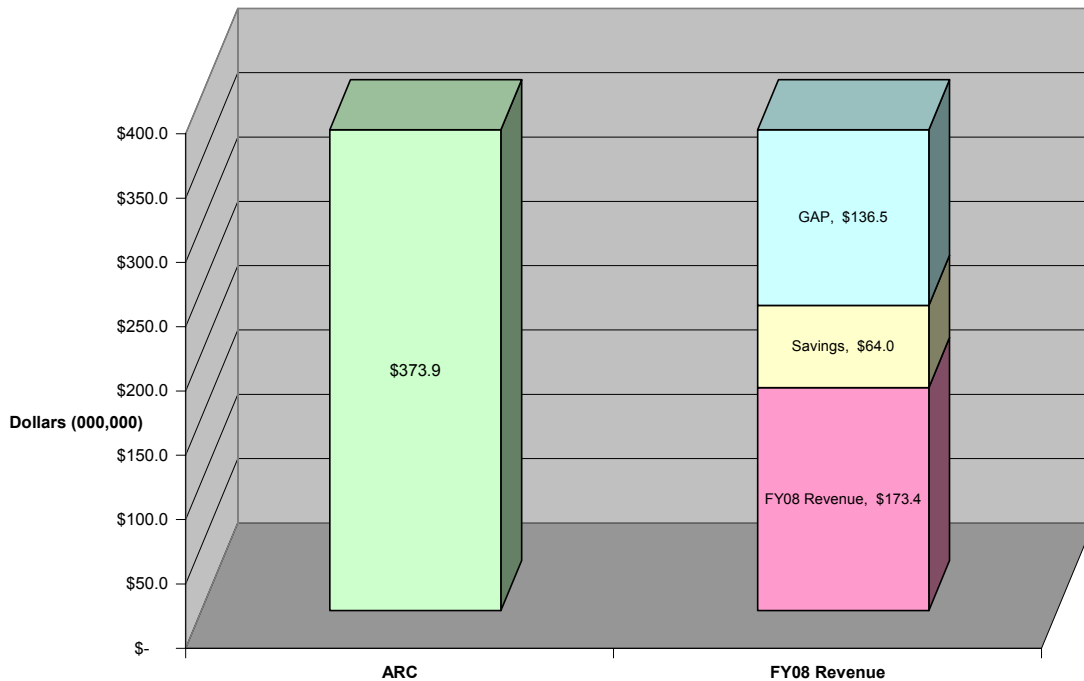
3. As the following chart demonstrates, the vast majority of retirees would continue to receive a significant subsidy in the cost of health care coverage under SB 67;

NMRHCA Member's Age at Retirement



- Even with the increase in contributions to the State and current employees, and the graduated subsidy proposal, New Mexico still falls \$136.5 million short of fully meeting its Annual Required Contribution to fund the system and begin to prefund benefits for future retirees (see graph below).

FY09 Gap Between ARC, FY08 Revenue & Recommended Savings



As the New Mexico Corrections Department (NMCD) noted that, to the extent the contribution increase does effectively prefund unfunded liabilities for active employees, it could perhaps help prevent NMCD and other state agencies from having to pay additional contribution increases in the future.

### **ADMINISTRATIVE IMPLICATIONS**

RHCA notes the following possible administrative implications:

- ✓ Additional cost to the NMRHCA administrative budget may require modification to track prefunded employer reserves.
- ✓ Additional cost to the administrative budget will result in the additional reporting of the Legislative Finance Committee (\$75,000 per year).

### **COMPANIONSHIP, RELATIONSHIP**

SB 67 is the companion to HB 183. Additionally, HB 7 includes a .2% increase in the employer/employee contribution, expected to provide \$7.3 million to be used to prefund benefits for future retirees.

### **ALTERNATIVES**

As an alternative to the SB 67 approach that requires contributions from current and future beneficiaries to restore the fund to solvency, RHCA proposes raising contributions from employers by 35% and employees by 38%, thereby requiring significant increases in costs to the State and current employees.

Other options reviewed by the HB 728 work group and recommended for further consideration include:

- Conversion to a defined contribution approach
- Explore the possibility of issuing bonds to increase the actuarial discount rate and lower the UAAL while providing cash into the system
- Consolidation of RHCA with the General Services Department Risk Management and Public Schools Insurance Authority.

WEP/bb:nt