

# Investments and Pensions Oversight Committee

November 7, 2013

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NEW MEXICO  
RETIREE  
HEALTH CARE  
AUTHORITY

# Background

## History

### Retiree Health Care Authority Act

- Created July 1990 (no appropriation/prefunding period)
- Began paying benefits in January 1991 w/statutory limitations to premium increases until 2008

## Current Composition

### 300 Public Employers

- 50% Public Schools
- 25% State of New Mexico
- 25% Municipalities

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)

<b>NMRHCA Finances</b>	
<b>Fiscal Year 2014</b>	
(amounts shown in millions)	
<b>Sources</b>	
Employees	41.6
Employers	83.1
Retirees	100.8
Federal	25.9
Tax Suspense Fund	23.9
Misc	6.7
<b>Total</b>	<b>282.0</b>
<b>Uses</b>	
Health Plan Administration	10.9
RHCA Operating	2.7
Medical/Prescription	236.4
<b>Total</b>	<b>250.0</b>
<b>FY14 Solvency Contribution</b>	<b>32.0</b>

# 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**

# Recent Updates & Current Events

## Board Action for 2014

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

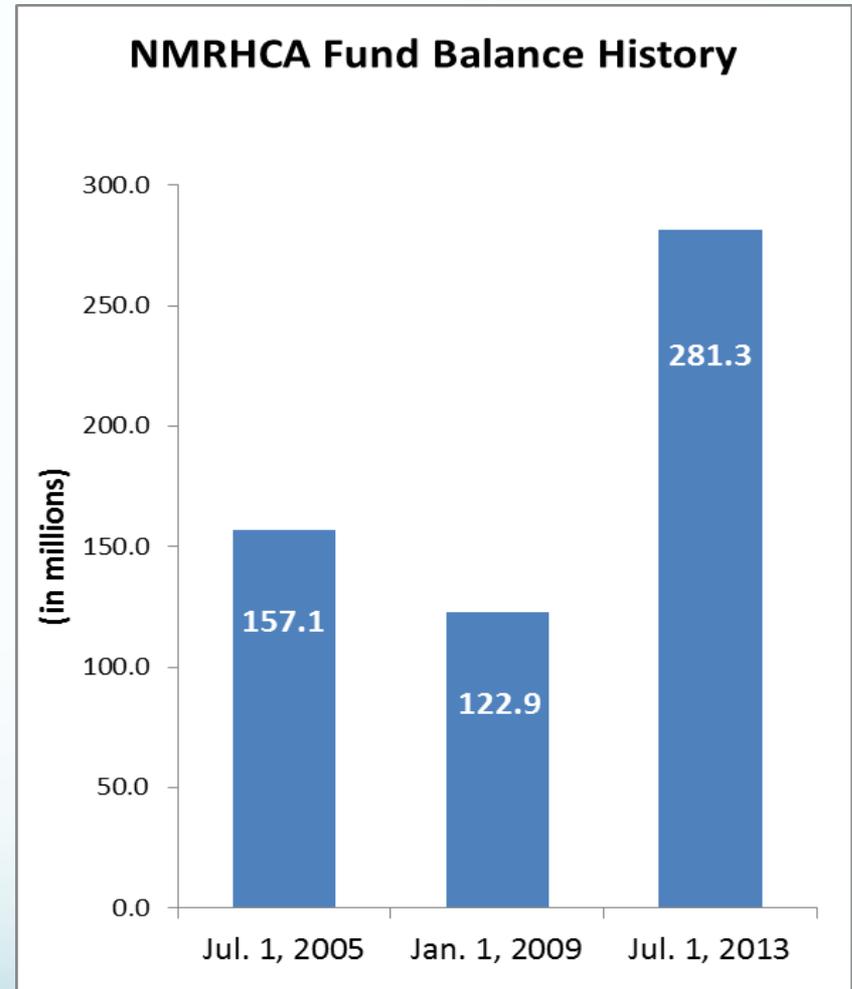
## Results

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

## 2014 Legislative Session

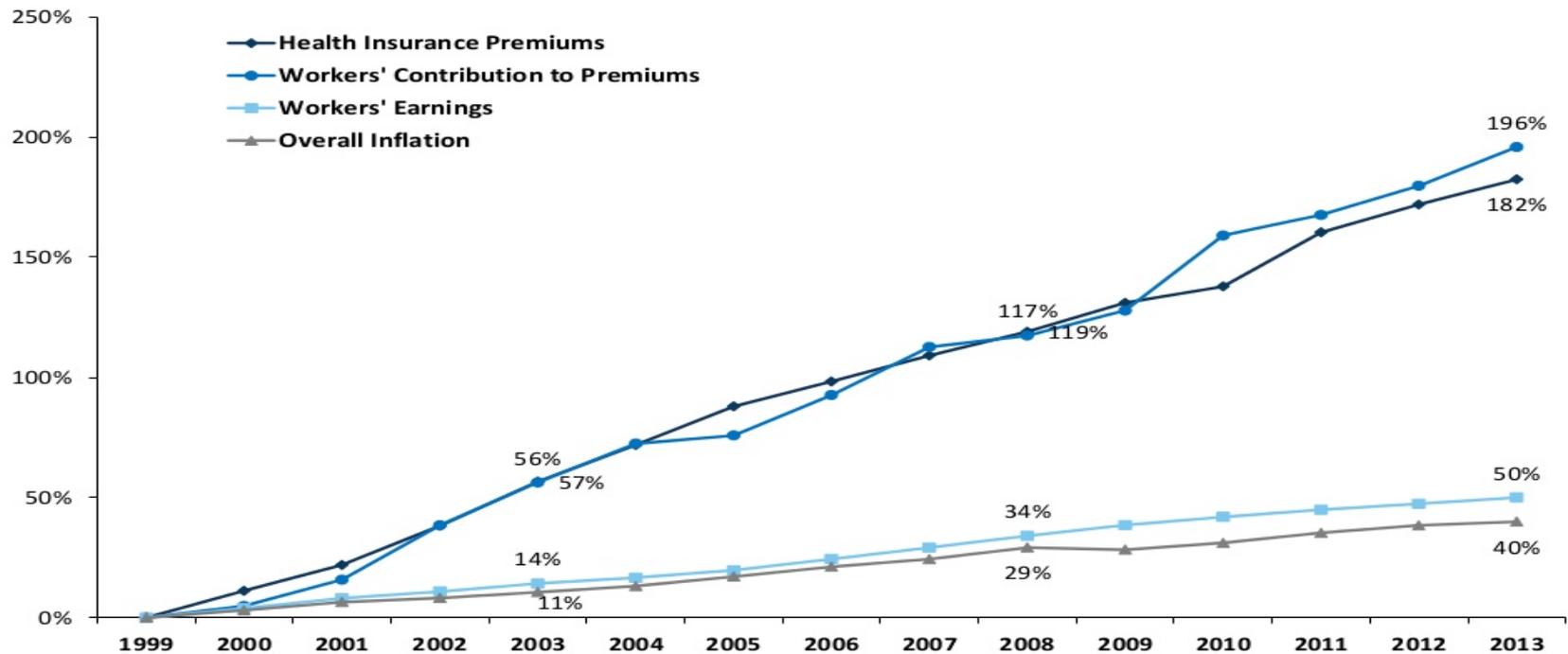
### *FY15 Appropriation Request*

- Membership growth – 4 percent
- Medical cost trend – 5 percent (migration to lower costing plans)
- Expansion of FTE’s to accommodate years of accumulated growth



# Fundamental Challenges

## Cumulative Increases in Health Insurance Premiums, Workers' Contributions to Premiums, Inflation, and Workers' Earnings, 1999-2013



SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2013. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1999-2013; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999-2013 (April to April).

# NMRHCA Current Fund Balance Projection



# NMRHCA Program Is Manageable – But Significant Challenges Remain

- Recent improvements demonstrate that retiree health benefits can be managed in a responsible way over the long term
- Fundamental imbalances will require additional changes over time

## NMRHCA Five Year Strategic Plan Positive Fund Balance Through 2043

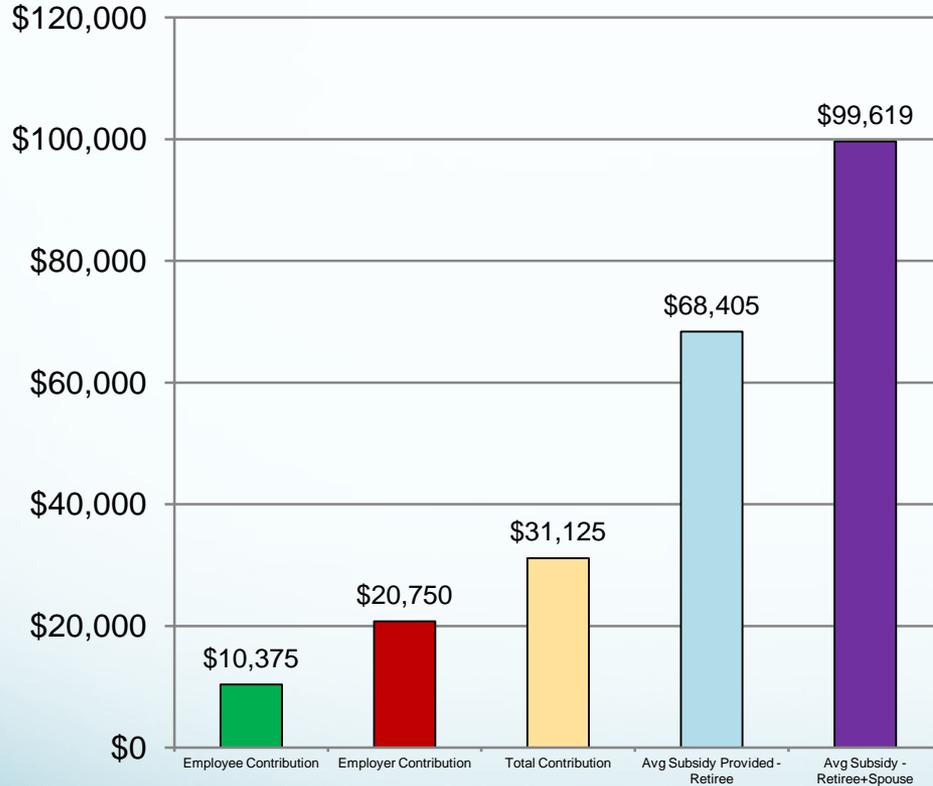
- X Phase out “family coverage” subsidies for retirees with multiple dependent children
- X Increase cost sharing on prescription coverage (stabilize plan/member share percentage)
- X Increase cost-sharing of pre-Medicare Plans
- Implement graduated minimum age requirement (to receive subsidies)\*
- 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)
- Increase Employee/Employer contribution levels (requires legislative action)

X indicates implementation starting in 2013

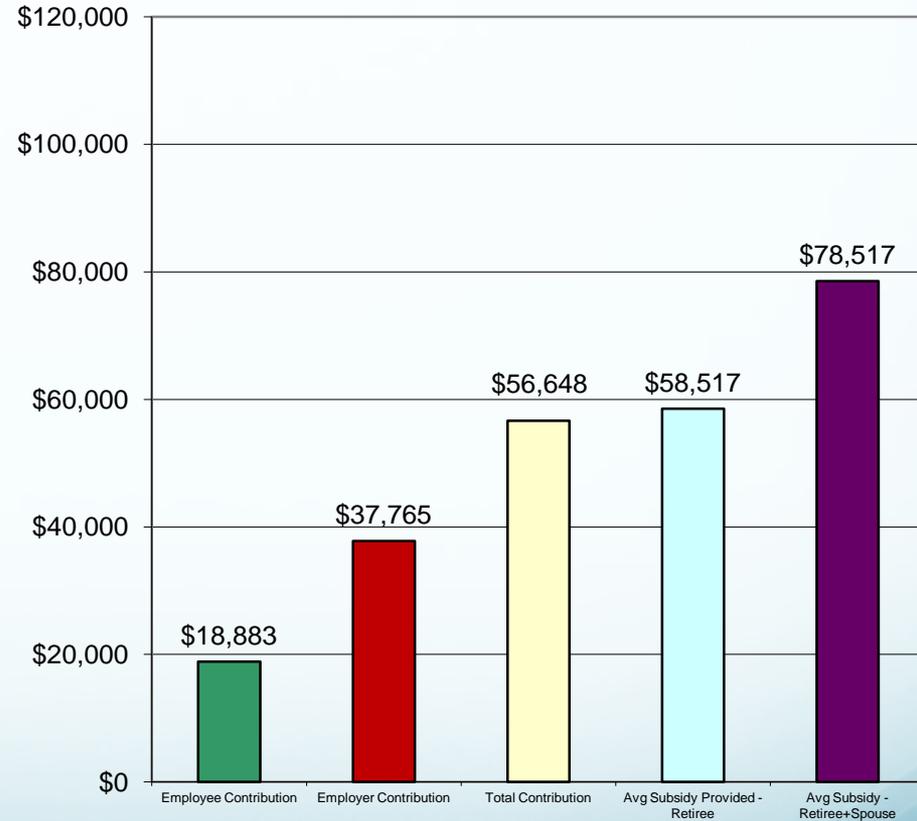
\*NMRHCA will implement any minimum age requirement adopted by PERA and/or ERB

# Impact of Five Year Plan

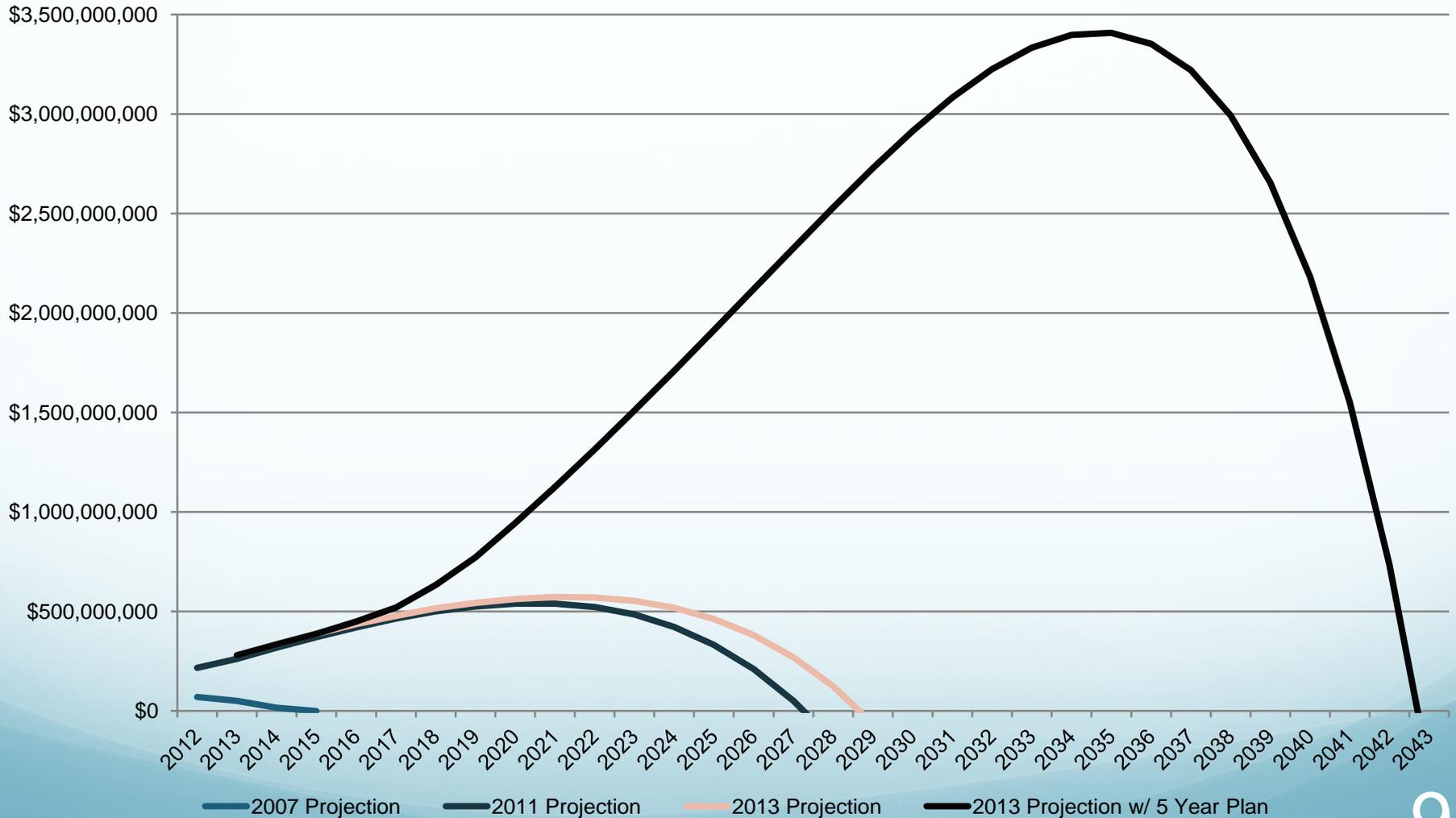
## Current Contributions Vs. Benefits



## Contributions Vs. Benefits With Five Year Plan



# Solvency Projections With Five Year Plan – Positive Fund Balance Through FY2043



# Legislative Proposal

- Increase employee/employer contributions from 3% of payroll to 5.25% over a 6-year period as follows:

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	1.25%	0.25%	2.250%	0.250%	\$5,000,000	3.500%	\$20,000,000
FY16	1.50%	0.25%	2.500%	0.250%	\$5,000,000	4.000%	\$40,000,000
FY17	1.75%	0.25%	2.750%	0.250%	\$5,000,000	4.500%	\$60,000,000
FY18	1.75%	0.00%	3.000%	0.250%	\$5,000,000	4.750%	\$70,000,000
FY19	1.75%	0.00%	3.250%	0.250%	\$5,000,000	5.000%	\$80,000,000
FY20	1.75%	0.00%	3.500%	0.250%	\$5,000,000	5.250%	\$90,000,000

# Summary Impact

- Upon full implementation
  - \$90 million of additional revenue annually
- Employee Impact Example:
  - An employee earning \$40,000 annually currently pays \$15.39 per pay period (1%)
  - Each .25% increase will result in \$3.84 less in take home pay each pay period. A .75% increase will result in an increased contribution of \$11.52 per pay period or \$300 annually
- Employer Impact Example:
  - An employer (for each \$40,000 employee) currently pays \$30.77 (2%) per pay period
  - Each .25% increase will result in \$3.84 increase in contribution. A 1.5% increase will result in an increased contribution of \$600 annually
  - Each .25% increase in employer contribution will have an approximate \$5 million impact on the general fund
- Each .25% increase in contributions extends NMRHCA's solvency by approximately 1 ½ years