F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	03/02/11		
SPONSOR	James	**LAST UPDATED**		**HB**	569
SHORT TITLE	Retiree Health Care Rate Increase Delay			**SB**	
				ANALYST	Archuleta

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	**FY12**	**FY13**		
NA	($11,000.0)	($11,000.0)	Nonrecurring	RHCA Fund
NA	$3,700.0	$3,700.0	Nonrecurring	General Fund
NA	$3,700.0	$3,700.0	Nonrecurring	Other State Funds

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
ER/EE Increase	NA	($11,000.0)	($11,000)	($22,000.0)	Nonrecurring	RHCA Fund
ER/EE Increase	NA	$3,700.0	$3,700.0	$7,400.0	Nonrecurring	General Fund
ER/EE Increase	NA	$3,700.0	$3,700.0	$7,400.0	Nonrecurring	Other State Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with House Appropriations and Finance Committee Substitute for House Bills 2,3,4,5, and 6 as amended – Specifically, the appropriation for the Retiree Health Care Authority assumes the revenues identified above.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Retiree Health Care Authority (RHCA)
Department of Transportation (DOT)

No Responses Received From
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 569 decreases funding to the Retiree Health Care program by delaying increased employee and employer contributions from participants in the regular and enhanced retirement plans scheduled to take effect in FY12, until FY13 and the increase scheduled for FY13, until FY14.

FISCAL IMPLICATIONS

The Retiree Health Care program is currently expected to become insolvent by 2025, at which time annual expenditures will exceed all available revenue sources by $141 million. Downward adjustments in projected revenues related to the provisions of HB569 would reduce the solvency period of the program from 1 to 2 years.

SIGNIFICANT ISSUES

The Retiree Health Care Authority notes the following:

> RHCA has two major sources of revenue, retiree premiums and employer/employee contributions. As noted, over the last several years the Authority has significantly raised retiree premiums, out-of-pocket costs and redesigned its health plans to keep up with the rise of health care costs and stabilize the Authority's financial position. Retirees in the last several years have borne the brunt of the cost-increases associated with providing the benefit offered by RHCA. HB 573, passed in 2009, helped restore the balance for ensuring the financial viability of RHCA between active employees and retirees by increasing the ER/EE for the first time since 2004. Prior to 2004 the ER/EE contribution had not been increased since the inception of the Authority in 1991.
>
> If HB 569 is enacted, the Authority would be faced with two options to make up for the projected loss of $12 million in revenue. The Authority could draw funds from its investments accounts, thereby reducing the projected solvency period by at least one year, or the Authority could raise retiree premiums above the already anticipated increases for FY12. The Authority projects it would need to increase premiums by 20% to make up for lost revenue and meet projected costs increases associated with medical trend.

OTHER SUBSTANTIVE ISSUES

RHCA further notes the savings associated with HB 569 have already been assumed in HB 2. The LFC recommendations for FY 12 did not fund the increase to the ER/EE, instead directing agencies to fund it through savings from other categories. In cases where the House Appropriations and Finance Committee adopted the DFA recommendations, DFA assumed lower expenditures in personal services and employee benefits than the LFC.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The Retiree Health Care Authority will lose approximately $22 million in revenue over the next 2 years, consequently losing one year of solvency and forcing the Authority to raise retiree premiums by as much as 20% or more to avoid deficit spending.

DA/bym:svb