

# FY15 Appropriation Request Presented to the Legislative Finance Committee

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NEW MEXICO  
**RETIREE**  
HEALTH CARE  
AUTHORITY

# Recent Updates & Current Events

## Current Composition

300 Public Employers

- 50% Public Schools
- 25% State of New Mexico
- 25% Municipalities, Counties, and Universities

Approximately 100,000 active employees

55,137 Covered Retirees (November 1, 2013)

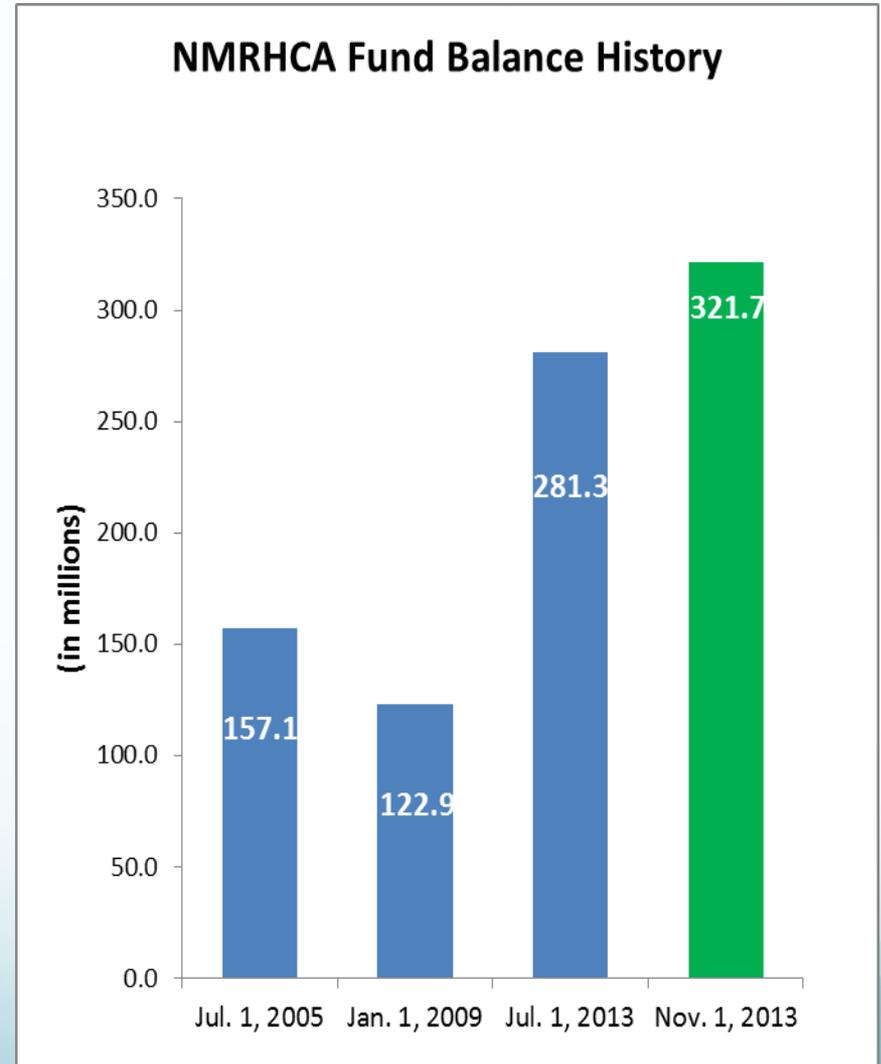
- 31,429 Medicare
- 18,427 Pre-Medicare
- 5,281 100% retiree pay voluntary plans (e.g. dental/vision)

## Board Action for 2014

- Retiree rate increases
  - Pre-Medicare Plans – 8%
  - Medicare Supplement – 6%
- Continued phasing out of child subsidies
- Committed to altering plans to preclude payment of “Cadillac Tax”
- Medicare Advantage Plans added expanding coverage locally and nationally

## Results

- Reduced unfunded liability by \$200 million
- Reduced solvency deficit of outbound year by \$120 million



# Program Improvements

## Agency Leadership

### 2007

- Trust Fund set to be exhausted in 2014
- Money drawn from fund 4 out of 5 previous years
- Unfunded liability (GASB) of \$4.1 billion

### 2013

- Trust Fund to stay positive into 2029
- \$80 million added to fund over last three years
- Unfunded liability of \$3.6 billion

## Cost Management Efficacy

### 2009

- Plan costs \$201.5 million/44,224 members -- \$417 per member per month

### 2014 Projected

- Plan costs \$258.3 million/51,484 members -- \$418 per member per month

**All Stakeholders (employees, employers and retirees) have contributed to improved financial outlook.**

## Shared Responsibility

### Cost Containment Strategies

- Pre-Medicare plan deductibles have increased from an average of \$195 in 2009 to an average of \$600 in 2013
- Pre-Medicare plan out-of-pocket maximums have increased from an average of \$1,500 in 2009 to an average of \$3,600 in 2013
- Medicare Supplement plans now require all members to pay the Medicare Part B deductible
- All prescription plans have shifted to members paying a percentage of total costs.

### Revenue Enhancement Strategies

- Increased Retiree Health Care Premiums in accordance with medical inflation averaging 8 percent annually
- **Continued pursuit of increase in contribution levels for active employees/employers**

# Health Care Benefits Administration

Health Benefit Fund - Revenue Detail (in thousands)						
		FY13	FY14	FY15	FY15	Percent
		Actuals	OPBUD	Inc/Dec	Request	Change
<b>REVENUE:</b>						
1	Employer/Employee Contributions	119,261.1	104,459.7	7,703.2	112,162.9	7% 1
2	Retiree Contributions	111,378.4	112,126.5	12,793.1	124,919.6	11% 2
3	Taxation and Revenue Suspense Fund	21,521.8	23,931.3	2,511.7	26,443.0	10% 3
4	Other Miscellaneous Revenue	19,889.1	17,774.7	0.0	17,774.7	0% 4
5	Interest Income	54.3	26.7	27.6	54.3	103% 5
6	<b>TOTAL REVENUE:</b>	<b>272,104.7</b>	<b>258,318.9</b>	<b>23,035.6</b>	<b>281,354.5</b>	<b>9% 6</b>
Health Benefit Fund - Expenditure Detail (in thousands)						
		FY13	FY14	FY15	FY15	Percent
	Contractuals Services	Actuals	OPBUD	Inc/Dec	Request	Change
7	Prescription Drug Coverage	70,777.9	79,500.0	8,500.0	88,000.0	11% 7
8	Non-Medicare	96,230.8	103,076.8	9,371.3	112,448.1	9% 8
9	Medicare	38,451.1	43,076.8	3,590.1	46,666.9	8% 9
10	Voluntary Benefits	25,699.3	30,000.0	1,250.0	31,250.0	4% 10
11	<b>Sub Total</b>	<b>231,159.1</b>	<b>255,653.6</b>	<b>22,711.4</b>	<b>278,365.0</b>	<b>9% 11</b>
<i>Other Financing Uses</i>						
12	<b>Program Support</b>	<b>2,684.0</b>	<b>2,665.3</b>	<b>324.2</b>	<b>2,989.5</b>	<b>12% 12</b>
13	<b>Total</b>	<b>233,843.1</b>	<b>258,318.9</b>	<b>23,035.6</b>	<b>281,354.5</b>	<b>9% 13</b>

Overall, FY15 projected costs are expected to reach \$278.4 million, a 9 percent increase above FY14 approved operating levels. This assumes a 4 percent growth in membership (retirees joining the plan) combined with medical inflation of 5 percent.

- The assumed rate of medical inflation is lower than our projected trend; however, it is reasonable to assume that retirees will continue migrating toward lower costing plans (lower premium/higher out-of-pocket costs) which will place downward pressure on the overall cost of the program.
- In addition, favorable utilization trends including greater use of generic prescription drugs and decreased emergency room visits further mitigate health care cost increases.

# Program Support

Program Support - Summary of Expenditures (in thousands)								
	Uses		FY13 Actual	FY14 OPBUD	FY15 Inc/Dec	FY15 Request	Percent Change	
1	200	Personal Services/ Employee Benefits	1,547.7	1,712.0	254.6	1,966.6	15%	1
2	300	Contractual Services	286.8	445.2	22.2	467.4	5%	2
3	400	Other Costs	545.1	508.1	47.4	555.5	9%	3
4		<b>TOTAL</b>	<b>2,379.6</b>	<b>2,665.3</b>	<b>324.2</b>	<b>2,989.5</b>	<b>12%</b>	<b>4</b>
Program Support - Summary of Revenues (in thousands)								
	Sources		FY13 Actual	FY14 OPBUD	FY15 Inc/Dec	FY15 Request	Percent Change	
5	112	Other Transfers	2,684.0	2,665.3	324.2	2,989.5	12%	5
6		<b>Total</b>	<b>2,684.0</b>	<b>2,665.3</b>	<b>324.2</b>	<b>2,989.5</b>	<b>12%</b>	<b>6</b>
7		<b>FTE</b>	<b>25</b>	<b>25.0</b>	<b>3.0</b>	<b>28.0</b>	<b>12%</b>	<b>7</b>

The FY15 appropriation request for Program Support reflects a \$324.2 thousand, or 12 percent increase above FY14 approved operating levels.

This includes a \$255 thousand and 3 FTE 'base increase' to the personal services and employee benefits category to accommodate increased workloads associated with growth in membership including: 2 – Customer Service Representatives and 1 – IT Generalist.

**In FY13 NMRHCA received 39,600 phone calls and over 9,900 retirees visited our offices  
Beginning Fiscal Year Membership Totals:**

**FY12 – 48,466**  
**FY13 – 51,080**  
**FY14 – 53,486**  
**FY15 Projected – 56,000+**

The request includes a \$22 thousand increase in contractual services to support the procurement of investment advisor services (partially offset by reductions in actuarial, legal and IT services).

Lastly, the request for other costs includes a \$47 thousand, or 9 percent increase to support projected costs associated with the rent of equipment (copiers), postage and telecommunication charges through the Department of Information Technology.

# Fundamental Imbalances Will Require Additional Changes Over Time

## 5-Year Strategic Plan

- Phase out “family coverage” subsidies for retirees with multiple dependent children
- Increase cost sharing on prescription coverage (stabilize plan/member share percentage)
- Increase cost-sharing of pre-Medicare Plans
- Implement graduated minimum age requirement (to receive subsidies)
- Increase years of service required to receive maximum subsidy (currently 20 years)
- Reduce pre-Medicare retiree subsidies
- Reduce pre-Medicare spousal subsidies
- Implement enhanced wellness programs (premium incentives for participation/health status)

Requires Legislative Action

- Increase Employee/Employer contribution levels (requires legislative action)

NMRHCA Proposal

- Increase contribution levels from 3% of payroll to 5.25% of payroll over a 6-year period.

## Purpose

- Financial planners Fidelity and Nationwide assume a couple retiring at the age of 65 can expect to incur \$240,000 of medical expenses during retirement.
  - Average PERA Pension \$2,383
  - Average ERB Pension \$1,767
  - Average Social Security Benefit \$1,262

## Projected Outcomes

- Ensure the benefits received over the course of an average retirement more closely match the contributions received
- Full implementation of 5-year plan will extend solvency through 2043 (adding 15 years)

## Conclusion

- Recent improvements demonstrate that retiree health benefits can be managed in a responsible way over the long term.