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

SPONSOR Rep. Salazar, T/Sen. Stefanics **ORIGINAL DATE** 1/23/19 **LAST UPDATED** ______ **HB** 95

SHORT TITLE Retiree Health Care Fund Contributions **SB** ______

ANALYST Jorgensen

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
State/Education Employer Contribution		$11,976.1	$11,976.1	$23,952.1	Recurring	General
Local Government Employer Contribution		$9,798.6	$9,798.6	$19,597.2	Recurring	Other State/Local Governments
Total		$21,774.7	$21,774.7	$43,549.3	Recurring	

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
New Mexico Municipal League
Retiree Health Care Authority (RHCA)

SUMMARY

Synopsis of Bill

House Bill 95 amends the Retiree Health Care Act by increasing employee and employer contributions beginning in FY20. The bill increases employer contributions from the state, local governments, public schools and certain universities from 2 percent to 2.5 percent in FY20 and from 2.5 percent to 3 percent in FY21. The bill increases employee contributions from 1 percent to 1.25 percent in FY22 and from 1.25 percent to 1.5 percent in FY23.Total contributions to the fund will increase from 3 percent to 4.5 percent of payroll by FY23.

For state and municipal police, correctional officers, and fire fighters who participate in an enhanced retirement plan, employer contributions increase from 2.5 percent to 3.5 percent while employee contributions increase from 1.25 percent to 1.75 percent. Total contributions to the fund will increase from 3.75 percent to 5.25 percent of payroll by FY23.

FISCAL IMPLICATIONS

The table shows the additional costs by fiscal year of the proposed increases for both general plan and enhanced plan participants.

Summary of HB95 Changes

	Employee Increase	Employer Increase	Employee Contribution	Employer Contribution	Additional Revenue	Additional Est. GF Impact
FY20	0.00%	0.50%	$ 43,549,337	$ 108,873,343	$21,774,669	$ 11,976,068
FY21	0.00%	0.50%	$ 43,549,337	$ 130,648,011	$21,774,669	$ 11,976,068
FY22	0.25%	0.00%	$ 54,436,671	$ 130,648,011	$10,887,334	$ -
FY23	0.25%	0.00%	$ 65,324,005	$ 130,648,011	$10,887,334	$ -
Total	**0.50%**	**1.00%**			**$65,324,005**	**$ 23,952,135**

RHCA estimates the additional revenue generated from a 0.5 percent increase in the employer contribution in FY20 will equate to $21.8 million, of which $12 million will come from the general fund. In FY21, the second year of the employer increase, the general fund impact will be an additional $12 million over the prior year. The annual cost of the 1 percent increase on employers is $43.5 million, including $24 million from the general fund, over the current FY19 rates.

The employee contribution increase of 0.25 percent will raise $10.9 million per year in FY22 and FY23. The employee contribution increase has no general fund impact. When fully implemented in FY23, the new contribution rates contained in HB95 will increase annual revenue to the RHCA by $65.3 million.

SIGNIFICANT ISSUES

While RHCA has made progress in increasing its fund balance in recent years, the program remains critically underfunded as shown in the table below:

	2006	2008	2010	2012
GASB Statement	43	43	43	43
Actuarial Accrued Liability	$ 4,264,180,967	$ 3,116,915,900	$ 3,523,664,871	$ 3,915,114,104
Actuarial Value of Assets	$ 154,538,668	$ 170,626,271	$ 176,922,935	$ 227,487,895
Unfunded Actuarial Accrued Liability	$ 4,109,642,299	$ 2,946,289,629	$ 3,346,741,936	$ 3,687,626,209
Funded Ratio	3.62%	5.47%	5.02%	5.81%
Covered Payroll	$ 4,073,731,873	$ 4,020,508,902	$ 4,001,802,240	$ 3,876,220,608
Total Participants	140,292	130,381	146,166	146,590
	2014	**2016**	**2017**	**2018**
GASB Statement	43	43	74	74
Actuarial Accrued Liability	$ 3,740,369,299	$ 4,277,042,499	$ 5,111,141,659	$ 5,006,011,109
Actuarial Value of Assets	$ 377,087,017	$ 471,978,347	$ 579,468,641	$ 657,656,294
Unfunded Actuarial Accrued Liability	$ 3,363,280,282	$ 3,805,064,152	$ 4,531,673,018	$ 4,348,354,815
Funded Ratio	10.08%	11.04%	11.34%	13.14%
Covered Payroll	$ 3,941,587,760	$ 4,271,183,612	$ 4,165,647,340	$ 4,290,616,760
Total Participants	155,098	159,642	160,035	156,025

Based on the current assumed rate of growth in health care costs, RHCA anticipates the program spending to be greater than program revenue by 2022 and that the $657 million trust fund balance will be completely depleted by 2037. HB95 would increase NMRHCA's projected solvency period from 2037 to beyond 30 years with a projected balance in excess of $5 billion in 2049.

OTHER SUBSTANTIVE ISSUES

The compensation plan offered to New Mexico state employees is heavily weighted toward benefits; state employees receive 42 percent of total employee compensation through benefits compared with private sector employees who receive 30 percent through benefits. Increases for employee benefits often come at the expense of salary increases and may worsen public-to-private sector compensation disparities.

The New Mexico Municipal League noted the following:

> While the New Mexico Municipal League does not have data regarding the fiscal cost of the increases it can say with confidence that the total cost of belonging to the Retiree Health Care Authority will increase for both employers and employees of local governments.
>
> These increase come at a time that many municipalities are facing tight budgets due to continued shrinkage of revenues from the hold harmless distribution that replaced the Gross Receipts Tax on Food and Medicine.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

RHCA will have to consider more aggressive reductions to the benefits currently provided, combined with a significant increase in charges assessed to retirees in the form of their monthly premiums, and other restrictions to plan participation.

CJ/sb/al