

Investments and Pensions Oversight Committee

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NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

Solvency Update

2007 Status

- Projected Solvency 2014
- Trust Fund Balance - \$122.8 million
- \$4.1 billion unfunded liability (3% funded)
- FY07 - \$5.7 million withdrawn from Trust Fund

2014 Status

- Projected Solvency 2033
- Trust Fund Balance - \$389 million (August 2014)
- \$3.4 billion unfunded liability (10.08% funded)
- \$119 million added to Trust Fund over the past 5 years

Results

- 7-year solvency period compared to 19 years solvency period
- \$267 million increase in Trust Fund Balance
- \$500 million reduction in unfunded liabilities

GASB Update

2012

- Unfunded Actuarial Accrued Liability (UAAL) - \$3.6 billion
- Annual Required Contribution (ARC) - \$353 million
- Assets - \$227 million
- Funded Ratio – 5.81%
- Covered Payroll - \$3.8 billion
- Total Participants (Retirees/Future Retirees) – 146,590
- Average Age – 68.8

2014

- UAAL - \$3.4 billion
- ARC - \$292 million
- Assets - \$377 million
- Funded Ratio – 10.08%
- Covered Payroll - \$3.9 billion
- Total Participants – 155,098
- Average Age – 69.1

Board Action for 2015

- Plan Rates: Increase all pre-Medicare rates by 8% and Medicare Supplement Rates by 5%
- *Reduce Pre-Medicare Spousal Subsidy by 2% (from 40% to 38%)**
- *Institute minimum age of 55 in order to receive subsidies through NMRHCA for all new retirees after January 1, 2020 (exception: PERA enhanced plans)**
- *Increase years of service required for maximum subsidy from 20 to 25 for new retirees after January 1, 2020 (exception PERA enhanced plans)**
- *Addition to 5-year Strategic Plan: Convert \$6,000 basic life insurance to supplemental life insurance and phase out subsidy beginning in 2017**

**Resulted in GASB Improvements*

2015 Legislative Proposal

Proposed Legislation:

- Increase employee contributions from current level of 1 percent to 1.375 percent over a 3 year period beginning FY17
- Increase employer contributions from the current level of 2 percent to 2.75 percent over a 3 year period beginning in FY17
- No impact to FY16 proposed expenditures
- 2014 Legislative Proposal reduced by half
- Employee/Employer contributions levels, estimated General Fund impact, and NMRHCA revenue shown below:

2015 Legislative Proposal							
A	B	C	D	E	F	G	H
FY	Employee	Increase	Employer	Increase	GF Impact	Total	RHCA Revenue
FY16	1.00%	NA	2.000%	NA	NA	NA	NA
FY17	1.125%	0.125%	2.250%	0.250%	\$5,000,000	3.375%	\$15,000,000
FY18	1.250%	0.125%	2.500%	0.250%	\$5,000,000	3.750%	\$30,000,000
FY19	1.375%	0.125%	2.750%	0.250%	\$5,000,000	4.125%	\$45,000,000

Contributions for public safety employees and employers will retain 1.25 : 1.00 ratio to account for fewer years worked and exemption from minimum age and years of service changes

Resulting Impact

NMRHCA

- Solvency period extended through 2040
- No deficit spending projected until 2025
- Trust Fund balance projected to reach \$2 billion
- GASB funding level projected to reach 50 percent
- 25-year solvency as recommended by the 2007 HB728 Work Group

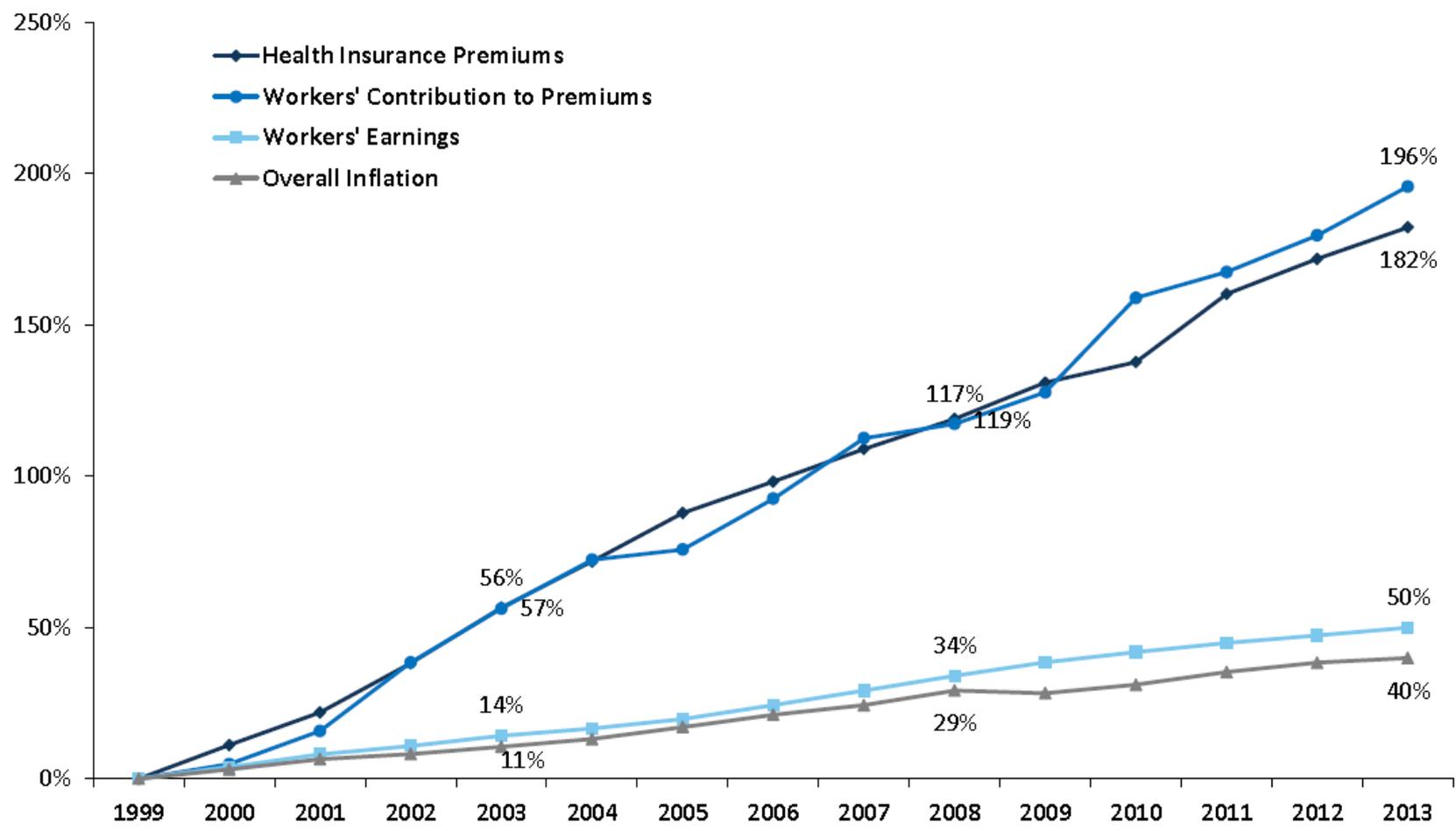
Employee Impact

- An employee earning \$40,000 annually currently pays \$15.39 per pay period (1%) which will increase to \$21.15 (1.375%) over a 3 year period. Net take-home pay will be reduced each pay period by \$1.92 the first year of the increase (FY17); \$3.84 the second year (FY18) and \$5.76 the third year (FY19).

Employer Impact

- 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 .75% increase will result in an increased contribution of \$300 annually
- Each .25% increase in employer contribution will have an approximate \$5 million general fund impact

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).



If Legislation Does Not Pass

Prior to deficit spending (currently projected for 2020) NMRHCA Board will have to consider:

- 14 percent annual increases for all pre-Medicare plans - minimum pre-Medicare monthly premiums could reach over \$500 by 2025
- Pre-Medicare plan cost sharing would have to increase at an accelerated rate – deductibles could be up to \$2,000 with out-of-pocket maximums as high as \$6,000

With no future increases in contribution levels, serious consideration will have to be given to the following as soon as 2025:

- Increase minimum retirement age to 60
- Elimination of all spousal subsidies
- Elimination of Medicare Supplement plan
- Defined Contribution