

Investments and Pensions Oversight Committee

June 17, 2014

Mark Tyndall, Executive Director



NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

Introduction & Background

New Mexico Retiree Health Care Authority Act

- Created in July 1990 (no appropriation/prefunding period)
- Began paying benefits in January 1991 w/statutory limitations to premium increases until 2008
- Grants broad authority to Board of Directors
- Establishes employer/employee contributions levels

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

Current Benefits (20+ years of service)

- Medicare
 - BCBS Supplement Plan - \$159 per month
 - Medicare Advantage Plans - \$9 - \$67 per month
- Pre-Medicare
 - Premier Plus (BCBS/Presbyterian) - \$272.03 per month
 - Premier (BCBS/Presbyterian) - \$145.55 per month

Introduction & Background Continued

Current Composition

300 Public Employers

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

Approximately 100,000 active employees

55,772 Covered Retirees (May 1, 2014)

- 32,135 - Medicare
- 18,068 - Pre-Medicare
- 5,569 -100% retiree pay voluntary plans (e.g. dental/vision)

Plans

- Medical – Pre-Medicare/Medicare Supplemental & Advantage
- Dental – United Concordia & Delta
- Vision – Davis Vision
- Life – Standard Insurance

Budget & Finance

LTI Account - \$353.9 million (March 2014)

FY14 Operating Budget

- Program Support \$2.8 million (25 FTE)
- Healthcare - \$258.3 million

FY15 Operating

- Program Support \$2.9 million (26 FTE)
- Healthcare - \$272.1 million

FY14 Sources of Income:

- Employee/Employer Contributions – \$104.5 million
- Retiree Premiums – \$112.1 million
- Tax & Rev Suspense Fund - \$23.9 million
- Miscellaneous - \$17.8 million
- Interest Income - \$27 thousand

2014 Session Review

NMRHCA 2014 Supported Legislation

- Increase contribution levels from 3% of payroll to 5.25% of payroll over a 6-year period.
 - House Bills 27 and 363 / Senate Bill 135

A	B	C	D	E	F	G	H
Fiscal Year	Employee	Increase	Employer	Increase	GF Impact	Total	RHCA Revenue
FY14	1.00%	NA	2.000%	NA	NA	NA	NA
FY15	1.125%	0.125%	2.250%	0.250%	\$5,000,000	3.375%	\$15,000,000
FY16	1.250%	0.125%	2.500%	0.250%	\$5,000,000	3.750%	\$30,000,000
FY17	1.375%	0.125%	2.750%	0.250%	\$5,000,000	4.125%	\$45,000,000
FY18	1.500%	0.125%	3.000%	0.250%	\$5,000,000	4.500%	\$60,000,000
FY19	1.625%	0.125%	3.250%	0.250%	\$5,000,000	4.875%	\$75,000,000
FY20	1.750%	0.125%	3.500%	0.250%	\$5,000,000	5.250%	\$90,000,000

House Bill 363 – passed the House and referred to Senate Finance

*Similar proposal endorsed by the Investments and Pensions Oversight Committee increasing employee contributions by the same amount over a 3 year period as compared to the 6 year period indicated above.

2015 Plan Considerations

Continued Implementation of 5-Year Plan

Plan Rates: adjust all self-insured medical rates commensurate with the current loss ratio

- Long-term solvency projections include annual 8% increase as part of baseline assumptions (rising medical costs)
- Changes to rate of increase in any given year are based on an evaluation of NMRHCA's overall loss ratio.

Subsidy Levels: reduce pre-Medicare spousal subsidy* from 40% to 30% phased in over 3 years (3%, 3%, 4%)

and/or

Reduce pre-Medicare retiree subsidy from 65% to 60% phased in over 3 years (2%, 2%, 1%)

*Board members have requested to be presented a scenario in which the spousal subsidy is eliminated

5-Year Strategic Plan Addition: Conversion of Basic Life Insurance to Supplemental Life and phase out subsidy over a 4-year period.

***Age Requirements:** Institute minimum age of 55 in order to receive subsidies through NMRHCA for all new retirees after January 1, 2020 (except PERA enhanced plans)

- Enhanced revenue from individuals working longer
- Reduced annual expenses from individuals not participating in the plan
- Total savings estimated at \$1.3 million per year (recurring and indexed with medical cost trend)

***Years of Service:** Increase years of service required to receive the maximum subsidy from 20 to 25 (except PERA enhanced plans)

- Impact on GASB: \$100 million reduction in Actuarial Accrued Liabilities

Note: Average age of retirees has increased by 1 year

Investment Strategies & Current Solvency

NEPC Asset Allocation Review – September 2013

Long Term Investment Account

\$353.9 million (March 2014)

- NEPC reviewed the asset allocation targets using the asset classes currently available through the SIC.
- Current asset allocation targets produce an optimal risk-adjusted return using the asset classes currently available through the SIC.
- Current Asset Allocation
- Core Bonds 35%
- Emerging Markets 15%
- Non US Developed 15%
- Mid/Small Cap 10%
- Large Cap Index 12.5%
- Large Cap Active 12.5%

SIC has approved client participation in alternative investments funds such as Private Equity. NEPC to perform updated asset allocation review to determine new optimal risk-adjusted mix.

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

2014

- Trust Fund to stay positive into 2029
- \$115 million added to fund since FY11
- 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.

Moving Forward

Current Contributions vs. Benefits

- Average Employer + Employee Contribution - \$31,125
- Average Subsidy Provided for Retiree \$68,400

Contributions vs. Benefits w/Five Year Plan

- Average Employee Contribution + Employer Contribution - \$56,650
- Average Subsidy Provided for Retiree \$58,517

2015 Legislative Session

- Develop legislation to increase employer and employee contribution levels

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)

Upcoming Events & Reminders

- Annual Board Meeting – July 10th and 11th
- Quarterly Newsletter
- Prescription Drug Provider RFP – July 2014
- CareView
- Switch Enrollment – October/November 2014