

**LEGISLATIVE EDUCATION STUDY COMMITTEE  
BILL ANALYSIS**

**Bill No:** SB 67

**48th Legislature, 2nd Session, 2008**

**Short Title:** Retiree Health Care Fund & Members

**Sponsor(s):** Senators John Arthur Smith, Timothy Jennings, and Mary Kay Paper

**Analyst:** Frances R. Maestas



**Date:** January 26, 2008

**Bill Summary:**

SB 67 contains the recommendations of the Investments and Pensions Oversight Committee to address the projected insolvency of the Retiree Health Care Fund by 2014.

Among its provisions, SB 67:

- extends indefinitely a \$3.0 million transfer from the Tax Administration Suspense Fund, authorized by the 2007 Legislature, scheduled to terminate on June 30, 2010; and
- amends the *Retiree Health Care Act* to:
  - require the Retiree Health Care Authority (RHCA) to provide an annual report to the Legislative Finance Committee (LFC) and the Governor on the condition of the RHCA by December 15 of each year;
  - expand the composition of the RHCA board of directors;
  - beginning in FY 09, limit the state subsidy to 50 percent of projected costs for retirees and 25 percent of projected costs for dependents;
  - beginning July 1, 2008, increase the employer/employee contribution to a total of 2.4 percent (from 1.95 percent) of pay. The employer contribution would be increased to 1.60 percent from 1.30 percent (a .30 percent increase) and the employee contribution would be increased to .80 percent from .65 percent (a .15 percent increase);
  - require the total .45 percent increase of employer/employee contributions to be used only for the pre-funding of unfunded liabilities for active employees;
  - beginning July 1, 2008, require non-state participating employers, except for public schools, to be assessed the aggregate amount of \$1.0 million annually; and
  - require additional contributions to the RHCA fund to be used for pre-funding future liabilities. (The contributions include the \$3.0 million annual transfer from the suspense fund; the additional employer/employee contributions; and the \$1.0 million annual assessment from non-state participating employers, except for public schools);

SB 67 is identical to HB 183, *Retiree Health Care Fund & Members*.

A related bill, HB 62, *Health Solutions New Mexico Act*, includes a provision to fold RHCA and the RHCA Board into a new, comprehensive health care authority.

**Fiscal Impact:**

SB 67 does not contain a dollar amount appropriation; however, the bill, if enacted, will be effective on July 1, 2008, to:

- extend indefinitely a \$3.0 million transfer from Tax Administration Suspense Fund to the Retiree Health Care Fund;
- require non-state participating employers, except for public schools, to be assessed the aggregate amount of \$1.0 million annually that is to be deposited in the Retiree Health Care Fund; and
- require the employer contribution to be increased by .3 percent and the employee contribution to be increased by .15 percent; however, the total .45 percent increase must be used only for the pre-funding of unfunded liabilities for active employees.

HB 7, *General Appropriation Act of 2008*, includes an FY 09 appropriation of approximately \$7.3 million from the General Fund to the Retiree Health Care Fund to provide for a .2 percent increase in the employer contribution rate. Language in the bill indicates that the \$7.3 million appropriation will be distributed as follows:

- approximately \$1.6 million to the Department of Finance and Administration;
- over \$4.0 million to the Public Education Department; and
- approximately \$1.7 million to the Higher Education Department.

HB3a, *Education Appropriation Act*, includes approximately \$4.0 million in the appropriation to the State Equalization Guarantee (SEG) Distribution to provide for a .2 percent increase in the employer contribution.

#### **Conflicts:**

- SB 67 proposes to increase the employer contribution by .30 percent; however, the appropriation for this initiative reflects a .2 percent increase in HB 7 and HB 3a;
- For public school employers, HB 7 provides a distribution of dollars to the Public Education Department; however, HB 3a provides an appropriation to the SEG.

The sponsors may wish either to adjust the percent increase in the employer contribution rate or to recommend an adjustment to the appropriation.

#### **Issues:**

- According to the LFC<sup>1</sup>, the past two years have been among the most challenging to the RHCA. In addition to rapidly rising healthcare costs and increasing demand as more retirees become eligible for benefits, the RHCA is projected to become insolvent as of June 30, 2014. However, the solvency measure is an important but not sufficient measure to completely understand the dire financial condition of RHCA. In addition to the declining solvency period, the unfunded accrued actuarial liability (UAAL) of the Retiree Health Care Fund exceeds \$4.0 billion and it would need an additional \$200.5 million to meet the annual required contribution (ARC) to fully fund the program. And finally, all revenues entering the system are being used to pay for benefits of current retirees with no pre-funding for future beneficiaries (i.e., no dollars are being preserved for future retirees).
- The RHCA is facing three significant challenges<sup>2</sup>:

<sup>1</sup> *Report of the legislative Finance Committee to the forty-Eighth Legislature, Second Session, Volume I*

<sup>2</sup> House Bill 728, Retiree Health Care Authority Work Group Final Report, December 15, 2007

- (1) The Retiree Health Care Fund is projected to be insolvent by June 2014. Annual revenues have fallen short of expenditures and RHCA has taken funding from its reserves and long-term investment to cover current costs.

For example, according to the LFC, the RHCA FY 09 budget request reflects a 144 percent increase over the FY 08 operating budget. The request included the use of \$24.4 million from the Retiree Health Care Fund balance and the budgeting of \$17.0 million in expected earned interest on investments. The LFC recommendation reduces the use of fund balance to zero and notes that the \$17.0 million should be used to pre-fund future benefits.

- (2) New accounting standards that now require the state to publish the unfunded liability associated with nonpension retirement benefits and a significant unfunded actuarial accrued liability could eventually affect the state's bond rating.
  - (3) Because costs exceed revenues, due in large part to increasing medical costs and increasing numbers of retirees entering the system, little if any pre-funding of benefits is occurring, thereby leaving the future viability of the system in doubt.
- In 2007, legislation was enacted (HB 728) that established the "HB 728 work group" to study how to preserve healthcare benefits for retirees. The bill also appropriated an additional \$3.0 million per year for FY 08 through FY 10 to the existing flow of revenue to the RHCA from the state's Tax Administration Suspense Fund.
  - According to the final report of the HB 728 work group, the work group met during the 2007 interim and reached consensus on the following recommendations:
    - Focus on Solvency, the Annual Required Contribution (ARC) and Unfunded Actuarial Liability (UAAL): Develop a comprehensive set of actions that will focus not only on extending solvency but also pre-fund benefits for future retirees and reduced the UAAL, thereby protecting the state's financial position.
    - Solvency Period: Establish a near-term goal of achieving a 25 year solvency period by providing for regular adjustment to premiums and identifying other revenue streams that maintain the 25 year solvency period.
    - Employer/Employee Contribution Increase: Increase the employer/employee contribution to a total of 2.4 percent (from 1.95 percent) of pay. The employee contribution would be increased to 1.60 percent from 1.30 percent (a .30 percent increase) and the employer contribution would be increased to .80 percent from .65 percent (a .15 percent increase).
- This change is estimated to produce \$19.0 million in revenues and add an additional two years of solvency to the fund.**
- Suspense Fund Allocation: Extend indefinitely the \$3.0 million transfer from the state of New Mexico, scheduled to terminate on June 30, 2010. Beginning July 1, 2010, the \$3.0 million would be used for pre-funding future liabilities.

Because the work group was committed to having all parties share in the financial solution, it was determined that non-state participating employers, except for public

schools, should be assessed annually in much the same way that the state is providing a \$3.0 million supplemental contribution to the fund. A \$1.0 million assessment would begin July 1, 2008.

**This change is estimated to add an additional half year of solvency to the fund.**

- **Limit Subsidies Based on Age of Retirement:** Limiting the state subsidy to 50 percent of projected costs for retirees and 25 percent of projected costs for dependents (currently at 67.5 percent of projected costs for pre-Medicare retirees and 47.6 percent of projected costs for dependents), as follows:

**For retirees:**

Retiree under age 50: no subsidy  
Retiree age 50 to 54: 25 percent subsidy  
Retiree age 55 to 59: 40 percent subsidy  
Retiree age 60 and over: 50 percent subsidy

**For dependents:**

Retirees under age 50: no subsidy  
Retirees 50 and over: 25 percent subsidy

**This change is expected to produce \$38.0 million in revenues and add 9.7 years to the solvency of the fund.**

- Expand the composition of the RHCA board of directors to include the secretary of finance and administration and the chief financial officer of a public postsecondary educational institution;
- Require RHCA to provide annual valuations each December 15 to the Legislature;
- Provide health and disease management programs from RHCA's contracted insurance vendors that include measurable health outcomes and mandate health risk assessments for members as a condition of initial and ongoing enrollment;
- Explore economies-of-scale that can be gained from consolidating administrative functions of RHCA, the General Services Department Group Benefits Division, the Public School Insurance Authority, the Albuquerque Public Schools, and other smaller publicly financed health insurance pools;
- As a condition of initial and ongoing enrollment in RHCA, require that all enrollees attest that they are not eligible for other healthcare coverage due to other employment;
- Explore the possibility of issuing bonds at a lower interest rate than can be expected to be earned on assets held by the State Investment Council. The bond capital would make it possible to increase the actuarial discount rate used to value the actuarial accrued liabilities and lower the resulting unfunded accrued actuarial liabilities (UAAL); and
- Explore changing the RHCA program from a defined benefit to a defined contribution obligation. Under such an approach, specific contributions would be made into individual accounts during an active employee's career which would earn interest and be

available to apply to the purchase of healthcare in the individual's retirement years. This shifts the responsibility for the ultimate cost of healthcare to the retiree.

### **RCHA Board Action**

In August 2007, the RHCA board approved a number of measures intended to extend the solvency period, including:

- moving the self-funded Medicare prescription drug coverage to an RHCA sponsored prescription drug plan;
- adjusting benefit designs, including increases to certain co-payments and out-of-pocket expenses; and
- approving an average 9.0 percent increase in premiums across the benefit plans and committing to tying future premium increases to medical and pharmacy trends.

**These actions are expected to generate \$7.5 million in revenues and add 1.6 years to the solvency of the fund using an 8.0 percent trend rate beginning 2010.**

### **Background:**

- Created in 1990, the RHCA administers group and optional healthcare benefits and life insurance for New Mexico's current and future eligible retirees and their dependents.
- Eligible retirees are those who receive a disability or normal retirement benefit from public service in New Mexico with a participating employer and either contributed to the retiree health care fund for at least five years prior to retirement or retired prior to July 1, 1995.
- According to the LFC, RHCA has 455 participating employers, including all state agencies and all public school districts, 59 charter schools, 22 counties, 23 cities, and 10 institutions of higher education (see Attachment). As of June 30, 2007, the total enrollment was 38,127.
- The RHCA is governed by an 11-member Board of Directors comprised of representatives of retirees, current employees and public employers. The board sets overall policy for the agency, oversees the procurement of insurance benefits, and approves premium adjustments and benefit designs.
- RCHA also administers the Retiree Health Care Fund, which is similar to a pension trust fund in that employees receive a right to a future benefit based, in part, on current contributions to the fund.
- The primary sources of income for RHCA are:
  - contributions from participating employers and active employees;
  - distributions from state income tax payments;
  - monthly premium contributions of enrolled participants; and
  - investment income.

All premium contributions, contributions from employers and employees, distributions and investment income are deposited in the Retiree Health Care Fund.

## **Work Group Conclusions**

Taken together, the work group recommendations and RHCA board action would produce \$64.0 million and result in a 20-year solvency period. While it is short of the goal of 25 year solvency, it is within the range of generally acceptable projections.

Finally, it should be noted that the final report of the work group states:

“No single action by the executive, the legislature or the RHCA will restore the balance needed to the current retiree health insurance system. The HB 728 work group realized early on in its study that all participants in the system, the retirees, active employees and employers, will need to participate in addressing the state’s unfunded liability and in moving the system into permanent solvency. While it is not feasible or prudent to pre-fund fully the program in a single year, the work group developed short-term recommendations to move the system into solvency and longer-term recommendations that will need to be considered as the state develops an approach for addressing the ARC [annual required contribution] and UAAL [unfunded accrued actuarial liability] in a manner and over a time period that is fiscally responsible.”

In December 2007, the HB 728 work group presented its recommendations to the Investments and Pensions Oversight Committee.

### **Related Bills:**

- HB 3a *Education Appropriation Act*
- HB 7 *General Appropriation Act of 2008*
- HB 62 *Health Solutions New Mexico Act*
- HB 183 *Retiree Health Care Fund & Members (identical)*

**ACTIVE MEMBER EMPLOYER'S IN RHCA**

BERNALILLO CO FIRE  
BERNALILLO CO SHERIFF  
BERNALILLO COUNTY OF  
CHAVES COUNTY OF  
CIBOLA COUNTY OF  
COLFAX COUNTY  
CURRY COUNTY OF  
EDDY COUNTY OF  
GRANT COUNTY  
LEA COUNTY OF  
LINCOLN COUNTY OF  
LOS ALAMOS COUNTY  
LUNA COUNTY OF  
MC KINLEY COUNTY OF  
NORTH CENTRAL SOLID WASTE AUTHORITY  
RIO ARRIBA COUNTY  
ROOSEVELT COUNTY OF  
SAN JUAN COUNTY FIRE  
SAN JUAN COUNTY OF  
SAN JUAN COUNTY POLICE  
SAN MIGUEL COUNTY OF  
SANDOVAL COUNTY OF  
SANDOVAL COUNTY SHERIFF  
SANTA FE COUNTY OF  
TAOS COUNTY OF  
TORRANCE COUNTY OF  
UNION COUNTY  
VALENCIA COUNTY OF

ALAMOGORDO CITY FIRE  
ALAMOGORDO CITY OF  
ALAMOGORDO CITY POLICE  
ALBUQUERQUE CITY OF  
AZTEC CITY OF  
BELEN CITY FIRE  
BELEN CITY OF  
BELEN CITY POLICE  
BERNALILLO TOWN OF  
BLOOMFIELD CITY OF  
BOSQUE FARMS VILLAGE OF  
CARLSBAD CITY FIRE  
CARLSBAD CITY OF  
CARLSBAD CITY POLICE  
CHAMA VILLAGE OF  
CLOVIS CITY FIRE  
CLOVIS CITY OF

CLOVIS CITY POLICE  
DEMING CITY OF  
DES MOINES VILLAGE OF  
ELIDA TOWN OF  
ESPANOLA CITY OF  
ESTANCIA TOWN OF  
FT SUMNER VILLAGE OF  
GALLUP CITY HOUSING AUTH  
GALLUP CITY OF  
HATCH VILLAGE OF  
JAL CITY OF  
JEMEZ SPRINGS VILLAGE OF  
LAS CRUCES CITY OF  
LAS VEGAS CITY OF  
LOGAN VILLAGE OF  
MELROSE VILLAGE OF  
MILAN VILLAGE FIRE  
MILAN VILLAGE OF  
MORIARTY CITY FIRE  
MORIARTY CITY OF  
MORIARTY CITY POLICE  
PECOS VILLAGE OF  
PORTALES CITY FIRE  
PORTALES CITY OF  
QUESTA VILLAGE OF  
RATON CITY OF  
RATON PUBLIC SERVICE  
RESERVE VILLAGE OF  
ROSWELL CITY OF  
SANTA FE CITY OF  
SANTA FE CIVIC HOUSING AUTH  
SANTA ROSA CITY OF  
SILVER CITY TOWN OF  
SOCORRO CITY FIRE  
SOCORRO CITY OF  
SOCORRO CITY POLICE  
SPRINGER TOWN OF  
SUNLAND PARK CITY OF  
T OR C CITY OF  
T OR C CITY HOUSING AUTH  
TAOS TOWN OF  
TATUM TOWN OF  
TEXICO TOWN OF  
TEXICO TOWN POLICE  
TIJERAS VILLAGE OF  
TUCUMCARI CITY OF

CENTRAL REGION EDUCATION COOPERATIVE  
HIGH PLAINS REG EDUC COOP  
NEA - NEW MEXICO  
NORTHEAST REGIONAL EDUCATIONAL COOP #4  
PECOS VALLEY REC #8  
RATON HOUSING AUTHORITY

REC #6 (REGIONAL EDUCATIONAL #6)  
REGION IX EDUCATION COOPERATIVE  
SANTA FE COMMUNITY COLLEGE  
SOUTHERN SANDOVAL COUNTY ARROYO FLOOD CTRL  
AUTH  
SOUTHWEST NM COUNCIL OF GOV  
SOUTHWEST REG. EDU. #10  
TIERRA Y MONTES SWCD

21ST CENTURY MIDDLE SCHOOL  
ACADEMIA DE LENGUA Y CULTURA  
ACADEMY FOR TECH & CLASSICS  
AIMS/HIGH TECH HIGH  
ALAMOGORDO PUBLIC SCHOOLS  
ALBUQUERQUE PUBLIC SCHOOLS  
ALDO LEOPOLD CHARTER SCHOOL  
ALMA DE ARTE  
AMISTAD CHARTER SCHOOL  
AMY BIEHL CHARTER SCHOOL  
ANANSI CHARTER SCHOOL  
ANIMAS PUBLIC SCHOOLS  
ARTESIA PUBLIC SCHOOLS  
AZTEC MUNICIPAL SCHOOLS  
BELEN CONSOLIDATED SCHOOL  
BERNALILLO PUBLIC SCHOOLS  
BLOOMFIELD MUNICIPAL SCH  
BRIDGE ACADEMY CHARTER SCHOOL  
CAPITAN MUNICIPAL SCHOOLS  
CARLSBAD MUNICIPAL SCHOOL  
CARRIZOZO SCHOOL DISTRICT  
CENTRAL CONSOLIDATED SCH. DIST 22  
CESAR CHAVEZ COMMUNITY CHARTER SCHOOL  
CHAMA VALLEY INDEP. SCHOO  
CHRISTINE DUNCAN COMMUNITY SCHOOL  
CIMARRON MUNICIPAL SCHOOL  
CLAYTON MUNICIPAL SCHOOLS  
CLOUDCROFT SCHOOL DISTRICT  
CLOVIS MUNICIPAL SCHOOLS  
COBRE CONSOLIDATED SCHOOL  
CORONA PUBLIC SCHOOLS  
COTTONWOOD VALLEY CHARTER SCHOOL  
CREATIVE EDUC PREP INST #1  
CREATIVE EDUC PREP INST #2  
CUBA INDEPENDENT SCHOOLS  
DATA (DIGITAL ARTS & TECH ACADEMY)  
DEMING PUBLIC SCHOOLS  
DES MOINES MUNICIPAL SCHOOL  
DEXTER CONSOLIDATED SCHOOLS  
DORA CONSOLIDATED SCHOOLS  
DULCE INDEPENDENT SCHOOLS  
EAST MOUNTAIN HIGH SCHOOL  
ELIDA MUNICIPAL SCHOOLS  
ESPANOLA MILITARY ACADEMY  
ESPANOLA PUBLIC SCHOOLS  
ESTANCIA MUNICIPAL SCHOOL  
EUNICE PUBLIC SCHOOLS

FARMINGTON MUNICIPAL SCHOOLS  
FLOYD MUNICIPAL SCHOOLS  
FT SUMNER MUNICIPAL SCHOOL  
GADSDEN INDEPENDENT SCHOOL DISTRICT  
GALLUP-MCKINLEY COUNTY SCHOOLS  
GRADY MUNICIPAL SCHOOLS  
GRANTS-CIBOLA COUNTY SCHOOLS  
HAGERMAN MUNICIPAL SCHOOL  
HATCH VALLEY MUNICIPAL SCHOOL  
HOBBS MUNICIPAL SCHOOLS  
HONDO VALLEY PUBLIC SCHOOL  
HORIZON ACADEMY SOUTH  
HORIZON ACADEMY WEST  
HOUSE MUNICIPAL SCHOOLS  
JAL PUBLIC SCHOOLS  
JEFFERSON MONTESSORI ACADEMY  
JEMEZ MOUNTAIN SCHOOL DISTRICT  
JEMEZ VALLEY PUBLIC SCHOOLS  
LA ACADEMIA DE DOLORES HUERTA  
LA ACADEMIA DE ESPERANZA CHARTER SCHOOL  
LA LUZ DEL MONTE LEARNING CENTER  
LA PROMESA EARLY LEARNING CENTER  
LACY SIMMS MIDDLE SCHOOL  
LAKE ARTHUR SCHOOLS  
LAS CRUCES MUNICIPAL SCHOOLS  
LAS VEGAS CITY SCHOOLS  
LAS VEGAS WEST PUBLIC SCHOOLS  
LEA REGIONAL EDUCATION #VII  
LEARNING COMMUNITY CHARTER SCHOOL  
LOGAN MUNICIPAL SCHOOL  
LORDSBURG MUNICIPAL SCHOOLS  
LOS ALAMOS PUBLIC SCHOOLS  
LOS LUNAS CONSOLIDATED SCHOOLS  
LOS PUENTES CHARTER SCHOOL  
LOVING MUNICIPAL SCHOOLS  
LOVINGTON MUNICIPAL SCHOOLS  
MAGDALENA MUNICIPAL SCHOOLS  
MAXWELL MUNICIPAL SCHOOLS  
MELROSE MUNICIPAL SCHOOLS  
MESA VISTA SCHOOLS  
MONTE DEL SOL CHARTER SCHOOL  
MONTESSORI ELEM CHARTER SCHOOL  
MONTESSORI OF THE RIO GRANDE CHARTER  
MORA INDEPENDENT SCHOOLS  
MORENO VALLEY CHARTER HIGH SCHOOL  
MORIARTY MUNICIPAL SCHOOL  
MOAIC ACADEMY CHARTER SCHOOL MOAIC ACAD  
CHARTER  
MOSQUERO MUNICIPAL SCHOOL  
MOUNTAIN MAHOGANY  
MOUNTAINAIR PUBLIC SCHOOL  
NACC CHARTER SCHOOL  
NM ACTIVITIES ASSOC.  
NM HIGHLANDS UNIVERSITY  
NM SCHOOL FOR THE DEAF  
NORTH VALLEY ACADEMY/HORIZON ACAD NW

NORTHERN NM COLLEGE  
NUESTROS VALORES CHARTER SCHOOL  
PECOS INDEPENDENT SCHOOLS  
PENASCO INDEPENDENT SCHOOLS  
POJOAQUE VALLEY SCHOOLS  
PORTALES MUNICIPAL SCHOOL  
PUBLIC ACAD FOR PERFORMING ARTS  
QUEMADO IND SCHOOL DISTRICT  
QUESTA INDEPENDENT SCHOOL  
RALPH J. BUNCHE ACADEMY  
RATON PUBLIC SCHOOLS  
RED RIVER VALLEY CHARTER SCHOOL  
RESERVE SCHOOL DISTRICT  
RIO RANCHO PUBLIC SCHOOLS  
ROBERT F KENNEDY CHARTER SCHOOL  
ROOTS AND WINGS COMMUNITY SCHOOL  
ROSWELL INDEPENDENT SCHOOLS  
ROY SCHOOLS  
RUIDOSO MUNICIPAL SCHOOLS  
S I A . TECH-ALBUQUERQUE  
SAN JON MUNICIPAL SCHOOLS  
SANTA FE PUBLIC SCHOOLS  
SANTA ROSA CONSOLIDATED SCHOOLS  
SIDNEY GUTIERREZ MIDDLE SCHOOL  
SILVER CONSOLIDATED SCHOOLS  
SOCORRO CONSOLIDATED SCHOOLS  
SOUTH VALLEY ACADEMY  
SOUTHWEST PRIMARY LEARNING CENTER  
SOUTHWEST SECONDARY LEARNING CTR  
SPRINGER MUNICIPAL SCHOOL  
SSCAFCA  
T OR C MUNICIPAL SCHOOLS  
TAOS MUNICIPAL CHARTER SCHOOL  
TAOS MUNICIPAL SCHOOLS  
TATUM MUNICIPAL SCHOOLS  
TEXICO MUNICIPAL SCHOOL  
TUCUMCARI MUNICIPAL SCHOOL  
TULAROSA MUNICIPAL SCHOOL  
TURQUOISE TRAIL ELEM SCHOOL  
VAUGHN MUNICIPAL SCHOOLS  
WAGON MOUND PUBLIC SCHOOL  
WALATOWA CHARTER HIGH SCHOOL  
WESTERN NM UNIV  
YOUTH BUILD TRADE & TECHNOLOGY  
ZUNI PUBLIC SCHOOL

CENTRAL NM COMMUNITY COLLEGE  
EASTERN NM UNIV-PORTALES  
EASTERN NM UNIV-ROSWELL  
LUNA COMMUNITY COLLEGE  
MESALANDS COMMUNITY COLLEGE  
NM JUNIOR COLLEGE  
NM MILITARY INSTITUTE