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REGULAR MEETING
OF THE
BOARD OF DIRECTORS

February 6, 2018
9:30 AM
Alfredo R. Santistevan Board Room
Suite 207
4308 Carlisle Blvd. NE
Albuquerque, NM 87107

New Mexico Retiree Health Care Authority
Regular Meeting

BOARD OF DIRECTORS

ROLL CALL

February 6, 2018

	Member in Attendance		
Mr. Sullivan, President			
Mr. Montaño, Vice President			
Mr. Crandall, Secretary			
Mr. Propst			
Ms. Goodwin			
Mr. Linton			
Ms. Saunders			
Mr. Eichenberg			
Ms. Larranaga-Ruffy			

NMRHCA BOARD OF DIRECTORS
February 2018

Mr. Wayne Propst
Executive Director
Public Employees Retirement Association
33 Plaza La Prensa
Santa Fe, NM 87507
PO Box 2123
Santa Fe, NM 87504-2123
Wayne.Propst@state.nm.us
W: (505) 476-9301

Ms. Jan Goodwin
Executive Director
Educational Retirement Board
PO Box 26129
Santa Fe, NM 87502-0129
jan.goodwin@state.nm.us
(W) 505-827-8030
(F) 505-827-1855

Mr. Terry Linton
Governor's Appointee
1204 Central Ave. SW
Albuquerque, NM 87102
terry@lintonandassociates.com
505-247-1530

Mr. Joe Montaño, Vice President
NM Assoc. of Educational Retirees
5304 Hattiesburg NW
Albuquerque, NM 87120
Jmountainman1939@msn.com
(H) 897-9518

Mr. Doug Crandall
Retired Public Employees of New Mexico
14492 E. Sweetwater Ave
Scottsdale, AZ 85259
dougcinaz@gmail.com

The Honorable Mr. Tim Eichenberg
NM State Treasurer
2055 South Pacheco Street
Suite 100 & 200
Santa Fe, NM 87505
Tim.Eichenberg@state.nm.us
(W) 505-955-1120
(Fax) 505-955-1195

Ms. Therese Saunders
NEA-NM, Classroom Teachers Assoc., & NM Federation of Educational Employees
5811 Brahma Dr. NW
Albuquerque, NM 87120
tsaunders3@mac.com
Phone: 505-934-3058

Mr. Tom Sullivan, President
Superintendents' Association of NM
800 Kiva Dr. SE
Albuquerque, NM 87123
tlsullivan48@gmail.com
505-330-2600

Ms. Leanne Larranaga-Ruffy
Alternate for PERA Executive Director
33 Plaza La Prensa
Santa Fe, NM 87507
PO Box 2123
Santa Fe, NM 87504
Leanne.Larranaga@state.nm.us

Regular Meeting of the
NEW MEXICO RETIREE HEALTH CARE AUTHORITY
BOARD OF DIRECTORS

February 6, 2018
9:30 AM
Alfredo R. Santistevan Board Room
2nd Floor, Suite 207
4308 Carlisle Blvd. NE
Albuquerque, NM 87107

AGENDA

1.	Call to Order	Mr. Sullivan, President	Page
2.	Roll Call to Ascertain Quorum	Ms. Beatty, Recorder	
3.	Pledge of Allegiance	Mr. Sullivan, President	
4.	Approval of Agenda	Mr. Sullivan, President	4
5.	Approval of Regular Meeting Minutes December 12, 2017	Mr. Sullivan, President	5
6.	Public Forum and Introductions	Mr. Sullivan, President	
7.	Committee Reports	Mr. Sullivan, President	
8.	Executive Director's Updates	Mr. Archuleta, Executive Director	
	a. HR Updates		
	b. Legislative		12
	c. New Mexico Health Connections		15
	d. UnitedHealthcare/Presbyterian Health Services		
	e. 2018 Winter Newsletter		23
	f. FY17 Financial Audit Update		27
	g. PBM RFP		
	h. Annual Meeting – July 12th and 13th, 2018		
	i. November 30/December 31, 2017 SIC Report		79
9.	2019 Preliminary Plan Review	Mr. Archuleta, Executive Director	81
10.	FY18 2nd Quarter Budget Status Report	Mr. Kueffer, Interim Deputy Director	84
11.	FY18 Budget Adjustment Request (Action Item)	Mr. Kueffer, Interim Deputy Director	90
12.	Out-of-State Travel Request (Action Item)	Mr. Kueffer, Interim Deputy Director	92
13.	Other Business	Mr. Sullivan, President	
14.	Executive Session	Mr. Sullivan, President	
15.	Date & Location of Next Board Meeting March 6, 2018, 9:30AM Alfredo R. Santistevan Board Rm, Suite 207 4308 Carlisle Blvd. NE Albuquerque, NM 87107	Mr. Sullivan, President	
16.	Adjourn		

ACTION SUMMARY

RETIREE HEALTH CARE AUTHORITY/REGULAR BOARD MEETING

December 12, 2017

Item	Action	Page #
APPROVAL OF AGENDA	Approved	3
APPROVAL OF MINUTES: November 7, 2017	Approved	3
PUBLIC FORUM & INTRODUCTIONS	Informational	3
COMMITTEE REPORTS	Informational	3
EXECUTIVE DIRECTOR'S UPDATE HR /Updates San Juan IPA Market Updates Legislative Switch Enrollment Update Medicare Outreach Meetings October 31, 2017 SIC Report	Informational	3
GASB 75 ALLOCATION AND REVIEW CONTRACT	Approved amendments	6
EXECUTIVE SESSION	Action taken	6
PHARMACY BENEFITS MGR RFP	Continue negotiations	7

MINUTES OF THE

NEW MEXICO RETIREE HEALTH CARE AUTHORITY/BOARD OF DIRECTORS

REGULAR MEETING

December 12, 2017

1. CALL TO ORDER

A Regular Meeting of the Board of Directors of the New Mexico Retiree Health Care Authority was called to order on this date at 9:30 a.m. in the Alfredo R. Santistevan Board Room, 4308 Carlisle Boulevard, N.E., Albuquerque, New Mexico.

2. ROLL CALL TO ASCERTAIN QUORUM

A quorum was present.

Members Present:
Mr. Tom Sullivan, President
Mr. Joe Montaño, Vice President
The Hon. Tim Eichenberg, NM State Treasurer
Ms. Jan Goodwin
Mr. Terry Linton
Ms. LeAnne Larrañaga-Ruffy
Ms. Therese Saunders

Members Excused:
Mr. Doug Crandall, Secretary
Mr. Wayne Johnson

Staff Present:
Mr. Dave Archuleta, Executive Director
Mr. Neil Kueffer, Director of Product Development & Health Care Reform
Mr. Greg Archuleta, Director of Communication & Member Engagement
Mr. Tomas Rodriguez, IT Manager
Ms. Charmaine Clair for Judith Beatty, Board Recorder

Others Present:
[See sign-in sheet.]

3. **PLEDGE OF ALLEGIANCE**

Mr. Linton led the Pledge.

4. **APPROVAL OF AGENDA**

Ms. Goodwin moved approval of the agenda, as presented. Mr. Montaño seconded the motion, which passed unanimously.

5. **APPROVAL OF REGULAR MEETING MINUTES: November 7, 2017**

Ms. Goodwin moved for approval of the minutes of the November 7, 2017, meeting, as submitted. Mr. Linton seconded the motion, and it passed unanimously.

6. **PUBLIC FORUM AND INTRODUCTIONS**

There were no speakers from the floor.

7. **COMMITTEE REPORTS**

Executive Committee: Chairman Sullivan reported that he missed the Executive Committee meeting, but the meeting only was to prepare today's agenda.

Audit Committee: Ms. Goodwin reported that the Audit Committee met a couple of weeks ago to have the exit conference with Moss Adams, and representative Kory Hoggan would share the audit report in executive session in a few minutes.

Wellness Committee: Ms. Goodwin stated that the Wellness Committee was scheduled to meet later this week.

Finance Committee: Mr. Montaño, reporting for Mr. Crandall, said the fund balance is now at $602 million.

8. **EXECUTIVE DIRECTOR'S UPDATES**

a) HR Updates

-- April Naranjo and Charlie Phelps, who were assigned from the State Personnel Office to help NMRHCA with HR issues, both have been extremely helpful to the agency over the past couple of months. [Note: Ms. Naranjo and Mr. Phelps arrived a few minutes later and were introduced.]

-- Advertising to fill the Customer Service position in Santa Fe will start this week. In addition, an offer has been made to one of the candidates for the Customer Service position in the Albuquerque office.

-- Josefina Roberts, who came out of retirement from DFA to join the agency last July as CFO, plans to retire in February 2018. NMRHCA has asked to double-fill the position in the interim to allow for a few weeks of training.

b) <u>San Juan IPA</u>

Mr. Archuleta reported that NMRHCA received notice from Blue Cross Blue Shield regarding its negotiations with the San Juan IPA on reimbursement rates for certain services for which BCBS anticipates receiving a reduction in its Medicare reimbursement rates. The Physicians Group had sent out notices to the approximately 1,500 members in that area receiving care and treatment from the San Juan IPA saying they would no longer have coverage effective December 31. Obviously, that caused significant concern for those members, and the agency was flooded with phone calls as a result. The matter was resolved last week.

c) <u>Market Updates</u>

Mr. Archuleta stated that, as reported in the news, CVS has plans to purchase Aetna for $69 billion. Aetna has visited NMRHCA in the past to go over its products and services, and it is expected that Aetna will respond to the RFP in the next bid round.

Mr. Archuleta also noted that UnitedHealth Group's Optum unit has plans to acquire a physician's group from DaVita Medical Group.

Mr. Archuleta commented that NMRHCA does not anticipate any immediate change or impact on its financial system as a result of these acquisitions.

d) <u>Legislative</u>

Mr. Archuleta reported that the Health Notes Analysis and the results of Senate Memorial 99 requirements were submitted to the Legislative Health and Human Services Committee in mid-November. As was the case in August, the committee again recommended the consolidation of the IBAC into one purchasing collaborative that would include APS, Public Schools Insurance Authority, State of New Mexico, NMRHCA, UNM Medical School, Department of Health, Medicaid, CYFD and Corrections.

Mr. Archuleta said a bill supporting that purchase, sponsored by Sen. Steinborn in the last session, passed both houses but was vetoed by the Governor. It will likely be reintroduced in the January 2018 session if determined to be germane.

Mr. Archuleta also reported that he gave a quick update to the Investments and Pensions Oversight Committee (IPOC) on the GASB review information received in November from Segal. The agency has a $4.5 billion unfunded liability. The update included information on the agency's strategic plan and its future direction in controlling health care costs. Some members of the IPOC continue to express some concern about the viability of NMRHCA going forward.

Mr. Archuleta said he came away from the IPOC meeting understanding that he will have to work with employer groups to find out whether they support an increase in employee and employer contributions to help shore up the organization, and he fully intends to do that as part of the agency's outreach efforts. He also noted comments by IPOC Chairman John Arthur Smith that he hoped NMRHCA would have a "soft landing for your membership" if the program were to go under and that "you don't start negotiations at the 50 yard line." Mr. Archuleta said the agency should be mindful of that as it requests a contribution increase in the 2019 session.

Mr. Montaño asked Mr. Archuleta what savings might be anticipated if the purchasing consolidation plan were to materialize. Mr. Archuleta responded that a larger purchasing group could drive a better bargain, but it would be difficult to measure at this point.

Mr. Archuleta and board members discussed the need for NMRHCA members to become actively involved in supporting the agency and expressing that support to their legislative representatives.

e) <u>Switch Enrollment Update</u>

Mr. Archuleta reviewed switch enrollment counts. He commented that the net winner was United Healthcare, with 152 people joining Plan II and a net gain of 169 members.

Mr. Archuleta said NMRHCA emphasizes with every change that people must incur a qualifying event and cannot join any time they want.

f) <u>Medicare Outreach Meetings</u>

Mr. Archuleta reviewed the number of attendees at the Medicare Outreach Meetings. There were a total of 323 attendees in 2017.

g) <u>October 31, 2017 SIC Report</u>

Mr. Archuleta reported that the fund reached an all-time high of $602 million. November numbers are expected to be higher.

9. <u>GASB 75 ALLOCATION & REVIEW CONTRACT</u>

Mr. Archuleta stated that NMRHCA received a quote from Segal ranging from $65,000 to $75,000 to develop employer allocation schedules that are required as part of GASB 75, and the agency anticipates needing an additional $30,000 this year for Segal to perform that work above and beyond its contract amount of $315,000.

Mr. Archuleta stated in addition that the financial auditors would be performing a review of the employer allocation schedule; however, per the audit rule, NMRHCA is required to perform a concurrent review by someone other than Moss Adams. Clifton Larson Allen (CLA) submitted a quote for $10,000 to perform that review. He said he would be submitting a letter to the State Auditor's Office asking to waive that requirement; if granted, the $10,000 being requested would not be expended. He noted that PERA has also requested a waiver.

Mr. Archuleta requested approval to amend the contract with Segal as well as to enter into a new contract with CLA.

Mr. Linton so moved. Ms. Goodwin seconded the motion, which passed unanimously.

10. OTHER BUSINESS

None.

11. EXECUTIVE SESSION: 10:27 a.m.

Pursuant to the Audit Section 12-6-5 NMSA 1978 and Section 10-15-1(H)(2) NMSA To Discuss FY17 Financial Audit and Section 10-15-1(H)(6) To Discuss PBM RFP

Ms. Saunders moved to go into executive session pursuant to the Audit Section 12-6-5 NMSA 1978 and Section 10-15-1(H)(2) NMSA to discuss the FY 2017 Financial Audit, and Section 10-15-1(H)(6) to discuss the PBM RFP. Ms. Larrañaga-Ruffy seconded the motion, which passed on the following roll call vote:

For: Chairman Sullivan; Vice Chairman Montaño; Ms. Goodwin; Mr. Linton; Ms. Saunders; Mr. Eichenberg; Ms. Larrañaga-Ruffy.

Against: None.

[Executive session concluded at 11:30 a.m.]

12. PHARMACY BENEFITS MANAGER RFP

Ms. Goodwin moved that the NMRHCA Board continue negotiations with Company B to get the most cost effective contract for the Retiree Health Care Authority. Ms. Larrañaga-Ruffy seconded the motion, which passed unanimously.

13. DATE & LOCATION OF NEXT BOARD MEETING

February 6, 2018, 9:30 a.m.
Alfredo R. Santistevan Board Room
4308 Carlisle Boulevard, N.E.
Albuquerque, New Mexico 87107

14. ADJOURN

The meeting was adjourned at 11:37 a.m.

Accepted by:

____
Tom Sullivan, President

FY19 LFC/Executive Recommendation Comparison/House Appropriations & Finance Committee Action

Overall, the FY19 appropriation recommendations proposed by the Legislative Finance Committee (LFC) and Executive provide for a range of growth between 4.9 and 2.5 percent for the Healthcare Benefits Administration Program, with the LFC recommendation being greater. The request assumed a 3 percent growth in participation and 6 percent growth in medical trend (medical and prescription combined). Table 1 highlights the FY18 approved operating budget, FY18 appropriation request and corresponding recommendations made by the LFC and Executive, as well as action taken by the House Appropriations and Finance Committee.

Table 1 ($ shown in thousands)	FY18 Approved Operating	FY19 Request	LFC Recommendation	Exec Recommendation	**HAFC**
Personal Services & Employee Benefits	$ 1,858.8	$ 1,931.5	$ 1,905.1	$ 1,871.3	$ 1,905.1
Contractual Services	$ 317,636.0	$ 345,570.7	$ 333,017.0	$ 325,561.3	$ 333,017.0
Other	$ 571.1	$ 596.4	$ 585.8	$ 568.5	$ 585.8
Other Financing Uses	$ 2,936.8	$ 3,067.2	$ 3,015.2	$ 2,960.1	$ 3,015.2
Total	**$ 323,002.7**	**$ 351,165.8**	**$ 338,523.1**	**$ 330,961.2**	**$ 338,523.1**
Healthcare Benefits Administration					
Contractual Services	$ 317,091.2	$ 344,989.4	$ 332,450.7	$ 325,000.0	$ 332,450.7
Other	$ 37.9	$ 42.0	$ 42.0	$ 41.0	$ 42.0
Other Financing Uses	$ 2,936.8	$ 3,067.2	$ 3,015.2	$ 2,960.1	$ 3,015.2
Subtotal	**$ 320,065.9**	**$ 348,098.6**	**$ 335,507.9**	**$ 328,001.1**	**$ 335,507.9**
Program Support					
Personal Services & Employee Benefits	$ 1,858.8	$ 1,931.5	$ 1,905.1	$ 1,871.3	$ 1,905.1
Contractual Services	$ 544.8	$ 581.3	$ 566.3	$ 561.3	$ 566.3
Other	$ 533.2	$ 554.4	$ 543.8	$ 527.5	$ 543.8
Subtotal	**$ 2,936.8**	**$ 3,067.2**	**$ 3,015.2**	**$ 2,960.1**	**$ 3,015.2**
Total	**$ 323,002.7**	**$ 351,165.8**	**$ 338,523.1**	**$ 330,961.2**	**$ 338,523.10**
FTE	**27**	**27**	**27**	**27**	**27**

Table 2 provides a comparison of the incremental growth requested and recommended for each program compared to the approved FY18 operating budget. Overall, HAFC's action provides $15.4 million of growth in the Healthcare Benefits Administration Program and $78.4 thousand growth in Program Support. The executive recommendation provides $7.9 million in growth to the Healthcare Benefits Administration Program and $23 thousand for Program Support.

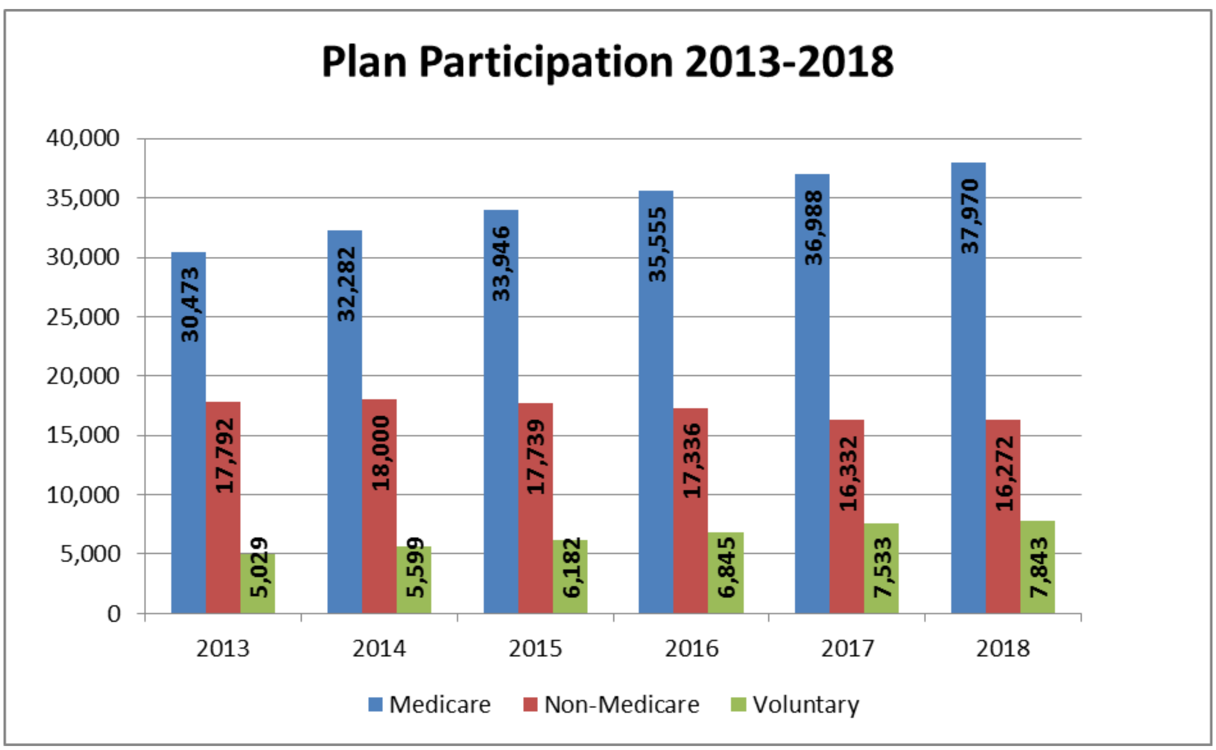
Table 2 ($ shown in thousands)	FY18 Approved Operating	FY19 Requested Growth	LFC Recommended Growth	Exec Recommended Growth	**HAFC**
Healthcare Benefits Administration					
Contractual Services	$ 317,091.2	$ 27,898.2	$ 15,359.5	$ 7,908.8	$ 15,359.5
Other	$ 37.9	$ 4.1	$ 4.1	$ 3.1	$ 4.1
Other Financing Uses	$ 2,936.8	$ 130.4	$ 78.4	$ 23.3	$ 78.4
Subtotal	**$ 320,065.9**	**$ 28,032.7**	**$ 15,442.0**	**$ 7,935.2**	**$ 15,442.0**
Program Support					
Personal Services & Employee Benefits	$ 1,858.8	$ 72.7	$ 46.3	$ 12.5	$ 46.3
Contractual Services	$ 544.8	$ 36.5	$ 21.5	$ 16.5	$ 21.5
Other Financing Uses	$ 533.2	$ 21.2	$ 10.6	$ (5.7)	$ 10.6
Subtotal	**$ 2,936.8**	**$ 130.4**	**$ 78.4**	**$ 23.3**	$ 78.4
Total	**$ 323,002.7**	**$ 28,163.1**	**$ 15,520.4**	**$ 7,958.5**	**$ 15,520.4**
FTE	**27**	**0**	**0**	**0**	**0**

Table 3 highlights the FY18 operating budget along with the requested and recommended growth expressed in terms of a percentage.

Table 3 ($ shown in thousands)	FY18 Approved Operating	FY19 Requested Growth	LFC Recommended Growth	Exec Recommended Growth	**HAFC**
Healthcare Benefits Administration					
Contractual Services	$ 309,883.4	9.0%	5.0%	2.6%	5.0%
Other	$ 48.0	8.5%	8.5%	6.5%	8.5%
Other Financing Uses	$ 3,118.3	4.2%	2.5%	0.7%	2.5%
Subtotal	**$ 313,049.7**	**9.0%**	**4.9%**	**2.5%**	**4.9%**
Program Support					
Personal Services & Employee Benefits	$ 1,949.8	3.7%	2.4%	0.6%	2.4%
Contractual Services	$ 624.4	5.8%	3.4%	2.6%	3.4%
Other Financing Uses	$ 544.1	3.9%	1.9%	-1.0%	1.9%
Subtotal	**$ 3,118.3**	**4.2%**	**2.5%**	**0.7%**	**2.5%**
Total	**$ 316,168.0**	**8.9%**	**4.9%**	**2.5%**	**4.9%**
FTE	**27**	**0**	**0**	**0%**	**0%**

Ultimately, the budget scenario adopted by HAFC provided the Retiree Health Care Authority with a reasonable scenario with which to accommodate the projected revenues and expenditures for FY19. Also, both recommendations include language providing for the reversions of any balances in the program support fund at the end of FY19 to be reverted to the Health Care Benefits Administration Fund.

Generally NMRHCA is granted specific budget adjustment authority (BAR) allowing the agency to adjust its budget to accommodate significant growth in claims costs related to increases in participation, medical inflation, or other unforeseen circumstance.



New Mexico Retiree Health Care Authority Information – January 2018

Background:

- New Mexico Retiree Health Care Authority Act
  - Created in July 1990 (no appropriation/no material prefund period)
  - Began paying benefits for over 16,000 retirees on January 1991 w/statutory limitations on premium increases until 2008
  - Board of Directors has broad authority to set plan parameters
  - Legislature retains authority over employer/employee contribution levels
- Purpose
  - Fidelity and Nationwide estimate couple retiring at age 65 can expect to incur $260,000 in medical expenses during retirement
  - Average monthly pensions: PERA - $2,449 / ERB - $1,831 / Social Security - $1,370
- Composition & Beneficiaries
  - 300 public employer groups – 50% schools/ 25% state agencies / 25% local government
  - Approximately 100,000 active participants contributing to the program
  - February 2018 – 62,182 participants (30% pre-Medicare/70% Medicare)
  - Over 10 percent of the adult population in New Mexico is either covered or will be covered by NMRHCA programs and serves a deferred form of compensation and an important component of overall compensation
- Solvency & GASB Measurements

<u>2007</u>	<u>2017</u>
Projected Solvency 2014	Projected Solvency 2035
Trust Fund Balance - $122.8 million	Trust Fund Balance - $564.1 million (6/30)
$4.1 billion unfunded liability (3% funded)	$4.5 billion unfunded liability (11.34% funded)
FY07 - $5.7 million withdrawn from Trust Fund	Transfers to trust fund since 2011 - $232 million (1/18)

Results

- Increased Solvency period from 7 to 18 years (per last measurement), increased Trust Fund Balance by $441.3 million and limited the growth in unfunded liabilities

Legislative Changes:

- 2016 Special Session – SB7 Public Fund Distribution Changes
  - Permanent removal of $3 million annual special distribution from taxation and revenue suspense fund
  - Removal of annual 12 percent increase in transfers received from taxation and revenue suspense fund regular distribution

<u>Resulting Impact</u>

- Solvency period reduced to 2030 (estimated January 2017)
- Projected deficit spending 2020
- Reduction of $350 million revenues over life of Trust Fund
- Need for increase in employee & employer contributions

Board Actions:

- Additional cost sharing arrangements for pre-Medicare and Medicare participants (medical and prescription)
- Annual premium increases across all plans
- Reduction in pre-Medicare retiree and spousal subsidies
- Elimination of dependent subsidies
- Increased years of services to receive a maximum subsidy (non-enhanced retirement plans)
- Implementation of minimum age in order to receive subsidy (non-enhanced retirement plans)
- Elimination of basic life insurance (death benefit)
- Adoption of value-based reimbursement initiatives and aggressive procurement strategies
- Implementation of incentivized Wellness Programs
- Increased member outreach and educational services
- **<u>Requests for statutory changes to employee and employer contributions</u>**

Delivery alert until NaN

Not-for-profit health insurer gets $10M cash infusion

By Marie C. Baca / Journal Staff Writer

Friday, December 22nd, 2017 at 12:02am

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A state regulator has approved a $10 million sale by New Mexico Health Connections of its commercial business to one of its vendors, providing an infusion of cash to one of the last not-for-profit health insurance cooperatives in the country.

The approval came despite concerns raised by Presbyterian, University of New Mexico and Blue Cross Blue Shield about the continued financial condition of Health Connections and whether it could make good on millions of dollars of what they say are unpaid bills.

In testimony filed in the case, Presbyterian questioned whether Health Connections was solvent and raised the possibility that providers might have to try to collect from people insured by Health Connections.

That testimony was based on a sale price of $10 million – the amount that had been announced and included in the regulatory approval order.

The Journal, meanwhile, has learned that Health Connections has been under financial supervision by the state's superintendent of insurance since June.

Under the terms of the agreement approved Wednesday, Evolent Health, a publicly traded Arlington, Va.-based company that has managed aspects of Health Connections' plan administration, will acquire Health Connections' small- and large-group business lines. The acquisition will give rise to a new for-profit entity called True Health New Mexico.

In addition to the $10 million sale price, Evolent will also provide an additional $10 million to True Health.

The additional $10 million was not addressed in the testimony of Presbyterian, Blue Cross and UNM.

Few not-for-profits

As of Jan. 1, Health Connections' 22,000 employer-based plan members, provider network contracts, executive leadership team and about 80 employees will transition to True Health New Mexico. The additional 18,000 members insured under the Affordable Care Act will continue to be insured through Health Connections. CEO Martin Hickey will lead True Health, and Marlene Baca, a former Lovelace Health Plan executive who now runs a consulting firm, will take his place at Health Connections.

In a final order and decision released Wednesday, the state Office of Superintendent of Insurance adopted the recommendations of the case's hearing officer. Superintendent of Insurance John G. Franchini, who disclosed that Health Connections has been under "financial supervision" since June, also said that Evolent will assume 50 percent of Health Connections' liabilities for two years.

"It's a private agreement, but I felt like it was important for the public to know," Franchini said in a Journal interview. "We are one of only a few states with this type of co-op, and we're very happy it will continue in New Mexico."

Health Connections, which was funded by federal loans through the Affordable Care Act, is one of four not-for-profit health insurance cooperatives still operating in the U.S. There were 23 such entities as of 2014.

According to documents reviewed by the Journal, some of New Mexico's biggest health care players questioned Health Connections' financial dealings in testimony submitted during consideration of the deal.

Among the accusations lodged against the organization: Various University of New Mexico health entities allege Health Connections owes $20 million for outpatient and other services; Presbyterian Healthcare Services says

Health Connections owes it $7.6 million; Blue Cross Blue Shield of New Mexico said Health Connections will likely owe it several million dollars in an annual "risk adjustment liability" mandated by the federal government.

UNM suggested that the $10 million – what had been disclosed as the sum involved in the transaction – be placed in an escrow account "as a source of payment for the creditors' claims."

Health Connections has filed a lawsuit against the U.S. Department of Health and Human Services and the Centers for Medicare & Medicaid Services disputing the risk adjustment. Hickey said he was unfamiliar with the testimony citing the other accusations, but he suggested they were attempts to undermine a competitor.

Solvency doubted

In his recommendations, the state's hearing officer wrote that the allegations did not suggest a financial situation that would jeopardize the stability of True Health. But he also said the "important and helpful information would assist OSI in its ongoing customary regulatory oversight of (Health Connections) and True Health."

Under New Mexico law, if an insurer's financial data indicate that its risk-based capital – a calculation of the minimum amount of money an insurer needs to operate – is less than 70 percent, the state must take it over in a process called "mandatory control." According to Health Connections' Sept. 30 financial filings obtained by the Journal, the organization's total capital and surplus were $3.5 million, which Presbyterian claimed was below the 70 percent threshold and indicated that Health Connections was insolvent. The $3.5 million number included the $10 million portion of the deal with Evolent, which at that time had not been approved; without it, the figure would be negative $6.5 million.

Health Connections was operating at a $10 million loss this year as of September, according to the filings. The company had losses totaling more $40 million over the previous two years.

Its board has also had complete turnover since that time, which a spokeswoman said was related to the election cycle of the seats.

Hickey did not dispute the figures raised by Presbyterian but called its conclusion "pure speculation." He did not disclose the liability agreement.

"There's a lot that's happened between September and now, a lot that people don't know about," he said. "When the March 15 filing comes out, you'll see that we meet all our regulatory requirements."

Hickey acknowledged it was "possible" that the finances of the organization could be affected in the future by this week's repeal of the individual mandate, the part of the Affordable Care Act that requires individuals to obtain health insurance. The Congressional Budget Office estimates that the repeal will lead to an additional 13 million uninsured individuals over the next decade.

When pressed about the future of Health Connections, Hickey cited a quote often attributed to Mark Twain: "The reports of my death are greatly exaggerated."

Contact the writer.

Latest News

Another wave of victims confronts disgraced sports doctor

The Latest: Police to apologize to Nassar accuser

US confident in Olympics security despite NKorea tensions

Olympics draw Korean adoptees as South Korea confronts past

Delivery alert until NaN

Health Connections board sought state control

By Marie C. Baca / Journal Staff Writer

Tuesday, January 9th, 2018 at 11:45pm

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The board of directors of New Mexico Health Connections resigned last year in an attempt to get the state to take control of what board members said was an insolvent organization, according to a document obtained by the Journal.

“It is our understanding that, with our resignations, as superintendent you will take immediate control of (Health Connections) and act in the best interest of policyholders,” the board wrote in a July 31 letter to Superintendent of Insurance John G. Franchini.

Under New Mexico law, insurers that pass a certain threshold of financial distress are taken over by the state in a process called “mandatory control.” But the state did not assume mandatory control of Health Connections after the resignation of its board last year, Franchini confirmed Tuesday.

In December, his office approved a $10 million sale of Health Connections’ commercial business to one of its vendors, the Arlington, Va.-based Evolent Health. The deal gave rise to a new for-profit insurer, True Health New Mexico. The 18,000 members insured under the Affordable Care Act remained with Health Connections, albeit with a new board and management team.

The seven board directors listed on the resignation letter were Diane Denish, New Mexico lieutenant governor under Gov. Bill Richardson; Ken Carson, former president of what is now MyBank in Belen; John Ulrich, president of Ulrich Consulting Group; Anthony Zancanella, executive director of Opera Southwest; Jane Hajovsky, owner of the consulting company Perfect Solution; Simon Goldfine, general manager of Sierra Peaks Corp.; and James Delgado, a family medicine physician.

“We all wanted the company to succeed, but we were effectively insolvent in June,” Denish said in an interview Tuesday. “Our understanding was that resigning would begin the process of putting the company into receivership. We thought that was the best thing for consumers under the circumstances.”

Martin Hickey

The other directors either did not respond to a request for comment or declined to speak on the record. After its resignation, a new board was appointed by Martin Hickey, who was then the CEO of Health Connections until this year; he is now the head of True Health.

Franchini said he had not seized any accounts or property owned by Health Connections, though his spokeswoman also noted that such proceedings are confidential. He said Health Connections, one of the last health insurance cooperatives in the country, was under such close supervision by his office it was essentially "the same thing" as mandatory control.

"There was no need (for mandatory control)," Franchini said in an interview. "There was complete corporate cooperation as soon as the new board was implemented. The new board did everything I asked them to do."

The new board members listed on the Sept. 30 filing are Dennis Michael Litos, former CEO of Michigan Community Health Network; James R Tryon, a family medicine doctor in Albuquerque; and Margaret Gunter, director of medical outcomes research at the not-for-profit Lovelace Respiratory Research Center.

Regulatory oversight

A spokeswoman for the superintendent's office said Health Connections has been under financial supervision since 2015, primarily because the nontraditional structure of the organization – parts of it are by operated by policyholders – required additional oversight, she said. The company entered a period of more active regulatory oversight in June.

"The superintendent has broad powers of oversight, and he has the experience to determine the right course of action," Hickey said. "We were very appreciative of his help."

Hickey and Franchini said they did not know whether Health Connections had passed the threshold for mandatory control when the board resigned in July. State law indicates mandatory control is triggered when an insurer's risk-based capital – a calculation of the minimum amount of money an insurer needs to operate – is less than 70 percent. In testimony submitted during consideration of the Evolent deal, Presbyterian, one of Health Connections' competitors, claimed that Health Connections' September filings indicated the organization was below the 70 percent threshold and insolvent.

Health Connections reported a 2017 loss of $10 million as of Sept. 30, according to the filings. The company had losses totaling more $40 million over the previous two years.

Hickey said the company's risk-based capital is calculated and disclosed only in an annual filing; the 2017 filing will be available in March. He said the company's risk-based capital calculation was substantially over 300 percent by the end of December as a result of the Evolent deal.

The financial statements for Sept. 30 showed about $3.5 million in capital – including the $10 million paid by Evolent.

'Zone of insolvency'

In its letter of resignation, the company's previous board cited a lack of guidance from the superintendent on the payment of executive bonuses and other issues surrounding Health Connections' "factual insolvency." They said they were concerned that paying the bonuses "while in the zone of insolvency may violate our fiduciary duty to the policyholders."

"For this reason, the board requested a clear instruction from you to either pay the executive bonuses or continue to postpone paying them so as not to compromise policyholders or duties to others considering our factual insolvency," the board wrote. "As superintendent, you declined to give us such a directive."

The board also described a lack of agreement between the board, Hickey and the superintendent's office on "accurate financial disclosures, appropriate investment structure, or the need to conserve cash in the interest of policyholders."

Franchini said he had asked board members to make their own decision about the executive bonuses and other issues.

The new board decided to pay out the bonuses after the Evolent deal was finalized, according to Franchini and Hickey, though the Journal could not determine how much the bonuses were nor to whom they were paid.

Hickey dismissed the board's description of the disagreement and pointed out that the members resigned despite having a term sheet from Evolent, which Hickey said was indication that a deal was imminent.

The letter contradicts previous explanations by Health Connections about the turnover of its board. In December, a spokeswoman attributed the turnover to the normal election cycle of the seats. Asked now about the letter, the spokeswoman said it was a "confidential board communication" of which she was unaware.

The Evolent deal was approved over the concerns of Presbyterian, the University of New Mexico and Blue Cross Blue Shield about the continued financial condition of Health Connections and whether it could make good on about $30 million of what they say are unpaid bills – with Presbyterian raising the possibility that people insured by Health Connections could be liable for charges they incurred for medical services.

Health Connections has since described the testimony submitted by its competitors as bearing "little resemblance to reality." The company has pinned much of its financial problems on the federal budget sequestration that began in 2013, which, among other things, ended millions of dollars of payments allotted to it under the Affordable Care Act.

Of the 23 not-for-profit health insurance cooperatives funded by federal loans through the Affordable Care Act, only four are still in existence, including Health Connections which initially received about $77 million in federal loans. The company's financial statements describe them as "surplus notes" and don't include a repayment schedule.

Asked about the future of Health Connections, Marlene Baca, the new CEO, said the Evolent deal had put the organization in "a very positive financial situation, and we are confident we can stand on our own."

Contact the writer.

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Police score win for Olympic skater, find stolen costumes

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INTERAGENCY BENEFITS ADVISORY COMMITTEE

Albuquerque Public Schools
New Mexico Public Schools Insurance Authority
New Mexico Retiree Health Care Authority
Risk Management Division, General Services Department, State of New Mexico

January 24, 2018

Dr. Martin Hickey, Chief Executive Officer
True Health New Mexico
2440 Louisiana Blvd., NE, Suite 601
Albuquerque, NM 87110

Dear Dr. Hickey:

On behalf of the Interagency Benefits Advisory Committee (IBAC), I am writing to express our concerns regarding the articles written in the December 22, 2017 and January 9, 2018 editions of the Albuquerque Journal. Specifically, the allegations that New Mexico Health Connections (NMHC) has been under the financial supervision of the state's Superintendent of Insurance since June 2017, and that outstanding payments owed to the University of New Mexico, Presbyterian Health Services and the 2017 Risk Adjustments owed under the ACA.

Additionally, actions taken by your board of directors requesting the Superintendent take immediate control of Health Connections, in order to act in the best interest of policyholders, had not been communicated to the IBAC. While the first article quotes you as stating that these accusations are attempts to undermine a competitor, we do not think the Superintendent of Insurance would have placed the health plan under financial supervision absent concerns about its solvency.

Of particular concern to our membership is the suggestion that providers may attempt to recoup unpaid bills directly from people insured by NMHC/True Health New Mexico. If this practice occurs, it will result in confusion, a lack of confidence in our health plan selections, and member dissatisfaction.

In response to these concerns, the IBAC is requesting evidence to support that providers and facilities are being reimbursed for the services incurred by our members, based upon the provider reimbursement agreements applicable to our membership, and contemporaneously with the weekly funding requests received by each of our entities. We would like to ensure that our members are not being affected by accusations of unpaid bills and to avoid situations in which our members are being balance-billed for services covered by our plans. In addition, if you would provide any independent financial report, audit or Service Organization Controls (SOC) 1 Report to support the financial condition of the health plan, would be greatly appreciated.

In addition, the IBAC would like an affirmation that, as part of the assignment, True Health New Mexico will assume all indemnification obligations of NMHC for matters arising out of the performance of the contract by NMHC as set forth in each of the participating IBAC entities' contracts (as well as being responsible for indemnifying the IBAC agencies for anything arising out of the performance of the contract by True Health New Mexico).

We look forward to your written response to this letter. If you have any questions or concerns regarding this request, please contact me at ernestine.chavez@state.nm.us, or at 505.988.2736.

Sincerely,

Ernestine Chavez

Ernestine Chavez
Chair
Interagency Benefits Advisory Committee

NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

PRESORT STD
US POSTAGE
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NMRHCA CONTACT INFORMATION

4308 Carlisle Blvd NE, Suite 104
Albuquerque, NM 87107-4849

33 Plaza La Prensa
Santa Fe, NM 87507

800-233-2576 (Toll Free)
505-476-7340 (Santa Fe)
505-884-8611 (Fax)
Email: customerserivce@state.nm.us

Hours: 8 a.m.-5 p.m. Monday-Friday

Please visit us online at www.nmrhca.org

HEALTH PLAN CONTACT INFORMATION

BCBSNM 800-788-1792
BCBSNM Medicare Advantage.....877-299-1008
www.bcbsnm.com

Express Scripts Medicare 800-551-1866
Express Scripts Non-Medicare ..800-501-0987
www.express-scripts.com

Presbyterian Health Plan 888-275-7737
Presbyterian Medicare Advantage .800-797-5343
www.phs.org

Humana 866-396-8810
www.humana.com

New Mexico Health Connections ... 877-210-8239
http://www.mynmhc.org/nmrhca

UnitedHealthcare 866-622-8014
www.uhcretiree.com

United Concordia Companies 888-898-0370
www.ucci.com

Delta Dental 877-395-9420
www.deltadentalnm.com

Davis Vision 800-999-5431
www.davisvision.com

Standard Insurance....................888-609-9763
www.standard.com/mybenefits/newmexico_rhca

Inside: Protect Your Health As You Grow Older...Pg 2...Wellness Incentive Program Returns!...Pg 3

NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

NMRHCA 2018 Newsletter Vol. 3 - Winter Edition

EXECUTIVE DIRECTOR'S UPDATE

2018 PROGRESS REPORT

Greetings and Happy 2018 from the New Mexico Retiree Health Care Authority (NMRHCA).

With the 2018 regular legislative session underway, NMRHCA is responsible for analyzing and responding to requests for information regarding introduced legislation that may impact services we provide or our ability to control costs through the programs we administer.

Given this year's 30-day session and limited ability to consider non-budget related matters, NMRHCA did not seek legislation to increase employee/employer contributions to the program.

However, as the state's overall economic outlook continues to improve and additional funding is made available to address competing priorities across state government, NMRHCA looks forward to developing a long-term solution to shore up funding for the program during the 2019 legislative session.

NMRHCA is also proud to report continued improvements to our overall financial well-being, including extending our solvency from 2030 in 2016 to 2035 in 2017, and increasing the funded ratio from 11.04 to 11.34 percent for the same time frame, despite more restrictive assumptions with regard

See *Executive* on Page 2

KNOW WHEN, WHEN NOT TO GO TO EMERGENCY ROOM

It's 2018: Do you know what your lowest-cost Access of Care options are?

Part of the rising health care cost epidemic is due to patients' overdependence on emergency rooms and urgent care facilities, both of which cost more than a primary care office visit — to both the patient and the health plan.

According to a blog from Total Access Medical LLC in January of 2017, the average cost of an emergency visit is $767, or $580 more than the average cost of an office-based visit of $187.

An article in the Central Penn Business Journal, which used a PwC study titled "Medical Cost Trends, Behind the Numbers 2017," added that higher use of urgent care centers not only cost more than a primary care office visit, but also can disrupt the continuity of care for patients because urgent care doctors generally lack patient-specific information that the primary care physician has to formulate a diagnosis or an action plan.

The reasons patients may seek care in an ER as opposed to other settings, Total Access Medical reports, include:

- Patients have limited access to primary care services. It can take days, weeks or even months to get in to see a primary care physician.
- The ER provides after-hours and weekend care.
- The ER offers patients immediate reassurance about their medical condition.
- Primary care providers sometimes refer patients to the ER.
- Hospitals have financial and legal obligations to treat patients in the ER.

Zakipoint Health estimates ER overuse costs $18 billion annually, while Health Total Access Medical sees the waste to be closer to $38 billion.

Brookwood Baptist Health suggests the following guidelines for going to the ER and urgent care facilities:

"The ER should be reserved for life-threatening emergencies or acute complications that need advanced imaging. It's the best place to go for signs or symptoms of a heart attack, stroke, or traumatic injury.

"You should (also) go to the emergency room if you have an acute trauma that includes the risk of a loss of limb, motor vehicle accidents, bro-

See *Emergency* on Page 3

PROTECT YOUR HEALTH AS YOU GROW OLDER IN 2018

By Healthfinder.gov

Take steps to stay healthy and independent as you get older.

Stay active to live longer and better.

- Reduce your risk for type 2 diabetes, heart disease, stroke, and some cancers.
- Avoid falls and other injuries.
- Live on your own longer.
- Improve your mood.
- Feel better about yourself.
- Improve your ability to think, learn, and make decisions.
- Get enough sleep.

It's never too late to start!

- Do moderate aerobic activities – like walking, swimming, or raking leaves. Aim for 2 hours and 30 minutes a week.
- Do aerobic activity for at least 10 minutes at a time and then work your way up. If it's hard for you to be active for more than 10 minutes at once, do 10 minutes of activity a few times during the day.
- Do strengthening activities 2 or more days a week.
- Do exercises for balance, especially if you are at risk of falling.
- Try stretching exercises so you can move more easily during everyday activities.

If you have a health condition, ask your doctor about the best activities for you.

Get ideas for eating healthy.

- Choose lots of vegetables and fruits in different colors.
- Make sure most of your grains are whole grains, like brown rice and whole wheat.
- Drink low-fat or fat-free milk, and eat other low-fat dairy products.
- Choose healthy sources of protein like seafood, lean meats and poultry, eggs, beans, and nuts.
- Stay away from trans fats, saturated fats, and added sugars.
- Limit the amount of salt you eat.

Stay active with your health care.

- Print a list of recommended screening tests for you (https://healthfinder.gov/myHealthfinder/) for your next appointment.
- Tell your doctor if you have questions or problems with your medicines, or if you think you may be depressed. Depression is treatable nothing to be ashamed of.
- If you smoke, enroll in ***quitnow.net/newmexico/*** for free help. Ask your doctor about screening for lung cancer.

If you have Medicare, schedule your Medicare wellness visit every year.

Take other steps to prevent falls.

- Ask your doctor or pharmacist to review your medicines. Some medicines can make you dizzy or sleepy.
- Get your vision checked often. Use a Home Falls Prevention Checklist ***(https://www.cdc.gov/HomeandRecreationalSafety/pubs/English/booklet_Eng_desktop-a.pdf)*** to help you find and fix the dangers in your home.

Ensure your safety as you drive.

- Get your vision and hearing checked regularly.
- Always wear your seat belt.
- Don't use your phone while driving.
- Plan your route and drive on streets you know.

Keep a sharp mind to halt memory loss.

- Learn new things – take a class or read a section of the newspaper that you normally skip.
- Connect with other people – try sharing meals with a friend or volunteering at a local school.

If you are forgetting things more often than usual and it's getting in the way of doing everyday things, talk with your doctor or nurse.

NMRHCA AT A GLANCE

UNDERSTANDING MEDICARE SEMINARS TO CONTINUE IN '18

To help our Medicare retirees manage their health care, NMRHCA will continue its Medicare Informational Sessions in 2018.

Sessions will be at our offices in Albuquerque (9:30 a.m.) and Santa Fe (1:30 p.m.) starting February 14. The other meeting times will be as follows:

- March 14 (ABQ Only)
- April 11 (ABQ and SF)
- May 9 (ABQ Only)
- June 13 (ABQ and SF)
- July 18 (ABQ Only)
- August 15 (ABQ and SF)
- September 12 (ABQ Only)
- December 12 (ABQ and SF)

Additional meetings are planned for Farmington on March 13 at 10 a.m. in the Civic Center and Las Cruces on April 10 at 9 a.m. in the City Hall Conference Room 2007 B.

EXECUTIVE DIRECTOR'S UPDATE

Continued from Page 1

to the rate at which our assets are expected to grow. However, given these improvements, growth in health care related expenses are projected to continue outpacing the available resources used to support these programs today.

NMRHCA will continue to implement policies and procedures adopted by the Board of Directors aimed at maintaining the affordability of the program for existing and future participants. In addition, emphasis with regard to the value and importance of the programs we administer will continue to be communicated to members of the Legislature and Executive staff.

— David Archuleta
Executive Director

NMRHCA WELLNESS PROGRAM RETURNS FOR 2018, WITH SOME ADDED GUIDANCE

The NMRHCA Wellness Incentive Program returns for 2018. Members and their spouses/partners enrolled in one of our medical programs can receive a $50 Visa gift card for completing two wellness activities (dependent children are not eligible).

A list of qualifying programs, activities and instructions on filling out the form are available at ***nmrhca.org/wellness-incentive.aspx***. Also, we have provided a list of resources and events on the site to help you achieve your goals.

Reminders:

- If you complete a personal health assessment (PHA), we recommend that your second program associate with the assessment results. If your assessment says to exercise more, you may consider your second wellness program to be engaging in a structured exercise program. If your PHA has multiple recommendations, you may choose a path to pursue. PHAs for Medicare members soon may be available through their health plans.
- PLEASE take two separate courses for approval. For example, if you have diabetes, you can take the Diabetes Academy offered through the Solutions Group and sign up for Kitchen Creations. You cannot attend two Diabetes Academy classes for your two programs.
- PLEASE provide proof of completion of the programs or a contact name and number of the program coordinator. For those who work out, we require an attendance sheet, or trainer/employee verification. Simply writing down the name of a gym DOES NOT QUALIFY.
- Biometric screenings, which are considered "preventative maintenance," DO NOT qualify by themselves. If you have a screening that indicates you have high cholesterol, then we recommend participating in a program designed to lower cholesterol. An example is taking a healthy cooking class.

We'll also ask for an email address or a telephone number (if you don't have an email address) on your form so we can notify you when your form has been approved.

If you have any questions, please call us at 800-233-2576.

EMERGENCY ROOM: GO OR NO GO?

Continued from Page 1

ken bones, major head injuries, seizures, severe abdominal pain, severe asthma attack, unconsciousness, or uncontrollable bleeding. The ER will provide the advanced care you need, in a time-aware environment.

"Urgent care centers are useful options when you don't have a primary care physician, or your doctor is unavailable for a timely appointment, or due to it being after-hours or on a weekend. They're also good when you require medical attention for an acute but not life threatening emergency, such as a sprained ankle."

If you or someone in your care visits an urgent care facility, follow up with your primary care physician.

Some NMRHCA plans offer a 24-hour nurse line that patients can call first. Check to see if you can make a video visit. Presbyterian Health Plan allows its members to access video visits through their myPres account at phs.org. They first need to fill out a medical questionnaire. Once that is done, they can schedule an online visit, enter their symptoms, and a medical provider will connect with them within 30 minutes. The provider can offer a diagnosis and advice, or send a prescription to a pharmacy.

If you must see a doctor, call your PCP in a non-emergency situation first. If your doctor can't see you right away, a nurse practitioner often will call back and discuss your condition over the phone. If those options are unavailable, try an urgent care facility. And in an emergency, go to the ER.

Taking a proactive approach to managing your health and communicating with your PCP still is the best approach to keep costs down.

REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

FOR

NEW MEXICO RETIREE HEALTH CARE AUTHORITY

June 30, 2017

MOSSADAMS

Table of Contents

New Mexico Retiree Health Care Authority

OFFICIAL ROSTER

June 30, 2017

Board of Directors

Tom Sullivan, Board President	Superintendents’ Association of NM
Joe Montano, Vice-President	NM Association of Educational Retirees
Doug Crandall, Secretary	Retired Public Employees of New Mexico
Tim Eichenberg	State Treasurer of New Mexico
Wayne Propst	Public Employees’ Retirement Association
Therese Saunders	NEA-NM, Classroom Teachers Association
Jan Goodwin	Educational Retirement Board
Wayne Johnson	NM Association of Counties
Terry Linton	Governor Appointee

Staff

David Archuleta	Executive Director
Josefina Roberts	Chief Financial Officer

MOSSADAMS

Report of Independent Auditors

The Board of Directors
New Mexico Retiree Health Care Authority
Mr. Wayne A. Johnson
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position and changes in fiduciary net position of New Mexico Retiree Health Care Authority (the Authority), a fiduciary fund of the State of New Mexico, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Mexico Retiree Health Care Authority as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Authority present the financial position and changes in financial position of only that portion of the fiduciary activities of the State of New Mexico that is attributable to the transactions of the Authority. The financial statements do not present fairly the financial position and changes in financial position of the entire State of New Mexico as of and for the year ended June 30, 2017 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified for this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenues and expenses – budget and actual: administrative fund, schedule of revenues and expenses – budget and actual: benefits fund, schedule of changes in net OPEB liability, schedule of employer contributions, and schedule of annual money-weighted rate of return be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule 1 – combining schedule of fiduciary net position by functional activity and schedule 2 – combining schedule of changes in fiduciary net position by functional activity (collectively, the supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The other information required by 2.2.2 NMAC as listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
November 21, 2017

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INTRODUCTION

The New Mexico Retiree Health Care Authority (the Authority) fosters quality of life and peace of mind by responsibly administering affordable, secure health care benefits for public retirees and their families. The Authority's management has provided this discussion and analysis of the financial activities of the Authority for the fiscal year ending June 30, 2017. The narrative offers an overview of the financial reporting requirements, financial highlights, budgetary analysis, and comparative information. Financial data has been provided for the year ending June 30, 2016 for comparative purposes.

The Authority implemented Government Accounting Standards Board Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB No. 74), as of June 30, 2017. The implementation significantly changed footnote disclosures as well as required supplementary information. Readers are encouraged to consider the information presented here in conjunction with the statements, the notes to the financial statements, and required supplementary information.

FINANCIAL REPORTING REQUIREMENTS

The Authority's financial statements have been prepared in conformity with standards published by the GASB for retiree health systems. The basic financial statements presented comprise the following:

- **Statement of Fiduciary Net Position** – The statement of fiduciary net position provides a snapshot of the retiree health trust. It reports the Authority's assets, liabilities, and net position restricted for postemployment benefits other than pensions at the end of the fiscal year.

- **Statement of Changes in Fiduciary Net Position** – The statement of changes in fiduciary net position presents the additions and deductions to the net position restricted for postemployment benefits other than pensions and is a summary of the Authority's transactions occurring during the fiscal year.

- **Notes to the Financial Statements** – The notes to the financial statements are an integral part of Authority's financial statement presentation and provide additional information not readily evident in the statements as presented.

- **Required Supplementary Information** – The required supplementary information provides a detailed and informative analysis about the financial condition of the trust administered by the Authority.

- **Supplementary Information** – The supplementary information contains additional information not required by the GASB but has been deemed useful in evaluating the Authority's overall financial condition.

FINANCIAL HIGHLIGHTS

The Authority's statement of fiduciary net position can be summarized as follows:

	June 30, 2017	June 30, 2016
ASSETS		
Cash and cash equivalents	$ 18,204,202	$ 10,834,755
Contributions and other receivables	16,707,502	24,867,420
Investments with State Investment Council	567,310,399	466,657,944
Capital assets, net	1,902,855	2,074,205
Total assets	604,124,958	504,434,324
LIABILITIES		
Reserve for loss and loss adjustment expense	20,619,000	19,577,000
Other current liabilities	3,801,054	6,773,002
Retiree premiums received in advance	443,426	5,609,971
Total liabilities	24,863,480	31,959,973
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 579,261,478	$ 472,474,351

The Authority's statement of changes in fiduciary net position can be summarized as follows:

	Year Ended June 30, 2017	Year Ended June 30, 2016
ADDITIONS		
Contributions	$ 282,270,798	$ 274,444,229
Investment income (loss)	67,759,695	(2,131,790)
Tax administration suspense fund revenue	28,306,468	29,518,783
Medicare Part D and rebates	26,944,632	21,183,916
Other	286,050	307,220
Total additions	405,567,643	323,322,358
DEDUCTIONS		
Premiums and claims paid	294,393,452	288,039,248
Expenses and other	4,179,901	4,815,354
Total deductions	298,573,353	292,854,602
NET INCREASE IN NET POSITION	$ 106,994,290	$ 30,467,756

Net position increased by approximately $107.0 million, or 22.2%, during fiscal year 2017 compared to fiscal year 2016. The increase during the current year is primarily due to the following:

- The fair value of investments increased by $100.7 million, or 21.6% due to net appreciation in the fair market value of the Authority's investment portfolio and significant investment purchases that occurred during the year.
- Cash balances increased by $7.4 million, or 68.0% due to timing of transfers made to the trust fund by the State Investment Council.
- Reserves for loss and loss adjustments as well as other current liabilities increased by $1.0 million. Reserves for loss and loss adjustments measures the outstanding liabilities for covered services received prior to July 1, 2017 and paid after June 30, 2017.
- Contributions increased by approximately $7.8 million, or 2.9%, from the prior fiscal year. This is primarily due to an increase in participating employers and retirees. Contributions by source were as follows:

	Year Ended June 30,	
	2017	2016
Retirees	$ 153,464,136	$ 145,372,189
Employer	85,858,432	86,029,296
Employee	42,929,216	43,014,680
Employer buy-ins interest portion	19,014	28,064
Total contributions	$ 282,270,798	$ 274,444,229

- Claims paid and expenses increased by $5.7 million, or 1.9%, during fiscal 2017 compared to fiscal 2016. This is primarily related to increases in prescription drug costs, medical services (pre-Medicare and Medicare) and a combination of enrollment growth and medical trends.

As of June 30, 2017, the Authority implemented GASB No. 74 and reported an estimated net OPEB liability of $4,531,673,018. The net OPEB liability is comprised of the Authority's total OPEB liability of $5,111,141,659, calculated by the Authority's independent actuaries, offset by the plan's fiduciary net position of $579,468,641. As of June 30, 2017, the plan's fiduciary position as a percentage of the total OPEB liability (funded status) was 11.34%.

BUDGETARY ANALYSIS

The fiscal year 2017 operating budget included expenses totaling $313.0 million, including $1.9 million in personal services and employee benefits, $310 million in contractual services, and $592,000 in other expenses. Actual deductions totaled $298.6 million, supported by additions of $405.6 million, for an increase in net position of $107.0 million. Highlights are as follows:

- Healthcare Benefits Administration Program – the program approached the limits of its budget authority, but did not need to submit a budget adjustment request or exceed the amounts allowed per Laws 2016, Chapter 101, Section 4.

- Program Support – the program ended fiscal year 2017 with a $220,000 surplus generated by $99,000 in savings from the personal services and employee benefits category, $73,000 savings in the contractual services category and $47,000 savings from the other category.

CAPITAL ASSETS

The Authority placed a new eligibility, billing and accounting system into service during fiscal year 2017. This new system required several years of development with a cost of approximately $2 million.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The New Mexico Retiree Health Care Act was enacted in Sections 10-7C-1 through 10 7C 19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State of New Mexico and their eligible dependents. The Authority offers both pre-Medicare and Medicare plans to eligible retirees, as well as ancillary coverage including dental, vision, and life insurance. The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished, or extinguished by the Legislature, and that the Act does not create any contract, trust or other rights to public employees for health care benefits. Financing is provided through the setting of premiums for retirees by the Authority's Board of Directors and the allocation of governmental revenue streams by the Legislature on a “pay as you go” basis.

The Authority administers the New Mexico Retiree Health Care Act. It has a funding base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund (TAA Fund).

At the beginning of fiscal year 2017, the Authority reported a projected solvency period through 2036. However, during the 2016 2nd Special Session, the legislature took action to reduce revenues received from the TAA Fund to include the permanent removal of a $250,000 monthly transfer and eliminating the 12% indexed growth rate until July 1, 2019, at which time the increase will resume. This change combined with a reduction in the assumed rate of return on to the long-term investments from 7.75% to 7.25% reduced the projected solvency period to 2030.

Prior to this change, the Board of Directors initiated several changes to the program effective January 1, 2017 (mid-FY17), to boost revenues, limit growth in healthcare costs and reduce its long-term liabilities. These changes included the elimination of its costliest pre-Medicare plan, migrating members in that plan to a lower costing and less generous plan, creating a value plan and adjusting the monthly premiums commensurate with the risk pools associated with each group. Also, the Board eliminated the 12.5% subsidy provided to retirees with multiple dependents, eliminated prescription drug coverage for medications available over the counter and establishing an open enrollment period for folks enrolling in the program outside of qualifying events as determined by IRS Section 125 guidelines.

Based on the leadership by the Board of Directors, the June 2017 solvency analysis revealed continued improvements to the financial condition of the agency including an extended solvency period through 2035, compared to 2030, despite the reductions in revenues received from the Taxation Administrative Suspense Fund and employee and employer contributions. These improvements are evidence of the Board's commitment to providing affordable healthcare benefits for public retirees, limiting growth in liabilities and extending the solvency of the program for future participants. This commitment was recently reinforced by the adoption of a 5-year strategic plan designed to limit the growth in long-term liabilities, increase funding to the program, improve the health outcomes of its membership, and evolve reimbursement methods for compensating health plan providers.

The solvency valuation indicates continued improvements to the financial outlook of the program, on a pay-as-you-go basis. However, the new standards associated with the updated GASB reporting requirement continue to indicate significant long-term challenges associated with the financing of retiree healthcare benefits.

FUTURE CHALLENGES

The Authority continues to face a significant number of challenges as the cost of providing health care continues to grow at a rate in excess of the growth from the available funding sources - specifically, limited growth in employee and employer contributions combined with cost trends related to providing prescription drug coverage to a retiree group.

ASSETS	
Interest in State General Fund Investment Pool	$ 18,204,202
Receivables	
Contributions - employers, employees and retirees	12,095,127
Due from other governments	2,395,181
Accounts receivable - rebates and Medicare Part D	2,239,668
Buy-in obligations receivable	184,689
Total receivables	16,914,665
Investments with State Investment Council	
Core Plus Bonds Pool	107,756,492
U.S. Large Cap Index Pool	119,944,383
Non U.S. Emerging Markets Index Pool	82,734,238
Non U.S. Developed Markets Index Pool	64,777,855
Private Equity Pool	61,434,563
Credit and Structured Finance Pool	56,324,016
Real Estate Pool	31,674,737
Absolute Return Pool	26,344,760
Small/Mid Cap Active Pool	16,319,355
Total investments	567,310,399
Capital assets, net of accumulated depreciation	1,902,855
Total assets	604,332,121
LIABILITIES	
Accounts payable	3,634,621
Payroll liabilities	66,767
Compensated absences	99,666
Reserve for loss and loss adjustment expense	20,619,000
Retiree premiums received in advance	443,426
Total liabilities	24,863,480
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 579,468,641

See Notes to Financial Statements.

New Mexico Retiree Health Care Authority
Statement of Changes in Plan Net Position
Year Ended June 30, 2017

ADDITIONS	
Contributions	
Retirees	$ 153,464,136
Employer	85,858,432
Employees	42,929,216
Employer buy-ins interest portion	19,014
Total contributions	282,270,798
Investment income	
Net appreciation in fair value of investments	67,652,455
Interest adjustment on State General Fund Investment Pool	107,240
Total investment income	67,759,695
Other	
Tax administration suspense fund revenue	28,306,468
Medicare Part D and rebates	26,944,632
Subrogation, refunds and miscellaneous	286,050
Total other	55,537,150
Total additions	405,567,643
DEDUCTIONS	
Premiums and claims paid	294,393,452
General and administrative expenses	2,936,860
Losses and loss adjustment accrual increase	1,042,000
Depreciation expense	184,153
Reversions to New Mexico State General Fund	16,888
Total deductions	298,573,353
NET INCREASE IN NET POSITION	106,994,290
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	
Beginning of year	472,474,351
End of year	$ 579,468,641

See Notes to Financial Statements.

Note 1 – Retiree Health Care Act Plan

The New Mexico Retiree Health Care Authority (the Authority) was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Retiree Health Care Fund (10-7C-1-19 NMSA 1978) which was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees. Employees of the Authority participate in the plan.

The Act created a governing Board of Directors (the Board) comprised of not more than 12 members. Membership of the Board includes the following:

1. One member who is not employed by or on behalf of, or contracting with, an employer participating in or eligible to participate in the New Mexico Retiree Health Care Act (10-7C-1 to 10 7C-19 NMSA 1978), and who shall be appointed by the Governor to serve at the pleasure of the Governor;

2. The director of the Educational Retirement Board (ERB) or the ERB director's designee;

3. One member to be selected by the Public School Superintendent's Association of New Mexico;

4. One member who shall be a teacher who is certified and teaching in elementary or secondary education to be selected by a committee composed of one person designated by the New Mexico Association of Classroom Teachers, one person designated by the National Education Association of New Mexico and one person designated by the New Mexico Federation of Teachers;

5. One member who shall be an eligible retiree of a public school and who shall be selected by the New Mexico Association of Retired Educators;

6. One member who shall be an eligible retiree of an institution of higher education participating in the Act and who shall be selected by the New Mexico Association of Retired Educators (the institutions of higher education do not currently have the requisite number of participants for board representation);

7. The executive secretary of the Public Employees' Retirement Association (PERA) or the PERA executive secretary's designee;

8. One member who shall be an eligible State government retiree and who shall be selected by the Retired Public Employees of New Mexico;

9. One member who shall be an elected official or employee of a municipality participating in the New Mexico Retiree Health Care Act to be selected by the New Mexico Municipal League;

Note 1 – Retiree Health Care Act Plan (continued)

10. One member who shall be an elected official or employee of a county participating in the Act to be selected by the New Mexico Association of Counties;

11. The State Treasurer or the State Treasurer's designee; and

12. One member who shall be a classified State employee selected by the Personnel Board in response to statutory amendment.

Every member of the Board serves at the pleasure of the party or parties that selected that member. The Board elects from its membership a president, vice president, and secretary.

The Board may enter into contracts or arrangements with consultants, professional persons or firms as may be necessary to carry out the provisions of the Act. Other legal duties of the Board are defined by Section 10-7C-7 of the Act.

The plan has 310 participating employers and 160,035 current members, including active employees, terminated eligible members, retirees, and surviving spouses. The following schedule summarizes the number of members enrolled in the plan as of June 30, 2017:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	160,035
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	97,349

The Authority operates and administers the plan from the following funds:

Administrative Fund (38000): Created by 10-7C-16 NMSA 1978. The purpose of this fund is to provide administrative support to carry out the purpose of the Benefit Fund and the Act. This fund is not financed by the general fund; it is financed by and reverts to the Benefit Fund (38100).

Benefit Fund (38100): Created by the Act (10-7C-1 to 10-7C-19 NMSA 1978). The purpose of this fund is to provide core group and optional healthcare and life insurance benefits for current and future retirees and their dependents as mentioned above.

The Authority is an independent agency of the State of New Mexico. The funds administered by the Authority are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. The Authority's financial information should be included with the financial presentation of the State of New Mexico.

Note 1 – Retiree Health Care Act Plan (continued)

The Authority has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of the Authority should be included within its financial reporting entity. The criteria include, but are not limited to, whether the Authority exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, management has determined that no other such entities should be included in its financial reporting entity. The Authority does not have any component units.

Because the Authority is a self-funded, mainly self-insured entity pursuant to Section 10-7C, NMSA 1978, the Authority is not construed to be transacting insurance activity otherwise subject to the laws of the State of New Mexico that regulate insurance companies and therefore, not subject to minimum statutory reserve requirements.

Employer and employee contributions to the Authority total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Authority.

Current retirees are required to make monthly contributions for individual basic medical coverage. The Board may designate other plans as "optional coverages." See section 10 7C-13 NMSA 1978 for more details.

Note 2 –Summary of Significant Accounting Policies

Basis of accounting – The Authority's financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus is used for all assets, deferred outflows, liabilities, deferred inflows, revenues, expenses, gains and losses. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recorded at the time liabilities are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Note 2 –Summary of Significant Accounting Policies (continued)

Interest in State General Fund Investment Pool – Interest in State General Fund Investment Pool include the Authority's pro rata share of liquid internal investment pools to include cash on deposit held by the New Mexico State Treasurer. Deposits with the State Treasurer are required to be collateralized at a minimum level of 50%. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits and the market value of purchased investments. The only checking account is a zero balance lock box depository at the State Fiscal Agent and monies are transferred daily to the State Treasurer.

Accounts receivable and employer buy-ins – Accounts receivable derived from employers and participants consist of amounts due from employers and for contributions relating to payrolls paid prior to June 30, 2017 and amounts due from retirees for monthly premiums. Advance premiums from retirees are recorded as unearned revenues.

Qualified employers previously declining participation may elect to buy-in under 10-7C-1 NMSA 1978. Upon meeting requirements and approval, the organization will pay a determined amount to compensate the Authority and other participants for prior periods of nonparticipation and for additionally incurred liabilities. Payments can be lump sum or on the installment method for up to thirteen years and are in addition to regular monthly contributions.

Investments – The Authority accounts for its investments in accordance with GASB No. 40, Deposit and Investment Risk Disclosures (GASB 40) and GASB No. 72, Fair Value Measurement and Application (GASB 72). Please refer to the financial statements of the State Investment Council and the State Treasurer's office for full disclosures, including security credit ratings for investment assets that conform to GASB 40 requirements.

Capital assets – Acquisitions of property and equipment and improvements and replacements of equipment with an initial individual cost of at least $5,000 (per Section 12-6-10 NMSA 1978) and an estimated useful life in excess of one year are capitalized at cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets. The useful lives are ten years for furniture and office equipment and three to seven years for computer equipment.

Income taxes – The Authority provides an essential governmental function to its participants as described in Section 115 of the Internal Revenue Code (the Code) and therefore considers the organization exempt from federal income taxes pursuant to the Code.

Net position restricted for postretirement benefits other than pensions – The plan's net position and State of New Mexico pension tax revenue are restricted to provide for payment of claims and premiums in future years and to continue to provide health benefits to eligible retirees. All fiduciary funds revenue, including pension tax, is held in trust for qualified retirees. These funds are not available to the State of New Mexico for appropriation for other purposes. The restrictions on the plan net position are deemed to be legally enforceable under GASB standards. When restricted and unrestricted resources are available for the same purpose, it is the policy of the Authority to first apply the unrestricted resources.

Note 2 –Summary of Significant Accounting Policies (continued)

Program revenue – Program revenue shown on the accompanying statement of changes in fiduciary net position consists primarily of contributions received from retirees, employers and employees including amounts received and accrued from employer buy-ins. Operating revenue is distinguished from non-operating revenue by considering the core purpose of the Authority to provide comprehensive group health insurance. As a result, contributions received from participants are considered operating revenues.

Budgetary process and budgetary basis of accounting – The Authority prepares its budget on the accrual basis except that investment gains and losses and changes in incurred, but not reported claim expenses are not budgeted. Depreciation and investment income are not budgeted. An operating budget is submitted annually for approval to the Budget Division of the Department of Finance and Administration (DFA) and reviewed by the Legislative Finance Committee. The Authority submits two budgets reflecting the Health Benefits Administration Fund and Program Support Fund. The legal level of budgetary control is at the functional level. Budget Adjustment Requests must be reviewed by the Department of Finance and Administration. Administrative line item expenditures may legally exceed amounts budgeted; however, the total budget category expenditures may not legally exceed approved budget category amounts.

Use of estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Upcoming accounting pronouncement – GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75) establishes new accounting and financial reporting requirements for governments whose employees are provided with postretirement benefits other than pensions. This statement applies to government employers who provide OPEB plans to their employees and retirees and supersedes GASB No. 45. GASB 75 establishes standards for recognizing and measuring OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expenses. GASB 75 is effective for fiscal years beginning after June 15, 2017. While GASB 75 will not directly affect the Authority's financial reporting, the Authority will be in a position to assist the plan's participating employers with the implementation of this new standard.

Net OPEB liability – The net OPEB liability and the plan's actuarial valuation were calculated by the Authority's independent actuary as of June 30, 2017. The plan's valuation and measurement of the total OPEB liability and related net OPEB liability were performed in accordance with GASB 74 requirements at the request of the Authority.

Net pension liability and related pension amounts – The State of New Mexico has implemented GASB No. 68, Accounting and Financial Reporting for Pensions.

Note 2 –Summary of Significant Accounting Policies (continued)

The Authority, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by PERA. Overall, total pension liability exceeds plan net position, resulting in a net pension liability. The State of New Mexico has determined the State's proportionate share of the net pension liability is a liability of the State of New Mexico as a whole, and the net pension liability or other pension amounts will not be reported in the department or agency level of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred outflows and inflows of resources of the primary government are included in the State of New Mexico's CAFR and will be available when issued from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico 87501.

Note 3 – Interest in State General Fund Investment Pool

Contributions and other funds received by the Authority are held by the New Mexico State Treasurer and pooled with the State General Fund Investment Pool. The Authority can withdraw its funds from the State Treasurer as needed and therefore considers them to be cash equivalents. All earnings on deposits are retained by the State General Fund; therefore, from the Authority's perspective, the cash balances are non-interest bearing and stated at cost. Money deposited by the Authority with the State Treasurer is pooled and invested by the State Treasurer. The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the $250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institutions operating results and capital. Collateral for the fiscal account is required in amounts equal to 50% of the average investment balance. To obtain pledged collateral, investment risk, and insurance coverage information for the Department's State Treasurer deposits, a copy of separately issued financial statements can be obtained from the State Treasurer's Office. All collateral is held in third-party safekeeping.

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items was unknown. The report dated June 20, 2012 is available on the website of the New Mexico DFA at http://www.nmdfa.state.nm.us/Cash_Control.aspx.

Note 3 – Interest in State General Fund Investment Pool (continued)

By state statute, the DFA is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

The Authority employs cash management practices and techniques to monitor and verify the Authority's cash position. The cash management processes of the Commission include; regular monitoring of the agency's share of the General Fund Investment Pool (GFIP) reflected by DFA/FCD in the SHARE accounting system, monthly reconciliation of all cash activities to the GFIP balance and full book-to-bank reconciliations, effective internal controls over authorized cash related activities, and utilization of effective cash forecasting methods, Through the design and implementation of procedures noted above, the Authority has determined there has been no material impact to its interest in the Pool.

The fair value of the cash and cash equivalents maintained in the Pool with the New Mexico State Treasurer's Office as of June 30, 2017 is as follows:

Fund	SHARE Fund No.	Balance
Benefits Fund	38100	$ 18,081,384
Administrative Fund	38000	122,818
Total interest in State General Fund Investment Pool		$ 18,204,202

Note 3 – Interest in State General Fund Investment Pool (continued)

This Pool represents cash and short-term investments. The State Treasurer invests excess cash balances on behalf of certain earmarked funds of state agencies identified by State statute and local governments. Interest earnings are distributed based on average outstanding cash balances for local governments and the state agencies where interest is allowed to be earned. All other interest earnings are transferred to the State General Fund. Currently, there are no limitations or restrictions on withdrawals on the investment in the Pool.

Credit Risk and Interest Rate Risk– The New Mexico State Treasurer pools are not U.S. Securities and Exchange registered. The State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(I) though 6-10-10(O) and Sections 6-10-10(1)(A) and (E) NMSA 1978. At the end of each month, all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and length of time the funds amounts were invested. The end of the fiscal year credit risk rating and the weighted average maturity (interest risk in number of days) is available on the State Treasurer's Website at www.nmsto.gov. Participation in the local government pool is voluntary.

Note 4 – Receivables

The Authority receives contributions monthly from employers who remit the employer and the employee portions. Contributions are statutory, based on the gross payroll reported by each employer for the month. Because gross payroll can change in any month, the Authority does not bill the participating employers but depends on monthly reporting and contributions remitted from employers. Accounts receivable also includes amounts to be received for Medicare Part D. There is no allowance for uncollectible receivables recorded as of June 30, 2017, as management deems any uncollectible amounts as immaterial.

As of June 30, 2017, the buy-in receivable includes a note from the City of Rio Rancho totaling $184,689. The obligation is receivable monthly over 13 years at 7.5% interest, maturing January 31, 2019. The current and long-term portions are $114,257 and $70,432, respectively.

Revenue is transferred from the New Mexico Taxation and Revenue Department in accordance with NMSA 1978, Section 7-1-6.30 and NMSA 1978, Section 7-1-6.56. Monies are transferred on the month following the month due and any amount due to the Authority that is not received by June 30 is accrued. Transfers from the New Mexico Taxation and Revenue Suspense Fund are based on an additional amount of $3 million per year with a 12% per annum increase of carryforward contribution amounts beginning July 1, 2002. However, current year legislation altered the law governing this appropriation and removed the $3 million per year and froze the 12% annual increases until July 1, 2019. For the year ended June 30, 2017, revenues totaled $28,306,468. As of June 30, 2017, amounts due from other governments consist of balances due from Taxation and Revenue Department totaling $2,188,018 and accrued reversions receivable from the Benefits Fund totaling $207,163.

Note 5 – Investments and Fair Value Measurements

The Authority maintains a joint powers agreement with the New Mexico State Investment Council (NMSIC) to provide investment services in accordance with guidelines listed in the Authority's Investment Policy. The Authority monies are invested in accordance with the NMSA Section 6-8-9. NMSIC issues a separate, publicly available financial report that includes financial statements and required supplementary information.

The Authority's Board of Directors has adopted an investment allocation policy. The Board is authorized to review and amend the investment allocation policy from time to time to meet the Authority's long term objective. Investments are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status.

The following schedule summarizes the current investment allocation policy as of June 30, 2017:

Asset Class	Target Allocation
U.S. core fixed income	20%
U.S. equity - large cap	20%
Non U.S. - emerging markets	15%
Non U.S. - developed equities	12%
Private equity	10%
Credit and structured finance	10%
Real estate	5%
Absolute return	5%
U.S. equity - small/mid cap	3%
	100%

The Authority accounts for its investments in accordance with GASB No. 72, Fair Value Measurement and Application, which establishes fair value standards for certain investments held by governmental entities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments are measured at fair value on a recurring basis which is based upon the Authority's share of NMSIC's pooled investments. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Note 5 – Investments and Fair Value Measurements (continued)

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used as of June 30, 2017.

The Authority invests in a number of investment pools offered by the NMSIC. Each pool is comprised of units of participation of unlimited quantity. The pools are held in NMSIC's name. No unit in the pool has priority or preference over any other unit and represents an equal beneficial interest in the pool. The valuation the Authority's units in the investment pool is provided by the NMSIC on a monthly basis and represents the fair market value as of that date. Therefore, management has determined that all the investments are measured at Net Asset Value as a practical expedient (NAV practical expedient).

The table below summarizes the investments valued at NAV practical expedient and other pertinent liquidity information:

Investments Measured at NAV Practical Expendient	Fair Value June 30, 2017	Redemption Frequency	Redemption Notice Period
Core Plus Bonds Pool	$ 107,756,492	Daily	5 business days
U.S. Large Cap Index Pool	119,944,383	Daily	5 business days
Non U.S. Emerging Markets Index Pool	82,734,238	Daily	5 business days
Non U.S. Developed Markets Index Pool	64,777,855	Daily	5 business days
Private Equity Pool	61,434,563	Twice per year	9 months
Credit and Structured Finance Pool	56,324,016	4 times per year	3 months
Real Estate Pool	31,674,737	Twice per year	6 months
Absolute Return Pool	26,344,760	4 times per year	3 months
Small/Mid Cap Active Pool	16,319,355	Daily	5 business days
	$ 567,310,399		

The U.S. Core Plus Bonds Pool is managed by three managers outside the NMSIC and invests in all major segments of the broad investment-grade debt obligation markets. The main objective of this pool is achieving the rate of return of the Barclay's Capital Universal Bond Index. This pools seeks to provide preservation of capital and income generation. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

The U.S. Large Cap Index Pool is a passively managed portfolio and seeks to invest in US equities with large market capitalizations. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

Note 5 – Investments and Fair Value Measurements (continued)

The Non-U.S. Emerging Markets Index Pool is a passively managed portfolio benchmarked against the MSCI Emerging Market Free Index and invests in emerging market equities around the globe. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

The Non-U.S. Developed Markets Active Pool is actively managed by four investment managers (each focused on large-cap value, large-cap core, large-cap growth, and small-cap value). The pool is benchmarked against the MSCI EAFE Index. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

The Credit & Structured Finance Pool invests in various classes of fixed income securities oriented toward credit. The role of this pool is to provide growth of capital and income generation. The pool is managed by investment managers outside the NMSIC. NMRHCA is allowed to redeem this investment four times per year but not less than one month since the last redemption. Notice of Intent to redeem is required three months in advance. There is a 12-month lockup period on this investment class.

The Real Estate Pool contains open- and closed-end comingled real estate funds, dominated by stable, core real estate properties. The pool's objective is to match the rate of return on the NCREIF-ODCE index, plus a small premium from active management. The pool seeks to provide modest growth of capital, income generation, and provide diversification from equities and fixed income investment pools. Redemption notices are required six months in advance and are only allowed twice per year. The redemptions cannot occur within three months of each other. There is an 18-month lockup period on this investment class.

The Private Equity Pool contains more than 100 private equity funds diversified across the different sectors of private equity and seeks to provide a higher rate of return than the Venture Economics All Private Equity Index. The pool's main goal is to provide growth of capital. There is a 24-month lockup period on this investment class with 9-month Notice of Intent to redeem. Redemptions are allowed twice a year and no less than three months apart.

The Absolute Return Pool consists of direct investments in a pool of hedge fund managers. Their strategies may be either equity market or fixed income oriented. The pool's main objective is to outperform the Credit Suisse Hedge Fund Index with a goal to provide long-term risk-adjusted returns. NMRHCA may redeem the investment four times per year but not less than one month from the last redemption. Notice of Intent is required three months in advance and there is a 12-month lockup period.

The U.S. Small/Mid Cap Index Pool is passively managed in comparison to the Russell 2000 Index portfolio. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

Note 5 – Investments and Fair Value Measurements (continued)

The investment and administrative fees are deducted from the ending investment account balance on a monthly basis in accordance with the joint powers agreement. For the year ended June 30, 2017, the annual money-weighted rate of return on the Authority's investments, net of related investment expenses, was 13.98%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 – Capital Assets

A summary of capital asset balances and activity during the year ended June 30, 2017 is as follows:

Description	Balance at June 30, 2016	Additions	Deletions	Transfers	Balance at June 30, 2017
Furniture and equipment	$ 180,978	$ 12,801	$ -	$ -	$ 193,779
Information technology	-	-	-	2,031,450	2,031,450
Software in development	2,031,450	-	-	(2,031,450)	-
	2,212,428	12,801	-	-	2,225,229
Accumulated depreciation	(138,223)	(184,153)	-	-	(322,376)
	$ 2,074,205	$ (171,352)	$ -	$ -	$ 1,902,853

Depreciation expense totaled $184,153 for the year ended June 30, 2017 of which $10,479 of depreciation was allocated to Administrative Fund while $173,674 was allocated to Benefits Fund.

Note 7 – Accrued Vacation and Sick Leave

Accumulated vacation, compensating time and sick leave earned and not taken are recorded as an expense in the current year. Vacation earned and not taken is cumulative; however, upon termination, vacation is limited to 240 hours (30 days). Sick pay accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50% of the employee's hourly wage.

Balance June 30, 2016	Leave Accrued	Leave Used	Balance June 30, 2017	Amount Due Within One Year
$ 90,301	$ 80,725	$ (71,360)	$ 99,666	$ 74,889

Note 8 – Reserve for Losses and Loss Adjustments

The amount shown on the accompanying statement of fiduciary net position as reserve for losses and loss adjustment expenses is an actuarially calculated estimate of the ultimate costs of settling all incurred, but not reported claims as of June 30, 2017, while the amount shown on the accompanying statement of changes in fiduciary net position as losses and loss adjustment expenses represents the change in this estimate during the year ended June 30, 2017. These reserves represent, in management's opinion, the best estimate of the ultimate cost of settling all reported and unreported claims. A range of variability exists around the best estimate of the ultimate cost of settling all unpaid claims. Accordingly, the amount reflected in the accompanying financial statements may not ultimately be the actual cost of settling all unpaid claims and the difference may be significant.

As of June 30, 2017, the estimated claims liability for claims incurred but not reported (IBNR) totaled $20,619,000. This estimated liability represents liability for outstanding claims for services rendered prior to July 1, 2017 and paid after June 30, 2017.

Note 9 – Net OPEB Liability

The components of the net OPEB liability of the Authority as of June 30, 2017 are as follows:

	June 30, 2017
Total OPEB liability	$ 5,111,141,659
Plan fiduciary net position	579,468,641
Net OPEB liability	$ 4,531,673,018
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Amortization method	30-year open-ended amortization, level percent of payroll
Remaining amortization period	30 years as of June 30, 2016
Asset valuation method	Market value of assets

Note 9 – Net OPEB Liability (continued)

Actuarial assumptions:	
Inflation	2.50% for ERB; 2.25% for PERA
Projected payroll increases:	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate:	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions. The best estimates for the long-term expected rate of return is summarized as follows:

Asset Class	Long-term Rate of Return
U.S. core fixed income	4.1%
U.S. equity - large cap	9.1
Non U.S. - emerging markets	12.2
Non U.S. - developed equities	9.8
Private equity	13.8
Credit and structured finance	7.3
Real estate	6.9
Absolute return	6.1
U.S. equity - small/mid cap	9.1

The discount rate used to measure the total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates.

For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus 3.81% is the blended discount rate.

Note 9 – Net OPEB Liability (continued)

The following presents the net OPEB liability, calculated using the discount rate of 3.81%, as well as what the Fund's net OPEB liability would be if it were calculated using a discount rate that is 1-percent lower or 1-percent higher than the current rate:

1% Decrease (2.81%)	Current Discount (3.81%)	1% Increase (4.81%)
$ 5,496,848,763	$ 4,531,673,018	$ 3,774,405,896

Note 10 – Pension Plan (Public Employees Retirement Plan)

Plan description – Substantially all of the Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). PERA is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123 or on PERA's website at www.pera.state.nm.us.

Funding policy – Plan members are required to contribute 8.92% of their gross pay. The Authority is required to contribute 16.99% of gross covered salary. The contribution requirements of plan members and the Authority are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. The Authority's contributions to PERA for the year ended June 30, 2017 totaled $218,132, equal to the amount of the required contribution for the year.

Note 11 – Post–Employment Benefits (State Retiree Health Care Plan)

Plan description – The Authority, as an employer, contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Authority. The Authority provides healthcare insurance and prescription drug benefits to retired employees of participating employers, their spouses, dependents, and surviving spouses and dependents. The Authority's Board was established by the Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during the period of time made contributions as a participant in plan on the person's behalf, unless that person retires before the employer's effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

Note 11 – Post–Employment Benefits (State Retiree Health Care Plan) (continued)

The Authority issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the New Mexico Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding policy – The Act authorizes the Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service-based subsidy rate schedule for the medical, plus basic life plan, plus an additional participation fee of five dollars ($5) if the eligible participant retired prior to the employer's effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the Authority or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to the Authority on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the fund in the amount determined to be appropriate by the Board.

The Act is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced plan during the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2% of each participating employee's annual salary; each participating employee was required to contribute 1% of their salary. In addition, pursuant to Section 10-7C- 5(G) NMSA 1978, at the first session of the Legislature following July 1, 2014, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Act.

The Authority's contributions to the plan for the year ended June 30, 2017 totaled $25,675, which equals the required contributions for the year.

Note 12 – Joint Powers Agreements

The Authority has entered into two joint powers agreements:

1. An agreement exists between the Authority and the New Mexico State Investment Council (NMSIC) under which, NMSIC acts as the investment manager of the Retiree Health Care Fund for the Authority and will invest the Authority's long-term reserves and provide services in accordance with the guidelines provided in the Authority's Investment Policy. The agreement was effective June 25, 1992, renewed December 8, 2011, and continues in force until terminated by either party upon 30 days' written notice to the other party.

   The funds under management are invested by NMSIC in accordance with the provision of NMSA 1978, Sections 6-8-1 through 6-8-16. Fees charged for investment services are netted from investment income provided by the Authority on a monthly basis.

   The Authority's policy determines the amount to invest with NMSIC. The Authority maintains ownership of all securities and cash balances on deposit in the Authority's accounts at the New Mexico State Treasurer's Office, the fiscal agent bank and the custodial bank. The Authority is responsible for all audits performed relating to its financial records, including all investment transactions.

2. An agreement exists among the Authority, New Mexico Public Schools Insurance Authority, Albuquerque Public Schools, and the State's Risk Management Division of the General Services Department (collectively, the Interagency Benefits Advisory Committee). The purpose is to authorize the parties to exercise their common powers to provide and administer health care insurance programs, and to implement the purposes of the Health Care Purchasing Act. Each agency acts as its own fiscal agent for cost purposes. The agreement was effective March 15, 1999, and continues in force until terminated by any party upon 90 days' written notice to the other parties.

Note 13 – Optional Coverages

The Authority offers eligible retirees voluntary coverages: two dental plans, a vision plan, and supplemental life. The plans are a pay-all basis by the retiree, whereby the retiree pays monthly for the entire premium for any optional coverages opted for and the Authority in turn pays the optional plan provider the monies collected from the retiree. Therefore, the revenue generated through the collection of optional premium dollars by the Authority is a direct dollar-for-dollar pass through to the providers of optional coverages. Revenues are recorded as retiree contributions and expenses are recorded as premiums in the financial statements.

Note 14 – Legally Required Reserves

There is no stated monetary reserve requirement. Under Section 10-7C-8, the Authority's Board is charged with determining what is to make up the long-term reserves. Those long-term reserves are to be placed in investments pursuant to Section 6 8-1 through 6-8-16 NMSA 1978.

Note 15 – Commitments and Contingencies

The Authority is subject to various legal proceedings, claims and liabilities that arise in the ordinary course of the operations, including personnel matters. In the opinion of the Authority's management and legal counsel, the ultimate resolution of such matters will not have material adverse impact on the financial position or results of operations of the Authority.

The Authority is exposed to various risks of loss for which the Authority carries insurance (Auto; Employee Fidelity Bond; General Liability; Civil Rights and Foreign Jurisdiction; Money and Securities; Property; and Workers' Compensation) with the State of New Mexico Risk Management Division (RMD). The Authority pays premiums to participate in the State Insurance Program. Coverages are designed to satisfy the requirements of the State tort claims. Also, any claims are processed through RMD. There are no pending or threatened legal proceedings at year-end.

In June 2016, the Authority entered into several service contracts with health care providers. The total amount of these contracts approximates $300,000,000 for costs expected for fiscal year 2017.

The Authority's main office leases its office space at 4308 Carlisle NE in Albuquerque for a ten-year period ending September 2020. The Authority also leases office space under a two-year lease inside the PERA (a related party) building located at 33 Plaza La Prensa in Santa Fe. The PERA building lease expires in September 2017 with an option to renew for an additional three years. The Authority has a four-year equipment lease for two mailing machines through October 30, 2019 and a copier lease for two machines through February 5, 2019. All leases are operating leases. Lease expenses totaled $118,848 for the year ended June 30 2017.

Future minimum operating lease commitments are as follows for years ending June 30:

2018	$ 124,810
2019	122,558
2020	115,259
2021	28,272
	$ 390,899

Note 16 – Operating Transfers

The following operating transfers occurred between the Authority's functional activities during the year ended June 30, 2017:

	Benefits 38100 From (To)	Administration 38000 From (To)
Administration appropriation	$ (3,118,300)	$ 3,118,300
Reversion of administration	207,163	(207,163)
	$ (2,911,137)	$ 2,911,137

The purpose of the transfers was to fund appropriations, to revert unused appropriations between funds, and was made on a routine basis.

Note 17 – Appropriations, Budget Adjustments and Reversions

The Authority submits annually for approval an Administrative Budget Request as part of the operating budget. The DFA and the Legislative Finance Committee (LFC) reviews the request and the Legislature takes action to approve and/or amend the Authority administrative request. Appropriated amounts are then transferred into the Administrative Fund from the Benefits Funds. Unused appropriations from the Benefits Fund to the Administration Fund, if any, revert back to the Benefits Fund, but unused appropriations from the State General Fund to the Discount Prescription Drug Program Fund do not generally revert back to the State General Fund per 10-7C-18 NMSA 1978. During the year ended June 30, 2017, balances totaling $16,888 were reverted from the Discount Prescription Drug Program Fund to the State General Fund.

The Authority recorded a $3,118,300 appropriation from the Benefits Fund to the Administration Fund for fiscal year 2017 (Laws 2015, Chapter 101, Section 4). As of June 30, 2017, reversions totaling $207,163 are accrued from the Benefits Fund.

Required Supplementary Information

New Mexico Retiree Health Care Authority
Schedule of Revenues and Expenses – Budget and Actual: Administrative Fund
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Investment income	$ -	$ -	$ 222,988	$ (222,988)
Total revenues	-	-	222,988	(222,988)
EXPENSES				
Personal services/employee benefits	1,949,800	1,949,800	1,850,223	99,577
Contractual services	624,400	624,400	550,937	73,463
Other	544,100	544,100	496,890	47,210
Total expenses	3,118,300	3,118,300	2,898,050	9,134,650
TRANSFERS				
Transfers in - Intra agency from SHARE 38100	3,118,300	3,118,300	3,118,300	-
Transfers out - Intra agency to SHARE 38100 - reversion	-	-	(207,163)	207,163
Total transfers	$ 3,118,300	$ 3,118,300	$ 2,911,137	$ 207,163
NET CHANGE (budgetary basis)			$ 236,075	
Depreciation			(10,479)	
NET CHANGE (GAAP basis)			$ 225,596	

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Retiree contributions	$ 149,160,400	$ 149,160,400	$ 153,464,136	$ (4,303,736)
Employer/employee contributions	103,776,900	103,776,900	128,806,662	(25,029,762)
Pension taxes	32,406,900	32,406,900	28,306,468	4,100,432
Investment income	13,400	13,400	103,193	(89,793)
Miscellaneous revenue	27,692,100	27,692,100	27,230,682	461,418
Total revenues	313,049,700	313,049,700	337,911,141	(24,861,441)
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	309,883,400	309,883,400	294,393,452	15,489,948
Other	48,000	48,000	38,810	9,190
Total expenses	309,931,400	309,931,400	294,432,262	914,295,062
TRANSFERS				
Transfers in - Intra agency from SHARE 38000 - reversion	-	-	207,163	207,163
Transfers out - Intra agency to SHARE 38000	(3,118,300)	(3,118,300)	(3,118,300)	-
Total transfers	$ (3,118,300)	$ (3,118,300)	$ (2,911,137)	$ 207,163
NET CHANGE (budgetary basis)			$ 40,567,742	
Depreciation			(173,674)	
Gain on investments excluding interest			67,433,514	
Change in IBNR liability			(1,042,000)	
NET CHANGE (GAAP basis)			$ 106,785,582	

New Mexico Retiree Health Care Authority
Schedule of Changes in the Net OPEB Liability
Year Ended June 30, 2017

TOTAL OPEB LIABILITY	
Service Cost	$ 265,229,268
Interest	187,563,383
Differences between expected and actual experience	(210,435,519)
Changes in assumptions	(958,756,001)
Claims and premiums	(294,107,402)
Retiree's contributions offset to claims and premiums	153,464,136
Medicate Part D and rebates offset to claims and premiums	26,944,632
NET CHANGE IN TOTAL OPEB LIABILITY	(830,097,503)
TOTAL OPEB LIABILITY - BEGINNING	5,941,239,162
TOTAL OPEB LIABILITY - ENDING (a)	5,111,141,659
PLAN FIDUCIARY NET POSITION	
Contributions - employee and retiree	196,393,352
Contributions - employer	85,858,432
Net investment income	67,759,695
Other revenue	55,556,164
Claims and premiums paid	(294,393,452)
Administrative expenses	(4,179,901)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	106,994,290
PLAN FIDUCIARY NET POSITION - BEGINNING	472,474,351
PLAN FIDUCIARY NET POSITION - ENDING (b)	579,468,641
NET OPEB LIABILITY (a) - (b)	$ 4,531,673,018
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY	11.34%
COVERED-EMPLOYEE PAYROLL	4,165,647,340
NET OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	108.79%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years with available

Year Ended June 30,	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contributions Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$ 317,546,941	$ 159,379,195	$ 158,167,746	$ 4,165,647,340	3.83%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years with available information.

Actuarial methods and assumptions used:

Actuarial cost method	Entry age, level percent of pay
Amortization method	Level percent of payroll
Remaining amortization period	30 years open (non-decreasing)
Asset valuation method	Market value of assets
Actuarial assumptions	
Investment rate of return	7.25%
Inflation rate	3.00%
Salary increases	0.50%-0.75%

New Mexico Retiree Health Care Authority
Schedule of Annual Money-Weighted Rate of Return
Year Ended June 30, 2017

Year Ended June 30,	Annual Money - Weighted Rate Of Return
2017	13.98%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years with available information.

Supplementary Information

New Mexico Retiree Health Care Authority
Combining Schedule of Fiduciary Net Position by Functional Activity
June 30, 2017

	Benefits 38100	Administration 38000	Eliminations	Total
ASSETS				
Interest in State General Fund Investment Pool	$ 18,081,384	$ 122,818	$ -	$ 18,204,202
Receivables				
Contributions - employers, employees and retirees	12,095,127	-	-	12,095,127
Due from other governments	2,395,181	-	-	2,395,181
Accounts receivable - rebates and Medicare Part D	2,239,668	-	-	2,239,668
Buy-in obligations receivable	184,689	-	-	184,689
Due from other funds	207,163	-	(207,163)	-
Total receivables	17,121,828	-	(207,163)	16,914,665
Investments with State Investment Council				
Core Plus Bonds Pool	107,392,667	363,825	-	107,756,492
U.S. Large Cap Index Pool	119,539,406	404,977	-	119,944,383
Non-U.S. Emerging Markets Index Pool	82,454,897	279,341	-	82,734,238
Non U.S. Developed Markets Index Pool	64,559,141	218,714	-	64,777,855
Private Equity Pool	61,227,138	207,425	-	61,434,563
Credit and Structured Finance Pool	56,133,846	190,170	-	56,324,016
Real Estate Pool	31,567,792	106,945	-	31,674,737
Absolute Return Pool	26,255,811	88,949	-	26,344,760
Small/Mid Cap Active Pool	16,264,255	55,100	-	16,319,355
Total investments	565,394,953	1,915,446	-	567,310,399
Capital assets, net of accumulated depreciation	1,868,934	33,921	-	1,902,855
Total assets	602,467,099	2,072,185	(207,163)	604,332,121
LIABILITIES				
Accounts payable	3,550,880	83,741	-	3,634,621
Payroll liabilities	3	66,764	-	66,767
Compensated absences	-	99,666	-	99,666
Reserve for loss and loss adjustment expense	20,618,997	3	-	20,619,000
Retiree premiums received in advance	443,426	-	-	443,426
Due to other funds	-	207,163	(207,163)	-
Total liabilities	24,613,306	457,337	(207,163)	24,863,480
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 577,853,793	$ 1,614,848	$ -	$ 579,468,641

New Mexico Retiree Health Care Authority
Combining Schedule of Changes in Fiduciary Net Position by Functional Activity
Year Ended June 30, 2017

	Benefits 38100	Administration 38000	Discount Prescription 81000	Eliminations	Total
ADDITIONS					
Contributions					
Retiree	$ 153,464,136	$ -	$ -	$ -	$ 153,464,136
Employer/employee	128,787,648	-	-	-	128,787,648
Employer buy-ins interest portion	19,014	-	-	-	19,014
Total contributions	282,270,798	-	-	-	282,270,798
Investment income					
Net appreciation in fair value of investments	67,433,514	218,941	-	-	67,652,455
Interest	103,193	4,047	-	-	107,240
Total investment income	67,536,707	222,988	-	-	67,759,695
Other					
Taxation administration suspense fund reven	28,306,468	-	-	-	28,306,468
Medicare Part D and rebates	26,944,632	-	-	-	26,944,632
Subrogation, refunds and miscellaneous	286,050	-	-	-	286,050
Total other	55,537,150	-	-	-	55,537,150
Total additions	405,344,655	222,988	-	-	405,567,643
DEDUCTIONS					
Premiums and claims	294,393,452	-	-	-	294,393,452
General and administrative expenses	38,810	2,898,050	-	-	2,936,860
Losses and loss adjustment expenses	1,042,000	-	-	-	1,042,000
Reversion to State General Fund	-	-	16,888	-	16,888
Depreciation	173,674	10,479	-	-	184,153
Total deductions	295,647,936	2,908,529	16,888	-	298,573,353
Transfers in (out), net	(2,911,137)	2,911,137	-	-	-
NET CHANGE	106,785,582	225,596	(16,888)	-	106,994,290
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS					
Beginning of year	471,068,210	1,389,253	16,888	-	472,474,351
End of year	$ 577,853,792	$ 1,614,849	$ -	$ -	$ 579,468,641

Other Information

New Mexico Retiree Health Care Authority
Combining Schedule of General and Administrative Expenses by Functional Activity
Year Ended June 30, 2017

	Benefits 38100	Administration 38000	Total
GENERAL AND ADMINISTRATIVE EXPENSES			
Professional services	$ -	$ 1,311,149	$ 1,311,149
Employee benefits	-	539,074	539,074
Operating costs	38,810	449,256	488,066
Contractual services	-	550,937	550,937
Repairs and maintenance	-	1,966	1,966
Supplies	-	26,109	26,109
In-state travel	-	17,004	17,004
Out-of-state travel	-	2,555	2,555
	$ 38,810	$ 2,898,050	$ 2,936,860

New Mexico Retiree Health Care Authority
Combining Schedule of State General Fund Investment Pool
Year Ended June 30, 2017

	Benefits 38100	Administration 38000	Total
INVESTMENT BALANCES PER DFA			
New Mexico State Treasurer			
Share Fund 34300-38100	$ 18,081,384	$ -	$ 18,081,384
Share Fund 34300-38000	-	122,818	122,818
	$ 18,081,384	$ 122,818	$ 18,204,202

New Mexico Retiree Health Care Authority
Schedule of Appropriations
Year Ended June 30, 2017

Description	Authority	Appropriation Period	Share Fund	Total Appropriation	Prior Year Expenditures	Current Year Expenditures	Current Year Reversion Amount
Program support for Administrative Fund	Laws 2016 House Bill 2, Chapter 101 Section 4	2017	38000	$ 3,118,300	$ -	$ 2,911,137	$ 207,163

According to 10-7C-16 NMSA 1978, funds to administer the New Mexico Retiree Health Care Act are to be made by an operating budget adopted by the Board, adopted by the State Budget Division, and pursuant to appropriation by the Legislature. The appropriated amounts to SHARE Fund 38000 are recorded as transfers between Benefit Fund (38100) and the Administrative Fund (38000). See Note 20. Unexpended amounts under the special appropriation are not recognized until all eligibility requirements have been fulfilled under the appropriation including the expenditure of allowable amounts.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
New Mexico Retiree Health Care Authority
Mr. Wayne A. Johnson
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of fiduciary net position and changes in fiduciary net position of New Mexico Retiree Health Care Authority (the Authority), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002. The Authority's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
November 21, 2017

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted?	No

FINANCIAL STATEMENT FINDINGS

2017-001 – Census Data (Other Matter)

Condition – The Plan does not have formal policies and procedures to monitor and ensure the completeness and accuracy of the employee information received from participating employers.

Criteria – Management of an OPEB plan is responsible for the preparation and fair presentation of the financial statements, including completeness and accuracy of the census data. This includes the design, implementation, and maintenance of processes and controls to ensure the census data is complete and accurate.

Effect – Census data was provided to actuary without any verification of the completeness or accuracy of the data. Incomplete or inaccurate census data can lead to misstatements in the net OPEB liability.

Cause – Management relies on the controls of New Mexico Public Employees Retirement Association (PERA) and New Mexico Educational Retirement Board (ERB) retirement plans to ensure that relevant employee census data is complete and accurate.

Recommendation – We recommend management implement procedures to gain access to the census data and document steps used to ascertain that the information is complete. Alternatively, management should monitor the census data provided by PERA and ERB and understand the existence and effectiveness of internal controls at PERA and ERB to ensure that employee data provided to the Authority's actuary and claims providers is complete and accurate.

Management Response – The Authority concurs with this recommendation and will review the census data from each of the contributing pension groups prior to submission to actuary. This census data will be reviewed before September 15th of each year in coordination with PERA and ERB staff.

2017-002 Claims Processing and Eligibility (Other Matter)

Condition – The Authority does not perform timely reviews of certain information prepared by the third-party service providers and reviews of service organization control reports (SOC 1 reports) provided by service providers to monitor the existence and effectiveness of internal controls at those organizations.

Criteria – Management of an OPEB plan is responsible for the preparation and fair presentation of the financial statements, including the processing of claims and determination of eligibility. The Authority has a fiduciary responsibility to its members to ensure that claims are processed accurately for eligible retirees and surviving spouses and that personal information is safeguarded.

Effect – Management does not have sufficient monitoring controls over the third party administrators' processing claims, including the determination of eligibility of the claim and monitoring of internal controls.

Cause – Management relies on their third party administrators to ensure the claims are processed correctly and are eligible.

Recommendation – We recommend management implement procedures to better monitor their third party service providers, including documented reviews of annual SOC 1 reports from each service provider and reports provided by each service provider.

Management Response – The Authority concurs with this recommendation and will initiate an annual review of the SOC 1 or equivalent reports from each of self-insured vendors. Reviews will be conducted by executive director, deputy director or chief financial officer. This review will occur following the receipt of each of these SOC 1 or equivalent reports after January 1, 2018.

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

None

RESOLUTION OF PRIOR YEAR FINDINGS

2016-001 Over Expending Data Processing Appropriation (Other Noncompliance) (RESOLVED)

Condition – According to the Laws 2012 House Bill 2, Chapter 19 section 7, New Mexico Retiree Health Care Authority received a data processing appropriation of $1,946,300 to replace the retiree benefit system. The period of completion was extended with the Laws 2014 Senate Bill 313, Chapter 63 Section 7 through June 30, 2016. Upon completing the retiree benefit system project, management determined the expenditures against the data processing appropriation exceeded the appropriated amount by $192,353 and self-reported the exceed appropriation to the Department of Finance and Administration.

2016-002 – Mileage and Per Diem (Other Noncompliance) (RESOLVED)

Condition – For two out of the twenty mileage and per diem payments tested, prior written permission to reimburse actual expense did not appear to have been provided.

An exit conference was held on November 21, 2017 in a closed session, with the following in attendance:

New Mexico Retiree Health Care Authority Personnel and Board Members:

Tom Sullivan, President
Joe Montano, Vice President
David Archuleta, Executive Director
Jan Goodwin, Board Member
Terry Linton, Board Member
Josefina Roberts, Chief Financial Officer
Greg Archuleta, Director of Communications and Member Management

Moss Adams LLP:

Kory Hoggan, CPA, Engagement Leader
Aaron Hamilton, CPA, Assurance Manager

NEW MEXICO RETIREE HEALTH CARE AUTHORITY
CHANGE IN NET ASSET VALUE
FOR THE MONTH ENDED
November 30, 2017

	Core Plus Bonds	Large Cap Index	Non US Dev Index	Non US Emg Index	Small Mid Cap	Credit and Structure	Absolute Return	Private Equity	Real Estate	Total
Market Value 10/31/2017	$111,220,543.58	$129,872,997.60	$70,453,889.37	$93,636,232.71	$17,145,142.34	$58,450,240.13	$27,228,039.34	$62,397,447.22	$32,089,039.53	$602,493,571.82
CONTRIBUTIONS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
WITHDRAWALS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FEES	(54,607.87)	(5,900.45)	(6,741.12)	(31,418.89)	(26,924.64)	0.00	0.00	0.00	0.00	(125,592.97)
INCOME EARNED	222,102.30	312,125.55	121,854.95	42,864.97	18,548.97	5,176.97	20.15	20,305.97	52,036.99	795,036.82
CAPITAL APPR/DEPR	(257,186.09)	3,649,384.97	623,271.51	5,201.17	281,606.29	329,800.72	237,648.51	155,715.93	(24,153.28)	5,001,289.73
Market Value 11/30/2017	$111,130,851.92	$133,828,607.67	$71,192,274.71	$93,652,879.96	$17,418,372.96	$58,785,217.82	$27,465,708.00	$62,573,469.12	$32,116,923.24	$608,164,305.40

NEW MEXICO RETIREE HEALTH CARE AUTHORITY
CHANGE IN NET ASSET VALUE
FOR THE MONTH ENDED
December 31, 2017

	Core Plus Bonds	Large Cap Index	Non US Dev Index	Non US Emg Index	Small Mid Cap	Credit and Structure	Absolute Return	Private Equity	Real Estate	Total
Market Value 11/30/2017	$111,130,851.92	$133,828,607.67	$71,192,274.71	$93,652,879.96	$17,418,372.96	$58,785,217.82	$27,465,708.00	$62,573,469.12	$32,116,923.24	$608,164,305.40
CONTRIBUTIONS	600,000.00	600,000.00	360,000.00	450,000.00	90,000.00	300,000.00	150,000.00	300,000.00	150,000.00	3,000,000.00
WITHDRAWALS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FEES	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
INCOME EARNED	372,691.86	180,274.07	89,038.41	97,590.33	16,027.64	10,497.61	32.68	46,053.32	137,674.35	949,880.27
CAPITAL APPR/DEPR	319,874.80	1,314,106.55	1,345,739.45	3,170,125.21	155,497.45	243,208.93	(10,045.65)	2,013,314.48	498,393.83	9,050,215.05
Market Value 12/31/2017	$112,423,418.58	$135,922,988.29	$72,987,052.57	$97,370,595.50	$17,679,898.05	$59,338,924.36	$27,605,695.03	$64,932,836.92	$32,902,991.42	$621,164,400.72

Review of Board Actions 2015 - 2018

Background: The items listed below provide detailed information regarding specific actions taken by the Board of Directors, since 2014 (effective January 1, 2015) to improve the solvency of the program, reduce its unfunded liabilities and accommodate changing market conditions:

Effective January 1, 2015:

1. Increased pre-Medicare rates by 8 percent and Medicare rates by 5 percent
2. Decreased pre-Medicare spousal subsidy by 2 percent (from 40 percent to 38)
3. Instituted minimum age of 55 in order to receive subsides (except: PERA enhanced plans) after January 1, 2020
4. Increased years of service requirement for maximum subsidy from 20 to 25 (except: PERA enhanced plans) after January 1, 2020
5. Addition to 5-year Strategic Plan: conversion of basic life insurance to supplemental life

Effective January 1, 2016:

1. Increased pre-Medicare rates by 8 percent and Medicare rates by 6 percent
2. Decreased pre-Medicare spousal subsidy by 2 percent (from 38 percent to 36)
3. Decreased pre-Medicare retiree subsidy by 1 percent (from 65 percent to 64)
4. Reduced multiple dependent subsidy by 12.5 percent (from 25 percent to 12.5)
5. Implemented timeline for phasing out subsidy of $6,000 basic life policy beginning in 2018
6. Implemented enhanced wellness program with financial incentives

Effective January 1, 2017:

Pre-Medicare

1. Eliminated Premier Plus Plan
    a. Near Platinum Level Plan
    b. $300 Deductible
    c. $3,000 Annual Out-of-Pocket Maximum
2. Migrated Premier Plus Participants into Premier Plan
    a. Premier Plus Plan Membership – 4,400
    b. Premier Plan Membership – 13,000
3. Created Value Plan
    a. Silver Level Plan
    b. $1,500 Deductible
    c. $5,500 Out-of-pocket Maximum (includes deductible and medical copayments)
    d. Narrow networks compared to Premier Plan
    e. Same 1st dollar coverage as Premier Plan
    f. Same Rx Benefit as Premier Plan
4. Adjusted rates commensurate with New Risk Pools

		2016	2017
a.	Premier Plus – Retiree	$326	NA
	Premier Plus – Spouse	$516	NA
	Premier PPO – Retiree	$175	$225

Premier PPO – Spouse	$331	$400
Value HMO – Retiree	NA	$175
Value HMO – Spouse	NA	$331

Premier PPO: Presbyterian – NM Residents Only
BCBS – Nationwide including NM
Value HMO: Presbyterian – NM Residents Only
NM Health Connections – NM Residents Only

5. Plan Enhancements
   a. Increased annual out-of-pocket maximum of Premier Plan by $500 to $4,500 to include $800 deductible as well as medical copayments to maximum calculation creating net positive for high-cost members
   b. Implemented first dollar coverage (waive deductible and coinsurance) on all plans for advanced radiology services (CT, MRI and PET scans) received at free-standing imaging centers with $100 copayment and $125 for the Value Plan
   c. Implemented first dollar coverage (waive deductible and coinsurance) on all plans for physical therapy services as an alternative to surgery with same copayment as PCP visit with a maximum of 4 copayments per course of treatment

Medicare

1. Commitment to increase member awareness of Medicare Advantage offering through newsletters, website and seminars/workshops throughout 2017
2. All members will maintain the ability to select any eligible Medicare Plan
3. Members who do not make an active choice will be defaulted into the most appropriate Medicare Advantage offering when they turn 65 beginning January 2018
4. Increased Medicare Supplement rate by 6 percent

All Self-Insured Prescriptions Plans

1. Eliminated coverage for drugs available over the counter (OTC)
   a. Primarily antihistamines (i.e. Clarinex), inhalable nasal steroids (i.e. Nasonex) and proton pump inhibitors (i.e. Nexium)

All

1. Eliminated Multiple Dependent Subsidy (12.5 percent in 2016)
2. Implemented Open Enrollment Period
   a. Except for IRS Section 125 qualifying events enrollment into NMRHCA programs is not allowed outside of open enrollment period every other year

Effective January 1, 2018 Plan:

Pre-Medicare/Medicare

1. Increase pre-Medicare rates by 8 percent and Medicare rates by 6 percent

2. Expanded Value Option Resources to include BlueAdvantage (BAV) Network

3. Increase Cost Sharing/Narrow Network on Prescription Plan (Pre-Medicare/Supplement)

4. Voluntary Smart90 – Long-term medications

Medicare

5. Medicare Default
    a. Presbyterian Pre-Medicare Members to UnitedHealthcare Plan I
    b. BCBS and NM Health Connections to Humana Plan I

No action necessary

6. Market Check Agreement - Pre-Medicare/Medicare combined: $9.9 million

New Mexico Retiree Health Care Authority
Fiscal Year 2018 2nd Quarter Budget Review

Health Care Benefit Fund

Between July 1, 2017 and December 31, 2017, expenditures from the Healthcare Benefits Administration Program were $163.4 million and revenues were $168.1 million. That created a surplus of $4.7 million, compared to $10.7 million during the same time period in FY17, and $16.4 million in FY16. Overall expenditures through the first quarter of FY18 as compared to the same time frame in FY17 have grown to $15.4 million or 10.5 percent. Current projections indicate a $21 million surplus at the end of FY18.

Upward pressures include:

1. Overall plan participation (medical and voluntary coverages) has grown by 1,145 members, or 2 percent, between December 2016 and December 2017. This includes 1,128 new members in FY18 alone.
2. Claim costs related to prescription drug coverage have increased by $6.7 million, or 14 percent, while Medicare-related costs (self-insured and Medicare Advantage) have grown by $3.8 million, or 8 percent. The non-subsidized benefits, including dental, vision and life insurance, have grown by $646,000.
3. Increased participation in the voluntary/non-subsidized plans — i.e., dental, vision and life insurance (by 629 members or 9 percent).

Downward pressures include:

1. A shrinking pre-Medicare population: 857 fewer members (in December 2017 compared to December 2016) compared to 537 fewer members (December 2016 – December 2015).
2. Elimination of Premier Plus Plans beginning of 2017 (4,089 members) and enrollment in Value Plans at the end of 2017 (2,072 members). Premier Plus Plan had a $300 deductible and $3,000 annual out-of-pocket maximum while the Value Plan has a $1,500 deductible and $5,500 annual out-of-pocket maximum.
3. Under the Medicare plans – Medicare Advantage Plans grew by 1,264 members (9.7 percent) while growth in participation with the Medicare Supplement Plan was limited to 109 members, or 0.5 percent.
4. A shrinking in spouse/domestic partners and dependent children participation — 15,124 compared to 15,399 (275 fewer dependents on our medical plan).

Overall, current projections indicate a budget deficiency totaling $13.7 million, or 4.5 percent of the total operating budget for FY18. This amount represents roughly 2 weeks' worth of claims costs and assumes volatility associated with our self-insured operations, accounts for a range of premiums increase (6-27 percent) for the Medicare Advantage Plans effective January 1, 2018 and includes continued growth in participation in the voluntary plans. NMRHCA staff will continue to monitor revenues and expenditures each week and present the final end-of-year projections, budget adjustment requests and contract amendments at its regularly scheduled board meeting in April.

In total, revenues through the first quarter of FY18 are $9.3 million more compared to the same time frame in FY17. This gain is driven by increases in retiree premiums and participation combined with growth in subsidies received through Express Scripts for NMRHCA's role in providing Medicare Part-D prescription benefits and rebates related to the overall use of prescription services. Additionally, NMRHCA continues to experience a lag time in the receipt of monies from the Tax Suspense Fund (December payment not received as of January 24).

Below is an annual summary of the cash contributions made to the State Investment Council (SIC) between fiscal years 2011 – 2017, as well as monthly contributions made in FY18:

FY11 Total	$	21,879,651
FY12 Total	$	21,060,000
FY13 Total	$	15,315,000
FY14 Total	$	57,500,000
FY15 Total	$	42,500,000
FY16 Total	$	35,000,000
FY17 Total	$	28,000,000
FY18		
Transfer Effective	Amount Transferred	
September 1, 2017	$	5,000,000
October 2, 2017	$	3,000,000
December 1, 2017	$	3,000,000
FY18 Total	$	11,000,000
Total Transfers	**$**	**232,254,651**

NMRHCA staff will continue to transfer funds from the short-term banking account held by the State Treasurer's Office to the long-term investment account held by the SIC consistent with the receipt of revenues in excess of expenditures.

Program Support Fund

The approved operating budget for FY17 totals $2,936,800 with supporting transfers made from the Health Care Benefit Fund. Expenditures from the personal services and employee benefits category are $139,000 less than in the same time frame in FY17, which can be attributed to vacancy savings associated with the vacant director of product development and health care reform position, temporary fill of the deputy director positon and until recently two vacant customer service positions. NMRHCA will be requesting board approval to submit a budget adjustment request (BAR) to utilize a portion of the projected savings from the personal services and employee benefits category to the contractual services category for investment advisory services. Expenditures from the contractual services category are $28,400 lower than in FY17, as fewer hours will billed for the development of the GASB 74 report, compared to the development of the GASB 43 and draft GASB 74 in FY17. Lastly, expenditures from the other category are approximately $39,400 lower compared to the same time frame in FY17, almost entirely related to the timing of pre-paid postage costs for bulk mail and a reduction in the leasing costs for printers and copiers. Overall, projected expenditures are expected to remain within the total appropriation for FY18.

New Mexico Retiree Health Care Authority

FY18 2nd Quarter Budget Review

Comparison of Projected vs. Actual

(in thousands)

Healthcare Benefit Fund

FY18/FY17 Comparison

	FY18 Approved Q2 Budget	FY18 Q2 Actual	FY17 Q2 Actual	Dollar Change	Percent Change
Sources:					
Employer/Employee Contributions	$ 63,033.05	$ 62,547.5	$ 62,984.3	$ (436.8)	-0.7%
Retiree Contributions	$ 71,668.75	$ 84,211.7	$ 75,504.3	$ 8,707.4	11.5%
Taxation & Revenue Fund	$ 13,128.10	$ 10,940.1	$ 12,990.3	$ (2,050.2)	-15.8%
Other Miscellaneous Revenue	$ 12,173.00	$ 10,497.1	$ 7,467.8	$ 3,029.3	40.6%
Interest Income	$ 30.00	$ 70.3	$ 26.7	$ 43.6	157.0%
Refunds	$ -	$ (125.5)	$ (207.5)	$ 82.0	-39.5%
Total Sources	$ 160,032.9	$ 168,141.2	$ 158,765.9	$ 9,375.3	5.9%
Uses:					
Medical Contractual Services	$ 154,445.5	$ 161,955.3	$ 146,591.7	$ 15,363.6	10.5%
ACA Fees (Reinsurance/PCORI)	$ 520.3	$ 38.8	$ 36.1	$ 2.7	7.5%
Other Financing Uses	$ 1,559.2	$ 1,468.4	$ 1,382.0	$ 86.4	6.3%
Total Uses	$ 156,524.9	$ 163,463.1	$ 147,973.7	$ 15,452.7	10.4%
Sources Over Uses	**NA**	**$ 4,678.1**	**$ 10,792.2**	**NA**	**NA**

FY18 Budget Compared to Actual

	FY18 Approved Budget	FY18 Actuals	Remaing Balance	Percent Expended/ Collected	FY18 Projected Total
Sources:					
Employer/Employee Contributions	$ 126,066.1	$ 62,547.5	$ 63,518.6	49.6%	$ 127,000.0
Retiree Contributions	$ 143,337.5	$ 84,211.7	$ 59,125.8	58.8%	$ 170,000.0
Taxation & Revenue Fund	$ 26,256.2	$ 10,940.1	$ 15,316.1	41.7%	$ 26,256.2
Other Miscellaneous Revenue	$ 24,346.0	$ 10,497.1	$ 13,848.9	43.1%	$ 25,000.0
Interest Income	$ 60.0	$ 70.3	$ (10.3)	117.2%	$ 50.0
Refunds	$ -	$ (125.5)	$ -		$ (250.0)
Total Sources	$ 320,065.8	$ 168,141.2	$ 151,799.1	52.5%	$ 348,056.2
Uses:					
Medical Contractual Services	$ 309,411.1	$ 161,955.3	$ 147,455.8	52.3%	$ 323,100.0
ACA Fees (Reinsurance/PCORI)	$ 520.3	$ 38.8	$ -	7.5%	$ 38.8
Other Financing Uses	$ 3,118.3	$ 1,468.4	$ 1,649.9	47.1%	$ 2,936.8
Total Uses	$ 313,049.7	$ 163,462.5	$ 149,105.7	52.2%	$ 326,075.6
Sources Over Uses	**NA**	**$ 4,678.7**	**NA**	**NA**	**$ 21,980.6**

New Mexico Retiree Health Care Authority
2nd Quarter Healthcare Benefit Fund Detail
Fiscal Year 2018
(in thousands)

	FY18 Q2 Actuals	FY17 Q2 Actuals	FY18 - FY17 Difference
REVENUE:			
Employer/Employee Contributions	$ 62,547.5	$ 62,984.3	$ (436.8)
Retiree Contributions	$ 84,211.7	$ 75,504.3	$ 8,707.4
Taxation and Revenue Suspense Fund	$ 10,940.1	$ 12,990.3	$ (2,050.2)
Other Miscellaneous Revenue	$ 10,497.1	$ 7,467.8	$ 3,029.3
Interest Income	$ 70.3	$ 26.7	$ 43.6
Refunds	$ (125.5)	$ (207.5)	$ 82.0
TOTAL REVENUE:	**$ 168,141.2**	**$ 158,765.9**	**$ 9,375.3**
EXPENDITURES:			
Prescriptions			
Express Scripts	$ 54,736.3	$ 48,028.4	$ 6,707.9
Total Prescriptions	$ 54,736.3	$ 48,028.4	$ 6,707.9
Non-Medicare			
Blue Cross Blue Shield	$ 33,476.8	$ 30,539.4	$ 2,937.4
BCBS Administrative Costs	$ 1,008.0	$ 1,155.8	$ (147.8)
Presbyterian	$ 20,975.4	$ 19,564.9	$ 1,410.5
Presbyerian Administrative Costs	$ 1,010.7	$ 1,015.4	$ (4.7)
NM Health Connections	$ 311.5	$ -	$ 311.5
NM Health Connections Admin	$ 132.0	$ -	$ 132.0
ACA Transitional Reinsurance Fee	$ -	$ 472.3	$ (472.3)
PCORI Fee	$ 39.4	$ 38.8	$ 0.6
Total Non-Medicare	$ 56,953.8	$ 52,786.6	$ 4,167.2
Medicare			
Blue Cross Blue Shield Supplement	$ 19,633.2	$ 17,431.2	$ 2,202.0
BCBS Administrative Costs	$ 2,800.3	$ 2,764.8	$ 35.5
Presbyterian MA	$ 6,462.7	$ 5,413.2	$ 1,049.5
UnitedHealthCare MA	$ 2,648.5	$ 2,198.7	$ 449.8
Humana MA	$ 171.5	$ -	$ 171.5
BCBS MA	$ 2,202.5	$ 2,229.3	$ (26.8)
Total Medicare	$ 33,918.7	$ 30,037.2	$ 3,881.5
Other Benefits			
Davis Vision	$ 1,121.0	$ 1,075.3	$ 45.7
Delta Dental	$ 4,790.7	$ 4,323.6	$ 467.1
Standard Life Insurance	$ 4,981.2	$ 5,243.3	$ (262.1)
United Concordia Dental	$ 5,493.0	$ 5,097.3	$ 395.7
Total Other Benefits	$ 16,385.9	$ 15,739.5	$ 646.4
Other Expenses			
Program Support	$ 1,468.4	$ 1,382.0	$ 86.4
Total Other Expenses	$ 1,468.4	$ 1,382.0	$ 86.4
TOTAL EXPENDITURES:	***$ 163,463.1***	**$ 147,973.7**	**$ 15,489.4**
Total Revenue over Total Expenditures	***$ 4,678.1***	**$ 10,792.2**	**$ (6,114.1)**

New Mexico Retiree Health Care Authority
FY18 2nd QTR Budget Review
Comparison of Budget vs. Actual
(in thousands)

Program Support

FY18/FY17 Comparison

	FY18 Approved Q2 Budget	FY18 Actuals	FY17 Actual	Dollar Change	Percent Change
Sources:					
Other Transfers	$ 1,559.2	$ 1,468.4	$ 1,559.2	$ (90.8)	-5.8%
Total Sources	**$ 1,559.2**	**$ 1,468.4**	**$ 1,559.2**	**$ (90.8)**	**-6.2%**
Uses:					
Personal Services and Benefits	$ 929.4	$ 866.9	$ 1,005.9	$ (139.0)	-13.8%
Contractual Services	$ 272.4	$ 216.0	$ 244.4	$ (28.4)	-11.6%
Other Costs	$ 266.6	$ 266.5	$ 305.9	$ (39.4)	-12.9%
Total Uses	**$ 1,468.4**	**$ 1,349.4**	**$ 1,556.2**	**$ (206.8)**	**-13.3%**

New Mexico Retiree Health Care Authority
FY18 2nd QTR Budget Review
Comparison of Budget vs. Actual
(in thousands)

Program Support

FY18 Budget Compared to Actual

	Approved Operating Budget	FY18 Actuals	Remaining Balance	Percent Expended	FY18 Projected	Projected Surplus/ Deficiency
Sources:						
Other Transfers	$ 2,936.8	$ 1,468.4	$ 1,468.4	50%	$ 1,468.4	$ -
Total Sources	**$ 2,936.8**	**$ 1,468.4**	**$ 1,468.4**	**50%**	**$ 1,468.4**	**$ -**
Uses:						
Personal Services and Benefits	$ 1,858.8	$ 866.9	$ 991.9	47%	$ 859.2	$ 132.7
Contractual Services	$ 544.8	$ 216.0	$ 328.8	40%	$ 375.0	$ (46.2)
Other Costs	$ 533.2	$ 266.5	$ 266.7	50%	$ 262.0	$ 4.7
Total Uses	**$ 2,936.8**	**$ 1,349.4**	**$ 1,587.4**	**46%**	**$ 1,496.2**	**$ 91.2**

Program Support

Expenditure Summary (in thousands)

		A	B	C	D	E
Acct #	**Account Description**	**Approved Budget**	**Expended Budget**	**Remaing Balance**	**Projected**	**Balance**
200	Personal Services/ Employee Benefits	1,858.8	866.9	991.9	859.2	132.7
300	Contractual Services	544.8	216.0	328.8	375.0	(46.2)
400	Other Costs	533.2	266.5	266.7	262.0	4.7
	TOTAL	**2,936.8**	**1,349.4**	**1,587.4**	**1,496.2**	**91.2**

Expenditure Detail (in thousands)

Personal Services / Employee Benefits

Acct #	**Account Description**	**Approved Budget**	**Expended Budget**	**Remaining Balance**	**Projected**	**Balance**
520100	Exempt Positions	146.2	87.8	58.4	81.0	(22.6)
520300	Classified Perm. Positions	1,157.6	518.9	638.7	521.2	117.5
520800	Annual & Comp Paid	0.0	1.4	(1.4)	12.0	(13.4)
521100	Group Insurance Premium	189.9	87.6	102.3	85.1	17.2
521200	Retirement Contributions	220.5	103.0	117.5	102.3	15.2
521300	FICA	105.3	44.4	60.9	45.6	15.3
521400	Workers Comp	0.2	0.1	0.1	0.0	0.1
521410	GSD Work Comp Ins	2.0	2.0	0.0	0.0	0.0
521500	Unemployment Comp	1.3	1.3	0.0	0.0	0.0
521600	Employee Liability Insurance	8.3	8.3	0.0	0.0	0.0
521700	Retiree Health Care	27.5	12.1	15.4	12.0	3.4
521900	Other Employee Benefits	0.0	0.0	0.0	0.0	0.0
	TOTAL	**1,858.8**	**866.9**	**991.9**	**859.2**	**132.7**

Contractual Services

Acct #	**Account Description**					
535200	Professional Services	304.8	140.1	164.7	255.0	(90.3)
535300	Other Services	30.0	3.3	26.7	20.0	6.7
535400	Audit Services	80.0	55.5	24.5	30.0	(5.5)
535500	Attorney Services	40.0	8.0	32.0	20.0	12.0
535600	Information Technology Services	90.0	9.1	80.9	50.0	30.9
	TOTAL	**544.8**	**216.0**	**328.8**	**375.0**	**(46.2)**

Other Costs

Acct #	**Account Description**					
542100	Employee In-State Mileage & Fares	2.0	0.3	1.7	0.8	0.9
542200	Employee In-State Meals & Lodging	1.9	1.9	0.0	1.1	(1.1)
542300	Board & Commission - In-State	10.0	7.3	2.7	10.5	(7.8)
542500	Transportation-Fuel & Oil	1.0	0.5	0.5	0.3	0.2
542600	Transportation	0.1	0.0	0.1	0.1	0.0
542700	Transportation - Insurance	0.2	0.0	0.2	0.0	0.2
542800	State Transportation Pool Charges	4.4	5.7	(1.3)	(1.5)	0.2
543100	Maintenance - Grounds & Roadways	0.0	0.0	0.0	0.0	0.0
543200	Maintenance - Furniture, Fixtures & Equipment	3.7	2.7	1.0	1.5	(0.5)
543300	Maintenance - Building & Structure	3.0	3.7	(0.7)	1.5	(2.2)
543400	Maintenance - Property Insurance	0.5	0.4	0.1	0.3	(0.2)
543500	Maintenance - Supplies	0.0	0.0	0.0	0.0	0.0
543700	Maintenance Services	0.0	0.0	0.0	0.0	0.0
543820	Maintenance IT	12.6	0.0	12.6	5.0	7.6
544000	Supply Inventory IT	20.0	10.0	10.0	7.2	2.8
544100	Supplies - Office Supplies	8.5	4.9	3.6	4.1	(0.5)
544900	Supplies - Inventory Exempt	0.3	3.9	(3.6)	1.1	(4.7)
545600	Reporting and Recording	0.0	3.0	(3.0)		
545700	DoIT - ISD Services	4.1	1.9	2.2	1.8	0.4
545701	DoIT - HCM Fees	10.4	10.4	0.0	(1.3)	1.3
545900	Printing & Photo. Services	56.0	29.6	26.4	20.6	5.8
546100	Postage & Mail Services	115.9	35.3	80.6	70.0	10.6
546400	Rent of Land & Buildings	119.5	79.4	40.1	42.0	(1.9)
546500	Rent of Equipment	57.0	25.5	31.5	32.0	(0.5)
546600	Telecomm	84.6	37.1	47.5	40.0	7.5
546700	Subscriptions & Dues	4.0	1.4	2.6	1.6	1.0
546800	Employee Training & Edu.	5.0	0.6	4.4	2.9	1.5
546801	Board Member Training	2.0	0.0	2.0	1.5	0.5
546900	Advertising	0.2	0.1	0.1	1.1	(1.0)
547900	Miscellaneous Expense	1.3	0.9	0.4	1.1	(0.7)
547999	Request to Pay Prior Year	0.0	0.0	0.0	0.0	0.0
548300	Information Technology Equipment	0.0	0.0	0.0	12.7	(12.7)
549600	Employee Out-Of-State Mileage & Fares	1.0	0.0	1.0	1.0	0.0
549700	Employee Out-Of-State Meals & Lodging	1.0	0.0	1.0	1.0	0.0
549800	B&C-Out-Of-State Mileage & Fares	1.5	0.0	1.5	1.0	0.5
549900	B&C- Out-Of-State Meals & Lodging	1.5	0.0	1.5	1.0	0.5
	TOTAL	**533.2**	**266.5**	**266.7**	**262.0**	**4.7**

Budget Adjustment Request (BAR)
Program Support – Action Item

Background

The approved FY18 operating for the Program Support Program of the New Mexico Retiree Health Care Authority (NMRHCA) is show by category below. Current projections indicate a $132 thousand surplus in the personal services and employee benefits category at the end of FY18.

2018 Budget Adjustment Request

Program Support (amounts shown in thousands)				
		FY18 Approved Operating	Budget Adjustment Request	Adjusted Total
200	PS&EB	$ 1,858.8	$ (50.0)	$ 1,808.8
300	Contractual Services	$ 544.8	$ 50.0	$ 594.8
400	Other	$ 533.2		$ 533.2
	Total	**$ 2,936.8**	**$ -**	**$ 2,936.8**

Program Support Contractual Services Information

FY18 Approved Operating Budget - Program Support/Contractual Services				
	$544,800			
Contract	**Amount Encumbered YTD**	**Expended End of Q2**	**Contract Balance**	**Percent Remaining**
Segal (Amended)	$345,000.00	$139,300.00	$205,700.00	59.6%
HealthLinx	$15,750.00	$0.00	$15,750.00	100.0%
SHRED IT	$7,000.00	$3,321.27	$3,678.73	52.6%
Moss Adams	$81,532.00	$55,482.90	$26,049.10	31.9%
Rodey	$30,000.00	$8,001.11	$21,998.89	73.3%
ABBA Technology	$886.88	$886.88	$0.00	0.0%
RE/SPEC (POD)	$50,000.00	$9,100.00	$40,900.00	81.8%
Clifton, Larsen, Allen	$10,000.00	$0.00	$10,000.00	100.0%
Total	**$540,168.88**	**$216,092.16**	**$324,076.72**	60.0%
Unencumbered Balance	$4,631.12	NA	NA	NA

Fiscal Implications

The BAR transfers $50 thousand from the personal services and employee benefits category to the contractual services category to support the procurement of investment advisory services and development of a revised asset allocation schedule.

Legal Authority

Laws of 2017, 1st Session, Chapter 135, Section 9 (C) allows for FY18 transfers between categories (*personal services and employee benefits, contractual services and other costs only)*:

C. In addition to the specific category transfers authorized in Subsection E of this section and unless a conflicting category transfer is authorized in Subsection E of this section, all agencies, including legislative agencies, may request category transfers among personal services and employee benefits, contractual services and other.

Other Substantive Issues

NA.

Out-of-state Travel Request (Action Item)

Background. The New Mexico Retiree Health Care Authority is a member of the State and Local Government Benefits Association (SALGBA). SALGBA is an organization consisting of 150 local jurisdictions and over 375 members in 48 states, representing 5 million employees and $14 billion in annual spend. The organization distributes information on the latest resources, news, conferences, education and networking opportunities.

Registration for the annual SALGBA conference begins on April 29 and conference presentations conclude on May 2. Presentations include information about variety of benefit programs, trends and solutions.

Requested Action. NMRHCA staff respectfully requests permission to attend the National Conference on the State and Local Government Benefits Association held on April 29 – May 2 in Jacksonville, Florida (see agenda on following page).

SALGBA 2018 NATIONAL CONFERENCE

AGENDA

Sunday, April 29, 2018

8:00 AM - 3:00 PM	**SALGBA Tour sponsored by Gehring Group** St. Augustine Experience – Nation's Oldest City Tour Enjoy your day in the Nation's Oldest City! The various architectural styles, narrow brick streets, and European flavors combine for a unique escape. Your professional tour guide meets the group at the hotel dressed in period costume and weaves a tapestry of stories from the Ponce de Leon discovery period, the pirate days of Sir Francis Drake, the Spanish and English colonial years, and the Victorian Flagler era. The driving tour includes all the major sites including the Fountain of Youth, Spanish Mission Grounds, City Gates, Spanish Plaza, Castillo de San Marcos, Cathedral-Basilica, Flagler Memorial Church, Government House, and Henry Flagler Hotels. We stop at the Flagler hotel area to get an intimate view of how Henry Flagler transformed the city into the first winter resort for the rich and famous in 1888. Next, tour guests have a choice between 2 major attractions to explore: The Fountain of Youth park and the old Spanish fort (Castillo). After the attraction stop, the group is having lunch at the famous Columbia Restaurant. After lunch, you are welcome to shop and explore the historic district on your own. Your guide creates an interactive tour atmosphere which is fun for everyone. Includes lunch at Columbia in old town. Proudly sponsored by the Gehring Group.
1:00 PM - 7:30 PM	**Registration**

InviteOnly

5:00 PM - 6:00 PM	**SALGBA Board Reception**

Networking

6:00 PM - 7:30 PM	**SALGBA Opening Night Reception**

Monday, April 30, 2018

12:00 AM - 1:30 PM	**Lunch & Presentations**

Wellness

6:00 AM - 7:00 AM	**SALGBA Fun Run/Walk sponsored by ActiveHealth Management** Group run/walk along the riverfront. Map provided.

7:30 AM - 3:00 PM	**Registration**
7:45 AM - 8:15 AM	**Continental Breakfast in Exhibit Hall**

General Session

8:15 AM - 9:30 AM	**Opening Keynote** Opening Keynote Presentation

Networking

9:30 AM - 10:00 AM	**Break in Exhibit Hall**

Roundtable

10:00 AM - 12:00 PM	**Local Entities**
10:00 AM - 12:00 PM	**State Entities**

Breakout Session

1:00 PM - 2:00 PM	**Best Practices in Public Sector Wellness Programs** Wellness panel, with 3 public sector health plans moderated by Humana Go365, discussing various points on their wellness journeys. Focus of discussion will be presenting key success factors, lessons learned, and critical engagement elements for launching a successful wellness program in the public sector. Speakers: Robert Blanco, Jennifer Donaldson, Jenny Goins
1:00 PM - 2:00 PM	**Driving Participant Retirement Savings** A large-scale survey finds that governmental defined contribution plans need better service to improve the retirement outlook for millions of public workers. This session will highlight ways plan sponsors can work with their consultant, advisor and plan provider to better serve their participants. By understanding participants competing priorities, plan sponsors will learn how to drive positive retirement outcomes and increase retirement readiness Speakers: Steve Gordon, Michael McAtamney
1:00 PM - 2:00 PM	**Drug Problems - How to Prepare for the Next Wave of Pharmaceutical Innovation** Biologics, orphan drugs, genetic propensity testing and other pharmacologic advances are improving care but are driving total medical cost skyward, often impacting very few patients within organizations. This program will discuss current and future pharma challenges and strategies that you should consider mitigating financial risk. Speakers: Barbara Hamer, Mark J. Netoskie
1:00 PM - 2:00 PM	**Gaining Insights Through Cognitive Analytics: The New Frontier** In today's environment, there is more healthcare data than ever before. But employers don't just need more data, they need actionable insights from their data. In the new era of analytics, cognitive technology and effective visualization can guide employers to more quickly understand cost drivers and opportunities to improve care that may be difficult to discern with the human eye. Speakers: Scott Humphrey

Networking

2:00 PM - 2:30 PM	**Break in Exhibit Hall**

Breakout Session

2:30 PM - 3:30 PM	**Integrated Value-based Care Model** Integrated value-based model of care shifts the paradigm of our healthcare system from a fee-for-service, volume-based and episodic care approach to one that places patients' health outcomes (value) at the center using a longitudinal, prevention-oriented and coordinated care approach. Integrated value-based model delivers best health outcomes at the lowest cost and simplifies the experience of care delivery, enabling a patient and physician-centric, sustainable healthcare system. Central to its success, the integrated value-based model requires actionable data and collaborative approach among the various stakeholders, including payors, and physicians and their practices. These efforts have led to improved health outcomes, such as better chronic care management, and reduced ED visits and hospital admissions, while at the same time significantly lowering the total cost of care. Speakers: Mike Funk, Dariusz Mydlarz
2:30 PM - 3:30 PM	**Is Your Mental Health Benefit Design Increasing Costs?** For decades, we have realized that poor mental health, whether induced by stress or chemical imbalances in the brain, impacts health care costs on broader scale than just the direct costs of treating mental health symptoms. While there have been significant new pharmaceuticals made available to treat various mental health conditions, access to mental health services such as regular visits with a psychiatrist/psychologist, in-patient and out-patient treatment centers, and mental health support for family members of the patient are very limited within most employers' benefit design and provider networks. This session will provide an overview of mental health benefits, cost, clinical issues, and legislative environment.

Speakers: Jim Cherundolo,
Wendy Scaggs

2:30 PM - 3:30 PM	**Journey to Better Health Benefits Communications** The Wisconsin Department of Employee Trust Funds (ETF) has been on a journey over the past few years to significantly improve member health benefits communications. We have transformed cumbersome and confusing health benefits materials for annual open enrollment to year-round communications that engage and educate members so they can make important health benefit decisions. We also continuously make enhancements based on feedback from key stakeholders along the way. Speakers: Mark J. Lamkins, Tara Pray
2:30 PM - 3:30 PM	**SERS Marketplace Wraparound Plan** Starting in January of 2017, the School Employees Retirement System of Ohio (SERS) partnered with TPA HealthSCOPE Benefits to enroll SERS retirees under age 65 in the federal Marketplace. SERS retirees choose a plan with the assistance of HealthSCOPE Marketplace counselors, receive a federal subsidy and additional benefits from SERS that "wrap" the Marketplace plan. The Marketplace Wraparound pilot program created under the ACA appeals to SERS retirees with low household incomes. Premiums in the Marketplace for those eligible for a subsidy can be significantly lower than the cost of SERS group coverage. The additional wrap benefits help retirees afford the deductibles and co-pays charged by Marketplace plans. For SERS members, the program offers lower costs and more plan choices. For the SERS healthcare plan, the cost of providing limited wraparound benefits is significantly lower than the full cost of covering retirees enrolled in the group plan. We will discuss how the plan works in more detail, the financial results and the steps taken to extend or make this pilot program permanent. Speakers: Anne Jewell
3:45 PM - 4:45 PM	**A Data-Driven Approach to Proactively Tackle the Opioid Epidemic** The opioid epidemic in the U.S. has reached staggering new heights, resulting in over one thousand overdose deaths per month. With the crisis growing, public sector plan sponsors need better and more data-driven solutions to get out in front of this unnerving trend. Speakers: Jacob Crothers
3:45 PM - 4:45 PM	**Building Credibility with Key Stakeholders through Data-Driven Commucications** You're at a critical budget hearing and a Senator asks you to justify increased funding for your insurance program. Are you prepared with compelling facts and an amazing story about your program and the people it serves? Would everyone on your team have the same facts and the same story? To build credibility, you need the right information, at the right time, in the right format. This session provides a practical blueprint for building an internal data dashboard and using it to customize your data story for key stakeholders. Speakers: Dana Jepson
3:45 PM - 4:45 PM	**Finding the Unicorn** Find out how one City found the unicorn and transitioned retirees over 65 (hired prior to 1986) that never paid into Medicare and saved over $3 million the first year. Speakers: Joanne Hinton, Margaret Wise

Tuesday, May 1, 2018

Wellness

6:30 AM - 7:30 AM	**SALGBA Fun Run/Walk sponsored by ActiveHealth Management** Group run/walk along the riverfront. Map provided.

7:30 AM - 4:00 PM	**Registration Open**
7:45 AM - 8:15 AM	**Continental Breakfast in Exhibit Hall**

General Session

8:15 AM - 9:00 AM	**Healthcare Reform: A Current Snapshot & Zooming in Through the Lens** This session will review the state of affairs with regard to the ACA and HealthCare Reform including recent legislation, the marketplace effect, and its impact on public sector employers; as well as proposed legislation and the healthcare legislation outlook with the 2018 midterm elections in the field finder. Speakers: Kate Grangard

Networking

9:00 AM - 9:30 AM	**Break in Exhibit Hall**

Breakout Session

9:30 AM - 10:30 AM	**Diabetes Value Benefit-Reducing Costs and Increasing Adherence** Costs for diabetic treatment are on the decline, according to a review of 2016 healthcare data provided to the Kentucky Employees' Health Plan (KEHP). KEHP provides health insurance to more than 260,000 state employees, retirees and others, and spends more than one million dollars in diabetes claims each year. But KEHP is seeing the tide turn. With the implementation of several innovative programs, like Diabetes Value Benefit (DVB), which allows members with a diabetes diagnosis to receive maintenance prescriptions and supplies, such as diabetic strips, free or at a reduced copay or coinsurance, with no deductible. Data indicates that as members managed their diabetes, they were also able to reduce the use of other medications. Speakers: Jenny Goins
9:30 AM - 10:30 AM	**Retiree Health Care Exchanges: A Roadmap to Successful Transitions** A step by step guide to implementing a successful transition from employer sponsored retiree health care programs to a private Medicare exchange. The presentation will include information about working with consultants, managing PR messaging for governing boards, data analysis models and HRA administration best practices. A significant focus of the presentation is around change management strategies and effectively communicating benefit changes to retirees using a consultative versus a transactional approach to Medicare policy purchase on a private exchange. A case study of a multi-agency government consortium's successful transition with a 100% conversion rate and significant savings for the retirees and the government agencies will be included in the presentation. Speakers: Jeffrey A. Randolph
9:30 AM - 10:30 AM	**Specialty Pipeline: Helping to Monitor and Identify New Challenges and Opportunities** There are approximately 220 new specialty drugs anticipated to be released in the next two years and the high cost for innovative drugs continues to drive specialty trend. In this environment, continuous monitoring of the specialty pipeline as well as understanding unique trend drivers is essential to ensure the ability to quickly adapt and proactively manage these factors. This session will help familiarize attendees with the specialty pipeline and how our dedicated clinical teams leverage advanced analytics to stay on top of new drug approvals and prepare for the impact to management strategies Speakers: Theresa Juday
9:30 AM - 10:30 AM	**State Health Plan Benefits, Costs and Strategies: A Segal Study** State leaders are always interested in how other jurisdictions structure their employee health benefits. Examining what other states offer is helpful when making difficult decisions about potential changes in coverage, such as the number and types of plans offered and how to share costs with employees. The 2017 edition of Segal's State Employee Health Benefits Study presents an overview of plan designs, costs, employee cost share, as well as health management and wellness strategies. Information was collected and reported on all 50 states and the District of Columbia. This session will provide an overview of current practices and focus on emerging trends and new innovative strategies being employed by state employee plans. Speakers: Andrew Sherman, Richard Ward
10:45 AM - 11:45 AM	**Ethics, Fraud, Waste & Abuse** Nevada has developed and implemented a series of strategies over the last six plan years to ensure members receive high access to high quality healthcare at affordable prices. These strategies include specialty drug management, reference based pricing, preventive drug lists, telemedicine virtual visits, incentivizing preventive/wellness, enhanced primary care, contract negotiations, and maximizing the utilization of centers for excellence. Nevada's experiences resulted in overall flat

medical trend for six years and minimal increased pharmacy trend offset with recent significant drug rebates. We will show you how to see opportunities and navigate the public sector to control your costs while providing the best care to your members.

10:45 AM - 11:45 AM **Have Your Steak and Lose Weight Too ™**

Obesity and related health conditions, such as diabetes and heart disease, burden employers with significant healthcare costs. Although behavioral weight loss programs have proven, in the clinical setting, to be the most effective method for long-term risk reduction, effective behavioral programs in the workplace are challenging due to issues of privacy, scalability, lack of engagement, access and interruptions to the workday. We'll show you how the State of Kansas engaged 19,000 employees in an obesity and metabolic syndrome reversal program, lowering diabetes risk in 58% of their participants.

Speakers: Tim Church, Jennifer Flory, Kendall Ramirez

10:45 AM - 11:45 AM **Implementing Innovative Strategies**

Nevada has developed and implemented a series of strategies over the last six plan years to ensure members receive high access to high quality healthcare at affordable prices. These strategies include specialty drug management, reference based pricing, preventive drug lists, telemedicine virtual visits, incentivizing preventive/wellness, enhanced primary care, contract negotiations, and maximizing the utilization of centers for excellence. Nevada's experiences resulted in overall flat medical trend for six years and minimal increased pharmacy trend offset with recent significant drug rebates. We will show you how to see opportunities and navigate the public sector to control your costs while providing the best care to your members.

Speakers: Amy Daily, Damon Haycock, Mary Catherine Person

10:45 AM - 11:45 AM **Voluntary Benefits Customization 2.0: Beyond the Generations**

There is more to customizing benefits than age alone. Within the generations there are varying lifestyles and buying preferences that dictate what benefits are important to them. Learning about the eight personas within the generations and their varying preferences for voluntary benefits is a valuable exercise for benefits professionals to structure a benefit package that makes a difference in attracting and retaining talent

Speakers: Christy DeFrain

12:00 PM - 1:00 PM **Awards Luncheon**

Breakout Session

1:00 PM - 2:00 PM **Communications=Compliance: How to Make Sure All Participants Can Access Plan Materials**

Making your communications accessible, that is, ensuring users with disabilities can access your content such as brochures, reports and especially your website is not only a smart practice, it's the law. Navigating these requirements takes a good deal of time and focus. Implementing the required changes takes double. What are these accessibility requirements and how does a government benefits administration put them into practice? This session will focus on how the Pennsylvania Public School Employees' Retirement System (PSERS) recently completed the process of assessing its website and other communications and making the necessary changes to comply with the law.

Speakers: Kathryn Bakich, Franca D'Agostino

1:00 PM - 2:00 PM **High Performance Networks: It's Not About the Size, It's About the Outcomes**

Broad networks provide broad choice, but also average performance on cost, quality, and overall experience. Which provider is seen is the largest determinate of what happens next, and given the extreme variation in health care today, you want a sophisticated and thoughtful approach to how providers are selected and how referral decisions are made.

Speakers: Paul McBride

1:00 PM - 2:00 PM **Innovative Health Strategies that Yield Proven Results**

Lexington County SC employees and their dependents struggle with obesity, high blood pressure, tobacco use, and diabetes at rates far greater than the national average. With these chronic conditions and other risk factors, healthcare costs for the County had been rising at unsustainable rates, at the same time, state funding cuts loomed. In 2014, the County opened a health center to address the declining health and increasing costs they faced. In three years of operation, the County has saved $4.5 million net of the health center costs on medical and pharmacy. In this session, you will hear what steps were taken to achieve these results, as well as the overall Healthy Workplace Framework that guides the strategy for improving the health and reducing the cost of healthcare for Lexington County.

Speakers: Joe Mergo

1:00 PM - 2:00 PM **TRS Pharmacogenetics Pilot for More Precise Medication Therapy**

The science of precision medicine already exists and can be used to help public purchasers of health and drug plans to deliver healthier outcomes for their populations, reduce adverse drug events, reduce drug-induced hospitalizations, reduce titration regimens and wasted drug product for those who may be a poor metabolizer or ultra-rapid metabolizer of certain drugs.

Speakers: Jane Cheshire Gilbert,
Scott Megill,
Jeffrey A. Shaman

General Session

2:00 PM - 2:45 PM **Duke Research Presentation**

Networking

2:45 PM - 3:30 PM **Break in Exhibit Hall and Door Prize Drawing**

3:30 PM - 4:00 PM **Business Meeting**

Breakout Session

4:00 PM - 5:00 PM **Drafting the RFP Document--What Benefit Professionals Should Know**

For Human Resource and Benefit Professionals there are items that should be included in the Request for Proposal (RFP) document. Drafting the RFP document starts the process in selecting the best product or service. Providing a clear description of your needs and what is being procured in the RFP enables bidders to have a clear understanding of your needs and what is being procured. This leads bidders to allocate the proper resources to deliver the service or product at the best price. Learn how to draft a well written RFP document to get the best results and look like a star back at work!

Speakers: Robert Kelley

4:00 PM - 5:00 PM **Taking a Bite Out of Drug and Imaging Cost**

Both imaging scans and drug therapies eat up a large percentage of employers' total health care spend. This panel will showcase how two public entities are reigning in costs on both fronts. The City of Manchester will explain how they saved over half a million dollars on one drug. The North East Independent School District, 14,000 members strong, is reducing costs on imaging scans, like MRIs, CTs, PETs and Ultrasounds. In only the first year of the program, they're saving tens of thousands of dollars on these routine scans each month. They'll explain how they got the program off the ground with employees and the ongoing education and engagement programs they're using to grow savings month-over-month.

Speakers: Jane Gile,
Rob Graybill,
Steve Tovar

Networking

6:00 PM - 10:00 PM **SALGBA Tuesday Night Event**

Wednesday, May 2, 2018

8:30 AM - 9:30 AM **Continental Breakfast**

General Session

9:00 AM - 10:00 AM	**Roundtable Recap & Associate Q&A** Open to all attendees and will provide an overview of discussion points from state and local entity roundtables.

Breakout Session

10:30 AM - 11:30 AM	**Leadership Survey Results** Leadership Series Speakers: Edward Esquival