FISCAL IMPACT REPORT

		LAST UPDATED	2/21/2023
SPONSOR	Stewart	**ORIGINAL DATE**	2/7/2023
SHORT TITLE	Retiree Health Care Contributions	**BILL NUMBER**	Senate Bill 193
		ANALYST	Simon

REVENUE*
(dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	**FY24**	**FY25**		
	$27,200.0	$27,200.0	Recurring	Retiree Health

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		$7,700.0	$7,700.0	$15,400.0	Recurring	General Fund (including public schools)
		$2,200.0	$2,200.0	$4,400.0	Recurring	Other state funds and federal funds for state agencies
		$8,200.0	$8,200.0	$16,400.0	Recurring	Municipalities, counties, and other public employers
Total		$18,100.0	$18,100.0	$36,200.0		

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Duplicates House Bill 150

Sources of Information

LFC Files

<u>Responses Received From</u>
Retiree Health Care Authority (RHCA)
State Personnel Office (SPO)
Department of Transportation (NMDOT)

SUMMARY

Synopsis of Senate Bill 193

Senate Bill 193 increases the required contribution to the retiree health care fund for both public employers and employees covered by the fund. For employers, contributions would increase by 0.33 percentage points for most employees and by 0.43 percentage points for public safety employees in an enhanced retirement plan. For employees, contributions would increases by 0.17 percentage points for most employees and 0.22 percentage points for public safety employees in an enhanced retirement plan.

The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

The Retiree Health Care Authority estimates SB193 will generate $27.2 million in annual revenue to the fund. Of this amount, $18.1 million will come from employers and must be absorbed in the existing operating budgets as there is no appropriation to pay for the increased costs. The amount of the increased employer cost is included in the estimated additional operating budget impact table.

SIGNIFICANT ISSUES

RHCA was established in 1990 to assist retired public employees in securing health, dental, vision, and life insurance for around 64 thousand retired public employees and their dependents. RHCA offers coverage for both Medicare-eligible retirees, through Medicare Advantage and Medicare Supplement plans, as well as pre-Medicare plans for younger retirees. RHCA reports significantly higher costs for 9,122 pre-Medicare retirees and their dependents than for the 32.5 thousand Medicare-eligible retirees and spouses. Financial data from the second quarter of FY23 shows total pre-Medicare spending of $54 million, or $5,924 per retired member, and total Medicare spending of $38 million, or $1,171 per retried member. Current policy of the agency is to subsidize plans for pre-Medicare members at a higher rate than Medicare-eligible members. Pre-Medicare members receive a subsidy of up to 64 percent, depending on the amount of service credit, while Medicare-eligible members can receive a subsidy of up to 50 percent.

The healthcare fund subsidizes retiree health coverage while retirees pay health insurance premiums. However, the law makes clear the fund is not intended to create a trust relationship. Although the fund subsidizes benefits, the authority began to cover retirees six months after the agency was created, including retirees who never contributed to the fund. As a result, the anticipated liabilities of the fund have always been well in excess of assets in the agency's trust fund.

SB193 attempts to pre-fund future benefits, reducing those unfunded liabilities, which must be reported on the financial statements of entities participating in the fund. As of June 30, 2022, total liabilities were $3.5 billion, while assets were $1.2 billion, for a 33.3 percent funded ratio. Notably, this represents a significant improvement in the fund's status, which was only 11.3 percent funded in 2017 and 3.6 percent funded in 2006. RHCA projections show the fund is expected to maintain a positive balance through the end of the agency's projection period in 2053.

RHCA notes the failure to pre-fund benefits could lead to future reductions in retiree benefits. The agency states it is committed to making plan design changes to maintain the viability of the benefit. Changes could include the elimination of Medicare Supplement plans, the elimination of subsidies for spouses, a decrease in subsidies for pre-Medicare retirees, limiting the network of providers, or providing only a flat, monthly contribution, regardless of the cost of coverage.

In addition to employee and employer contributions and participant premiums, RHCA receives a direct distribution from the tax suspense fund. In FY23, the distribution will be $41.3 million. Statute mandates the distribution from the tax suspense fund increases at a rate of 12 percent per year, roughly doubling every six years. Monies distributed to RHCA from the tax suspense fund would otherwise go to the general fund.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB193 duplicates HB150.

JWS/mg/hg/mg/al/ne