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REGULAR MEETING
OF THE
BOARD OF DIRECTORS

February 5, 2019
9:30 AM
Senator Fabian Chavez Jr. Board Room
PERA Building
33 Plaza La Prensa
Santa Fe, NM 87507

New Mexico Retiree Health Care Authority
Regular Meeting

BOARD OF DIRECTORS

ROLL CALL

February 5, 2019

	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			
Mr. Rael			
Ms. Moon			

NMRHCA BOARD OF DIRECTORS

February 2019

Mr. Wayne Propst
Executive Director
Public Employees Retirement Association
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Mr. Joe Montaño, Vice President
NM Assoc. of Educational Retirees
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Ms. Pamela Moon
NM Association of Counties
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Mr. Doug Crandall
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The Honorable Mr. Tim Eichenberg
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Ms. Therese Saunders
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Mr. Tom Sullivan, President
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Regular Meeting of the
NEW MEXICO RETIREE HEALTH CARE AUTHORITY
BOARD OF DIRECTORS

February 5, 2019
9:30 AM
Senator Fabian Chavez Jr. Board Room
PERA Building
33 Plaza La Prensa
Santa Fe, NM 87507

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 4, 2018	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. Board Member Appointment – Association of Counties		12
	b. HR Update		
	c. Cigna – Express Scripts Purchase		13
	d. Winter Newsletter		14
	e. Life and Disability RFP		
	f. Legislative		18
	g. November 30/December 31, 2018 SIC Report		48
9.	Asset Allocation 6-Month Review	Mr. Toth, Wilshire	50
10.	FY18 Financial Audit	Mr. Hamilton, Moss Adams	66
11.	UnitedHealthCare Program Update	Mr. Cadriel, Account Executive	125
12.	Humana Program Update	Ms. Bodenski, Account Executive	132
13.	2nd Quarter Budget Report	Mr. Archuleta, Executive Director	154
14.	New Contract (Action Item)	Mr. Kueffer, Deputy Director	159
15.	Out-of-state Travel Request (Action Item)	Mr. Kueffer, Deputy Director	161
16.	Other Business	Mr. Sullivan, President	
17.	Executive Session Pursuant to NMSA 1978, Section 10-15-1(H)(6) To Discuss Limited Personnel Matters	Mr. Sullivan, President	
18.	Date & Location of Next Board Meeting March 5, 2019, 9:30AM Alfredo R. Santistevan Board Room 4308 Carlisle Blvd. NE., Suite207 Albuquerque, NM 87107	Mr. Sullivan, President	
19.	Adjourn		

ACTION SUMMARY

RETIREE HEALTH CARE AUTHORITY/REGULAR BOARD MEETING

December 4, 2018

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APPROVAL OF MINUTES: November 13, 2018	Approved	3
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COMMITTEE REPORTS	Informational	3
EXECUTIVE DIRECTOR'S UPDATES HR Update FY18 Financial Audit Switch Enrollment Update Medicare Outreach Meetings Life and Disability RFP Legislative October 31 SIC Report	Informational	3
GASB 74	Presentation	4
BENEFITS CONSULTING/ACTUARIAL SERVICES CONTRACT	Approved (Segal Consulting)	5
OTHER BUSINESS	Discussion	6

MINUTES OF THE

NEW MEXICO RETIREE HEALTH CARE AUTHORITY/BOARD OF DIRECTORS

REGULAR MEETING

December 4, 2018

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 Senator Fabian Chavez Jr. Board Room, PERA Building, 33 Plaza La Prensa, Santa Fe, New Mexico.

2. ROLL CALL TO ASCERTAIN A QUORUM

A quorum was present.

Members Present:
Mr. Tom Sullivan, President
Mr. Doug Crandall, Secretary
The Hon. Tim Eichenberg, NM State Treasurer
Ms. Jan Goodwin
Ms. LeAnne Larrañaga-Ruffy
Ms. Therese Saunders

Members Excused:
Mr. Joe Montaño, Vice President
Mr. Terry Linton
Mr. James E. Smith
Mr. Lawrence Rael

Staff Present:
Mr. Dave Archuleta, Executive Director
Mr. Neil Kueffer, Deputy Director
Mr. Greg Archuleta, Director of Communication & Member Engagement
Mr. Tomas Rodriguez, IT Manager
Ms. Judith Beatty, Board Recorder

Others Present:
Mr. Wayne Propst, Executive Director, PERA
[See sign-in sheets]

3. PLEDGE OF ALLEGIANCE

Mr. Crandall led the Pledge.

4. **APPROVAL OF AGENDA**

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

5. **APPROVAL OF REGULAR MEETING MINUTES: November 13, 2018**

Ms. Saunders moved approval of the minutes of November 13, 2018 meeting, as submitted. Ms. Goodwin seconded the motion, which passed, with Mr. Eichenberg in abstention.

6. **PUBLIC FORUM AND INTRODUCTIONS**

Delta Dental representative JoLou Trujillo-Ottino introduced Delta Dental board member Steve Chreist and announced that Thomas Fleszar has joined the company as interim CEO, replacing Ed Lopez.

7. **COMMITTEE REPORTS**

Highlights from board members:

-- The Executive Committee met last Thursday in preparation for today's meeting.

-- The Wellness Committee will meet in early January.

8. **EXECUTIVE DIRECTOR'S UPDATES**

a. **HR Update**

Mr. Archuleta reported that interviews for the two vacant customer service front desk positions have been scheduled for this week and next week.

Mr. Archuleta introduced Jesse Godfrey, Santa Fe office manager, who has joined NMRHCA from his previous position at PERA.

b. **FY 18 Financial Audit**

Mr. Archuleta reported that there were no findings in the audit, which was submitted to the State Auditor's Office on November 21. Once released, it will be shared with the full board.

c. **Switch Enrollment Update**

Mr. Archuleta presented highlights from a chart of January 2019 switch enrollment counts. A total of 1,249 members switched from one plan to another. He said 388 individuals would be coming back onto the plan through the open enrollment period, which takes place every two years. He said 200 people overall canceled their plans, half on the Medicare side and the other half on the pre-Medicare side.

d. Medicare Outreach Meetings

Mr. Archuleta said 2019 Medicare seminar presentation schedule was in the board book for review. People turning 65 will receive individual notifications.

e. Life and Disability RFP

Mr. Archuleta reported that there have been delays in the release of this RFP, which was to be released on November 29 but was amended yesterday. The due date on the RFP is now January 4. The evaluation process will take place in January, with recommendations made in March. Fortunately, NMPSIA is running this RFP on behalf of the IBAC, and it is working with the State Purchasing Division on this process.

f. Legislative

Mr. Archuleta discussed the presentation made before the Interim Pensions & Investments Oversight Committee two weeks ago. He said IPOC endorsed the board's legislative proposal to increase employee-employer contributions, effective in 2020. Rep. Tomas Salazar and Sen. Liz Stefanics will serve as sponsors.

Chairman Sullivan said he thought the response from legislators was positive. Although there were several comments from legislators that suggested they weren't totally sold on this model, they were philosophically supportive of the increases.

g. October 31, 2018 SIC Report

Mr. Archuleta reported that the difference between the beginning and end of the month was about $13 million in lost revenue, which includes a $10 million contribution made by the NMRHCA, for a total of $635 million for October. This included the transfer from the Core Plus Bond Pool as part of the change in the asset allocation, and puts the agency about $71 million from its 6/30/19 projected target.

9. GASB 74 – JUNE 30, 2018

Segal representatives Gary Petersen and Melissa Bissett presented the GASB valuation results for 2018.

Significant issues highlighted in the report:

-- The discount rates used to determine the Total OPEB Liability (TOL) and Net OPEB Liability (NOL) as of June 30, 2018 and 2017 were 4.08 percent and 3.81 percent.

-- The discount rate used in the valuation as of June 30, 2018 is a blend of the assumed investment return on Plan assets and the rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Because NMRHCA is not fully prefunding benefits, Plan assets, when projected in the method prescribed by GASB 74, are expected to be sufficient to make benefit payments through 6/30/29. Projected benefit payments are discounted by the Plan investment return assumption of 7.25 percent until 6/30/29. After that date, payments are discounted by the municipal bond rate of 3.87 percent.

-- The NOL has decreased from $4.532 billion as of 6/30/17 to $4.348 billion as of 6/30/18. The decrease was primarily due to:

- June 30, 2017 audit results: Moss Adams (on behalf of NMRHCA) advised Segal that certain PERA members included were employed with non-participating employers and requested that these members be excluded from the valuation.
- The increase in discount rate from 6/30/17 top 6/30/18.

Ms. Bissett reviewed impacts and factors used to develop the GASB 74 valuation.

Mr. Petersen commented that they were able to keep a fairly consistent discount rate year to year under GASB 43-45, but he predicted quite a bit of volatility going forward driven by the way they define the calculation needed to determine the rate.

Referencing Exhibit 4, Ms. Goodwin asked Ms. Bissett to explain the change in the Actuarially Determined Contributions for 2018, which reflected a drop from $317 million in 2017 to $156 million in 2018. Ms. Bissett responded by explaining the calculations she used, and also clarified that had she used the "old" way, the 2018 figure would have jumped to a bit higher than $317 million because of the different discount rate.

Ms. Goodwin asked what percent of payroll NMRHCA would need to be pay in to cover the entire cost of the plan. Ms. Bissett responded 5 percent.

Chairman Sullivan asked whether the 1.5 percent being requested by NMRHCA this year would mean NMRHCA would always be behind the curve. Mr. Archuleta responded yes. He added that the GASB valuation hasn't been redone to reflect that. According to the solvency projections, however, which include a 1.5 percent increase over a period of time, a reduction in investment earnings from 7.25 percent to 7 percent, and a reduction in payroll growth to reflect the amount in the solvency study, the NMRHCA would still gain ground and would be expected to have an excess of $7 billion in the trust fund in 2049.

Mr. Petersen commented that if the Cadillac tax were ever repealed under the ACA, it would have a significant negative effect on NMRHCA's measurements "because the board has determined that you're going to make plan changes necessary to never pay the tax. If they repeal that, then that board resolution goes out the window and suddenly we've lost what's the governor on the acceleration of the GASB cost. That's the one thing that would probably keep me up at night."

10. BENEFITS CONSULTING/ACTUARIAL SERVICES CONTRACT

As a follow up to last month's report, Mr. Kueffer stated that the IBAC received three competitive proposals from Arthur J. Gallagher, Segal Consulting, and Aon Risk Solutions. During the RFP process, it was determined that Arthur J. Gallagher and Aon Risk Solutions failed to meet the mandatory requirements contained in the RFP. On November 14, the IBAC met to discuss each group's review of the quotes received, and recommended actions for the selection of a vendor. Based on this discussion and subsequent contract negotiations, it was determined that Segal would be recommended to each of the IBAC governing authorities.

Mr. Kueffer stated that the proposal from Segal Consulting maintains a four-year hourly rate guarantee (same dollar amounts as under the current agreement) for the period July 1, 2019 through June 30, 2023.

Mr. Kueffer requested approval to enter into contract negotiations with Segal Consulting for an effective contract date of July 1, 2019.

Mr. Crandall so moved. Ms. Larrañaga-Ruffy seconded the motion.

Mr. Eichenberg asked how long Segal Consulting has been on contract with the NMRHCA. Chairman Sullivan responded that he believed since 2004 or 2005.

Mr. Eichenberg said he appreciated that Segal had agreed to maintain their current rates throughout the next contract period.

The motion passed, with Mr. Eichenberg voting against the motion.

11. OTHER BUSINESS

Chairman Sullivan stated that, with the Executive Committee's knowledge, he followed up with a constituent who had been fairly vocal and also very productive with regard to the rules hearing. He said there were two takeaways from the conversation, the first being that it appeared the agency was already doing a lot of the things she was encouraging it to do. The second, however, was that it would appear NMRHCA's communications are far better with the retirees than with the active employees. He said there is no direct link to the actives, and the agency is relying on intermediaries. He stated that he heard consistently from people at the rules hearing that their employer had not provided them with timely information about the proposed rule changes.

Mr. Archuleta responded that NMRHCA had notified all 302 employer groups, asking them to notify their employees and give them copies of the rule, but right before the rules hearing it began hearing from people saying they had not been notified.

Mr. Archuleta noted that the newsletter and website are geared toward participants in the plan. At no additional cost, he said he thought there could be helpful information that the agency could simply email out in the future that would include a specific update for employer groups to share with their members. He said the agency also has the ability to notify DoIT to send out a notice to all state employees.

Chairman Sullivan said he would like each of the 302 participating groups to identify a point of contact that would be responsible for forwarding announcements, the newsletters, etc., to the employees.

Board members agreed to forego the January regular meeting and to meet next on February 5, barring any need for a meeting in the interim.

12. EXECUTIVE SESSION

None.

13. DATE AND LOCATION OF NEXT BOARD MEETING:

FEBRUARY 5, 2019, 9:30 A.M.
SENATOR FABIAN CHAVEZ JR. BOARD ROOM
PERA BUILDING
33 PLAZA LA PRENSA
SANTA FE, NM 87507

14. ADJOURN

Meeting adjourned at 10:45 a.m.

Accepted by:

____
Tom Sullivan, President

NEW MEXICO COUNTIES
33 STRONG

January 23, 2019

Honorable Governor Michelle Lujan Grisham
Office of the Governor
State Capitol Building, 4th Floor
Santa Fe, New Mexico 87501

Dear Governor Lujan Grisham:

Pursuant to Sec. 10-7C-6 (C) NMSA as amended, the New Mexico Counties (NMC) would like to appoint Bernalillo County Accounting and Budget Director Pamela Moon to serve on the Retiree Health Care Authority Board of Directors. Ms. Moon is an employee from Bernalillo County and participates in the Retiree Health Care Act.

Contact Information: Pamela Moon
415 Tijeras NW
Albuquerque, NM 87102
pmoon@bernco.gov
(505) 468-1407

If you have any questions or need additional information about this appointment request, please contact me at (505) 983-2101.

Sincerely,

Steve Kopelman
NMAC Executive Director

cc: David Archuleta, Retiree Health Care Authority Executive Director

444 Galisteo Street
Santa Fe, NM 87501

877-983-2101
505-983-2101
Fax: 505-983-4396

NMCOUNTIES.ORG

The New York Times

Cigna Closes $54 Billion Purchase of Express Scripts

By Reuters

Dec. 20, 2018

NEW YORK — Cigna Corp on Thursday closed its $54-billion (42.65 billion pounds) deal to buy Express Scripts Holding Co, creating one of the biggest providers of pharmacy benefits and insurance plans in the United States, a combination it says will help it improve healthcare coordination and cut costs.

Cigna's deal puts it in direct competition with two other healthcare companies set up the same way - Aetna with CVS Health Corp and UnitedHealth Group Inc with Optum. Cigna's deal has already passed antitrust scrutiny.

Cigna will start offering new products next year to its corporate health insurance customers, including access to Express Scripts' speciality pharmacy, which has cost savings programs in treatment areas such as cancer, its top executive said in an interview on Thursday.

Prescription drugs that require special handling and are delivered to a doctor's office or patient home by speciality pharmacies are a growing part of employer healthcare spending and rising U.S. drug costs. Many new drugs costs tens of thousands of dollars when they are launched and drugmakers raise the price of older drugs once or twice a year.

The company will also try to improve products and services by integrating healthcare data, he said.

"There's a lot of data available today but it's either not aggregated in a singular place or coalesced in a way that's intuitive," Cigna Chief Executive Officer David Cordani said in an interview.

(Reporting by Caroline Humer; Editing by Nick Zieminski)

Medicare seminars, Wise and Well $50 Gift Card Incentive Program to continue in 2019, Page 2

NEW MEXICO RETIREE HEALTH CARE AUTHORITY

NMRHCA 2019 Newsletter Vol. 4 - Winter Edition

INTRODUCING A PROGRAM WORTH THE WEIGHT (LOSS)

"My New Year's resolution in 2019 is to lose weight!"

We're now a few weeks into 2019. How's the resolution holding up? Has your willpower waned? Again?

For NMRHCA retirees on Pre-Medicare or Medicare Supplement plans*, along with their spouses or domestic partners, willpower no longer will be a requirement to lose weight.

NMRHCA now offers Naturally Slim, a common-sense online program that focuses on when and how you eat instead of what you eat, allowing you still to eat the foods you love while losing weight and improving your health. No points to count or food groups to avoid. The program is delivered online, so there are no meetings to schedule — just log on when it's convenient and start losing weight.

What you'll get when you enroll:

- A fun welcome kit to get you started
- A personalized curriculum to help you meet your goals
- A mobile app for easy access to Naturally Slim
- A digital dashboard for learning, goal setting, tracking and more
- Regular emails and texts to keep you motivated and on track
- Access to health coaches to work through specific challenges
- An online community for social support
- Online tools to give you feedback, provide accountability and build skills
- Integration with activity trackers, scales and digital assistants such as Amazon Alexa

Here's what one participant said about the program:

"I lost 65 pounds and have gone from a size 18/20 to a size 8. I have maintained my weight loss for over two years now, and I follow the Naturally Slim principles every single day. More importantly, I have so much more confidence than I ever did before!"

To learn more and enroll, visit: www.naturallyslim.com/NMRHCA.

Medicare Advantage plan retirees still can take advantage of the Good Measures personalized nutrition and health programs (nm.goodmeasures.com), which connect you with a registered dietitian, website and smart app. Also, please see page 3 for information about SilverSneakers, exclusively available to you.

EXECUTIVE DIRECTOR'S UPDATE

NMRHCA'S GOALS, WISH LIST FOR 2019

Greetings and Happy New Year! I hope everyone had a safe and joyous holiday season.

If you're like most people, you're probably starting off the year with a renewed commitment of improving something in your life. That something may be personal, professional or both, but likely includes some element of healthy living.

Healthy living is defined differently — and has different starting points — for everyone, particularly for a group that ranges from 40 to over 106 years of age — such as the population the New Mexico Retiree Health Care Authority serves.

To support healthy living, NMRHCA developed the Wise and Well Program, aimed at improving communication, increasing participation in wellness-related activities, targeting the prevention of chronic disease and incentivizing value-based care to better manage our costs.

For more information about the activities and plans available online and in-person, please visit www.nmrhca.org and click on the Wellness link. That will guide you to specific resources through each of our health

See *Executive* on Page 2

EXECUTIVE DIRECTOR'S UPDATE: NMRHCA'S GOALS AND WISH LIST FOR 2019

Continued from Page 1

plan partners.

While 2019 has just begun, the calendar is filling up with activities and events that will make the weeks and months seem shorter than last year.

To start, NMRHCA hopes to garner support from the legislature and Governor Michelle Lujan-Grisham during the 2019 session for House Bill 95 that seeks an increase in employee and employer contributions (Representative Tomas Salazar and Senator Liz Stefanics are the bill's sponsors).

This legislative action is critical as we seek to reduce our unfunded liabilities and ensure the program's availability for future participants. The NMRHCA Board of Directors understands this request will join a long list of other critical in-state needs, including: public school funding, Medicaid-matching requirements, employee compensation and pension contributions, among others.

However, we will continue to reiterate to the legislature the importance of this program and the value it provides to you, our retired public employees.

In addition, the Interagency Benefits Advisory Committee, of which NMRHCA is a member (along with the State of New Mexico, the Public Schools Insurance Authority and Albuquerque Public Schools), is currently evaluating proposals for continuing the provision of life insurance benefits. This collective procurement effort allows the IBAC to leverage the purchasing power of a larger group when negotiating rates for our members.

An announcement regarding the selection of a vendor to provide life insurance benefits for our members will be made after the evaluation process and final contract negotiations in the spring. NMRHCA will notify members about any changes that may occur as a result of the procurement process.

NMRHCA has also begun to develop its evaluation criteria for the procurement of medical, dental, vision and Medicare programs, which is scheduled to take place early in the fall, also in collaboration with the IBAC.

State laws require us to put these contracts out to bid every four years. Theoretically, we could do it every year, but typically, we negotiate four-year contracts with a yearly review and renewal. NMRHCA will solicit bids from qualified vendors to help provide comprehensive services at the lowest possible cost.

This process allows us to evaluate the effectiveness of existing services and consider the potential for new services, as we seek to meet our members' health care needs.

Lastly, as part of our commitment to improving our communication efforts, NMRHCA will begin posting monthly newsletters on its webpage, starting in March. These newsletters will only be available online because of budget limitations that prevent us from printing and mailing 60,000 letters each month. They will include more frequent updates regarding the latest happenings at the agency, answers to frequently asked questions, and helpful tips and reminders for achieving your health care related goals in 2019.

However, we will continue to print and mail the newsletters that our members have become used to receiving in the fall, winter and spring.

Sincerely,

— David Archuleta
Executive Director

NMRHCA AT A GLANCE:

UNDERSTANDING MEDICARE SEMINARS TO CONTINUE IN '19

NMRHCA will continue its Medicare Presentations in 2019. Sessions at our offices in Albuquerque (9:30 a.m.) and Santa Fe (1:30 p.m.) will start February 13. Other meeting times are as follows:

- March 13 (ABQ Only)
- April 10 (ABQ and SF)
- May 15 (ABQ Only)
- June 12 (ABQ and SF)
- July 17 (ABQ Only)
- August 14 (ABQ and SF)
- September 11 (ABQ Only)
- December 11 (ABQ and SF)

Seminars also will be in Las Cruces on April 11 at 10:30 a.m. in the City Hall Conference Room 2007 B, and in Farmington on May 16 at 10:30 a.m. in the Civic Center.

WISE AND WELL PROGRAM 2019

Our Wellness Incentive Program, newly named Wise and Well, in which members, their spouses and domestic partners can earn a $50 gift card for participating in two wellness activities, is back for 2019. We've tweaked a few rules for this year, such as:

- Going only through your physician or health provider if you complete a health assessment. Independent online PHAs no longer will be accepted.
- For those who complete a PHA, we recommend the second activity to be based on the PHA results, if applicable. This is not a requirement.
- Requiring documentation on ALL activities — an attendance sheet, completion certificate or letter signed by your doctor or instructor. A contact name and number is no longer sufficient.

For a complete list of Wise and Well Program instructions and rules, go to NMRHCA.org/wellness.

SilverSneakers: More Than a Gym for NMRHCA Medicare Advantage Members

SilverSneakers® is a fitness benefit offered to all New Mexico Retiree Health Care Authority Medicare Advantage plan members at no extra cost. The program helps members improve their health, stay independent and continue to do the things they like to do. It can help you Love Life Longer™. SilverSneakers is more than a fitness program. It's a way of life.

SilverSneakers changes lives. Here's what participants say[1]:

- 88 percent – SilverSneakers has improved my quality of life.
- 58 percent – I have made new and valuable friendships.
- 71 percent – I discovered I can do more than I thought I could.
- 88 percent – I feel healthier.

Many SilverSneakers members also report improvements in chronic conditions such as diabetes, high blood pressure, arthritis and depression. The program's impact is physical, emotional and social.

Visit any participating location, any time.[2]

Members have access to more than 15,000 SilverSneakers locations nationwide. Locations include gyms, community and senior centers, YMCAs and more. Amenities may include pools, free weights, cardio equipment and indoor walking tracks.

Indoor, outdoor classes available.[3]

SilverSneakers offers a variety of classes designed for all fitness levels and abilities. Cardio, strength and balance classes may help you reduce your risk for falls and maintain your independence. Tai chi, yoga, Latin dance and walking groups are just a few of the less traditional options offered through SilverSneakers FLEX®.

Trained instructors lead SilverSneakers classes.

SilverSneakers instructors are trained specifically in senior fitness. Instructors can modify exercises to match each participant's level and pace.

Enjoy a supportive community.

The SilverSneakers community is warm and welcoming. Meeting new people in class and at organized social events helps members stay socially connected. Many members build friendships that extend beyond the gym. Members can also interact on the SilverSneakers Facebook page.

Online resources add value.

SilverSneakers.com is a great resource where members can find participating locations and see SilverSneakers class descriptions with sample videos. SilverSneakers blog articles cover exercise, health, nutrition, community and living well. The site also includes member success stories for inspiration. Members can work out at home with SilverSneakers On-Demand™ videos, and sign up for the SilverSneakers GO™ app.

Or check with your provider to see what gyms participate in your area.

1. 2017 SilverSneakers Annual Participant Survey
2. Participating locations ("PL") are not owned or operated by Tivity Health, Inc. or its affiliates. Use of PL facilities and amenities is limited to terms and conditions of PL basic membership. Facilities and amenities vary by PL.
3. Membership includes SilverSneakers instructor-led group fitness classes. Some locations offer members additional classes. Classes vary by location.

Two NMRHCA Rule Changes Will Affect Active Employees Retiring in 2021 and Beyond

The New Mexico Retiree Health Care Authority Board of Directors has voted to implement a minimum age requirement of 55 for new retirees to receive a subsidy for health insurance, beginning Jan. 1, 2021. The board also is raising the years of service to receive the maximum subsidy from 20 to 25 years.

Currently, employees of a participating NMRHCA entity pay one percent of their salary into NMRHCA — except for enhanced plan members. After five years, active employees begin to earn a subsidy or discount toward their health insurance through NMRHCA when they retire. The more years of service they put in, the bigger the subsidy they receive, currently up to 20 years.

Starting in 2021, however, retiring employees must be 55 to have access to that subsidy. Retirees under 55 still can purchase health insurance through the agency at full price for their monthly premiums until they turn 55. At that point, the retiree's subsidy will kick in, based on their years of service.

Also, employees who retire in 2021 or later must work 25 years — rather than 20 under current rules — to qualify for the maximum subsidy, or discount, on their rates.

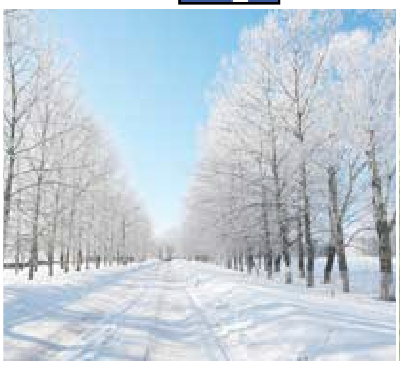
This rule **DOES NOT AFFECT** existing retirees, participating employees retiring before Jan. 1, 2021 or current employees participating in an enhanced retirement plan — police, firefighters, corrections officers and judges.

Call us at 800-233-2576 if you have any questions regarding the rule changes.

NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

PRESORT STD
US POSTAGE
PAID
ABQ., NM
PERMIT #1645

Find us on Facebook: https: www.facebook.com/nmrhca




NMRHCA CONTACT INFORMATION

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Email: customerserivce@state.nm.us

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

Please visit us online at www.nmrhca.org

CONTACT YOUR HEALTHCARE PROVIDERS DIRECTLY

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

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

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

Humana 866-396-8810
https://our.humana.com/nmrhca

UnitedHealthcare..................866-622-8014
www.uhcretiree.com

United Concordia................. 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

HOUSE BILL 95

54TH LEGISLATURE - STATE OF NEW MEXICO - FIRST SESSION, 2019

INTRODUCED BY

Tomás E. Salazar and Elizabeth "Liz" Stefanics

ENDORSED BY THE INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

AN ACT

RELATING TO RETIREE HEALTH CARE; INCREMENTALLY INCREASING RATES OF EMPLOYEE AND EMPLOYER CONTRIBUTIONS TO THE RETIREE HEALTH CARE FUND.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

SECTION 1. Section 10-7C-15 NMSA 1978 (being Laws 1990, Chapter 6, Section 15, as amended by Laws 2009, Chapter 287, Section 2 and by Laws 2009, Chapter 288, Section 3) is amended to read:

"10-7C-15. RETIREE HEALTH CARE FUND CONTRIBUTIONS.--

A. Following completion of the preliminary contribution period, each participating employer shall make contributions to the fund pursuant to the following provisions:

(1) for participating employees who are not members of an enhanced retirement plan, the employer's

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<u>underscored material = new</u>
[~~bracketed material~~] = delete

contribution shall equal, <u>for fiscal year</u>: [~~(a) one and three-tenths percent of each participating employee's salary for the period from July 1, 2002 through June 30, 2010;~~

~~(b) one and six hundred sixty-six thousandths percent of each participating employee's salary for the period from July 1, 2010 through June 30, 2011;~~

~~(c) one and eight hundred thirty-four thousandths percent of each participating employee's salary for the period from July 1, 2011 through June 30, 2012; and~~

~~(d)~~] <u>(a) 2019</u>, two percent of each participating employee's salary [~~beginning July 1, 2012~~];

<u>(b) 2020, two and one-half percent of each participating employee's salary; and</u>

<u>(c) 2021 and subsequent fiscal years, three percent of each participating employee's salary;</u>

(2) for participating employees who are members of an enhanced retirement plan, the employer's contribution shall equal, <u>for fiscal year</u>:

[~~(a) one and three-tenths percent of each participating employee's salary for the period from July 1, 2002 through June 30, 2010;~~

~~(b) two and eighty-four thousandths percent of each participating employee's salary for the period from July 1, 2010 through June 30, 2011;~~

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~~(c) two and two hundred ninety-two thousandths percent of each participating employee's salary for the period from July 1, 2011 through June 30, 2012; and~~

~~(d)~~] (a) 2019, two and one-half percent of each participating employee's salary [~~beginning July 1, 2012~~];

(b) 2020, three percent of each participating employee's salary; and

(c) 2021 and subsequent fiscal years, three and one-half percent of each participating employee's salary; and

(3) each employer that chooses to become a participating employer after January 1, 1998 shall make contributions to the fund in the amount determined to be appropriate by the board.

B. Following completion of the preliminary contribution period, each participating employee, as a condition of employment, shall contribute to the fund pursuant to the following provisions:

(1) for a participating employee who is not a member of an enhanced retirement plan, the employee's contribution shall equal, for fiscal year:

[~~(a) sixty-five hundredths of one percent of the employee's salary for the period from July 1, 2002 through June 30, 2010;~~

~~(b) eight hundred thirty-three thousandths of one percent of the employee's salary for the period from July 1, 2010 through June 30, 2011;~~

~~(c) nine hundred seventeen thousandths of one percent of the employee's salary for the period from July 1, 2011 through June 30, 2012; and~~

~~(d)~~] (a) 2019 through fiscal year 2021, one percent of the employee's salary [~~beginning July 1, 2012~~];

(b) 2022, one and one-fourth percent of the employee's salary; and

(c) 2023 and subsequent fiscal years, one and one-half percent of the employee's salary;

(2) for a participating employee who is a member of an enhanced retirement plan, the employee's contribution shall equal, for fiscal year:

[~~(a) sixty-five hundredths of one percent of the employee's salary for the period from July 1, 2002 through June 30, 2010;~~

~~(b) one and forty-two thousandths percent of the employee's salary for the period from July 1, 2010 through June 30, 2011;~~

~~(c) one and one hundred forty-six thousandths percent of the employee's salary for the period from July 1, 2011 through June 30, 2012; and~~

~~(d)~~] (a) 2019 through fiscal year 2021,

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[~~bracketed material~~] = delete

one and one-fourth percent of the employee's salary [~~beginning July 1, 2012~~];

(b) 2022, one and one-half percent of the employee's salary; and

(c) 2023 and subsequent fiscal years, one and three-fourths percent of the employee's salary; and

(3) as a condition of employment, each participating employee of an employer that chooses to become a participating employer after January 1, 1998 shall contribute to the fund an amount that is determined to be appropriate by the board. Each month, participating employers shall deduct the contribution from the participating employee's salary and shall remit it to the board as provided by any procedures that the board may require.

C. [~~On or after July 1, 2009~~] No person who has obtained service credit pursuant to Subsection B of Section 10-11-6 NMSA 1978, Section 10-11-7 NMSA 1978 or Paragraph (3) or (4) of Subsection A of Section 22-11-34 NMSA 1978 may enroll with the authority unless the person makes a contribution to the fund equal to the full actuarial present value of the amount of the increase in the person's health care benefit, as determined by the authority.

D. Except for contributions made pursuant to Subsection C of this section, a participating employer that fails to remit before the tenth day after the last day of the

underscored material = new
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month all employer and employee deposits required by the Retiree Health Care Act to be remitted by the employer for the month shall pay to the fund, in addition to the deposits, interest on the unpaid amounts at the rate of six percent per year compounded monthly.

E. Except for contributions made pursuant to Subsection C of this section, the employer and employee contributions shall be paid in monthly installments based on the percent of payroll certified by the employer.

F. Except in the case of erroneously made contributions or as may be otherwise provided in Subsection D of Section 10-7C-9 NMSA 1978, contributions from participating employers and participating employees shall become the property of the fund on receipt by the board and shall not be refunded under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act.

G. Notwithstanding any other provision in the Retiree Health Care Act and at the first session of the legislature following July 1, 2013, 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 Retiree Health Care Act.

H. As used in this section, "member of an enhanced

underscored material = new
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retirement plan" means:

(1) a member of the public employees retirement association who, pursuant to the Public Employees Retirement Act, is included in:

(a) state police member and adult correctional officer member coverage plan 1;

(b) municipal police member coverage plan 3, 4 or 5;

(c) municipal fire member coverage plan 3, 4 or 5; or

(d) municipal detention officer member coverage plan 1; or

(2) a member pursuant to the provisions of the Judicial Retirement Act."

underscored material = new
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Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website (www.nmlegis.gov) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

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

SPONSOR	Rep. Salazar, T/Sen. Stefanics	**ORIGINAL DATE** / **LAST UPDATED**	1/23/19	**HB**	95
SHORT TITLE	Retiree Health Care Fund Contributions			**SB**	
				ANALYST	Jorgensen

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

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

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

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

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

FISCAL IMPLICATIONS

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

Summary of HB95 Changes

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

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

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

SIGNIFICANT ISSUES

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

	2006	2008	2010	2012
GASB Statement	43	43	43	43
Actuarial Accrued Liability	$ 4,264,180,967	$ 3,116,915,900	$ 3,523,664,871	$ 3,915,114,104
Actuarial Value of Assets	$ 154,538,668	$ 170,626,271	$ 176,922,935	$ 227,487,895
Unfunded Actuarial Accrued Liability	$ 4,109,642,299	$ 2,946,289,629	$ 3,346,741,936	$ 3,687,626,209
Funded Ratio	3.62%	5.47%	5.02%	5.81%
Covered Payroll	$ 4,073,731,873	$ 4,020,508,902	$ 4,001,802,240	$ 3,876,220,608
Total Participants	140,292	130,381	146,166	146,590

	2014	2016	2017	2018
GASB Statement	43	43	74	74
Actuarial Accrued Liability	$ 3,740,369,299	$ 4,277,042,499	$ 5,111,141,659	$ 5,006,011,109
Actuarial Value of Assets	$ 377,087,017	$ 471,978,347	$ 579,468,641	$ 657,656,294
Unfunded Actuarial Accrued Liability	$ 3,363,280,282	$ 3,805,064,152	$ 4,531,673,018	$ 4,348,354,815
Funded Ratio	10.08%	11.04%	11.34%	13.14%
Covered Payroll	$ 3,941,587,760	$ 4,271,183,612	$ 4,165,647,340	$ 4,290,616,760
Total Participants	155,098	159,642	160,035	156,025

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

OTHER SUBSTANTIVE ISSUES

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

The New Mexico Municipal League noted the following:

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

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

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

CJ/sb/al

LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
54th Legislature, 1st Session, 2019

Bill Number HB95 **Sponsor** Salazar/Stefanics

Tracking Number .211661.2SA **Committee Referrals** HSEIC/HAFC

Short Title Retiree Health Care Fund Contributions

Analyst Simon **Original Date** 1/27/2019
Last Updated

FOR THE INVESTMENT AND PENSIONS OVERSIGHT COMMITTEE

BILL SUMMARY

Synopsis of Bill

House Bill 95 (HB95) would increase contribution rates for participants in the retiree health care fund, including public school employers and employees.

This analysis is limited to the effect of these changes on public school employers and employees.

FISCAL IMPACT

HB95 would increase employer contributions to the retiree health care fund from 2 percent in FY19 to 2.5 percent in FY20 and 3 percent in FY21. The bill would increase employee contributions from 1 percent in FY19 to 1.25 percent in FY22 and 1.5 percent in FY23. Contribution rates would be set higher for members of the Public Employees Retirement Association in a public safety or judicial plan, but public school employees are eligible for retiree health care through membership in the Educational Retirement Board and not subject to these higher rates.

LESC staff estimate HB95 would have a general fund impact of $8.1 million for increased employer contributions in FY20 and an additional $8.1 million in FY21. Staff estimate an impact of $1.4 million on federal and other funding sources in FY20 and an additional $1.4 million in FY21. This estimate is based on FY18 contribution data from the Retiree Health Care Authority (RHCA), which totaled $57.3 million, and an estimated 85 percent of total school district and charter school funding from the general fund. RHCA estimates a total general fund impact of $12 million in FY20 and $12 million in FY21, meaning public schools represent about two thirds of the general fund impact of HB95. Including all funding sources, RHCA expects contributions to increase by $21.8 million in FY20 and $21.8 million in FY21.

LESC staff estimate HB95 would increase public school employee contributions by $4.8 million in FY22 and $4.8 million in FY23, based on the same FY18 contribution data. RHCA estimates total increases of $10.9 million in FY22 and $10.9 million in FY23.

HB95 does not contain an appropriation. Neither the LFC or executive recommendation for public school support include increases to cover the costs of increased employer contributions.

SUBSTANTIVE ISSUES

The Retiree Health Care Authority provides subsidized health insurance benefits to more than 63 thousand retired public employees and their dependents. RHCA's medical plans are funded by a combination of retiree-paid premiums and premium subsides that are funded through employer and employee contributions paid during the retiree's working life. When RHCA was created in 1990, the authority began to cover public employee retirees with no pre-funding of benefits and the retiree health care fund has never had sufficient assets to cover the plan's estimated liabilities. According to RHCA, in 2006 $154 million in assets supported accrued liabilities of $4.264 billion, leaving the plan with unfunded liabilities of $4.074 billion and a funded ratio of 3.6 percent.

	2006	2008	2010	2012
GASB Statement	43	43	43	43
Actuarial Accrued Liability	$ 4,264,180,967	$ 3,116,915,900	$ 3,523,664,871	$ 3,915,114,104
Actuarial Value of Assets	$ 154,538,668	$ 170,626,271	$ 176,922,935	$ 227,487,895
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Total Participants	140,292	130,381	146,166	146,590
	2014	**2016**	**2017**	**2018**
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Actuarial Value of Assets	$ 377,087,017	$ 471,978,347	$ 579,468,641	$ 657,656,294
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Funded Ratio	10.08%	11.04%	11.34%	13.14%
Covered Payroll	$ 3,941,587,760	$ 4,271,183,612	$ 4,165,647,340	$ 4,290,616,760
Total Participants	155,098	159,642	160,035	156,025

While RHCA has been successful in growing total assets in the retiree health care fund, as of June 30, 2018 the plan had only $658 million in assets to cover $5 billion in total liabilities. According to the plan's actuaries, under current RHCA policies, projected expenses will begin to surpass projected revenue in FY22 and the trust fund will be exhausted by 2037. RHCA states that without additional revenue, future retirees may be at risk of not having access to a retiree health care benefit, despite having been required to contribute to the program throughout their career.

OTHER SIGNIFICANT ISSUES

In 2018, RHCA approved changes to the plan's administrative rules which established a minimum age limit of 55 to receive subsidies from the authority and required future retirees to work for at least 25 years before becoming eligible for the full health plan subsidy. For the past several years, RHCA has also make plan design changes to help extend the life of the plan.

CONSEQUENCE OF NOT ENACTING THE BILL

The RHCA board may need to make changes to health plans offered by the authority to ensure the plan's long term solvency. This would likely increase costs on retired public employees in the form of higher monthly premiums or other plan restrictions. RHCA indicates other options could include "conversion to the defined contribution type of program, elimination of its Medicare Supplement Plan, elimination of spousal subsidies, eliminating pre-Medicare coverage, limit access to care by narrowing the network of providers, facilities and hospitals."

RELATED BILLS

Senate Bill 14 (SB14) and House Bill 360 (HB360) would increase employer contributions to the Educational Retirement Board by 1 percentage point per year for three years. Although SB14 and HB360 would increase funding for retired employees' pensions and not retired employees' health plans, SB14, HB360, and HB95 would all increase the costs of employee benefits for school districts and charter schools.

SOURCES OF INFORMATION

- LESC Files

JWS/

NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

Retiree Health Care Fund Contributions
House Bill 95

Representative Tomas E. Salazar
Senator Elizabeth "Liz" Stefanics

Tom Sullivan, President
Joe Montaño, Vice President
Doug Crandall, Secretary
David Archuleta, Executive Director

House Bill 95

Legislative Proposal

- Increase employee/employer contributions from 3 percent to 4.5 percent incrementally from FY20 – FY23
- Increase employee/employer contributions under enhanced plans from 3.75 percent to 5.25 percent from FY20-23

	Non-Enhanced			Enhanced		
FY19 - Current	1.00%	2.00%	3.00%	1.25%	2.50%	3.75%
FY20	1.00%	2.50%	3.50%	1.25%	3.00%	4.25%
FY21	1.00%	3.00%	4.00%	1.25%	3.50%	4.75%
FY22	1.25%	3.00%	4.25%	1.50%	3.50%	5.00%
FY23	1.50%	3.00%	4.50%	1.75%	3.50%	5.25%

- Fiscal Impact

	Legislative Proposal						Additional	Est.
	Employee	Employer	Total	Employee	Employer	Total	Revenue	GF Impact
FY19	1.00%	2.00%	3.00%	$ 43,549,337.00	$ 87,098,674.00	$130,648,011.00	NA	NA
FY20	1.000%	2.500%	3.500%	$ 43,549,337.00	$ 108,873,342.50	$152,422,679.50	$ 21,774,668.50	$ 11,976,067.68
FY21	1.000%	3.000%	4.000%	$ 43,549,337.00	$ 130,648,011.00	$174,197,348.00	$ 21,774,668.50	$ 11,976,067.68
FY22	1.250%	3.000%	4.250%	$ 54,436,671.25	$ 130,648,011.00	$185,084,682.25	$ 10,887,334.25	
FY23	1.500%	3.000%	4.500%	$ 65,324,005.00	$ 130,648,011.00	$195,972,016.00	$ 10,887,333.75	

House Bill 95 Impact and Purpose

Employee Impact --- $40,000 annual salary

- FY19-FY21 - $400 per year / $15.38 per pay period
- FY22 - $500 per year / $19.23 per pay period ($3.85 per pay period increase)
- FY23 - $600 per year / $23.08 per pay period ($7.70 per pay period increase)

Results

- Prevent the insolvency of the program in 2037
  - Solvency period extends beyond 30 years – 2049 trust fund balance exceeds $5 billion
  - Ensure program exists for current contributors
- Pre-fund future benefits
- Reduce net OPEB liabilities
- Increase plan fiduciary net position
- More closely align average benefits received over the course of an average retirement with average contributions made over the course of an average career

Historical Contributions

Employee and employer contributions since creation of Retiree Health Care Act:

	Employee	Employer	Total
1990 - 2001 (12 years)	0.500%	1.000%	1.500%
2002 - 2009 (8 years)	0.650%	1.300%	1.950%
2010 (1 year)	0.833%	1.660%	2.493%
2011 (1 year)	0.917%	1.840%	2.757%
2012 - 2019 (8 years)	1.000%	2.000%	3.000%
2020	1.000%	2.500%	3.500%
2021	1.000%	3.000%	4.000%
2022	1.250%	3.000%	4.250%
2023 and beyond	1.500%	3.000%	4.500%

Retiree Health Care Authority Act - 1990

10-7C-1 through 10-7C-16 NMSA 1978

- Purpose to provide comprehensive core group health insurance for persons who have retired from certain public service in New Mexico
- Legislative Findings (10-7C-3)
  - Public employees face a severe problem in securing continuing medical insurance upon retirement citing medical care inflation exceeding general inflation for the past decade (1990)
  - Public employees covered by the Act have entered into public employment in circumstances where they have received in exchange for their services a present salary and an expectation of receiving a future stream of benefits, including certain retirement benefits
  - Nothing in the Act shall prohibit the legislature from increasing or decreasing participating employer or employee contributions, eligible retiree premiums or group health insurance coverage
- Board Duties (10-7C-7)
  - Administration of program to include: procurement, promulgate and adopting rules, regulations and procedures for the governance of eligibility, participation, enrollment, length of service requirements and other conditions

Retiree Health Care Authority Act Continued

2009 Session

- HB 351 – Retiree Health Care Act Contributions, Chapter 287
  - Increased funding to NMRHCA by increasing employee and employer contributions from 1.95 percent to 3 percent over a 4 year period / 1.95 percent to 3.75 percent for "enhanced plans"
  - Removed sunset on $3 million yearly supplemental distribution from Tax Suspense Fund initiated in 2007
- HB 573 – Adjustment of Retirement Plans, Chapter 288
  - PERA and ERB adjustments in addition to changes included in HB 351
  - *Chapter 10-7C-15. Section G – Notwithstanding any other provision in the Retiree Health Care Act and at the first session of the legislature following July 1, 2013, 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 Retiree Health Care Act*

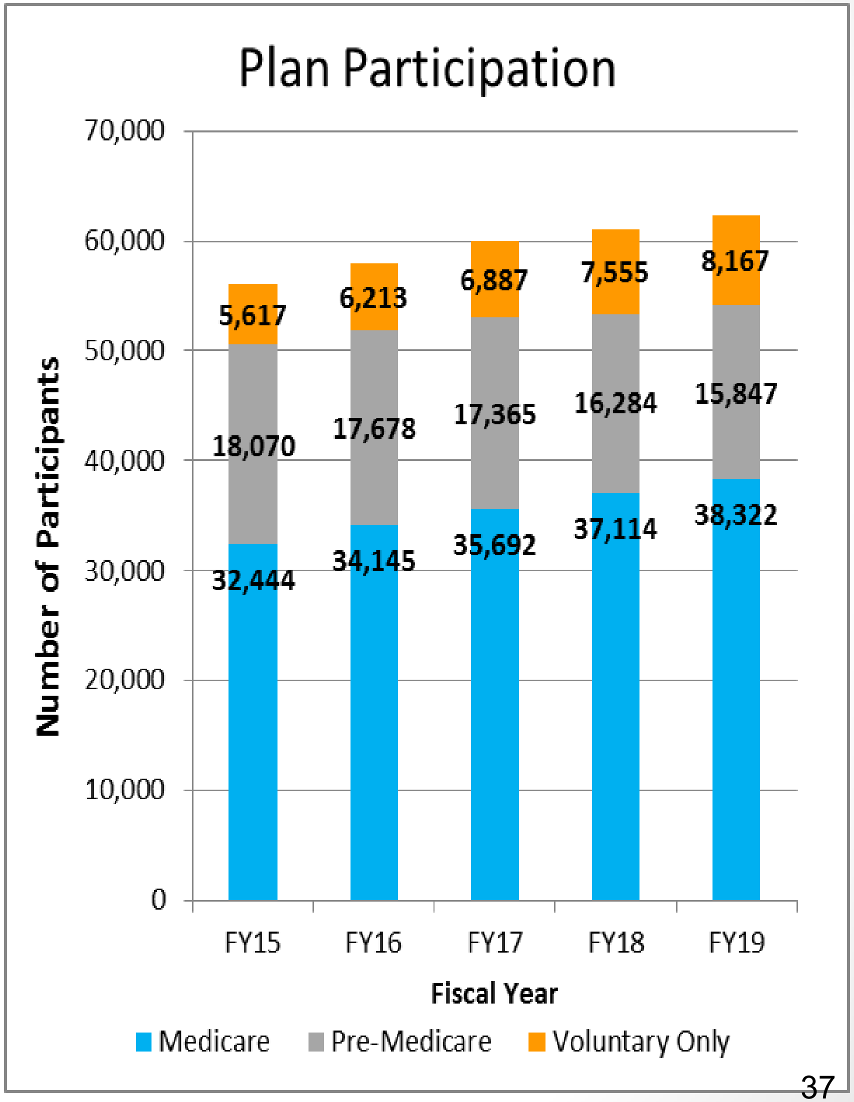
Program Composition and Participation

Active participation – 93,349 (6/30/18)

- Public Employer Groups - 302
  - Schools – 50%
  - State agencies – 25%
  - Local government– 25%

Retiree participation – 63,504 (2/1/19)

- Medicare - 39,114
- Pre-Medicare - 15,754
- Voluntary Only - 8,636
- Retirees - 39,809
- Spouses/DP – 13,103
- Dependent Children – 1,956
- Average Age – 69.91
  - Enrollment – 60.39 (2018)
- Retirees Under age 55 – 2,297



Budget & Finance

FY19 Budget

Healthcare Benefits Administration

- Uses:
  - Benefits - $332.5 million
  - ACA Fees - $35,000
  - Other Financing Uses - $3 million (operations)
- Sources:
  - EE/ER Contributions - $128.3 million
  - Retiree Contributions - $150.5 million
  - Tax & Rev Suspense Fund - $29.4 million
  - Misc. Revenue - $27.2 million
  - Interest - $60,000

Program Support (27 FTE)

- Salaries & Benefits - $1.9 million
- Contractual Services - $566,000
- Other Costs - $544,000

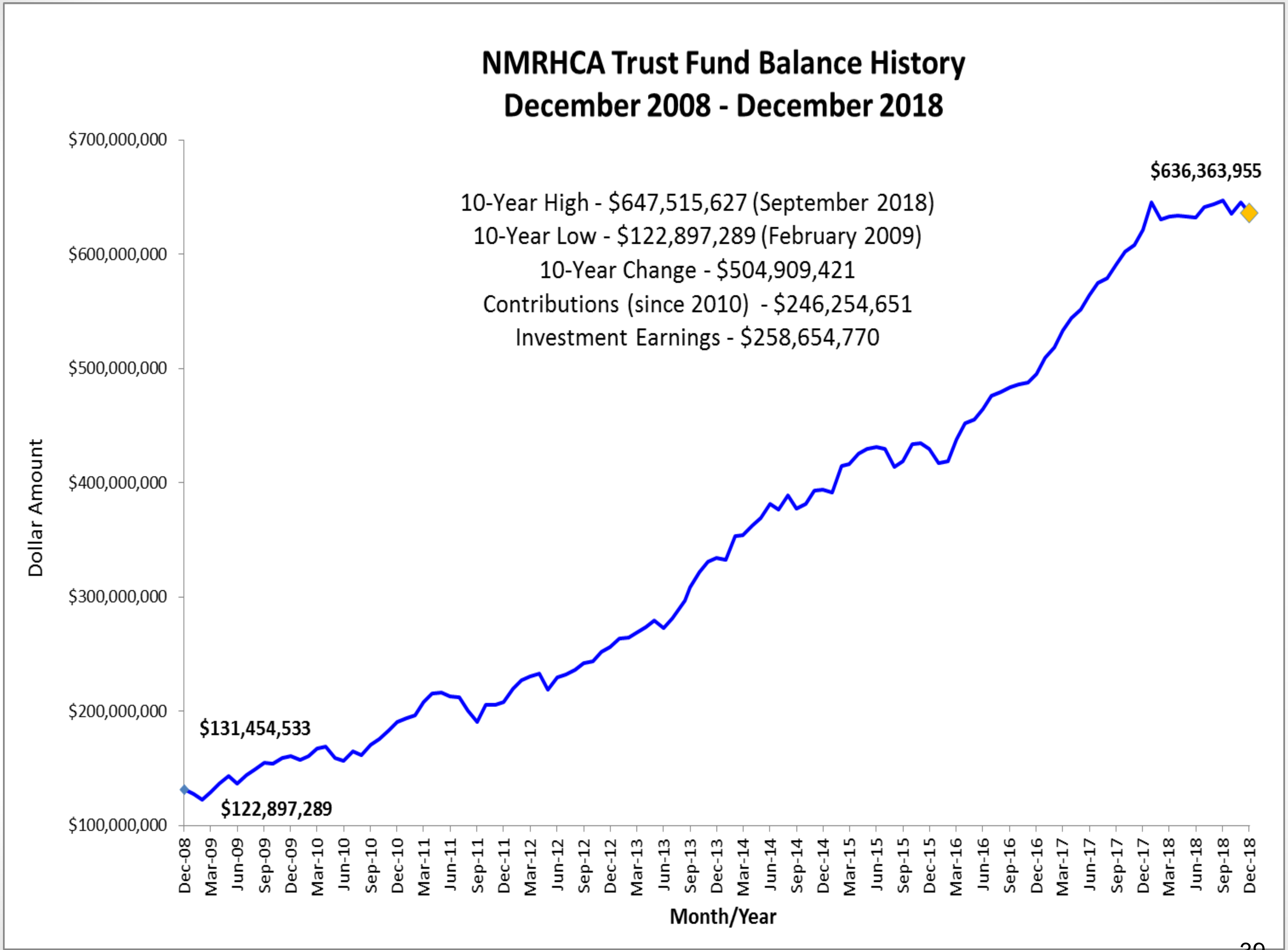
Finance

NMRHCA Trust Fund

- Investments held by State Investment Council (SIC)
- NMRHCA charged pro rata portion of investment fees
- 2018 Asset Allocation – performed by Wilshire
- December 31, 2018 Balance - $636 million
- Current Allocation

Current Allocation	Percent
US Large Cap	14
US Small Cap	2
Non US Dev Index	14
Emerging Markets	10
Core Bonds	20
Private Equity	10
Real Estate	10
Credit & Structured Finance	15
Real Return	5

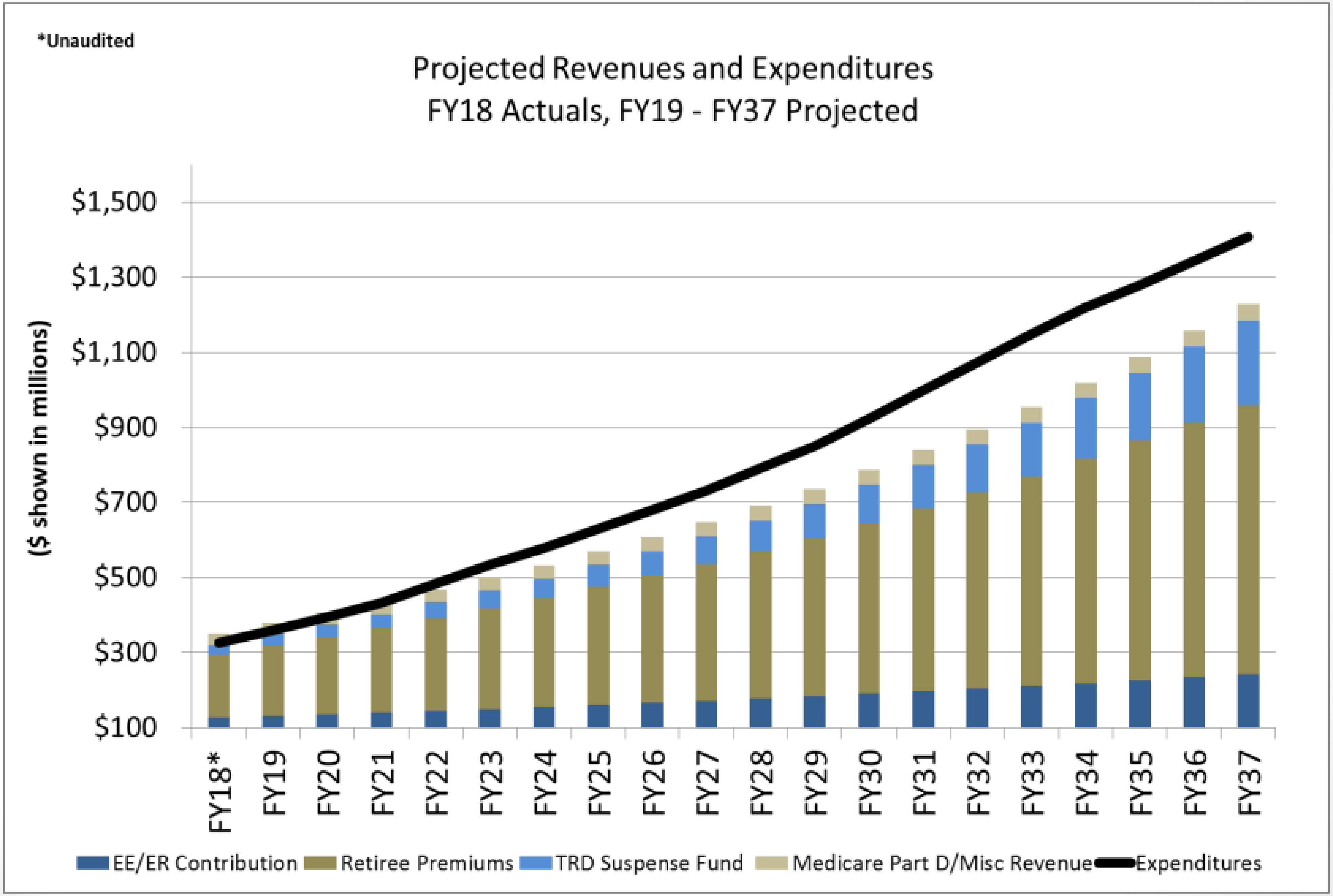
8


NMRHCA Trust Fund Balance History
December 2008 - December 2018
10-Year High - $647,515,627 (September 2018)
10-Year Low - $122,897,289 (February 2009)
10-Year Change - $504,909,421
Contributions (since 2010) - $246,254,651
Investment Earnings - $258,654,770
$636,363,955
$131,454,533
$122,897,289
Dollar Amount
Month/Year

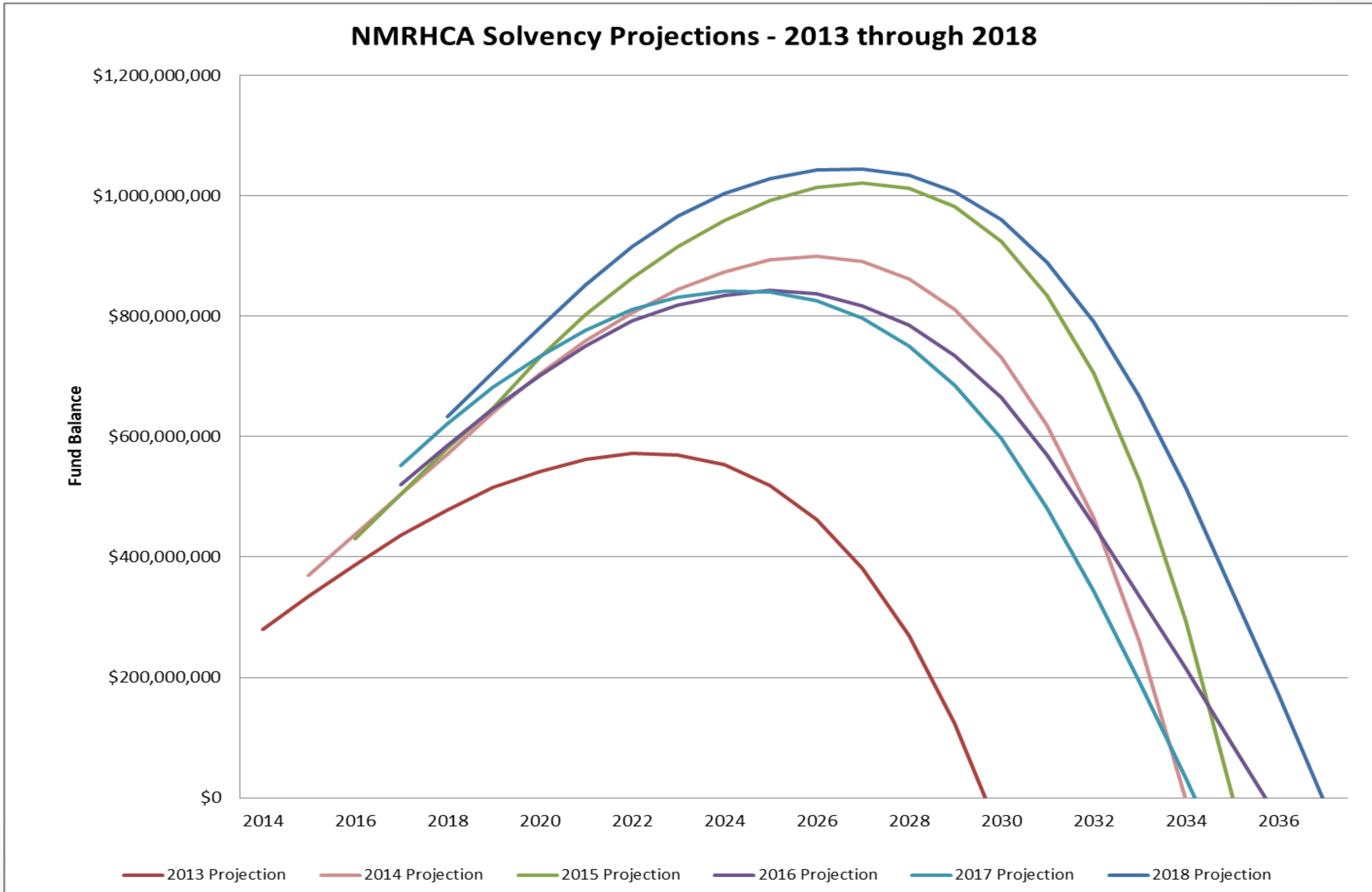
Solvency Analysis

- Solvency Study Performed Annually
  - Analysis of future cash inflows and outflows
  - Used for strategic planning purposes
    - Plan design i.e., copays, deductibles, coinsurance
    - Subsidy levels
    - Network/medical and prescription drug access
- 2018 Projected Year of Deficit Spending - 2022
  - Expenditures exceed revenues - $15.3 million
- 2018 Projected Year of Insolvency: FYE 2037 (18 years)
  - FY37 Projected Expenditures - $1.3 billion
  - FY37 Projected Revenues - $1.2 billion

2018 Solvency Analysis



Solvency Results (2013 -2018)



NMRHCA GASB History

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

Previous Legislation

NMRHCA Sponsored

- 2013 – Introduced legislation requesting 2.5% total contribution increase – passed through multiple committees in both chambers, but received no floor votes
- 2014 – Introduced legislation requesting 2.5% total contribution increase – passed through multiple committees in both chambers and passed house floor vote
- 2015 – Introduced legislation requesting 1.25% contribution increase – passed through multiple committees in both chambers and passed house floor vote
- 2016 – Introduced legislation requesting 1.25% contribution increase – passed through multiple committees in both chambers and passed house floor vote

Enacted Legislation

- 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

Resulting Impact

- Solvency period reduced to 2030 (post SB7 implementation)
- Projected deficit spending 2020
- Reduction of over $400 million revenues over life of Trust Fund
- Need for increase in employee & employer contributions

NMRHCA Program Benefits

Pre-Medicare

- Premier PPO Plan (BCBS and Presbyterian) -- $260.76 per month*
  - $800 deductible / $4,500 annual out-of-pocket maximum
- Value HMO Plan (BCBS and Presbyterian) -- $203.69 per month*
  - $1,500 deductible / $5,500 annual out-of-pocket maximum

Medicare

- Medicare Supplement (BCBS) -- $211.96 per month*
- Medicare Advantage Plans -- Costs range: $22.15 - $94.68 per month*
  - Presbyterian, BCBS, Humana and UnitedHealthcare

Voluntary Coverages

- Dental (Delta Dental and United Concordia) -- $17.78 - $42.93 per month
  - Comprehensive & Basic
- Vision -- $4.76 per month
  - Davis Vision
- Life Insurance ($2,000 - $60,000) -- $0.68 - $164.00 per month
  - The Standard

*20 years of service

Market Plan Comparison

2019 Market Comparison of Commercially Available Plans (Pre-Medicare)

New Mexico Health Care Exchange Plans	Retiree Premium	Spouse Premium	Ret + Spouse Premium	Plan Type	Plan Level	Deductible Individual	Out-of-Pocket Max Individual	First Dollar Coverage: Y/N
Blue Cross Blue Shield - Age: 60 - Albuquerque	$884	$884	$1,767	HMO	Gold	$350	$7,900	N
NM Health Connections - Age: 60 - Albuquerque	$740	$740	$1,480	HMO	Gold	$500	$7,900	Y
Blue Cross Blue Shield - Age: 60 - Albuquerque	$907	$907	$1,813	HMO	Silver	$1,100	$7,900	N
NM Health Connections - Age: 60 - Albuquerque	$725	$725	$1,451	HMO	Silver	$5,000	$7,900	Y
Blue Cross Blue Shield - Age: 60 - Albuquerque	$713	$713	$1,427	HMO	Bronze	$3,150	$6,650	N
NM Health Connections - Age: 60 - Albuquerque	$605	$605	$1,210	HMO	Bronze	$6,750	$6,750	N
Blue Cross Blue Shield - Age: 60 - Santa Fe	$1,007	$1,007	$2,014	HMO	Gold	$350	$7,900	N
NM Health Connections - Age: 60 - Santa Fe	$831	$831	$1,662	HMO	Gold	$500	$7,900	Y
Blue Cross Blue Shield - Age: 60 - Santa Fe	$1,038	$1,038	$2,077	HMO	Silver	$1,100	$7,900	N
NM Health Connections - Age: 60 - Santa Fe	$815	$815	$1,629	HMO	Silver	$5,000	$7,900	Y
Blue Cross Blue Shield - Age: 60 - Santa Fe	$827	$827	$1,654	HMO	Bronze	$3,150	$6,650	N
NM Health Connections - Age: 60 - Santa Fe	$679	$679	$1,359	HMO	Bronze	$6,750	$6,750	N
Blue Cross Blue Shield - Age: 60 - Las Cruces	$1,138	$1,138	$2,276	HMO	Gold	$350	$7,900	N
NM Health Connections - Age: 60 - Las Cruces	$810	$810	$1,619	HMO	Gold	$500	$7,900	Y
Blue Cross Blue Shield - Age: 60 - Las Cruces	$1,180	$1,180	$2,359	HMO	Silver	$1,100	$7,900	N
NM Health Connections - Age: 60 - Las Cruces	$794	$794	$1,588	HMO	Silver	$5,000	$7,900	Y
Blue Cross Blue Shield - Age: 60 - Las Cruces	$947	$947	$1,894	HMO	Bronze	$3,150	$6,650	N
NM Health Connections - Age: 60 - Las Cruces	$662	$662	$1,324	HMO	Bronze	$6,750	$6,750	N

Alternatives

- Convert to a defined contribution program
  - Flat monthly contribution toward purchase of coverage regardless of overall cost
- Eliminate subsidies for spouses and domestic partners (Pre-Medicare/Medicare)
- Eliminate subsidies for all Pre-Medicare coverage
  - Medicare Only Plan
- Eliminate Medicare Supplement Plan
- Limit access to care i.e., narrow/limited network for doctors, facilities and hospitals
- Implement mandatory mail order for all maintenance medications (Pre-Medicare Plans)

NEW MEXICO RETIREE HEALTH CARE AUTHORITY
CHANGE IN NET ASSET VALUE
FOR THE MONTH ENDED
November 30, 2018

	Large Cap Index	Non US Dev Index	Non US Emg Index	Small Mid Cap	Credit and Structure	Core Bond	Private Equity	Real Estate	Real Asset	Total
Market Value 10/31/2018	$85,562,487.26	$84,234,717.93	$58,737,210.62	$11,568,499.81	$98,769,265.48	$130,148,873.42	$69,097,310.67	$65,703,357.70	$31,875,042.72	$635,696,765.72
CONTRIBUTIONS	700,000.00	700,000.00	500,000.00	100,000.00	750,000.00	1,000,000.00	500,000.00	500,000.00	250,000.00	5,000,000.00
WITHDRAWALS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FEES	(2,214.60)	(8,978.30)	(25,439.86)	(18,857.77)	0.00	(23,380.27)	0.00	0.00	(11,113.64)	(89,984.44)
INCOME EARNED	204,143.42	151,317.84	50,794.66	16,294.59	78,181.55	300,937.40	37,876.76	103,117.47	117,874.52	1,060,538.21
CAPITAL APPR/DEPR	1,550,147.21	(347,449.57)	2,318,230.30	55,964.10	159,360.09	550,989.47	(61,162.35)	(103,173.75)	(215,262.92)	3,907,642.69
Market Value 11/30/2018	$88,014,563.29	$84,729,607.90	$61,580,795.72	$11,721,900.73	$99,756,807.12	$131,977,420.02	$69,574,025.08	$66,203,301.42	$32,016,540.68	$645,574,962.18

NEW MEXICO RETIREE HEALTH CARE AUTHORITY
CHANGE IN NET ASSET VALUE
FOR THE MONTH ENDED
December 31, 2018

	Large Cap Index	Non US Dev Index	Non US Emg Index	Small Mid Cap	Credit and Structure	Core Bond	Private Equity	Real Estate	Real Asset	Total
Market Value 11/30/2018	$88,014,563.29	$84,729,607.90	$61,580,795.72	$11,721,900.73	$99,756,807.12	$131,977,420.02	$69,574,025.08	$66,203,301.42	$32,016,540.68	$645,574,962.18
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	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
INCOME EARNED	148,019.70	114,021.45	178,292.57	52,083.38	3,080.03	313,413.66	78,666.61	219,089.82	138,602.98	1,245,270.20
CAPITAL APPR/DEPR	(8,146,152.14)	(4,593,796.90)	(880,330.11)	(1,164,636.91)	(530,456.68)	2,292,238.97	2,221,412.54	940,162.79	(594,718.86)	(10,456,277.52)
Market Value 12/31/2018	$80,016,430.85	$80,249,832.45	$60,878,758.18	$10,609,347.20	$99,229,430.47	$134,583,072.65	$71,874,104.23	$67,362,554.03	$31,560,424.80	$636,363,954.86

WILSHIRE ASSOCIATES

New Mexico Retiree Health Care Authority

Asset Allocation Follow Up

Thomas Toth, CFA
Managing Director

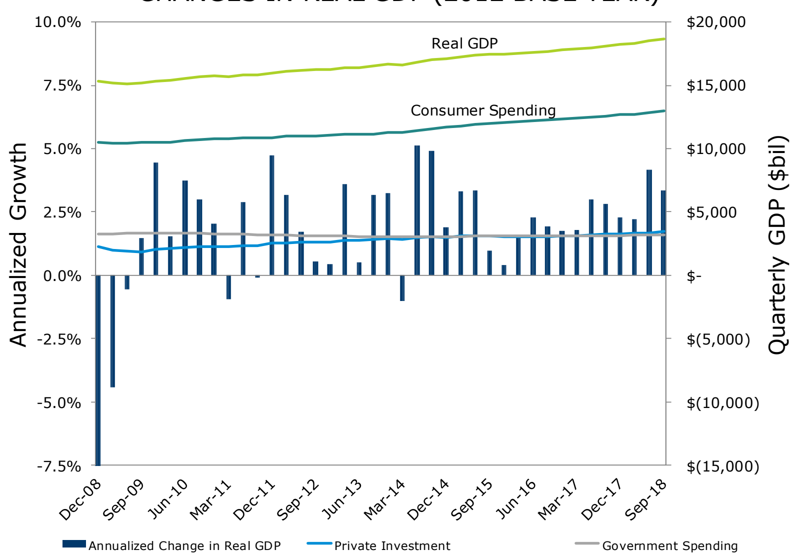
January 2019

ECONOMIC REVIEW

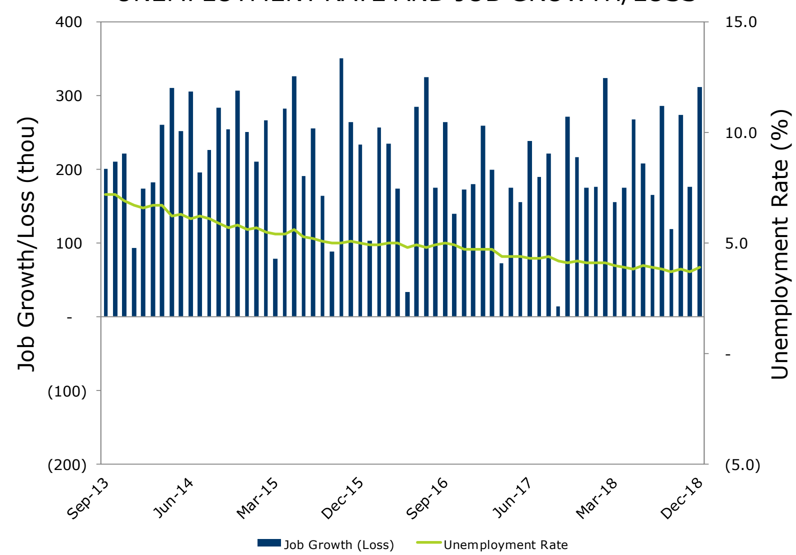
AS OF DEC. 31, 2018	KEY ECONOMIC INDICATORS			
CPI (ALL ITEMS)	MONTHLY CHANGE		CUMULATIVE CHANGE	
SEASONALLY ADJUSTED	Dec-18	-0.1	3-Mo.	0.3
	Nov-18	0.0	12-Mo.	1.9
	Oct-18	0.3	10-Yr. (Annual)	1.8
BREAKEVEN INFLATION	10-Yr.	1.7		
CONSUMER SENTIMENT	Dec-18	98.3		
U. OF MICHIGAN SURVEY	Nov-18	97.5		
	1-Yr. Ago	95.9	10-Yr. Avg	82.5
MANUFACTURING	Dec-18	54.1	CHANGE IN SECTOR	
INST. FOR SUPPLY MGMT	Nov-18	59.3	>50	Expansion
PURCHASING MNGRS' IDX	1-Yr. Avg.	58.8	<50	Contraction

Note: Seasonally adjusted CPI data is utilized to better reflect short-term pricing activity.

CHANGES IN REAL GDP (2012 BASE YEAR)



UNEMPLOYMENT RATE AND JOB GROWTH/LOSS

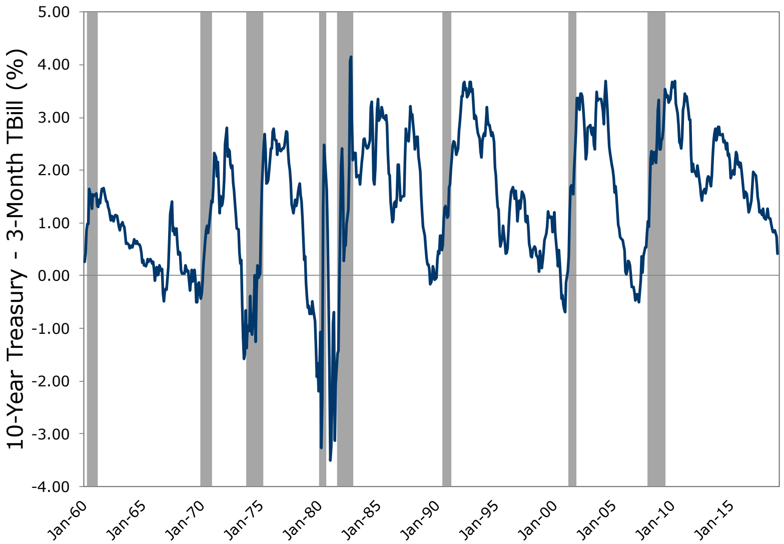


Data sources: Bureau of Labor Statistics, U.S. Treasury, University of Michigan, Institute for Supply Management, Bureau of Economic Analysis

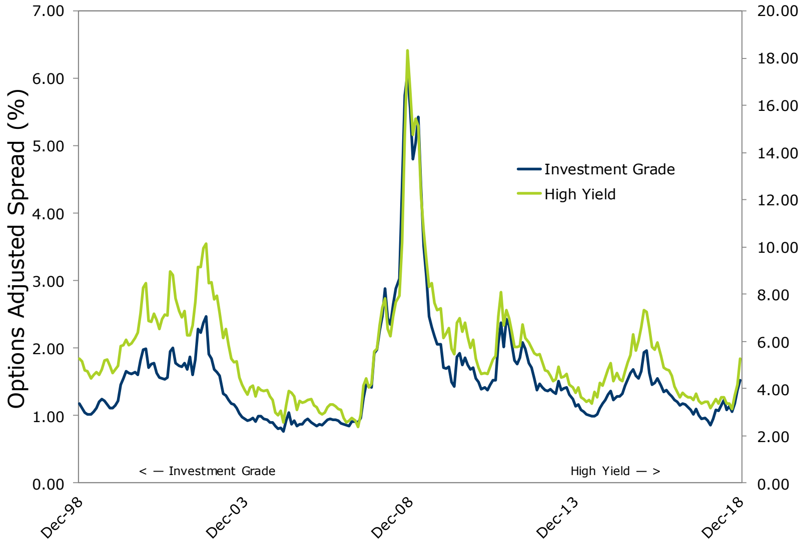
Wilshire Consulting

RISK MONITOR

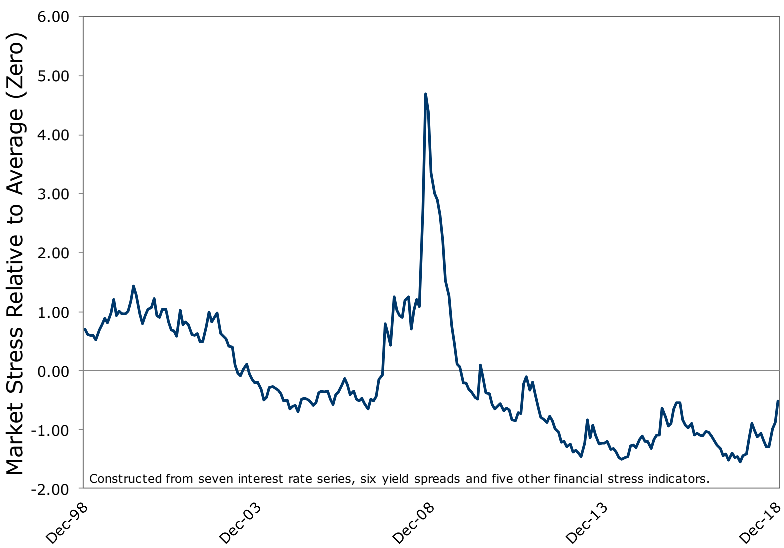
YIELD CURVE SLOPE VS RECESSIONS (IN GRAY)



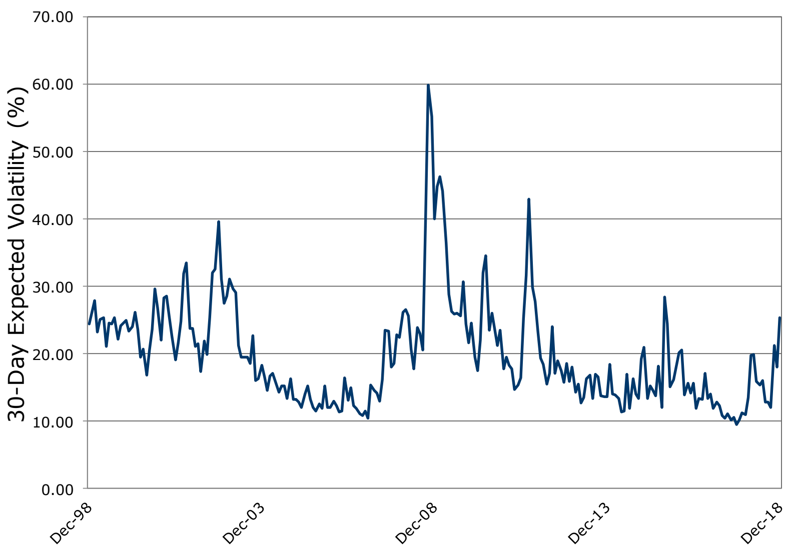
BLOOMBERG BARCLAYS CREDIT INDEXES



ST. LOUIS FED FINANCIAL STRESS INDEX



CBOE VOLATILITY INDEX

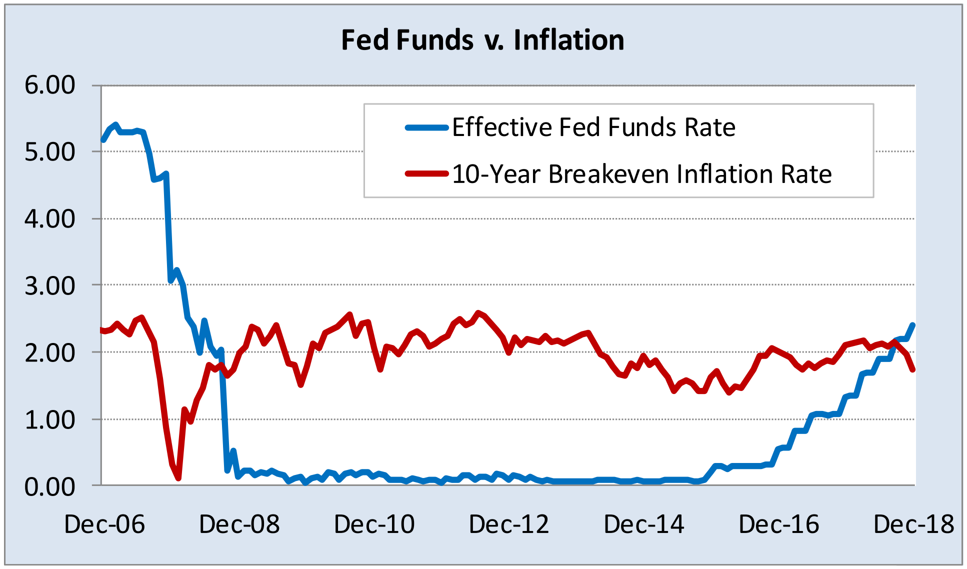


Data sources: Federal Reserve, Bloomberg Barclays

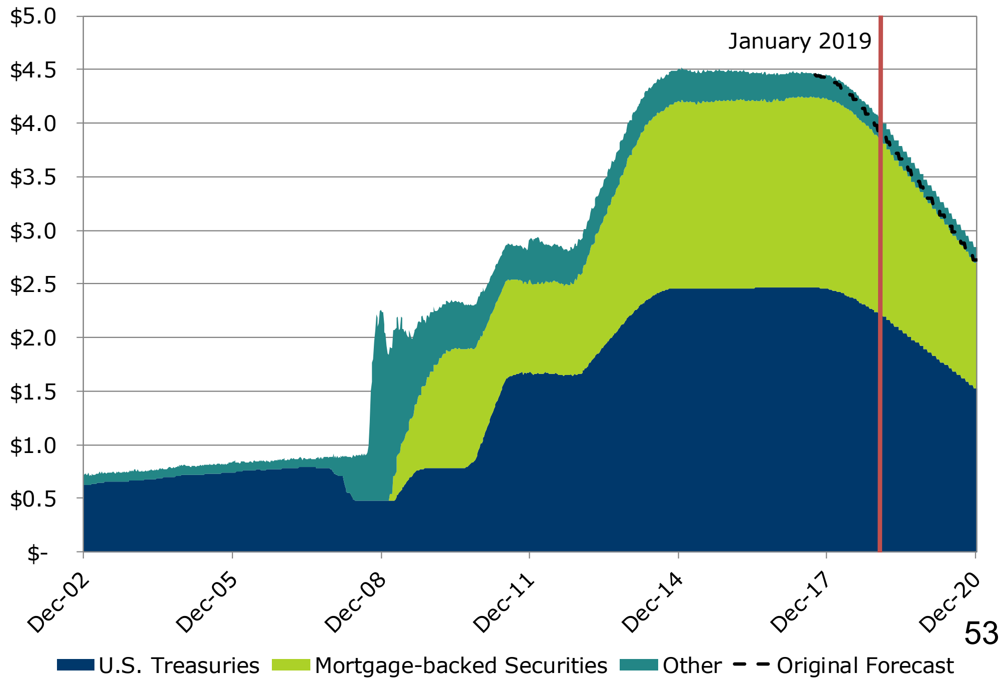
Wilshire Consulting

U.S. MONETARY POLICY

- Nominal discount rate moved above expected inflation during 2018 for the first time since the global financial crisis
- Investors can once again earn a positive real return from cash, ending a decade-long period of financial repression
- Federal Reserve discussing potential to end balance sheet reduction and maintain larger portfolio of securities



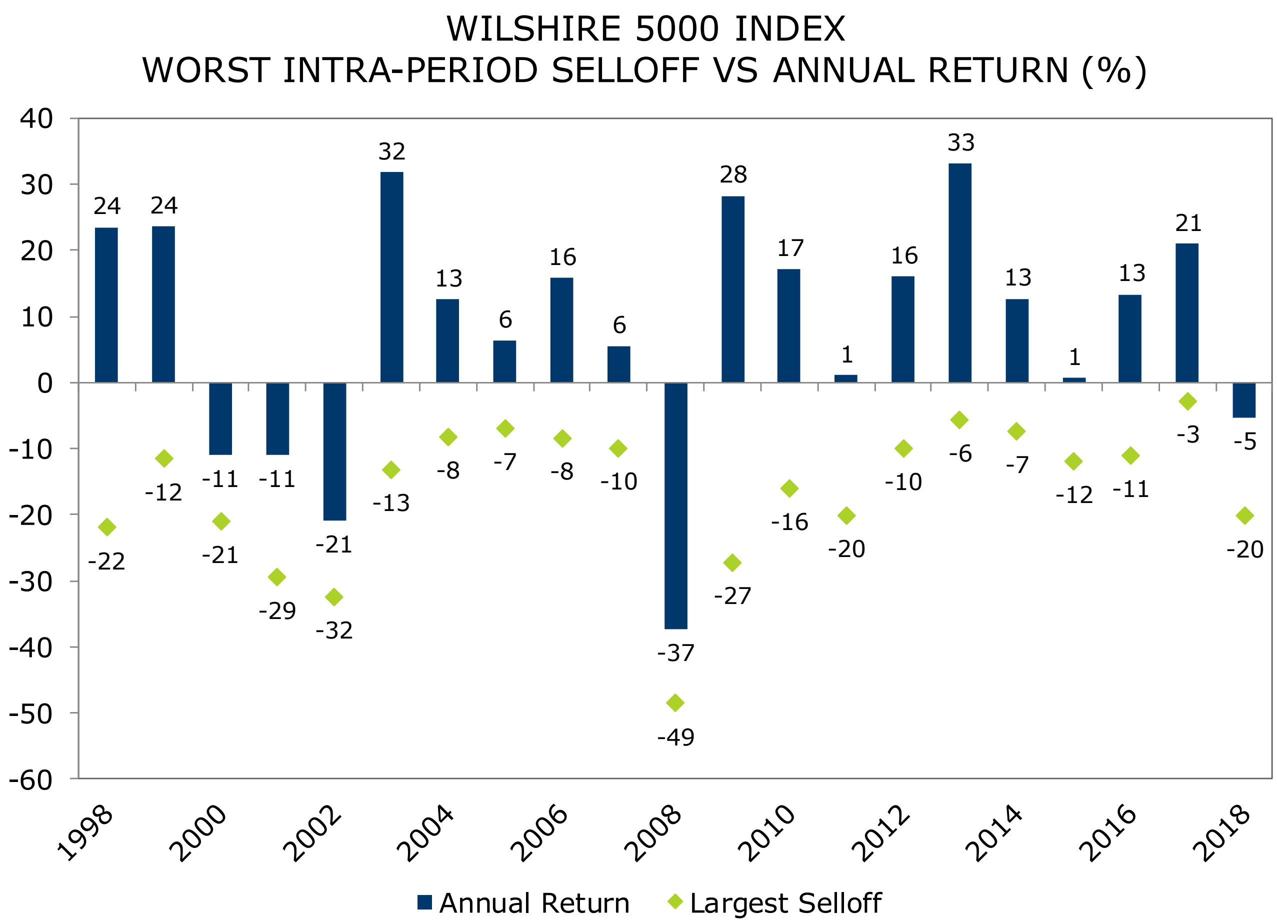
FEDERAL RESERVE: BALANCE SHEET FORECAST ($T)



Data source: Federal Reserve

ANNUAL EQUITY RETURNS

- 2018 was the first down year for the Wilshire 5000 Index since the global financial crisis
- While it was the mildest negative return in two decades, the market briefly entered a technical bear market (-20%) in late December



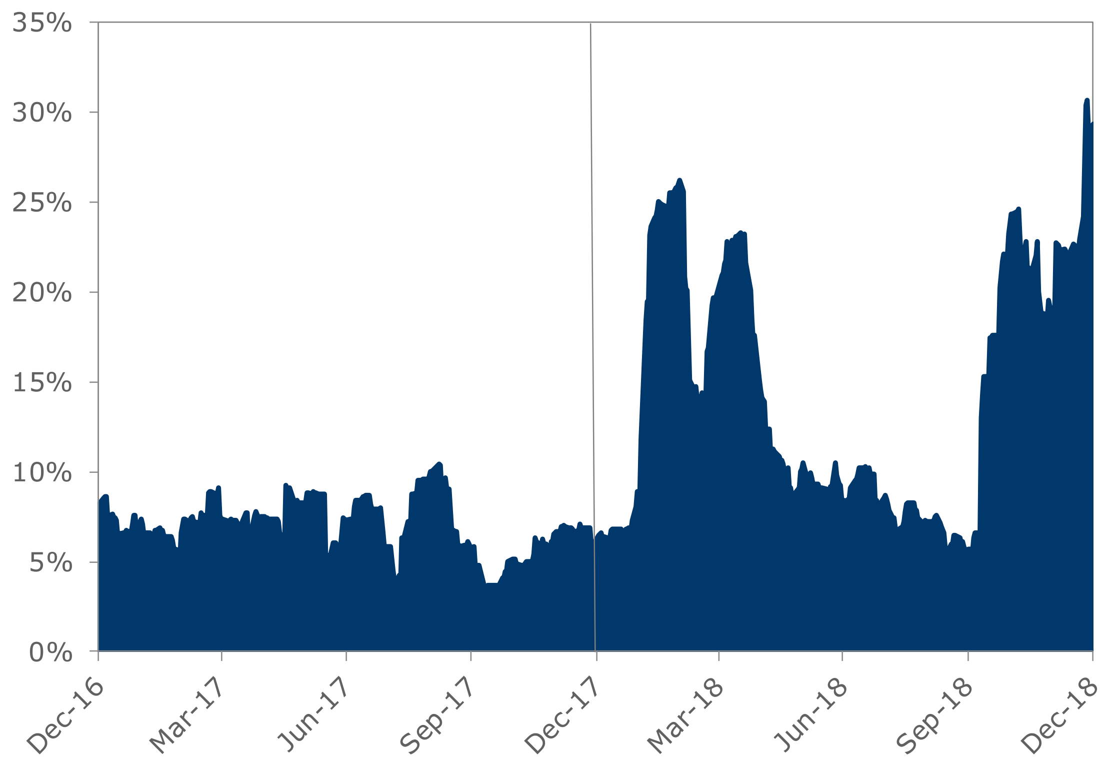
EQUITY VOLATILITY

- Volatility returned to the equity markets after a tranquil 2017
- Investor concerns included monetary tightening, global trade and future economic growth

Since 1980	Year	Annual Volatility	Largest Drawdown	Number of Days Down: 1%	2%	3%	4%	Worst Down Day
Universe Statistics	Max Risk	40.56%	-48.54%	71	42	24	17	-17.23%
	Avg	15.48%	-13.97%	28.2	7.7	2.3	1.0	-4.00%
	Med	13.33%	-9.95%	23.0	4.0	1.0	0.0	-3.34%
	Min Risk	6.96%	-2.74%	3	0	0	0	-1.36%
2017	**Level**	**6.96%**	**-2.75%**	**4**	**0**	**0**	**0**	**-1.85%**
	Rank	**1**	**2**	**2**	**1**	**1**	**1**	**7**
2018	**Level**	**16.86%**	**-20.18%**	**32**	**15**	**5**	**1**	**-4.02%**
	Rank	**29**	**31**	**25**	**33**	**32**	**27**	**27**

The "Rank" statistics reflect ordinal rankings among 39 annual observations (i.e. ranks shown are X of 39)

Wilshire 5000 Index: 20-Day Rolling Risk



MARKET CONSIDERATIONS

- Financial markets and the overall investment outlook could deteriorate if the domestic and global economy struggle with tighter financial conditions brought on by Federal Reserve rate hikes
- US trade policy, including the ongoing trade war with China, and the flattening US yield curve create an uncertain outlook for the US economy
  - Uncertainty may prevent corporations from engaging in capital expenditures and would be negative for domestic growth
- 2019 global growth expectations revised modestly lower to reflect slowdown
  - Further downward revisions would likely generate additional financial market volatility
- Downside risks are present, but an upturn in global economic data could boost investor sentiment and ignite a recovery across global markets
  - For example, Chinese stimulus succeeds in boosting flagging growth
- Elevated risks took down asset valuations in 2018
  - Positive political or economic developments could go a long way to support investor sentiment and boost risk asset performance

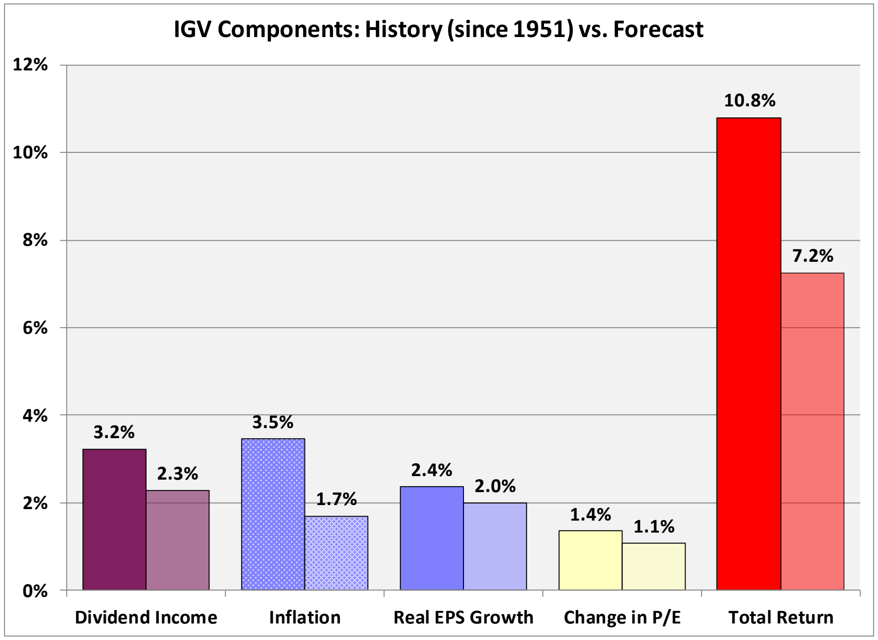
CAPITAL MARKET ASSUMPTIONS

Asset Class	10-Year Expected Compound Return (Prior Assumptions)	10-Year Expected Compound Return (Updated Assumptions)	Expected Risk
Equity Assets			
US Stock	*6.25%*	*7.00%*	*17.00%*
Non-US Developed Stock	*6.25%*	*7.50%*	*18.00%*
Emerging Markets Stock	*6.25%*	*7.50%*	*26.00%*
Fixed Income Assets			
Core Bonds	*3.80%*	*3.85%*	*5.15%*
Illiquid Alternative Assets			
Private Equity	*8.80%*	*10.05%*	*28.00%*
Real Estate	*7.35%*	*6.85%*	*14.15%*
Credit and Structured Finance	*5.80%*	*6.55%*	*8.10%*
Real Return	*8.50%*	*8.50%*	*14.35%*

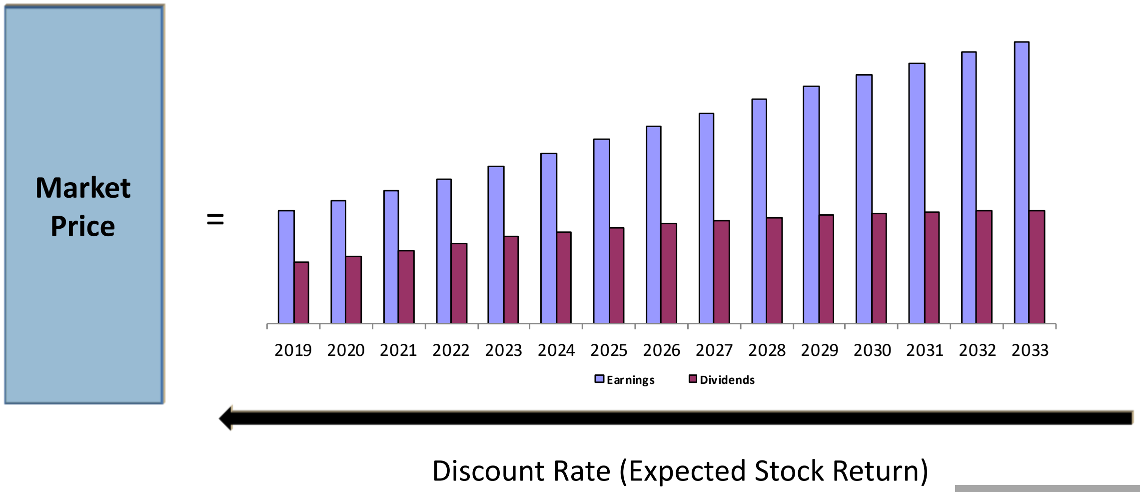
- Expected returns for equity oriented asset classes increased given the recent pull back in markets
  - Particularly pronounced in non-US and emerging markets
- Real Estate expectations are modestly reduced as yield and inflation expectations moderated at year end 2018
- Rising spreads, but still moderate default expectations, increased expected returns on Credit
- Real Return assets saw offsetting changes in the underlying assets return expectations

EQUITY RETURN FORECASTING

- Income, Growth, Valuation (IGV) Model

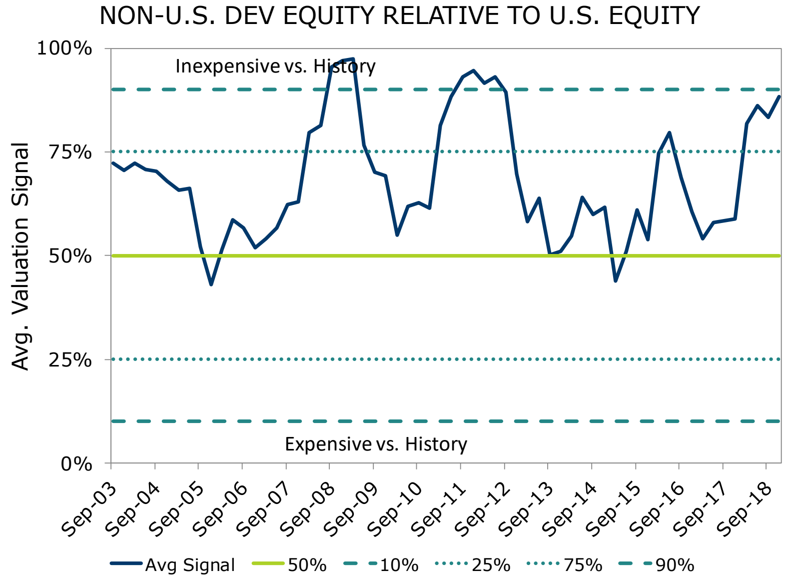


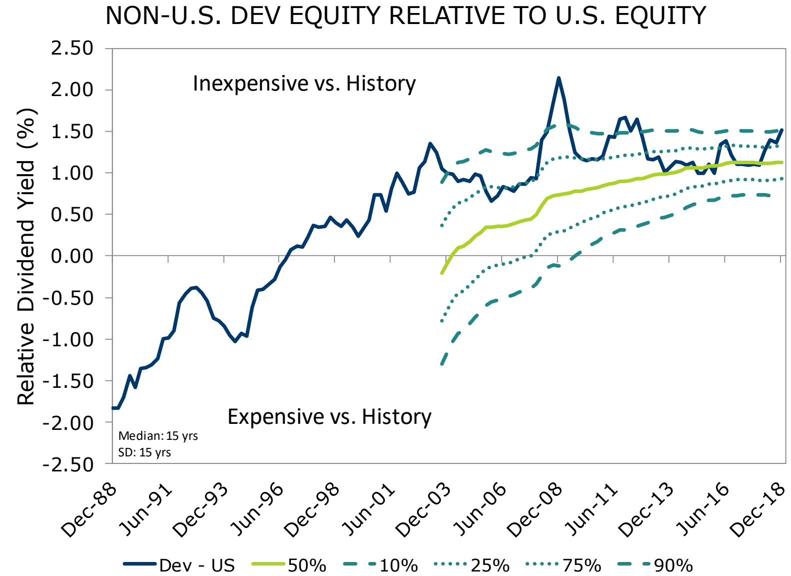
- Dividend Discount Model (DDM)
  - Year-end 2018 S&P 500 Index price of 2,507
  - Base earnings level of $157 per share
  - Earnings-per-share growth of 8.75% during the next five years, dropping incrementally to 3.75% from years six through 15
  - 55% dividend payout ratio over the next five years

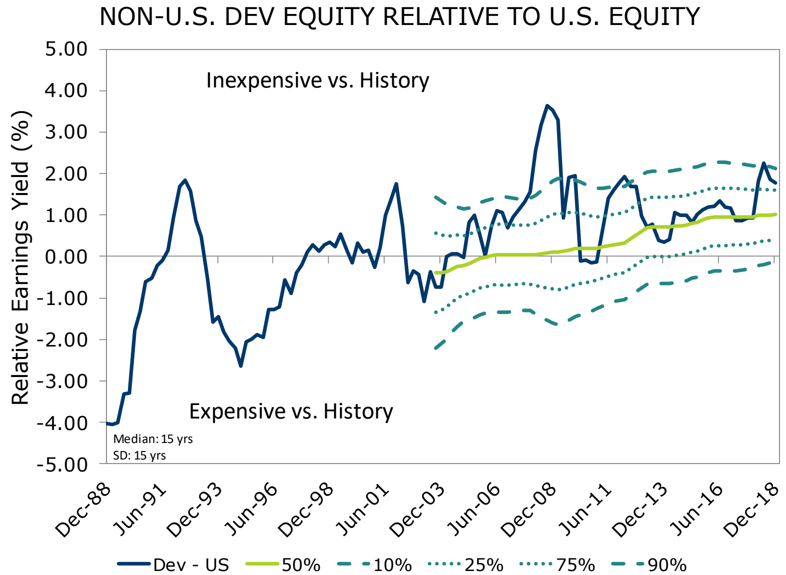


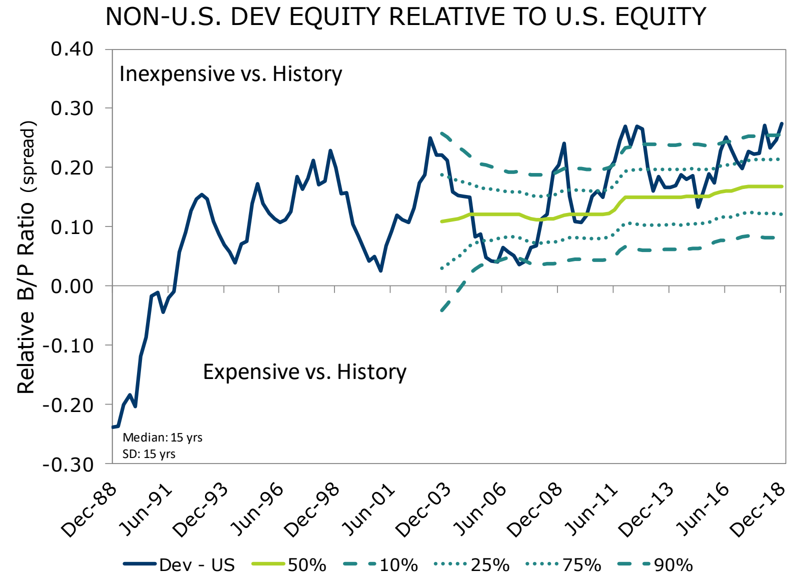
Wilshire Consulting

GLOBAL EQUITY: DEVELOPED



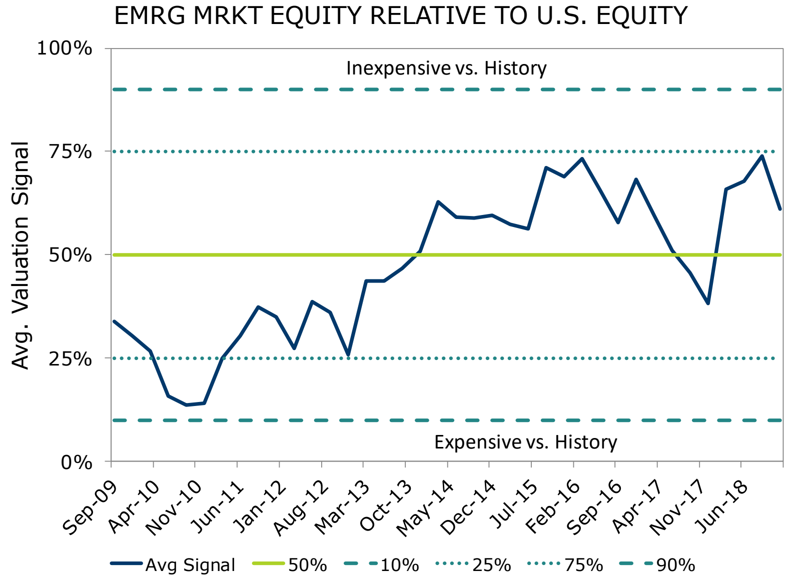


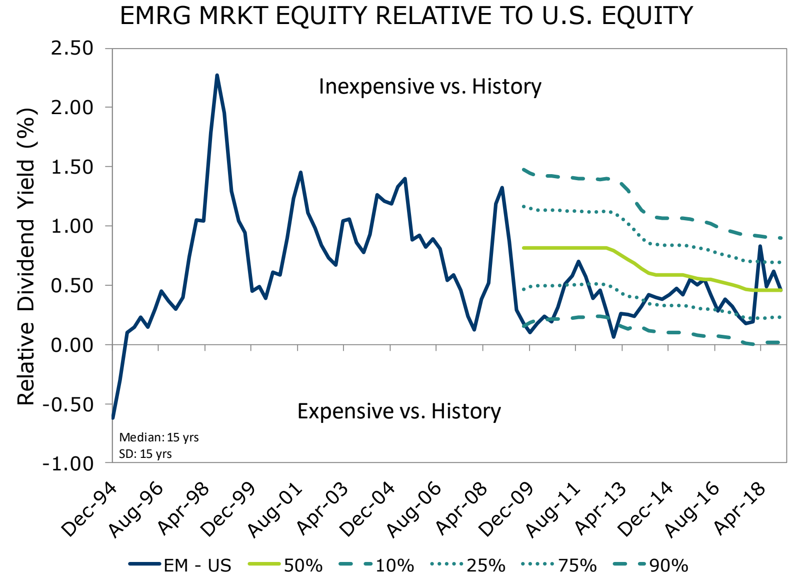


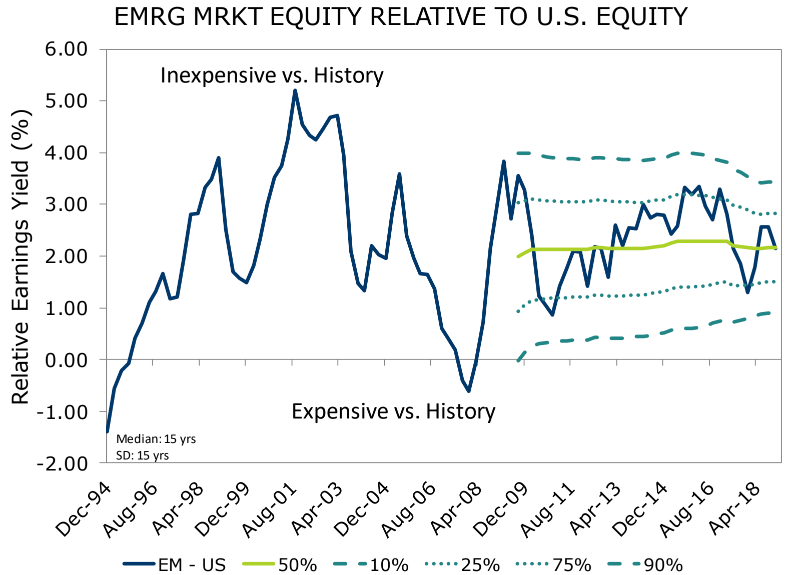


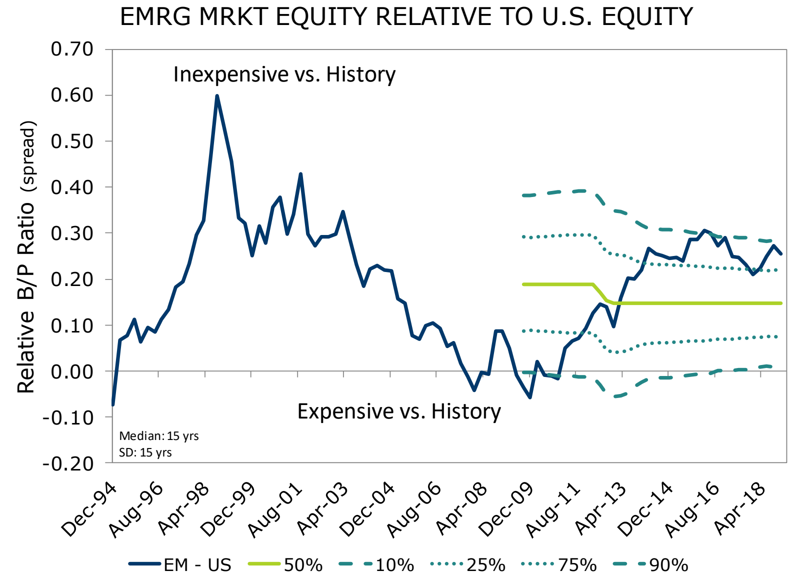
Data sources: Wilshire Compass, Wilshire Atlas

GLOBAL EQUITY: EMERGING









Data sources: Wilshire Compass, Wilshire Atlas

TARGET PORTFOLIO UPDATE

Asset Class	Adopted Asset Allocation Policy	
US Stock - Large Cap	14.00%	
US Stock - Small Cap	2.00%	
Non-US Developed Stock	14.00%	
Emerging Markets Stock	10.00%	
Total Equity	**40.00%**	
Core Bonds	20.00%	
Total Fixed income	**20.00%**	
Private Equity	10.00%	
Real Estate	10.00%	
Credit and Structured Finance	15.00%	
Real Return	5.00%	
Hedge Funds	0.00%	
Total Illiquid Alternative	**40.00%**	
Total Assets	**100.00%**	
	Prior Expectations	**Updated Expectations**
Expected Return - 10 Years (%)	**6.77**	**7.39**
Expected Return - 30 Years (%)	**7.82**	**8.03**
Standard Deviation of Return (%)	**11.93**	**11.93**
+/(-) in Expected Return - 10 Years (bps)		62
+/(-) in Expected Return - 30 Years (bps)		21
+/(-) in SD of Return (bps)		0
Sharpe Ratio	**0.39**	**0.40**
Contribution to Asset Volatility (%):		
Equity	57.3	57.3
Fixed Income	2.7	2.7
Illiquid Alternative	40.0	40.0
Growth Factor	6.1	6.1
Inflation Factor	1.6	1.6
Liquidity (%)		
Market Level	59.0	59.0
Stressed	37.0	37.0

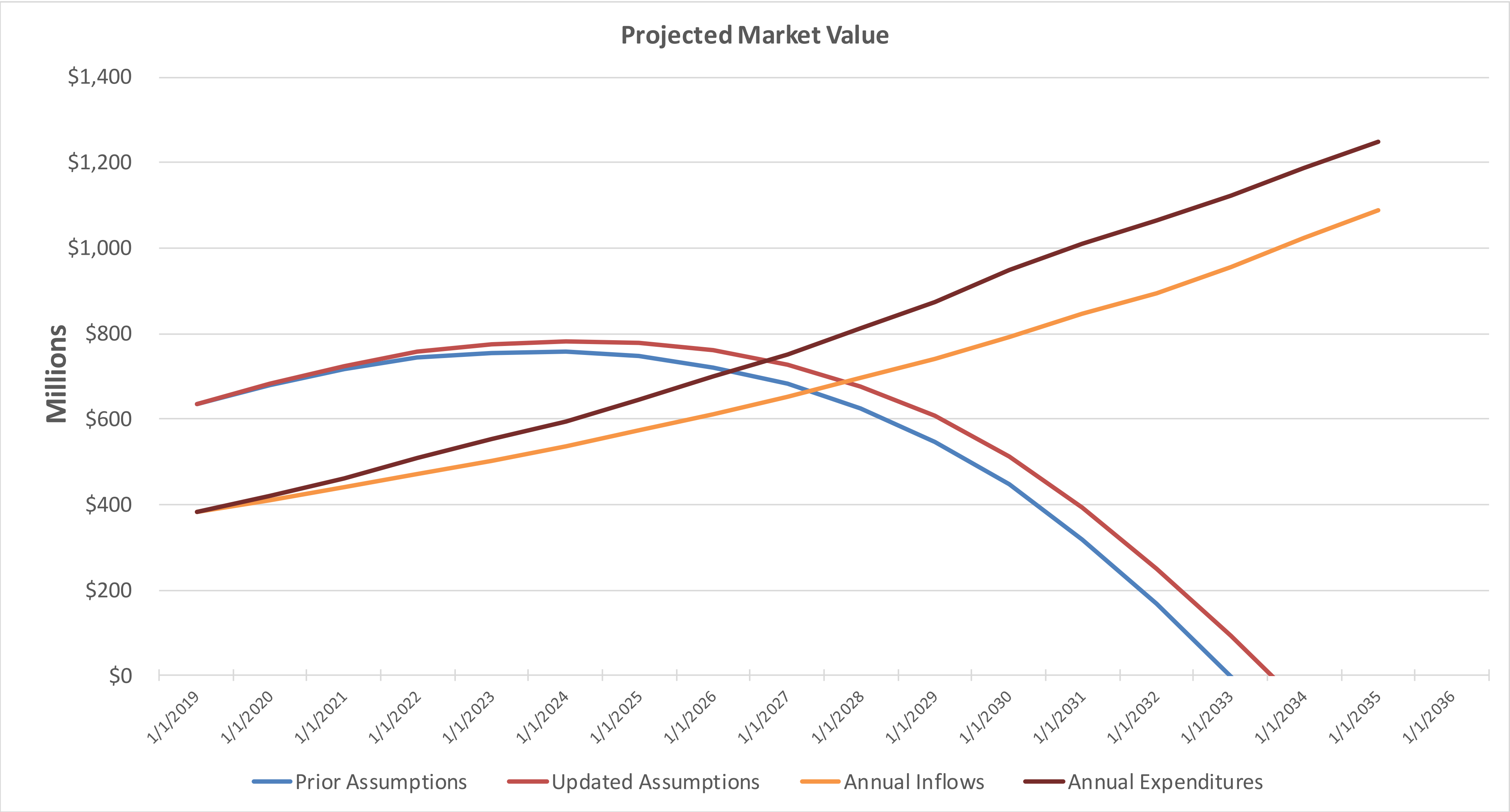
- Total Portfolio expected return increased by 62 bps over the 10 year forecast horizon
  - Primarily driven by increased expectations in equity oriented assets
- Portfolio expected risk remained the same
- Expected risk adjusted return improves moderately with a higher Sharpe Ratio
- No changes in risk contributions by asset class, factor exposures or liquidity metrics

UPDATED RETURN PROBABILITIES

Probabilities Using Wilshire Capital Market Assumptions	Updated Assumptions	Prior Assumptions
Probability of 1-Year Return Under 0% (Use standard assumptions)	25.9%	27.7%
Probability of 5-Year Return Under 0% (Use standard assumptions)	7.4%	9.3%
Probability of 1-Year Return Over 7.25% (Use standard assumptions)	50.5%	48.4%
Probability of 5-Year Return Over 7.25% (Use standard assumptions	51.1%	46.4%
Probability of 30-Year Return Over 7.25% (Use long term assumptions)	64.2%	60.4%

- Increased expected return has improved measured probabilities across the board

MARKET VALUE PROJECTIONS



- 62 bps increase in expected return pushes estimated solvency out to 2034 from 2033
- Assumes net cash flow occurs in the middle of each year

STRATEGIC CONSIDERATIONS

- Reduction of Total Equity exposure from 50% to around 40% should have helped soften impact of market pull back in Q4 of 2018
- Total Equity portfolio is structured to provide approximately equal risk contribution from U.S., non-U.S. developed, and emerging market regions
  - Overweight to emerging market equity vs. the world market capitalization is supported by relative valuations
- While current and expected inflation remain in check, late-cycle conditions can put upward pressure on price levels, as tight labor conditions and compressed economic capacity can push costs higher
  - Real assets, or those investment classes with positive sensitivity to rising inflation, can some protection during such environments
  - Supports introduction of dedicated Real Return investment

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180324 G0319

Via Email

December 17, 2018 SAO Ref. No. 343

David Archuleta, Executive Director
Retiree Health Care Authority

david.archuleta@state.nm.us

Re: Authorization to Release FY2018 Retiree Health Care Authority Audit Report

The Office of the State Auditor ("Office") received the audit report for your agency on 11/21/2018. The Office has completed the review of the audit report required by Section 12-6-14(B) NMSA 1978 and 2.2.2.13 NMAC. This letter is your authorization to make the final payment to the Independent Public Accountant ("IPA") who contracted with your agency to perform the financial and compliance audit. In accordance with the audit contract, the IPA is required to deliver to the agency the number of copies of the report specified in the contract.

Pursuant to Section 12-6-5 NMSA 1978, the audit report does not become a public record until five days after the date of this release letter, unless your agency has already submitted a written waiver to the Office. Once the five-day period has expired, or upon the Office's receipt of a written waiver:

- the Office will send the report to the Office to the Department of Finance and Administration, the Legislative Finance Committee and other relevant oversight agencies;
- the Office will post the report on its public website; and
- the agency and the IPA shall arrange for the IPA to present the report to the governing authority of the agency, per 2.2.2.10.M(4), at a meeting held in accordance with the Open Meetings Act, if applicable.

The IPA's findings and comments are included in the audit report on pages 45-47. It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.

Sincerely,

Wayne A. Johnson
State Auditor

cc: Moss Adams LLP

COMMUNICATIONS WITH THOSE
CHARGED WITH GOVERNANCE

NEW MEXICO RETIREE HEALTHCARE AUTHORITY

June 30, 2018

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Communications with Those Charged with Governance

To the Board of Directors
New Mexico Retiree Healthcare Authority

We have audited the financial statements of New Mexico Retiree Health Care Authority (the Authority) as of and for the year ended June 30, 2018, and have issued our report thereon dated November 19, 2018. Professional standards require that we provide you with the following information related to our audit. This memo provides written confirmation of the information communicated to the Board of Directors during our exit conference on November 19, 2018.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated August 28, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we considered the Authority's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the [consolidated] financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in the Report of Independent Auditors and Financials Statements as of June 30, 2018 does not extend beyond the financial information identified in our report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. However, we have read the information and nothing came to our attention that caused us to believe that such information or its manner of presentation is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and entrance conference on August 28, 2018.

Significant Audit Findings and issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during the year ended June 30, 2018. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was the Authority's estimate of their total OPEB liability which is based on a measurement performed by an independent actuary using employee data provided by the Authority's sponsoring employers and actuarial assumptions.

Management's estimate of the total OPEB liability is based on various actuarial assumptions including the assumed discount rate, long-term rate of return, and mortality tables for PERA and ERB employees respectively. We evaluated the key factors and assumptions used to develop the total OPEB liability in determining that this measurement was performed in accordance with the requirements of GASB No. 74 and is reasonable in relation to the financial statements.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements disclosure of the Authority's measurement of the net OPEB liability and related actuarial assumptions used as required under GASB No. 74 in Note 9 to the financial statements.

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no uncorrected misstatements that were determined to be material, both individually and in the aggregate, by management to the financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 19, 2018.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

The New Mexico Retiree Health Care Fund (the Plan) has an estimated funded status of 13% as of June 30, 2018 and historical contribution rates have been consistently below the actuarially determined contribution rates. While the Plan's low funded status does not represent an internal control deficiency or risk of material misstatement to the financial statements, the long-term sustainability of the Plan is jeopardized. We recommend that the Authority's management and those charged with governance of the Plan continue to work with legislators and other funding sources to develop and adopt a funding policy to improve the funded ratio and position of the Plan for long-term financial sustainability.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
November 19, 2018

REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

NEW MEXICO RETIREE HEALTH CARE AUTHORITY

June 30, 2018

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Table of Contents

New Mexico Retiree Health Care Authority

OFFICIAL ROSTER

June 30, 2018

Board of Directors

Tom Sullivan, Board President	Superintendents' Association of New Mexico
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
James Smith	New Mexico Association of Counties
Terry Linton	Governor's Appointee
Lawrence Rael	New Mexico Municipal League

Staff

David Archuleta	Executive Director
Peggy Martinez	Chief Financial Officer

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of fiduciary net position and changes in fiduciary net position of New Mexico Retiree Health Care Authority (the Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2018, 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 respective financial position of New Mexico Retiree Health Care Authority as of June 30, 2018, 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, 2018 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 investment returns 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, Schedule 2 – Combining schedule of changes in fiduciary net position by functional activity, and Schedule 3 – Schedule of investment fees (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 was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The Schedule 4 – Combining schedule of general and administrative expenses by functional activity, Schedule 5 – Combining schedule of state general fund investment pool, and Schedule 6 – Schedule of appropriations are presented for the purposes of additional analysis and are 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 19, 2018 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 the Authority's 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 the Authority's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
November 19, 2018

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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 year ended June 30, 2018. 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 ended June 30, 2017 for comparative purposes.

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,	
	2018	2017
ASSETS		
Cash and cash equivalents	$ 27,886,281	$ 18,204,202
Contributions and other receivables	18,185,310	16,707,502
Investments with New Mexico State Investment Council	636,916,028	567,310,399
Capital assets, net	1,488,569	1,902,855
Total assets	684,476,188	604,124,958
LIABILITIES		
Reserve for loss and loss adjustment expense	21,695,000	20,619,000
Other current liabilities	4,731,733	3,801,054
Retiree premiums received in advance	393,161	443,426
Total liabilities	26,819,894	24,863,480
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 657,656,294	$ 579,261,478

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

	Year Ended June 30,	
	2018	2017
ADDITIONS		
Contributions	$ 297,070,343	$ 282,270,798
Investment income	49,757,591	67,759,695
Tax administration suspense fund revenue	26,256,221	28,306,468
Medicare Part D rebates and other	30,255,096	27,230,682
Total additions	403,339,251	405,567,643
DEDUCTIONS		
Premiums and claims paid	320,403,577	294,393,452
Expenses and other	4,748,021	4,179,901
Total deductions	325,151,598	298,573,353
NET INCREASE IN NET POSITION	$ 78,187,653	$ 106,994,290

Net position increased by approximately $78.2 million, or 13.5%, during fiscal year 2018 compared to fiscal year 2017. The increase during the current year is primarily due to the following:

- The fair value of investments increased by $69.6 million, or 12.2% due to net appreciation in the fair market value of the Authority's investment portfolio and investment purchases that occurred during the year.
- Cash balances increased by $9.7 million, or 53.19% due to timing of transfers made to the trust fund held by the New Mexico State Investment Council.
- Reserves for loss and loss adjustments measures the outstanding liabilities for covered services received prior to July 1, 2018 and paid after June 30, 2018, increased by $1 million.
- Contributions increased by approximately $14.8 million, or 5.2%, from the prior fiscal year. This is due to an increase in retiree contributions and employer buy-in revenues. Contributions by source were as follows:

	Year Ended June 30,	
	2018	2017
Retirees	$ 167,949,226	$ 153,464,136
Employer	85,401,662	85,858,432
Employee	42,700,831	42,929,216
Employer buy-ins revenue	939,677	-
Employer buy-ins interest portion	78,947	19,014
Total contributions	$ 297,070,343	$ 282,270,798

- Claims paid and expenses increased by $26.0 million, or 8.8%, during fiscal 2018 compared to fiscal 2017. This is primarily related to increases enrollment growth combined with an increase in prescription drug costs and medical services.

The Authority reported an estimated net OPEB liability of $4,348,354,815 and $4,531,673,018 as of June 30, 2018 and 2017, respectively, representing a decrease of $183,318,203 during the year ended June 30, 2018. The decrease is associated with a change in assumption related to the blended discount rate and an increase in the plan's fiduciary net position. The net OPEB liability as of June 30, 2018 is comprised of the Authority's total OPEB liability of $5,006,011,109 calculated by the Authority's independent actuaries, offset by the plan's fiduciary net position of $657,656,294. As of June 30, 2018, the plan's fiduciary position as a percentage of the total OPEB liability (funded status) was 13.14% an increase 1.80% compared to the 11.34% funded status as of June 30, 2017.

BUDGETARY ANALYSIS

The fiscal year 2018 operating budget included expenses totaling $336.1 million, including $1.8 million in personal services and employee benefits, $330.8 million in contractual services, and $572,700 in other expenses. Actual expenditures totaled $327.6 million, supported by revenues and investments earnings totaling of $403.3 million, resulting an increase in net position of $78.2 million. Highlights are as follows:

- Healthcare Benefits Administration Program – as the program approached the limits of its budget authority, the Authority submitted a budget adjustment request totaling $13.1 million in order to avoid exceeding the amounts specified in Laws 2017, Chapter 135, Section 4. The authority was derived from Laws of 2017, 1st Session, Chapter 135, Section 9 (d).

- Program Support – the program ended fiscal year 2018 with a $155,000 surplus generated by $32,000 in savings from the personal services and employee benefits category, $61,000 savings in the contractual services category and $62,000 savings from the other category.

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 2018, the Authority was projecting to begin deficit spending in 2020 with a reported a solvency period through 2035 (17-years). This projection incorporated the following assumptions: an increase in premiums charged to retirees each month in accordance with medical trend (8% Pre-Medicare / 6% Medicare Supplement) beginning January 2018, an expansion of lower costing resources made available for Pre-Medicare retirees, the implementation of value based purchasing arrangements for prescription drug services for all self-insured coverages, and the adoption of a Medicare Advantage defaulting strategy for members aging into Medicare.

Based on the continued leadership by the Board of Directors, the June 2018 solvency analysis revealed continued improvements to the financial condition of the agency including an extended solvency period through 2037, compared to 2035, despite the reduction in revenues received from the Taxation Administrative Suspense Fund and limited growth in employee and employer contributions. The funded ratio also improved between the GASB No. 43 report performed in 2016 and the GASB No. 74 report performed in 2017 despite a significant reduction in the assumed discount rate used to calculate the projected growth in the plan's fiduciary net position.

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 is demonstrated each year through the actions taken by the board in an effort to balance revenues and expenditures by pursuing value-based reimbursement purchasing arrangements for all services, administration of programs aimed at preventing future costs and cost-effective procurement strategies.

The solvency study indicates continued improvements to the financial outlook of the program, on a pay-as-you-go basis. However, the solvency study and reporting requirements associated with GASB Statements No. 74 and No. 75 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 growth in the cost of providing health care continues to outpace growth in the funding sources used to support the program - specifically, a reduction in revenues received from the Tax Suspense Fund, limited growth in employee and employer contributions combined with medical and prescription drugs trends specific to a retiree population.

ASSETS	
Interest in State General Fund Investment Pool	$ 27,886,281
Receivables	
Contributions - employers, employees and retirees, net	13,223,168
Due from other agencies	2,188,018
Accounts receivable - rebates and Medicare Part D	1,808,411
Buy-in obligations receivable	965,713
Total receivables	18,185,310
Investments with State Investment Council	
Core Plus Bonds Pool	158,974,249
U.S. Large Cap Index Pool	128,173,152
Non U.S. Emerging Markets Index Pool	74,557,226
Non U.S. Developed Markets Index Pool	85,539,016
Private Equity Pool	70,441,084
Credit and Structured Finance Pool	64,720,303
Real Estate Pool	34,453,254
Small/Mid Cap Active Pool	20,057,744
Total investments	636,916,028
Capital assets, net of accumulated depreciation	1,488,569
Total assets	684,476,188
LIABILITIES	
Accounts payable	4,556,265
Payroll liabilities	66,620
Compensated absences	108,848
Reserve for loss and loss adjustment expense	21,695,000
Retiree premiums received in advance	393,161
Total liabilities	26,819,894
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 657,656,294

See Notes to Financial Statements.

New Mexico Retiree Health Care Authority
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2018

ADDITIONS		
Contributions		
Retirees	$	167,949,226
Employer		85,401,662
Employees		42,700,831
Employer buy-ins revenue		939,677
Employer buy-ins interest portion		78,947
Total contributions		297,070,343
Investment income		
Net appreciation in fair value of investments		49,605,628
Interest adjustment on State General Fund Investment Pool		151,963
Total investment income		49,757,591
Other		
Tax administration suspense fund revenue		26,256,221
Medicare Part D subrogation and rebates		30,255,096
Total other		56,511,317
Total additions		403,339,251
DEDUCTIONS		
Premiums and claims paid		320,403,577
General and administrative expenses		2,821,224
Losses and loss adjustment accrual increase		1,076,000
Refunds to retirees		426,884
Depreciation expense		423,913
Total deductions		325,151,598
NET INCREASE IN NET POSITION		78,187,653
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS		
Beginning of year		579,468,641
End of year	$	657,656,294

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 302 participating employers and 156,025 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, 2018:

Plan membership	
Current retirees and surviving spouses	51,205
Inactive and eligible for deferred benefit	11,471
Current active members	93,349
	156,025
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	17,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	93,349

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

<u>Administrative Fund (38000):</u> 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).

<u>Benefit Fund (38100):</u> 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.

Note 1 – Retiree Health Care Act Plan (continued)

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.

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, 2018 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 No. 40) and GASB No. 72, *Fair Value Measurement and Application* (GASB No. 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 No. 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 New Mexico 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 Pronouncements

GASB Statement No. 84, *Fiduciary Activities,* establishes criteria for identifying fiduciary activities of all state and local governments and the reporting requirements for fiduciary funds. Governments should report activities meeting certain criteria in a fiduciary fund in the basic financial statements and present a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement is effective for the year ending June 30, 2020. The Authority is currently examining the impact, if any, to its current accounting policies and financial reporting from this Statement.

GASB Statement No. 87, *Leases,* increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the year ending June 30, 2021. The Authority is currently examining the impact, if any, to its current accounting policies and financial reporting from this Statement.

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, 2018. The plan's valuation and measurement of the total OPEB liability and related net OPEB liability were performed in accordance with GASB No. 74 requirements at the request of the Authority.

Note 2 –Summary of Significant Accounting Policies (continued)

Net Pension Liability and Related Pension Amounts
The State of New Mexico has implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*.

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.

Postemployment Benefits – State Retiree Health Care Plan
Compliant with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2018.

The Authority, as part of the primary government of the State of New Mexico, is a contributing employer to the plan on behalf of the Authority’s employees and for persons who have retired from certain public service positions in New Mexico. The OPEB plan is administered by the Authority. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the CAFR of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico CAFR for the year ended June 30, 2018 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.

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.

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

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 is as follows:

Fund	SHARE Fund No.	Balance June 30, 2018
Benefits Fund	38100	$ 27,705,381
Administrative Fund	38000	180,900
Total interest in State General Fund Investment Pool		$ 27,886,281

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, 2018, as management deems any uncollectible amounts as immaterial.

As of June 30, 2018, the buy-in receivable includes notes receivable from the City of Rio Rancho and Sierra County. The remaining balance on the note from the City of Rio Rancho is $70,432. The obligation is receivable monthly over 13 years at a 7.5% fixed interest rate, maturing in January 2019. The remaining balance on the note from Sierra County is $895,280. The obligation is receivable monthly over 13 years at a 7.5% fixed interest rate, maturing in June 2030. The current and long-term portions on the Sierra County note are $47,843 and $847,437, 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, in 2016 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, 2018, revenues totaled $26,256,221. As of June 30, 2018, amounts due from other governments consist of balances due from Taxation and Revenue Department (Business Unit: 33300; Fund: 83200) totaling $2,188,018 and accrued reversions receivable from the Benefits Fund totaling $155,017.

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.

Note 5 – Investments and Fair Value Measurements (continued)

The following schedule summarizes the current investment allocation policy as of June 30, 2018:

Asset Class	Target Allocation
U.S. core fixed income	25%
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%
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.

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.

Note 5 – Investments and Fair Value Measurements (continued)

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, 2018.

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, 2018	Redemption Frequency	Redemption Notice Period
Core Plus Bonds Pool	$ 158,974,249	Daily	5 business days
U.S. Large Cap Index Pool	128,173,152	Daily	5 business days
Non U.S. Emerging Markets Index Pool	74,557,226	Daily	5 business days
Non U.S. Developed Markets Index Pool	85,539,016	Daily	5 business days
Private Equity Pool	70,441,084	Twice per year	9 months
Credit and Structured Finance Pool	64,720,303	4 times per year	3 months
Real Estate Pool	34,453,254	Twice per year	6 months
Small/Mid Cap Active Pool	20,057,744	Daily	5 business days
	$ 636,916,028		

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 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, 2018, the annual money-weighted rate of return on the Authority's investments, net of related investment expenses, was 9.06%. 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, 2018 is as follows:

Description	Balance at June 30, 2017	Additions	Deletions	Transfers	Balance at June 30, 2018
Furniture and equipment	$ 193,779	$ 9,629	$ -	$ -	$ 203,408
Information technology	2,031,450	-	-	-	2,031,450
	2,225,229	9,629	-	-	2,234,858
Accumulated depreciation	(322,376)	(423,913)	-	-	(746,289)
	$ 1,902,853	$ (414,284)	$ -	$ -	$ 1,488,569

Depreciation expense totaled $423,913 for the year ended June 30, 2018 of which $12,648 of depreciation was allocated to Administrative Fund while $411,265 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, 2017	Leave Accrued	Leave Used	Balance June 30, 2018	Amount Due Within One Year
$ 99,666	$ 68,586	$ (59,405)	$ 108,847	$ 84,960

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, 2018 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, 2018. 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, 2018, the estimated claims liability for claims incurred but not reported (IBNR) totaled $21,695,000. This estimated liability represents liability for outstanding claims for services rendered prior to July 1, 2018 and paid after June 30, 2018.

Note 9 – Net OPEB Liability

The components of the net OPEB liability of the Authority are as follows:

	June 30, 2018
Total OPEB liability	$ 5,006,011,109
Plan fiduciary net position	657,656,294
Net OPEB liability	$ 4,348,354,815
Plan fiduciary net position as a percentage of the total OPEB liability ("funded status")	13.14%

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018 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
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50% for ERB; 2.25% for PERA
Projected payroll increases	3.5% to 12.50% based on years of service, including inflation

Note 9 – Net OPEB Liability (continued)

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	2.1%
U.S. equity - large cap	7.1
Non U.S. - emerging markets	10.2
Non U.S. - developed equities	7.8
Private equity	11.8
Credit and structured finance	5.3
Real estate	4.9
Absolute return	4.1
U.S. equity - small/mid cap	7.1

The discount rate used to measure the total OPEB liability is 4.08% as of June 30, 2018. 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, 2029. 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 4.08% is the blended discount rate.

Note 9 – Net OPEB Liability (continued)

The following presents the net OPEB liability, calculated using the discount rate of 4.08%, 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 (3.08%)	Current Discount (4.08%)	1% Increase (5.08%)
$ 5,262,533,266	$ 4,348,354,815	$ 3,627,778,443

The following presents the net OPEB liability calculated using the current trend rates as well as what Fund's net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

1% Decrease	Current Trend	1% Increase
$ 3,675,884,346	$ 4,348,354,815	$ 4,875,586,778

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, 2018 totaled $210,686, 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.

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

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.

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, 2018, 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, 2018 totaled $24,801, 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 2017, the Authority entered into several service contracts with health care providers. The total amount of these contracts approximates $330,300,000 for costs expected for fiscal year 2018.

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 three-year lease extension inside the PERA (a related party) building located at 33 Plaza La Prensa in Santa Fe. The PERA building lease expires in August, 2020. 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 $163,698 for the year ended June 30 2018.

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

2019	$	158,557
2020		153,881
2021		116,195
2022		113,938
	$	542,571

Note 16 – Operating Transfers

The following operating transfers occurred between the Authority's functional activities during the year ended June 30, 2018:

	Benefits 38100 From (To)	Administration 38000 From (To)
Administration appropriation	$ (2,936,800)	$ 2,936,800
Reversion of administration	155,017	(155,017)
	$ (2,781,783)	$ 2,781,783

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.

The Authority recorded a $2,936,800 appropriation from the Benefits Fund to the Administration Fund for fiscal year 2018 (Laws of 2017, Chapter 135, Section 4). As of June 30, 2018, reversions totaling $155,017 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, 2018

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Investment income	$ -	$ -	$ 5,342	$ (5,342)
Total revenues	-	-	5,342	(5,342)
EXPENSES				
Personal services/employee benefits	1,858,800	1,808,800	1,776,995	31,805
Contractual services	544,800	594,800	533,527	61,273
Other	533,200	533,200	471,261	61,939
Total expenses	2,936,800	2,936,800	2,781,783	155,017
TRANSFERS				
Transfers in - Intra agency from SHARE 38100	2,936,800	2,936,800	2,936,800	-
Transfers out - Intra agency to SHARE 38100 - reversion	-	-	(155,017)	155,017
Total transfers	$ 2,936,800	$ 2,936,800	$ 2,781,783	$ 155,017
NET CHANGE (budgetary basis)			$ 5,342	
Depreciation			(12,648)	
NET CHANGE (GAAP basis)			$ (7,306)	

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Retiree contributions	$ 143,337,500	$ 143,337,500	$ 167,949,226	$ (24,611,726)
Employer/employee contributions	126,066,100	126,066,100	128,102,493	(2,036,393)
Pension taxes	26,256,200	26,256,200	26,256,221	(21)
Investment income	60,000	60,000	146,852	(86,852)
Miscellaneous revenue	24,346,000	24,346,000	30,254,865	(5,908,865)
Total revenues	320,065,800	320,065,800	352,709,657	(32,643,857)
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	317,091,200	330,189,500	320,403,577	9,785,923
Other	37,800	39,500	39,441	59
Total expenses	317,129,000	330,229,000	320,443,018	9,785,982
TRANSFERS				
Transfers in - Intra agency from SHARE 38000 - reversion	-	-	155,017	155,017
Transfers out - Intra agency to SHARE 38000	(2,936,800)	(2,936,800)	(2,936,800)	-
Total transfers	$ (2,936,800)	$ (2,936,800)	$ (2,781,783)	$ 155,017
NET CHANGE (budgetary basis)			$ 29,484,856	
Gain on investments excluding interest			49,605,628	
Employer buy-ins revenue and interest portion			1,018,624	
Change in IBNR liability			(1,076,000)	
Refunds - Retirees			(426,884)	
Depreciation			(411,265)	
NET CHANGE (GAAP basis)			$ 78,194,959	

New Mexico Retiree Health Care Authority
Schedule of Changes in Net OPEB Liability
Year Ended June 30, 2018

	Year Ended June 30, 2018	2017
TOTAL OPEB LIABILITY		
Service cost	$ 188,372,284	$ 265,229,268
Interest	199,583,585	187,563,383
Differences between expected and actual experience	(145,524,098)	(210,435,519)
Changes in assumptions	(225,363,066)	(958,756,001)
Claims and premiums	(320,403,577)	(294,107,402)
Retiree's contributions offset to claims and premiums	167,949,226	153,464,136
Medicate Part D and rebates offset to claims and premiums	30,255,096	26,944,632
NET CHANGE IN TOTAL OPEB LIABILITY	(105,130,550)	(830,097,503)
TOTAL OPEB LIABILITY - BEGINNING	5,111,141,659	5,941,239,162
TOTAL OPEB LIABILITY - ENDING (a)	5,006,011,109	5,111,141,659
PLAN FIDUCIARY NET POSITION		
Contributions - employee and retiree	210,650,057	196,393,352
Contributions - employer	85,401,662	85,858,432
Net investment income	49,757,591	67,759,695
Other revenue	57,529,941	55,556,164
Claims and premiums paid	(321,479,577)	(294,393,452)
Administrative expenses	(3,672,021)	(4,179,901)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	78,187,653	106,994,290
PLAN FIDUCIARY NET POSITION - BEGINNING	579,468,641	472,474,351
PLAN FIDUCIARY NET POSITION - ENDING (b)	657,656,294	579,468,641
NET OPEB LIABILITY (a) - (b)	$ 4,348,354,815	$ 4,531,673,018
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY	13.14%	11.34%
COVERED-EMPLOYEE PAYROLL	$ 4,290,616,760	$ 4,165,647,340
NET OPEB LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	101.35%	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 information.

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%
2018	$ 156,266,741	$ 154,358,714	$ 1,908,027	$ 4,290,616,760	3.60%

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 Investment Returns
Year Ended June 30, 2018

Year Ended June 30,	Annual Money - Weighted Rate Of Return
2017	13.98%
2018	9.06%

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, 2018

	Benefits 38100	Administration 38000	Eliminations	Total
ASSETS				
Interest in State General Fund Investment Pool	$ 27,705,381	$ 180,900	$ -	$ 27,886,281
Receivables				
Contributions - employers, employees and retirees	13,223,168	-	-	13,223,168
Due from other governments	2,188,018	-	-	2,188,018
Accounts receivable - rebates and Medicare Part D	1,808,411	-	-	1,808,411
Buy-in obligations receivable	965,713	-	-	965,713
Due from other funds	155,017	-	(155,017)	-
Total receivables	18,340,327	-	(155,017)	18,185,310
Investments with New Mexico State Investment Council				
Core Plus Bonds Pool	158,496,154	478,095	-	158,974,249
U.S. Large Cap Index Pool	127,787,688	385,464	-	128,173,152
Non-U.S. Emerging Markets Index Pool	74,333,004	224,222	-	74,557,226
Non U.S. Developed Markets Index Pool	85,281,768	257,248	-	85,539,016
Private Equity Pool	70,229,241	211,843	-	70,441,084
Credit and Structured Finance Pool	64,525,665	194,638	-	64,720,303
Real Estate Pool	34,349,640	103,614	-	34,453,254
Small/Mid Cap Active Pool	19,997,422	60,322	-	20,057,744
Total investments	635,000,582	1,915,446	-	636,916,028
Capital assets, net of accumulated depreciation	1,457,667	30,902	-	1,488,569
Total assets	682,503,957	2,127,248	(155,017)	684,476,188
LIABILITIES				
Accounts payable	4,367,045	189,220	-	4,556,265
Payroll liabilities	-	66,620	-	66,620
Compensated absences	-	108,848	-	108,848
Reserve for loss and loss adjustment expense	21,695,000	-	-	21,695,000
Retiree premiums received in advance	393,161	-	-	393,161
Due to other funds	-	155,017	(155,017)	-
Total liabilities	26,455,206	519,705	(155,017)	26,819,894
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 656,048,751	$ 1,607,543	$ -	$ 657,656,294

New Mexico Retiree Health Care Authority
Combining Schedule of Changes in Fiduciary Net Position by Functional Activity
Year Ended June 30, 2018

	Benefits 38100	Administration 38000	Eliminations	Total
ADDITIONS				
Contributions				
Retiree	$ 167,949,226	$ -	$ -	$ 167,949,226
Employer/employee	128,102,493	-	-	128,102,493
Employer buy-ins revenue	939,677	-	-	939,677
Employer buy-ins interest portion	78,947	-	-	78,947
Total contributions	297,070,343	-	-	297,070,343
Investment income				
Net appreciation in fair value of investments	49,605,628	-	-	49,605,628
Interest	146,621	5,342	-	151,963
Total investment income	49,752,249	5,342	-	49,757,591
Other				
Taxation administration fund revenue	26,256,221	-	-	26,256,221
Medicare Part D subrogation and rebates	30,255,096	-	-	30,255,096
Total other	56,511,317	-	-	56,511,317
Total additions	403,333,909	5,342	-	403,339,251
DEDUCTIONS				
Premiums and claims	320,403,577	-	-	320,403,577
General and administrative expenses	39,441	2,781,783	-	2,821,224
Losses and loss adjustment expenses	1,076,000	-	-	1,076,000
Refunds to retirees	426,884	-	-	426,884
Depreciation	411,265	12,648	-	423,913
Total deductions	322,357,167	2,794,431	-	325,151,598
Transfers in (out), net	(2,781,783)	2,781,783	-	-
NET CHANGE	78,194,959	(7,306)	-	78,187,653
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS				
Beginning of year	577,853,792	1,614,849	-	579,468,641
End of year	$ 656,048,751	$ 1,607,543	$ -	$ 657,656,294

New Mexico Retiree Health Care Authority
Schedule of Investment Fees
Year Ended June 30, 2018

Name of Investment Asset Class	Value of the Investment	Management Fees	Carried Interest
Core Plus Bonds Pool	$ 158,974,249	$ 304,002	$ -
U.S. Large Cap Index Pool	128,173,152	15,381	-
Non U.S. Developed Markets Index Pool	74,557,226	28,940	-
Non U.S. Emerging Markets Index Pool	85,539,016	117,867	-
Small/Mid Cap Active Pool	70,441,084	119,849	-
Credit and Structured Finance Pool	64,720,303	-	-
Private Equity Pool	34,453,254	-	-
Real Estate Pool	20,057,744	-	-
	$ 636,916,028	$ 586,039	$ -

Other Information

New Mexico Retiree Health Care Authority

Combining Schedule of General and Administrative Expenses by Functional Activity

Year Ended June 30, 2018

	Benefits 38100	Administration 38000	Total
GENERAL AND ADMINISTRATIVE EXPENSES			
Professional services	$ -	$ 1,261,943	$ 1,261,943
Employee benefits	-	515,052	515,052
Operating costs	39,441	378,227	417,668
Contractual services	-	533,527	533,527
Repairs and maintenance	-	11,019	11,019
Supplies	-	57,430	57,430
In-state travel	-	20,739	20,739
Out-of-state travel	-	3,846	3,846
	$ 39,441	$ 2,781,783	$ 2,821,224

New Mexico Retiree Health Care Authority
Combining Schedule of State General Fund Investment Pool
June 30, 2018

	Benefits 38100	Administration 38000	Total
INVESTMENT BALANCES PER DFA			
New Mexico State Treasurer			
Share Fund 34300-38100	$ 27,705,381	$ -	$ 27,705,381
Share Fund 34300-38000	-	180,900	180,900
	$ 27,705,381	$ 180,900	$ 27,886,281

New Mexico Retiree Health Care Authority
Schedule of Appropriations
Year Ended June 30, 2018

Description	Authority	Appropriation Period	Share Fund	Total Appropriation	Prior Year Expenditures	Current Year Expenditures	Current Year Reversion Amount
Program support for Administrative Fund	Laws 2017 House Bill 2, Chapter 135 Section 4	2018	38000	$ 2,936,800	$ -	$ 2,781,783	$ 155,017

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 17. 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.

MOSSADAMS

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 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 accompanying financial statements of fiduciary net position and changes in fiduciary net position of New Mexico Retiree Health Care Authority (the Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2018, 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 19, 2018.

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 an instance 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 item 2018-001. 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 19, 2018

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 FINDING

2018-001 Funded Status (Finding that Does Not Rise to the Level of a Significant Deficiency)

Condition – The New Mexico Retiree Health Care Fund's (the Plan's) funded status was approximately 13% as of June 30, 2018 and historical contribution rates have been consistently below the actuarially determined contribution rates. While the Plan's low funded status does not represent an internal control deficiency or risk of material misstatement to the financial statements, the long-term sustainability of the Plan is jeopardized.

Criteria – Management of the Authority has a fiduciary responsibility over the long-term sustainability of the Plan.

Effect – The Plan's funded status directly impacts the net OPEB liability reported by the Authority and the allocated liabilities recorded by each of the participating employers.

Cause – The Plan was not adequately funded at its inception, and the Authority has not made sufficient changes to the its funding policies to ensure long-term sustainability.

Recommendation – We recommend that management and those charged with governance of the Plan work with legislators and other funding sources to develop and adopt a funding policy to improve the funded status and position the Plan for long-term financial sustainability. Management should work with the Authority's actuary or a consultant to consider alternatives for plan provision changes or enhancing contribution levels to develop a long-term sustainable funding solution.

Management's Response – In October 2017, the Board of Directors for the New Mexico Retiree Health Care Authority (NMRHCA) adopted a 5-year strategic plan aimed at boosting the solvency of the trust fund and increasing the program's funding status by limiting the growth in future liabilities through plan modifications and subsidy-levels, combined with pursuing increases in employee and employer contributions. An example of the Board's effort to limit growth in future liabilities was the recent adoption of a rule change to establish a minimum age requirement and increases years of services in order to receive a subsidy from the program. In addition, during the 2019 Legislative Session, NMRHCA will seek support for legislation increasing employee and employer contribution from 3 percent of payroll to 4.5 percent of payroll for the pre-funding of future benefits.

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

None

RESOLUTION OF PRIOR YEAR FINDINGS

2017-001 Census Data (Finding that Does Not Rise to the Level of a Significant Deficiency) - RESOLVED

2017-002 Claims Processing and Eligibility (Finding that Does Not Rise to the Level of a Significant Deficiency) - RESOLVED

An exit conference was held on November 19, 2018 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
Jan Goodwin, Board Member
Terry Linton, Board Member
David Archuleta, Executive Director
Neil Kueffer, Deputy Director
Peggy Martinez, Chief Financial Officer
Jenny Haikin, Financial Accountant/Auditor
Greg Archuleta, Director of Communications and Member Management

Moss Adams LLP:

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

New Mexico Retiree Health Care Authority
2018 Group Medicare Advantage PPO Plan
Executive Review

UnitedHealthcare Retiree Solutions

February 5, 2019

Presenters:

Dan Cadriel, Account Vice President, Client Management

Jean Farone Jones, Vice President, Client Development

UnitedHealthcare®

Agenda

Introductions

Membership & Utilization Summary

Clinical Program Engagement

Pharmacy Metrics

Future Programs

Membership & Utilization Summary

UnitedHealthcare

Membership

15.7%
membership increase from Q3 2018, or 476 members.

82%
of members reside in New Mexico.

Utilization

92.0%
of membership utilizing plan.

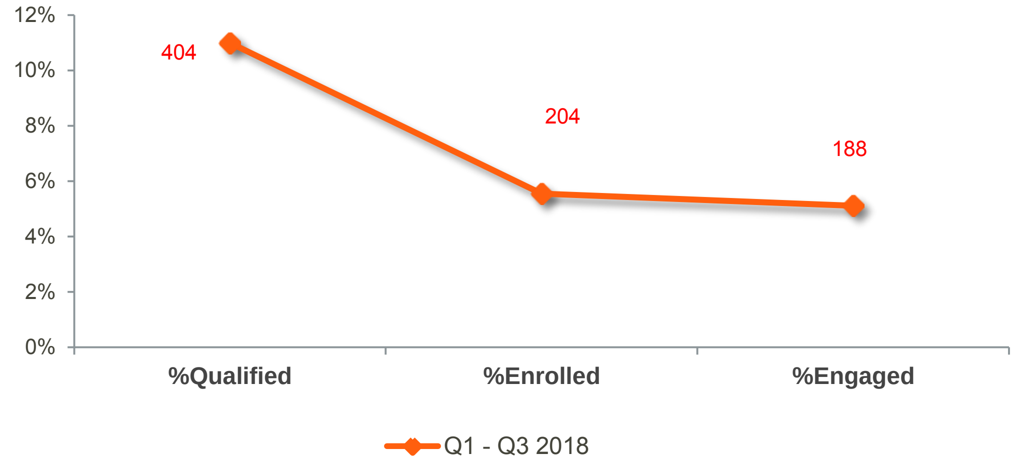
100%
Presbyterian is in our Group Medicare Advantage PPO network as of 9/1/2018.

NMRHCA Clinical Program Engagement

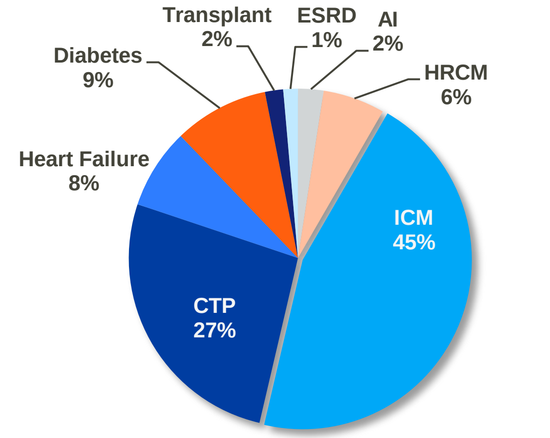
January 1, 2018 – September 30, 2018

UnitedHealthcare

Clinical Program Engagement Summary

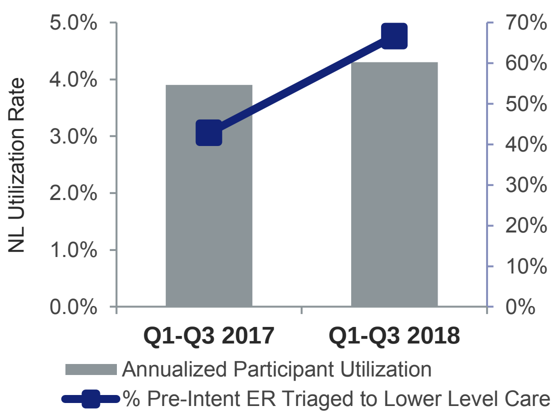


Engagements by Program

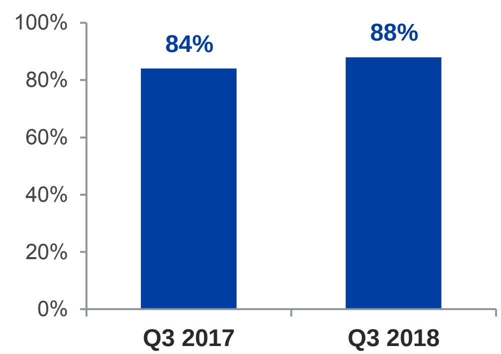


AI = Advanced Illness, ESRD = End Stage Renal Disease, HRCM = High Risk Care Management, ICM = Inpatient Care Management, CTP = Community Transitions Program, PAT = Post-Acute Transition

NurseLine



High Cost Claimants



Key findings

93%

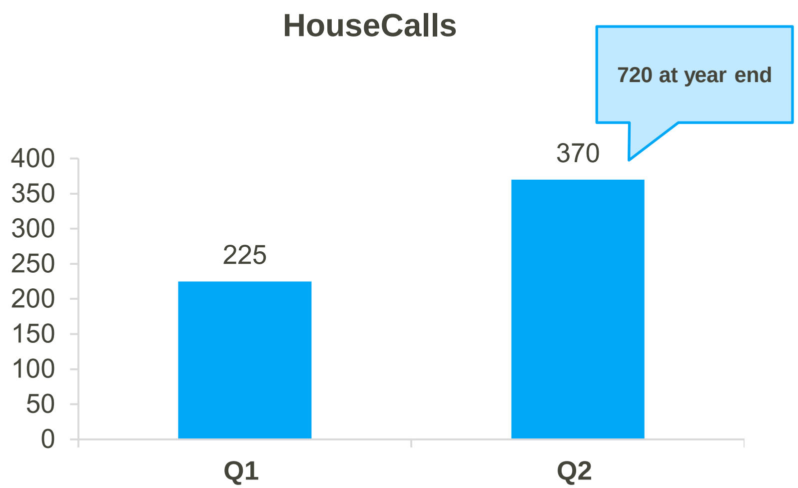
of enrolled retirees are actively engaged in clinical programs through third quarter 2018

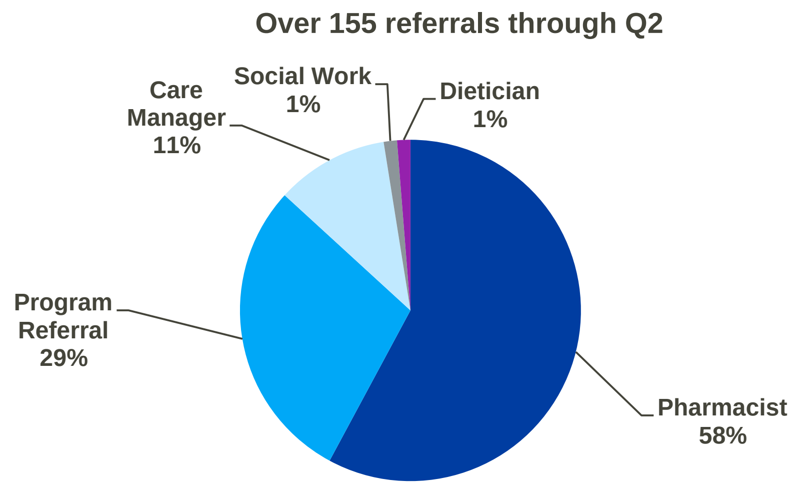
Data pulled: 1/3/2019

HouseCalls

January 2018 – June 2018 Snapshot Illustration

UnitedHealthcare



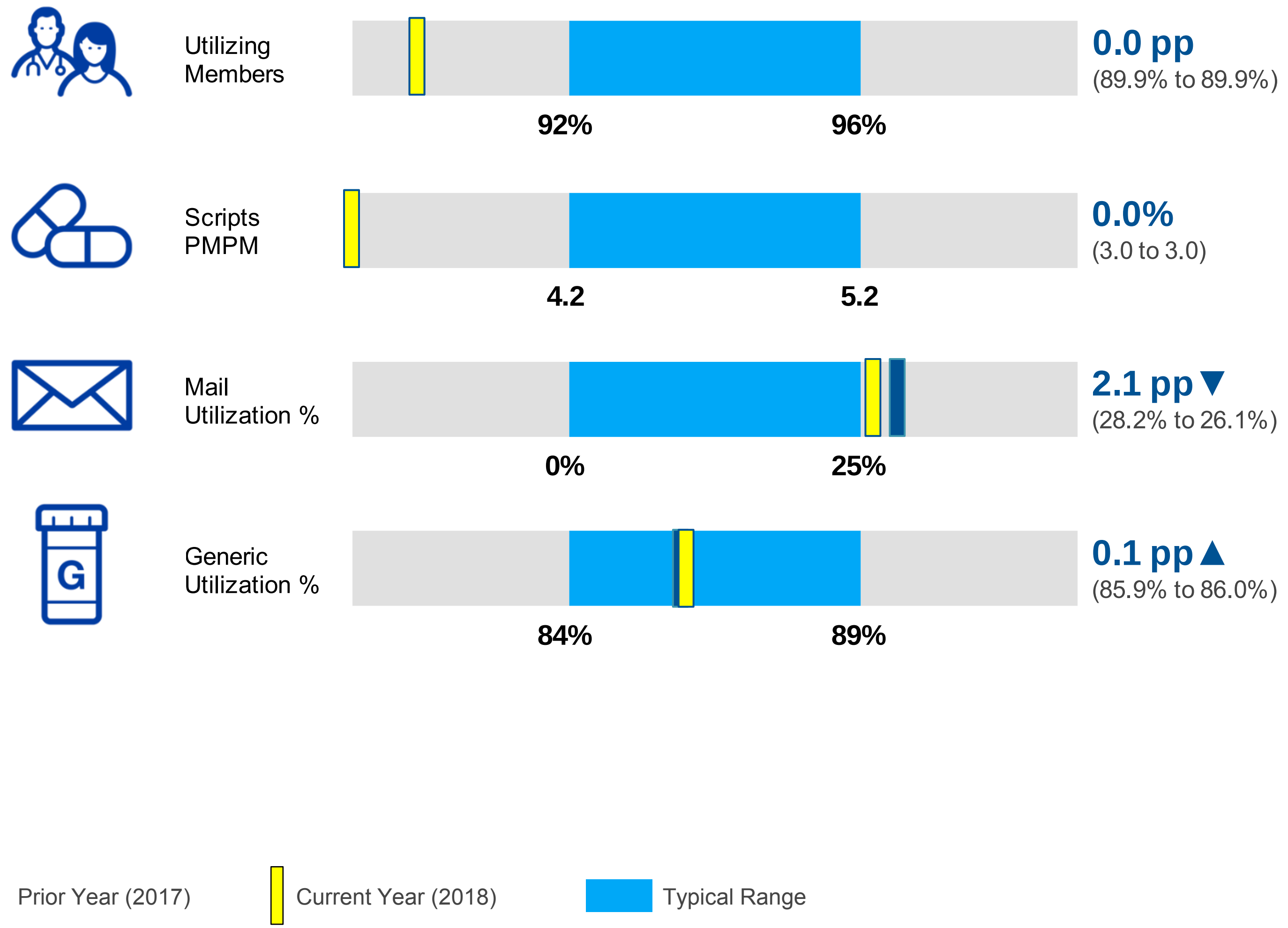


Top 3 markets – Visits		
1	308	New Mexico
2	**14**	Texas
3	**11**	Arizona

Top 3 program referrals	
Breast Cancer Screening	**20**
Behavioral Health	**14**
Diabetic Health Navigator	**12**

Pharmacy Metrics

UnitedHealthcare



Member and Plan spend values are prior to reflecting rebates, performance fees, or reinsurance

Glucose Management Program

The Glucose Management Program is an individualized incentive based program driven by wearable technology to help people with diabetes manage their condition in real time.

By walking each day with their Fitbit Charge 2™ and reaching a preset daily goal the member can earn up to $150 in gift cards. Members also receive tips from a coach and support from their provider.

Regular physical activity can:

- Improve blood-glucose control
- Reduce cardiovascular risk factors
- Lead to weight loss
- Improve well being

Plans that go the extra mile

NEW MEXICO RETIREE HEALTH CARE AUTHORITY

Humana Group Medicare Advantage

New Mexico Retiree Health Care Authority

Board Meeting - February 5, 2019

Humana.

Agenda

Your Plan at a Glance

Excerpts from the Plan Compass utilization report – Jan 2018 through Sept 2018

Clinical Programs

Humana at Home Program

Medication Therapy Management

2019 Member Engagement Calendar

Health and Wellness

Go365® by Humana

2019 National Senior Games

Humana

-20.9% Net Paid Decrease

Prior: $675.85

Current: $534.51

118.9% increase in Membership

Prior: 196

Current: 429

100% Clinical Participation*

Prior: 71.4%

Current: 100%

86.4% Generic Dispensing Rate

Prior: 84.6%

Your Plan at a Glance

The enclosed Plan Compass utilization data accounts for dates of service January 2018 through September 2018, claims processed through November 2018. The prior period in the report is January 2017 through September 2017.

- The average age decreased from 69.2 to 69.0, while the change is small, the decrease in the average age is reflective of the 2018 change to the Default Strategy, resulting in increased age-in enrollments.
- * The Humana at Home Chronic Care Program (HCCP) provides a member-centric approach to help members establish and achieve their health goals. This approach examines the severity of illness while assessing the member's functional limitations. Our goal is to help members live their best possible life at home by empowering them with information, resources and encouragement to enable them to better self-manage their health.
- Member phone numbers on file = 100%
- Silver Sneakers participation decreased by 3.6%. (20.9% prior vs. 17.3% current)
- 45 In Home Wellness Assessments completed in 2018. In Home Wellness Assessments assist in identifying gaps in care, facilitating follow-up treatment and supporting wellness and prevention goals.

Clinical Program Summary

Participation by Program

Members may be enrolled in multiple programs

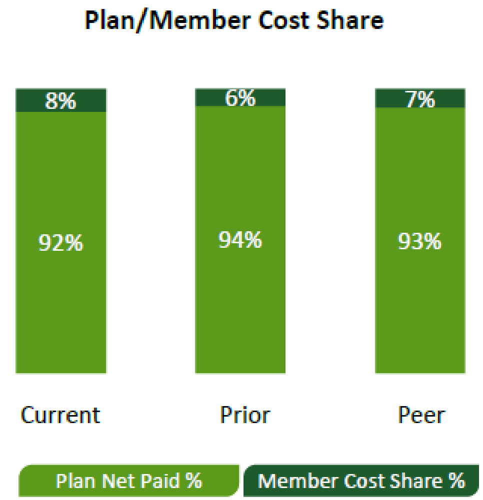
Clinical Programs	Total	Participated During Period	% Eligible Participating
HCCP - Managed	18	18	100.0%
HCCP - Monitored	11	11	100.0%
Transplant	1	1	100.0%
Transitions *	4	4	100.0%
SCM / PDCC **	7	7	100.0%
Medication Therapy Management***	7	7	100.0%
End-Stage Renal Disease	1	1	100.0%

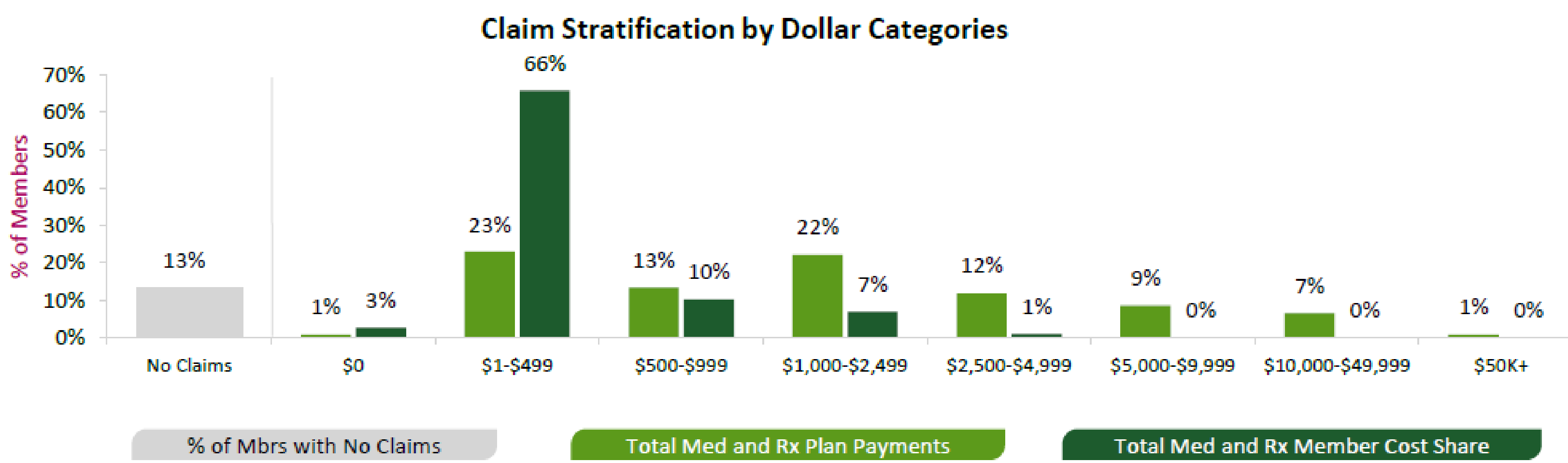
Clinical Program Summary

Clinical Participation by Disease State – Unique Members

	Diabetes	CAD & CHF	Cancer	Musculo-skeletal[1]	Asthma & COPD
Member Count	104	52	66	223	46
Clinician Outreach:					
Completed Program During Period	1	1	1	4	---
Enrolled at Period End Date	9	7	7	17	5
Engaged Since Period End Date	1	---	---	1	---
Engaged with Clinical Programs***	11	8	8	22	5
Declined	---	---	---	---	---
Unable to Reach / Letter Sent:					
Invalid Phone	---	---	---	---	---
No Response	---	---	---	---	---
Clinical Program Outreach:	11	8	8	22	5
Engagement from prior reporting period:					
Former Participants	3	1	1	4	2
Previous Outreach: Non-Participant	0	1	0	0	1
Low Opportunity for Impact/Well Managed****	90	42	57	197	38

Cost and Cost Share





Costs and Prevalence Summary

Clinical Program Participation %

Clinical Program Participation represents the % of Large Claimants who participated in a clinical program during the reporting period.

Large Claimant Impact

Dollar Threshold	# of Claimants		Med/RX Split	% of Spend	
	Current	Prior	Current	Current	Prior
>$50,000	4	3	68/32	20.5%	34.9%
>$75,000	**4**	**2**	**68/32**	**20.5%**	**28.2%**
>$100,000	1	2	71/29	5.8%	28.2%

Top 10 Major Clinical Conditions - by prevalence

Major Clinical Condition	Active Members Diagnosed	Prevalence %
Exams and Preventive Services	312	72.8%
Health Risk Behaviors/Factors	270	63.0%
Other Circulatory	238	55.5%
Musculoskeletal and Connective Tissue	223	52.0%
Signs and Symptoms	183	42.7%
Respiratory	180	42.0%
Endocrine	170	39.6%
Genitourinary System	161	37.5%
Sense Organs (Eyes and Ears)	156	36.4%
Diseases of Skin and Subcutaneous Tissue	138	32.2%

Top 3 Major Clinical Conditions by cost are Musculoskeletal and Connective Tissue, Digestive and Diabetes

Prevalence Continued

Top 3 Major Clinical Conditions - by spend

#1 Musculoskeletal and Connective Tissue

	Current	Prior	Change
# Members Diagnosed	223	114	
Medical % of Spend	13.4%	20.3%	-6.9%
RX % of Spend	8.2%	7.2%	1.0%
% of Total Spend	12%	18%	-5.8%
Large Claimant Impact on Spend %	0%	0%	0.0%

#2 Digestive

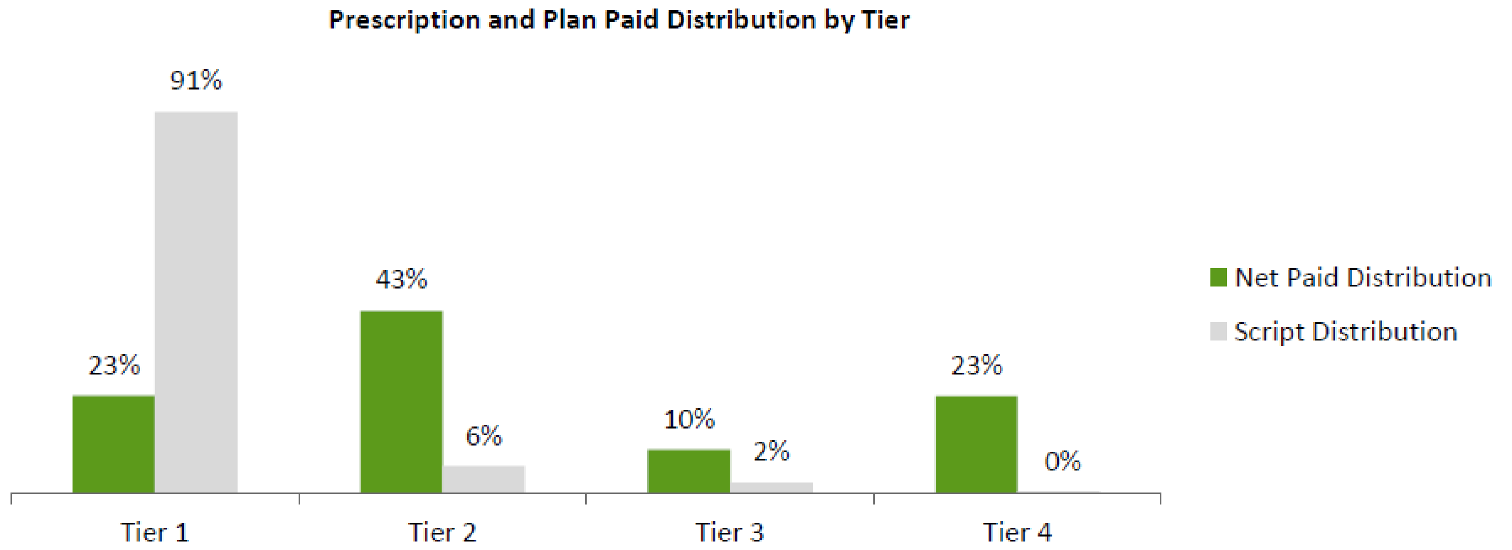
	Current	Prior	Change
# Members Diagnosed	119	67	
Medical % of Spend	9.3%	4.7%	4.6%
RX % of Spend	1.4%	1.6%	-0.2%
% of Total Spend	7%	4%	3.2%
Large Claimant Impact on Spend %	5%	0%	5.2%

#3 Diabetes

	Current	Prior	Change
# Members Diagnosed	104	46	
Medical % of Spend	1.7%	0.9%	0.8%
RX % of Spend	22.0%	19.9%	2.1%
% of Total Spend	7%	5%	2.4%
Large Claimant Impact on Spend %	0%	0%	0.0%

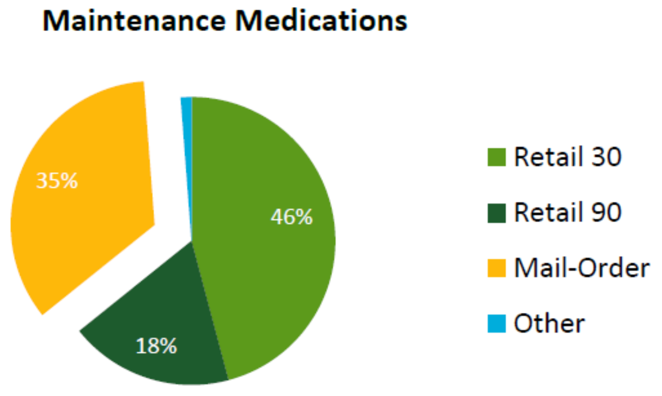
Pharmacy

Pharmacy Utilization Summary	Current	Prior	Change	Current Peer
Average # of Members	429	196	119.1%	---
% Utilizing Members per Month	56.5%	54.4%	2.1%	---
Total # of Prescriptions	6,568	2,902	126.3%	---
Total Prescriptions PMPM	1.70	1.65	3.3%	3.02



Pharmacy Continued

Generics Usage	Current	Prior	Change
Generic Dispensing Rate	86.4%	84.6%	1.7%
Total # of RX	5,673	2,456	131.0%



Prior Mail Order Rate 33%

Pharmacy Continued

Top 10 medications by cost:

Top 10 medications are 46.9% of the total cost for medication.

Top 25 medications constitute 65.7% of the total medication cost for the Plan.

Current Rank	Prior Rank	Drug Name	Generic/ Brand	Drug Class
1	---	Aubagio	B	NEUROLOGY-MULTIPLE SCL
2	5	Forteo	B	OSTEOPOROSIS
3	---	Pegasys	B	ANTI-INFECTIVES-HEP
4	4	Januvia	B	DIABETES
5	16	Lantus Solostar	B	DIABETES
6	1	Levemir Flextouch	B	DIABETES
7	---	Victoza	B	DIABETES
8	---	Ampyra	B	NEUROLOGY-MULTIPLE SCL
9	---	Trulicity	B	DIABETES
10	7	Xarelto	B	CARDIOLOGY-BLOOD THIN

Top 10 medications by quantity:

Top 25 medications by volume are all generic and are 5.2% of the total cost for medication.

Current Rank	Prior Rank	Drug Name	Generic/ Brand	Drug Class
1	1	Levothyroxine Sodium	B	THYROID
2	2	Lisinopril	B	CARDIOLOGY-HYPERTENSION
3	4	Atorvastatin Calcium	B	CHOLESTEROL
4	8	Amlodipine Besylate	B	CARDIOLOGY-HYPERTENSION
5	9	Gabapentin	B	ANTICONVULSANTS
6	3	Simvastatin	B	CHOLESTEROL
7	6	Metformin Hcl	B	DIABETES
8	29	Losartan Potassium	B	CARDIOLOGY-HYPERTENSION
9	10	Omeprazole	B	GASTROINTESTINAL DISEASE
10	5	Metoprolool Succinate Er	B	CARDIOLOGY-HYPERTENSION

Clinical Programs

The right care team

Points of contact, wealth of information

Humana At Home brings together a **multidisciplinary team of professionals** in **medical** and **behavioral health** management.

We build this team around the member, rely on analytics and insights, and call or visit.

This is our integrated care management approach.

Count on Humana At Home to support your retirees outside of the clinical setting.

The right support

Holistic approach to wellness

Humana At Home’s multitiered strategy addresses overall well-being.

Seven domains of wellness — a truly holistic approach

RXMentor Medication Therapy Management Program

- **Mission**
  - Optimize medication therapy to promote medication ***safety***, ***effectiveness*** and ***cost savings*** to improve member's well-being
- **Objectives**
  - Start a needed therapy
  - Stop a potentially harmful therapy
  - Continue a necessary therapy
  - Identify cost savings opportunities

2018 Eligibility Criteria
Meets 3 of the following 5 chronic diseases: • Diabetes • Chronic Heart Failure • Dyslipidemia • Osteoporosis • COPD
Minimum of 8 Chronic / Maintenance Drugs
$3,967

2019 Member Engagement Summary

Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.

Humana Health Alerts (preventive screenings, gaps in care via direct mail, SmartSummary, clinical outreach, VAT, e-mail)

Osteoporosis Management for Women Outreach Calls & Letters (Preventive and Post-Fracture)

Health and Well-Being Guide mailed to members

Always On Campaign Targeting BCS, COL, A1c, Neph, and CDC Eye (VAT, VAT + Transfer, Live Agent, Email and Letters)

CDC Eye Always On Targeting Eye Only Gaps (Live Agent, Email and Letters)

Go 365 Test & Learn Targeting BCS, COL, A1C, Neph, and CDC EYE

Diabetes Newly Identified Pilot (A1c, SUPD)

Flu Shot VAT call and E-mail

Member Scorecard Pilot (select contracts)

Member Scorecard Pilot (select contracts)

Member Scorecard Pilot (select contracts)

Flu Campaign

HRA Survey

BCS Compliant Campaign (90 days before failure date)

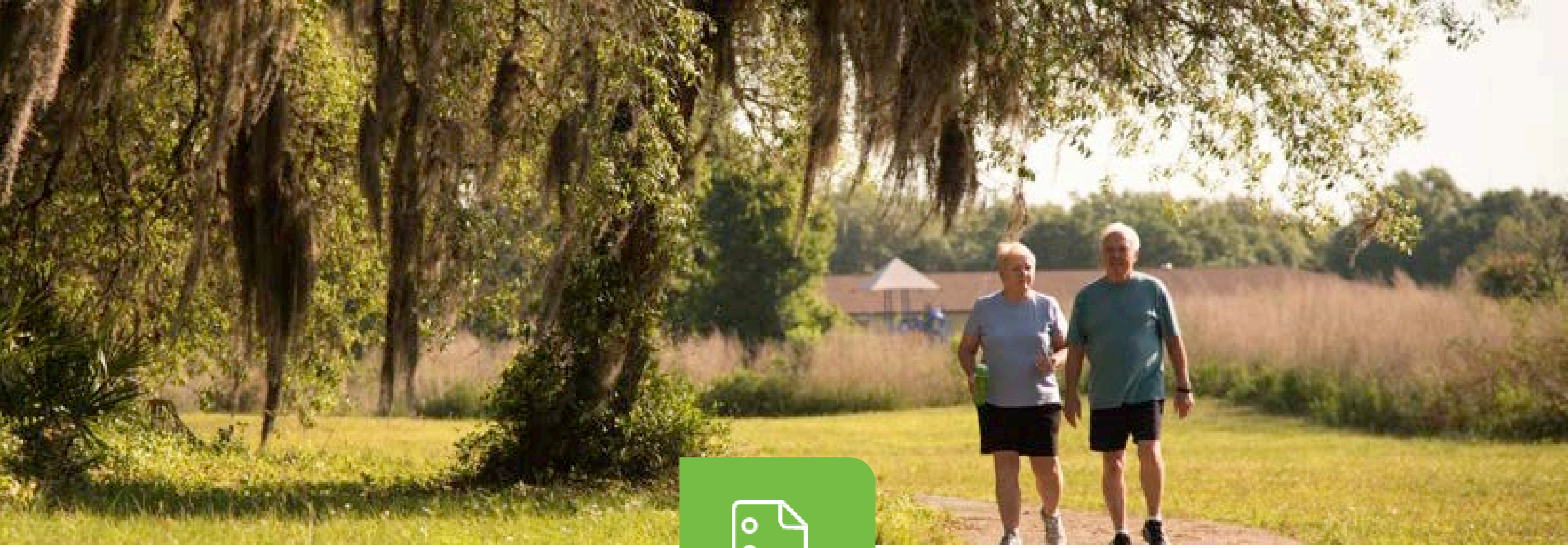
COL Compliant Campaign (90 days before failure date)

Humana at Home Outreach

Clinical Initiative – All members

Clinical Initiative – Targeted Members

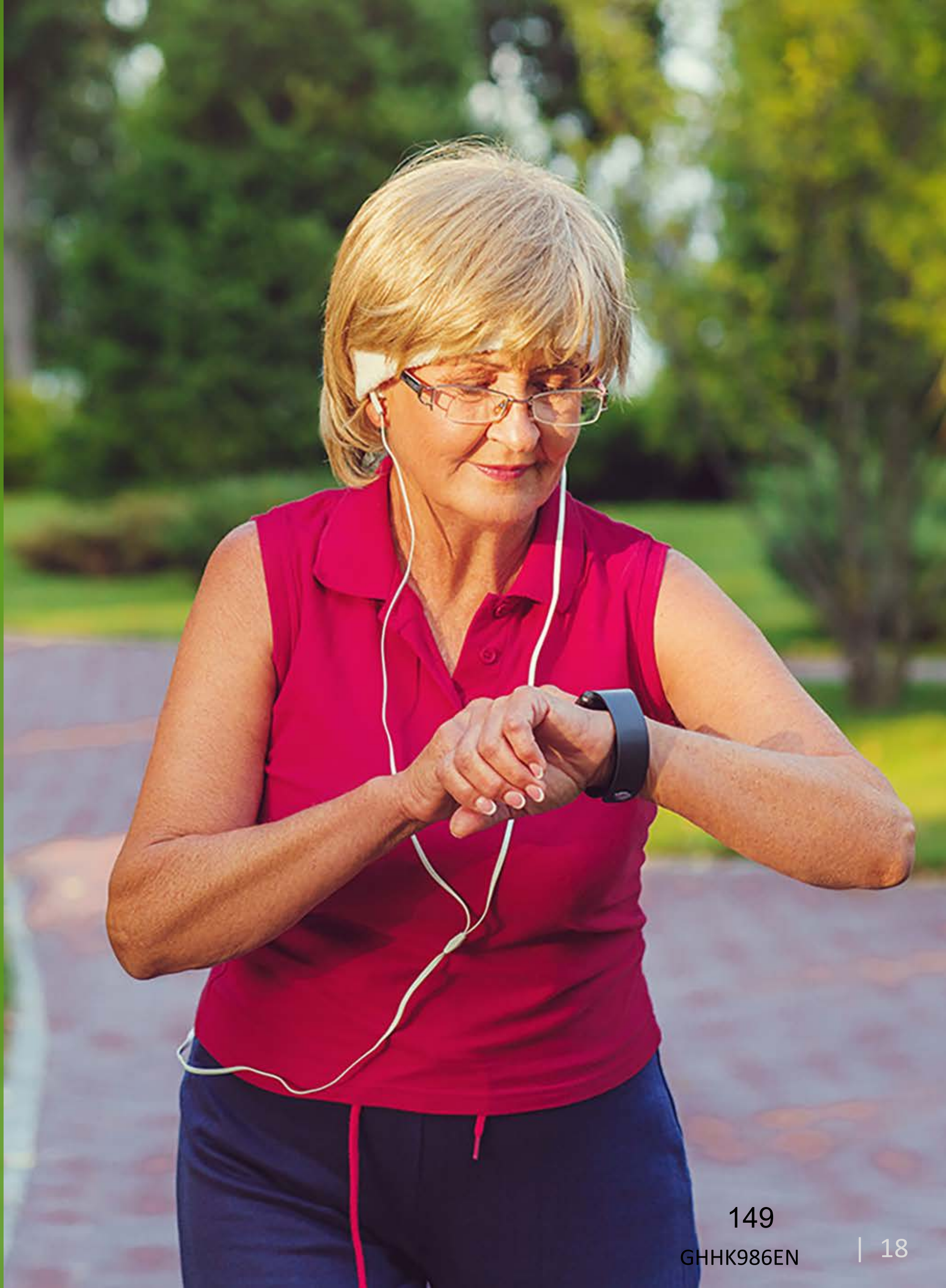
Please note planned activities are subject to change. Other outreach may be scheduled throughout the year based on need.



Health and Wellness

Go365® by Humana

Wellness and Rewards



What is Go365®?

Go365® is Humana’s wellness program that rewards members for making healthier choices.

It’s easy. Members who have Go365 as part of their plan benefits are automatically enrolled! They just have to start participating in eligible activities.

It’s personal. Go365 recommends activities to help members get and stay on their personal path to wellness.

It’s rewarding. Members earn rewards through the program.

MEMBERS CHOOSE HOW TO PARTICIPATE:

- **Prevention**… flu shots and certain preventative exams
- **Fitness**…like walking or attending SilverSneakers® classes
- **Community**…like taking classes at a Humana Guidance Center and volunteering

To access Go365, members can sign in at Humana.com to or by calling customer service for paper materials and reward redemption.

Members can spend what they earn

The Go365® Mall has gift cards for redemption

Rewardable activities must be redeemed by 12/31 or they are forfeited.

Health & Wellness at the 2019 National Senior Games

– More to come for Health & Wellness activities at the National Senior Games:
  - Expo footprint: video booths, experiential and collaborative activities focused overall health and wellness
  - Website: http://nsga.com/

New Mexico Retiree Health Care Authority
Fiscal Year 2019 2nd Quarter Budget Review

Health Care Benefit Fund

Between July 1, 2018 and December 31, 2018, expenditures from the Healthcare Benefits Administration Program were $164.3 million and revenues were $170.6 million, creating a surplus of $6.2 million, compared to $4.7 million during the same time period in FY18. Overall expenditures through the second quarter of FY19 as compared to the same time frame in FY18 have grown by $2.4 million, or 1.5 percent. Current projections indicate a $24.5 million surplus at the end of FY19.

Upward pressures include:

1. Overall plan participation (medical and voluntary coverages) has grown by 1,120 members, or 1.8 percent between December 2017 and December 2018 compared to 1,207 members or 2 percent during the same time frame the previous fiscal year.
2. Claim costs typically increase during the 3rd and 4th quarters of the plan year (calendar year) as members have begun to meet their deductibles and out-of-pocket maximum expenses.

Downward pressures include:

1. Increases in medical plan costs (pre-Medicare and Medicare) have been largely offset by a reduction in PBM plan costs.
2. Overall pre-Medicare plan participation has shrunk by 633 members or 3.9 percent – combined with increased participation in the Value Plan options 3,461 (December 2018) compared to 2,702 (December 2017).
3. Under the Medicare plans – Medicare Advantage Plans grew by over 1,260 members (8.8 percent) while growth in participation with the supplement plan continues to shrink by 213 members, or approximately ninth-tenths of a percent.
4. Continued decline in dependent children participation in the medical plans 1,974 (December 2018) compared to 2,127 (December 2017).

Below is an annual summary of the cash contributions made to the State Investment Council (SIC) between fiscal years 2011 – 2018, as well as monthly contribution(s) made in FY19:

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	$	33,000,000
FY18 Total	$	20,000,000
Transfer Effective	Amount Transferred	
October 1, 2018	$	10,000,000
November 1, 2018	$	5,000,000
FY19 Total	$	15,000,000
Total Transfers	**$**	**261,254,651**

New Mexico Retiree Health Care Authority

FY19 2nd Quarter Budget Review

Comparison of Projected vs. Actual

(in thousands)

Healthcare Benefit Fund

FY19/FY18 Comparison

	FY19 Approved Q2 Budget	FY19 Q2 Actual	FY18 Q2 Actual	Dollar Change	Percent Change
Sources:					
Employer/Employee Contributions	$ 64,162.55	$ 65,509.9	$ 62,547.5	$ 2,962.4	4.7%
Retiree Contributions	$ 75,258.80	$ 84,004.3	$ 84,211.7	$ (207.4)	-0.2%
Taxation & Revenue Fund	$ 14,703.45	$ 10,940.1	$ 10,940.1	$ -	0.0%
Other Miscellaneous Revenue	$ 13,615.35	$ 10,112.1	$ 10,497.1	$ (385.0)	-3.7%
Interest Income	$ 30.0	$ 191.9	$ 70.3	$ 121.6	157.0%
Refunds	$ -	$ (170.2)	$ (125.5)	$ (44.7)	35.6%
Total Sources	$ 167,770.2	$ 170,588.1	$ 168,141.2	$ 2,446.9	1.5%
Uses:					
Medical Contractual Services	$ 165,595.4	$ 162,797.0	$ 161,994.7	$ 802.3	0.5%
ACA Fees (PCORI)	$ 42.0	$ 39.6	$ 36.1	$ 3.5	9.7%
Other Financing Uses	$ 1,523.8	$ 1,518.3	$ 1,468.4	$ 49.9	3.4%
Total Uses	$ 167,161.2	$ 164,354.1	$ 163,463.1	$ 855.7	0.5%
Sources Over Uses	**NA**	**$ 6,234.0**	**$ 4,678.1**	**NA**	**NA**

FY19 Budget Compared to Actual

	FY19 Approved Budget	FY19 Actual	Remaing Balance	Percent Expended/ Collected	FY19 Projected Total
Sources:					
Employer/Employee Contributions	$ 128,325.1	$ 65,509.9	$ 62,815.2	51.0%	$ 131,019.8
Retiree Contributions	$ 150,517.6	$ 84,004.3	$ 66,513.3	55.8%	$ 172,000.0
Taxation & Revenue Fund	$ 29,406.9	$ 10,940.1	$ 18,466.8	37.2%	$ 26,256.2
Other Miscellaneous Revenue	$ 27,230.7	$ 10,112.1	$ 17,118.6	37.1%	$ 30,000.0
Interest Income	$ 60.0	$ 191.9	$ (131.9)	319.8%	$ 383.8
Refunds	$ -	$ (170.2)	$ -	NA	$ (340.0)
Total Sources	$ 335,540.3	$ 170,588.1	$ 164,782.0	50.8%	$ 359,319.8
Uses:					
Medical Contractual Services	$ 332,450.7	$ 162,797.0	$ 169,653.7	49.0%	$ 331,751.1
ACA Fees (PCORI)	$ 42.0	$ 38.8	$ -	92.4%	$ 39.4
Other Financing Uses	$ 3,047.6	$ 1,518.3	$ 1,529.3	49.8%	$ 3,036.6
Total Uses	$ 335,540.3	$ 164,354.1	$ 171,183.0	49.0%	$ 334,827.1
Sources Over Uses	**NA**	**$ 6,234.0**	**NA**	**NA**	**$ 24,492.7**

New Mexico Retiree Health Care Authority
2nd Quarter Healthcare Benefit Fund Detail
Fiscal Year 2019
(in thousands)

	FY19 Q2 Actuals		FY18 Q2 Actuals		FY19 - FY18 Difference	
REVENUE:						
Employer/Employee Contributions	$	65,509.9	$	62,547.5	$	2,962.4
Retiree Contributions	$	84,004.3	$	84,211.7	$	(207.4)
Taxation and Revenue Suspense Fund	$	10,940.1	$	10,940.1	$	-
Other Miscellaneous Revenue	$	10,112.1	$	10,497.1	$	(385.0)
Interest Income	$	191.9	$	70.3	$	121.6
Refunds	$	(170.2)	$	(125.5)	$	(44.7)
TOTAL REVENUE:	**$**	**170,588.1**	**$**	**168,141.2**	**$**	**2,446.9**
EXPENDITURES:						
Prescriptions						
Express Scripts	$	49,728.8	$	54,736.3	$	(5,007.5)
Total Prescriptions	$	49,728.8	$	54,736.3	$	(5,007.5)
Non-Medicare						
Blue Cross Blue Shield	$	34,269.7	$	33,476.8	$	792.9
BCBS Administrative Costs	$	1,049.9	$	1,008.0	$	41.9
Presbyterian	$	22,150.3	$	20,975.4	$	1,174.9
Presbyerian Administrative Costs	$	1,017.1	$	1,010.7	$	6.4
NM Health Connections	$	191.9	$	311.5	$	(119.6)
NM Health Connections Admin	$	-	$	132.0	$	(132.0)
PCORI Fee	$	39.6	$	39.4	$	0.2
Total Non-Medicare	$	58,718.5	$	56,953.8	$	1,764.7
Medicare						
Blue Cross Blue Shield	$	20,459.1	$	19,633.2	$	825.9
BCBS Administrative Costs	$	2,855.1	$	2,800.3	$	54.8
Presbyterian MA	$	7,944.3	$	6,462.7	$	1,481.6
UnitedHealthCare MA	$	3,321.7	$	2,648.5	$	673.2
Humana MA	$	413.1	$	171.5	$	241.6
BCBS MA	$	2,434.8	$	2,202.5	$	232.3
Total Medicare	$	37,428.1	$	33,918.7	$	3,509.4
Other Benefits						
Davis Vision	$	1,167.7	$	1,121.0	$	46.7
Delta Dental	$	5,136.3	$	4,790.7	$	345.6
Standard Life Insurance	$	5,707.8	$	4,981.2	$	726.6
United Concordia Dental	$	4,948.6	$	5,493.0	$	(544.4)
Total Other Benefits	$	16,960.4	$	16,385.9	$	574.5
Other Expenses						
Program Support	$	1,518.3	$	1,468.4	$	49.9
Total Other Expenses	$	1,518.3	$	1,468.4	$	49.9
TOTAL EXPENDITURES:	***$***	***164,354.1***	**$**	**163,463.1**	**$**	**891.0**
Total Revenue over Total Expenditures	***$***	***6,234.0***	**$**	**4,678.1**	**$**	**1,555.9**

New Mexico Retiree Health Care Authority
FY19 2nd QTR Budget Review
Comparison of Budget vs. Actual
(in thousands)

Program Support

FY19/FY18 Comparison

	FY19 Approved Q2 Budget	FY19 Q2 Actual	FY18 Q2 Actual	Dollar Change	Percent Change
Sources:					
Other Transfers	$ 1,523.8	$ 1,523.8	$ 1,468.4	$ 55.4	3.8%
Total Sources	**$ 1,523.8**	**$ 1,523.8**	**$ 1,468.4**	**$ 55.4**	**3.6%**
Uses:					
Personal Services and Benefits	$ 968.8	$ 923.9	$ 866.9	$ 57.0	6.6%
Contractual Services	$ 283.2	$ 215.7	$ 216.0	$ (0.3)	-0.1%
Other Costs	$ 271.9	$ 293.0	$ 266.5	$ 26.5	9.9%
Total Uses	**$ 1,523.8**	**$ 1,432.6**	**$ 1,349.4**	**$ 83.2**	**6.2%**

New Mexico Retiree Health Care Authority
FY19 2nd QTR Budget Review
Comparison of Budget vs. Actual
(in thousands)

Program Support

FY19 Budget Compared to Actual

	Approved Operating Budget	FY19 Actual	Remaining Balance	Percent Expended	FY19 Projected	Projected Surplus/ Deficiency
Sources:						
Other Transfers	$ 3,047.6	$ 1,523.8	$ 1,523.8	50%	$ 1,468.4	$ 55.4
Total Sources	**$ 3,047.6**	**$ 1,523.8**	**$ 1,523.8**	**50%**	**$ 1,468.4**	**$ 55.4**
Uses:						
Personal Services and Benefits	$ 1,937.5	$ 923.9	$ 1,013.6	48%	$ 1,008.4	$ 5.2
Contractual Services	$ 566.3	$ 215.7	$ 350.6	38%	$ 333.1	$ 17.5
Other Costs	$ 543.8	$ 293.0	$ 250.8	54%	$ 237.4	$ 13.4
Total Uses	**$ 3,047.6**	**$ 1,432.6**	**$ 1,615.0**	**47%**	**$ 1,578.9**	**$ 36.1**

Program Support

Expenditure Summary (in thousands)

Acct #	Account Description	A Approved Budget	B Expended Budget	C Remaing Balance	D Projected	E Balance
200	Personal Services/ Employee Benefits	1,937.5	923.9	1,013.6	1,008.4	5.2
300	Contractual Services	566.3	215.7	350.6	333.1	17.5
400	Other Costs	543.8	293.0	250.8	237.4	13.4
	TOTAL	**3,047.6**	**1,432.6**	**1,615.0**	**1,578.9**	**36.1**

Expenditure Detail (in thousands)

Personal Services / Employee Benefits

Acct #	Account Description	Approved Budget	Expended Budget	Remaining Balance	Projected	Balance
520100	Exempt Positions	165.5	137.5	28.0	136.9	(108.9)
520300	Classified Perm. Positions	1,212.5	510.2	702.3	579.4	122.9
520800	Annual & Comp Paid	0.0	3.6	(3.6)	0.0	(3.6)
521100	Group Insurance Premium	196.4	91.4	105.0	101.3	3.7
521200	Retirement Contributions	219.6	110.1	109.5	121.7	(12.2)
521300	FICA	105.0	47.5	57.5	54.8	2.7
521400	Workers Comp	0.2	0.1	0.1	0.0	0.1
521410	GSD Work Comp Ins	1.6	1.6	0.0	0.0	0.0
521500	Unemployment Comp	0.0	0.0	0.0	0.0	0.0
521600	Employee Liability Insurance	9.3	9.0	0.3	0.0	0.3
521700	Retiree Health Care	27.4	12.9	14.5	14.3	0.2
521900	Other Employee Benefits	0.0	0.0	0.0	0.0	0.0
	TOTAL	**1,937.5**	**923.9**	**1,013.6**	**1,008.4**	**5.2**

Contractual Services

Acct #	Account Description					
535200	Professional Services	344.8	93.5	251.3	240.0	11.3
535300	Other Services	15.0	1.8	13.2	10.0	3.2
535400	Audit Services	81.5	46.5	35.0	35.0	0.0
535500	Attorney Services	35.0	21.9	13.1	13.1	0.0
535600	Information Technology Services	90.0	52.0	38.0	35.0	3.0
	TOTAL	**566.3**	**215.7**	**350.6**	**333.1**	**17.5**

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	2.0	1.7	0.3	1.8	(1.5)
542300	Board & Commission - In-State	10.0	6.6	3.4	8.2	(4.8)
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	0.4	(0.2)	0.0	(0.2)
542800	State Transportation Pool Charges	4.7	2.3	2.4	1.9	0.5
543200	Maintenance - Furniture, Fixtures & Equipment	3.7	3.6	0.1	1.5	(1.4)
543300	Maintenance - Building & Structure	3.0	0.0	3.0	1.5	1.5
543400	Maintenance - Property Insurance	0.3	0.3	0.0	0.3	(0.3)
543820	Maintenance IT	10.0	0.9	9.1	3.0	6.1
544000	Supply Inventory IT	15.4	8.2	7.2	9.0	(1.8)
544100	Supplies - Office Supplies	10.0	7.2	2.8	1.8	1.0
544900	Supplies - Inventory Exempt	3.0	1.2	1.8	2.0	(0.2)
545600	Rep/Recording	1.0	4.0	(3.0)	4.0	(7.0)
545700	DoIT - ISD Services	4.1	2.0	2.1	2.0	0.1
545701	DoIT - HCM Fees	10.4	10.4	0.0	0.0	0.0
545900	Printing & Photo. Services	66.0	10.1	55.9	50.0	5.9
546100	Postage & Mail Services	112.0	85.7	26.3	24.3	2.0
546400	Rent of Land & Buildings	120.5	75.7	44.8	45.0	(0.2)
546409	Rent - Interagency	7.8	3.9	3.9	3.9	0.0
546500	Rent of Equipment	51.0	23.2	27.8	23.2	4.6
546600	Telecomm	21.0	8.2	12.8	9.0	3.8
546610	DOIT Telecomm	62.1	29.2	32.9	30.0	2.9
546700	Subscriptions & Dues	4.0	3.9	0.1	0.3	(0.2)
546800	Employee Training & Education	5.0	0.9	4.1	2.0	2.1
546801	Board Member Training	2.0	0.0	2.0	2.0	0.0
546900	Advertising	0.2	0.3	(0.1)	0.5	(0.6)
547900	Miscellaneous Expense	1.3	1.0	0.3	0.0	0.3
547999	Request to Pay Prior Year	0.0	0.2	(0.2)	0.0	(0.2)
548300	Information Technology Equipment	5.0	0.0	5.0	5.0	0.0
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	1.1	0.4	1.0	(0.6)
	TOTAL	**543.8**	**293.0**	**250.8**	**237.4**	**13.4**

Concurring Review of Schedule of Employer Allocations
New Contract - Action Item

Background

According to NMAC 2.2.2.10 DD. GASBS 75, accounting and financial reports for postemployment benefits other than pensions: The New Mexico Retiree Health Care Authority (NMRHCA) is required to prepare a schedule of employer allocations as of June 30 of each fiscal year (performed by Segal). Prior to the distribution, the schedule of employer allocations must be audited (performed by Moss Adams) and the audited schedule must obtain a concurring review (performed by proposed vendor).

Scope of Work

A. The Contractor shall perform the concurring review of the schedule of the employer allocations and schedule of other postemployment benefit (the "OPEB") amounts by employer, with related notes (the "Work"), as required by the Office of the New Mexico State Auditor (the "State Auditor"). Such work shall be performed by the team comprised of ____________________________, as indicated in the professional profiles provided by the Contractor (the "Engagement Team"). Should there be any proposed changes to the Engagement Team, Contractor shall provide the Agency with updated professional profiles for new and existing Engagement Team members, and the composition of any revised Engagement Team shall be subject to review and approval by the State Auditor. The Work shall be performed in accordance with the AICPA's Consulting Standards, at a minimum. An AUP under AIPCA's Attestation Standards and/or GAGAS will also be sufficient. Contractor must select a representative sample of at least 15 employers and perform procedures such as those listed below:

- Recalculate the allocations and OPEB amounts for each selected employer;
- Use the information provided in the Schedule to prepare journal entries based on the plan-level allocations, and ensure that the journal entries balance and ending balances reconcile to the amounts reported on the Schedule;
- Agree the reported allocation totals in the Schedule to the balances reported in the Agency's audited financial statements for the year ended June 30, 2018;
- Agree the footnote disclosures in the Schedule, including the actuarial assumptions and fund totals, to the respective disclosures and balances reported in the Agency's audited financial statements for the year ended June 30, 2018.

B. If the Work is performed in accordance with AICPA's Consulting Standards, the Engagement Team should use its professional judgment to tailor the procedures to meet the objective of identifying possible issues and areas of concern that may affect the ability of the employers that participate in the Retiree Health Care Authority Plan to utilize the Schedule effectively.

C. The Engagement Team must prepare a written communication addressed to the Agency describing the procedures performed and the result of those procedures. The Agency shall provide a copy of the written communication to the State Auditor.

Proposals Received

REDW

Principal: Tomas L. Friend, CPA

REDW has strong roots in the New Mexico Business community going back to 1953. Headquartered in Albuquerque and with a large office in Phoenix, REDW indicates it is the largest locally owned CPA firm in New Mexico and one of the 10 largest CPA firms in the Southwest.

<u>Cost: $44,550 + $3,508 gross receipts tax - $48,058 total</u>

Atkinson

Principal: Martin Mathisen

Atkinson & Co. audited the NMRHCA for 12 years ending in 2016. Mr. Mathisen was the engagement partner for all 12 years and helped the State of New Mexico and NMRHCA implement GASB 43 in 2007. He has prepared presentations on GASB 68 and 75 for the Association of Government Accountants (AGA) both in exposure draft form and for the issued statement.

Cost: $8,500 + 7.875% ($669.38) gross receipts tax – $9,169.38 total

CliftonLarsonAllen, LLP

Principal Consultant: Matt Bone

CLA is large firm that offers wealth advisory, outsourcing, audit, tax, and consulting services with more than 6,100 employees in 120 locations.

Cost: $9,500 – including gross receipts tax - $9,500 total

Staff Recommendation

NMRHCA staff recommends the selection of CliftonLarsonAllen, LLP to perform the concurring review of schedule of employer allocations, given its previous experience and knowledge of GASB reporting standards and performing similar services for PERA, ERB and NMRHCA.

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 7 and conference presentations conclude on April 10. 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 7 – 10 in Ft. Worth, Texas (agenda not yet available – prospectus included on next page).