DRAFT FISCAL IMPACT REPORT

SPONSOR SFC | **ORIGINAL DATE** 01/25/13 | **LAST UPDATED** 03/13/13 | **HB**

SHORT TITLE Retiree Health Care Contributions | **SB** 71/SFCS

ANALYST Hanika-Ortiz

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
		$15,000.0	Recurring	RHC Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total			$2,500.0		Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Retiree Health Care Authority (RHCA)

SUMMARY

Synopsis of Bill

The proposed Senate Finance Committee substitute for Senate Bill 71 amends the Retiree Health Care Act by increasing the employer and employee contribution rates paid to the retiree health care fund. The substitute increases the total contribution levels from the current 3 percent to 5.25 percent of wages. The employee increase begins in FY15 from its current level of 1 percent to 1.75 percent spread over three years, ending FY17. The employer contribution increase begins in FY15 from its current level of 2 percent to 3.5 percent spread over twelve years, ending FY26.

FISCAL IMPLICATIONS

The RHCA benefit plan has an unfunded liability of about $3.3 billion and is currently 6 percent funded according to the 2012 actuarial valuation. The plan is expected to become insolvent in 2029, at which time projected expenses will exceed projected revenues by about $265 million.

The substitute bill adds a temporary provision that the state employer contribution amounts for fiscal years 2015 through 2026 are contingent upon funding by the legislature.

If the contribution increases are fully implemented, the total changes will increase annual revenue to the program by about $88.8 million. The additional general fund impact is $2.5 million from FY15 through FY26 for each year of employer contribution increases. The total recurring general fund impact will be approximately $29.6 million annually in FY27 and beyond if future legislatures fund further increases in employer contribution rates.

SIGNIFICANT ISSUES

The proposed contribution increases, in combination with similar proposals from ERB and PERA, could impact employee recruitment and retention because expensive benefits reduce employee take-home pay and limit the ability of employers to give future pay raises.

An employee earning $40,000 annually currently pays $15.39 and the employer pays $30.77 for a total of $46.16 per bi-weekly pay period. Once the proposed contribution increases are fully implemented, the same employee will pay $26.93 and the employer will pay $53.85 for a total of $80.78 per pay period. The change translates into $11.54 less in take-home pay per pay period.

The bill proposes an increase in contributions in accordance with the following schedule:

Fiscal Year	Employee	Increase	Employer	Increase	GF Impact	Total
FY14	1.00%		2.00%			3.00%
FY15	1.25%	0.25%	2.125%	0.125%	$2.5m	3.375%
FY16	1.50%	0.25%	2.250%	0.125%	$2.5m	3.750%
FY17	1.75%	0.25%	2.375%	0.125%	$2.5m	4.125%
FY18	1.75%		2.500%	0.125%	$2.5m	4.250%
FY19	1.75%		2.625%	0.125%	$2.5m	4.375%
FY20	1.75%		2.750%	0.125%	$2.5m	4.500%
FY21	1.75%		2.875%	0.125%	$2.5m	4.625%
FY22	1.75%		3.000%	0.125%	$2.5m	4.750%
FY23	1.75%		3.125%	0.125%	$2.5m	4.875%
FY24	1.75%		3.250%	0.125%	$2.5m	5.000%
FY25	1.75%		3.375%	0.125%	$2.5m	5.125%
FY26	1.75%		3.500%	0.125%	$2.5m	5.250%

Unlike pension contributions, the employee does not have the ability to ask for a refund on his/her contributions towards the retiree health care benefit when they leave state employment.

PERFORMANCE IMPLICATIONS

According to the RHCA statute, Section 10-7C-13 NMSA 1978, participating employers, active employees and retirees are responsible for the financial viability of the program. The overall financial viability is not a financial obligation of the state. The Board has broad authority to make changes to benefits and subsidy levels but requires a statutory change for contribution increases.

OTHER SUBSTANTIVE ISSUES

Many retirees receiving health care benefits post-retirement from the RHCA did not make career contributions that match the actual benefits they are now receiving.

According to the Pew Center on the States, most states have set aside only 5 percent of the amount required to cover retiree health care. Seventeen states have saved nothing and seven states have funded 25 percent or more for the benefit. The Center for State and Local Government Excellence reports 68 percent of states are pushing to have retirees assume more of their health care costs, while 39 percent plan to eliminate retiree health benefits for new hires.

ALTERNATIVES

The RHCA and the General Services Department (GSD) could explore if there is a benefit to moving the pre-Medicare retiree members to the GSD active employee health plan. In turn, the retiree health care benefit would become a Medicare Supplement plan with Medicare the primary payer. That might serve two purposes: increasing the pool for the GSD due to declining membership concerns and removing the members from the RHCA plan that are the more expensive to insure.

Otherwise, the RHCA will need to continue to increase premiums each year in line with medical trend and make adjustments to subsidy levels and benefits to improve fund solvency: a minimum age of 50 for subsidized premiums, rising each year thereafter; reduction in the premium subsidy for spouses who never paid into the plan; and/or an increase in the years of service requirement from 20 years to 25 years before eligible for the maximum subsidy of 50 percent, to name a few.

The RHCA could also discontinue the subsidized $6 thousand life insurance benefit for members who retire after January 1, 2012, converting the plan to an unsubsidized optional retiree benefit.

A minimum retirement age under the PERA and ERB pension plans could also significantly help preserve retiree health benefits for future retirees.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The RHCA will need to continue to increase premiums each year in line with medical trend and continue to adjust benefits as needed to improve fund solvency.

AHO/svb