



REPORTS OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

**NEW MEXICO RETIREE HEALTH
CARE AUTHORITY**

June 30, 2022



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New Mexico Retiree Health Care Authority
Official Roster
June 30, 2022

Board of Directors

Doug Crandall, Board President	Retired Public Employees of New Mexico
Therese Saunders, Vice-President	NEA-NM, Classroom Teachers Association
LeAnne Larrañaga-Ruffy, Secretary	Public Employee's Retirement Association of New Mexico Designee
Tim Eichenberg	State Treasurer of New Mexico
Terry Linton	Governor's Appointee
Sanjay Bhakta	New Mexico Municipal League
Rick Scroggins	New Mexico Educational Retirement Board
Lance Pyle	New Mexico Association of Counties
Tomas Salazar	New Mexico Association of Educational Retirees
Raquel Alirez	New Mexico Environment Department
Jamie Widner	Public School Superintendent's Association of New Mexico

Staff

Neil Kueffer	Executive Director
Sheri Ayanniyi	Chief Financial Officer

Report of Independent Auditors

The Board of Directors
New Mexico Retiree Health Care Authority

Brian S. Colón, Esq.
New Mexico State Auditor

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of fiduciary net position and changes in fiduciary net position of New Mexico Retiree Health Care Authority (the Authority) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of New Mexico Retiree Health Care Authority as of June 30, 2022, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Authority present the fiduciary net position and changes in fiduciary net position of the State of New Mexico that are attributable to the transactions of the Authority. The financial statements do not present fairly the financial position of the entire State of New Mexico as of June 30, 2022, the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, during the year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

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 is the responsibility of management and, 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. Such 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. The 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

Management is responsible for the other information included in the annual report. The other information comprises 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, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2022 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.

Mess Adams LLP

Albuquerque, New Mexico
November 21, 2022

New Mexico Retiree Health Care Authority Management's Discussion and Analysis June 30, 2022

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, 2022. 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, 2021 for comparative purposes.

FINANCIAL REPORTING REQUIREMENTS

The Authority's financial statements have been prepared in conformity with standards published by the Governmental Accounting Standards Board (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.

New Mexico Retiree Health Care Authority
Management's Discussion and Analysis
June 30, 2022

FINANCIAL HIGHLIGHTS

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

	June 30,	
	2022	2021
ASSETS		
Cash and cash equivalents	\$ 71,261,671	\$ 50,356,048
Contributions and other receivables	22,014,424	20,029,783
Investments with New Mexico State Investment Council	1,091,313,523	1,080,957,553
Capital assets, net	2,039,782	1,184,686
Total assets	<u>1,186,629,400</u>	<u>1,152,528,070</u>
LIABILITIES		
Reserve for loss and loss adjustment expense	25,420,000	23,303,145
Other current liabilities	5,215,198	9,147,350
Retiree premiums received in advance	298,737	578,030
Total liabilities	<u>30,933,935</u>	<u>33,028,525</u>
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	<u>\$ 1,155,695,465</u>	<u>\$ 1,119,499,545</u>

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

	Year Ended June 30,	
	2022	2021
ADDITIONS		
Contributions	\$ 332,931,925	\$ 321,989,997
Investment (loss) income	(49,543,613)	217,737,204
Tax administration suspense fund revenue	36,888,100	32,935,803
Medicare Part D rebates and other	43,201,979	36,525,086
Total additions	<u>363,478,391</u>	<u>609,188,090</u>
DEDUCTIONS		
Premiums and claims paid	323,478,948	315,956,002
Expenses and other	3,803,523	3,404,448
Total deductions	<u>327,282,471</u>	<u>319,360,450</u>
NET INCREASE IN NET POSITION	<u>\$ 36,195,920</u>	<u>\$ 289,827,640</u>

**New Mexico Retiree Health Care Authority
Management's Discussion and Analysis
June 30, 2022**

Net position increased by approximately \$36.2 million, or 3.2%, during fiscal year 2022 compared to fiscal year 2021. The increase during the current year is primarily due to the following:

- The fair value of investments increased by \$10.4 million or 1.0% due to approximately \$60 million in investment purchases offset by net depreciation in fair value of investments of approximately \$49.6 million.
- Cash balances increased by \$20.9 million or 41.5% due to timing of transfers made to the trust fund held by the New Mexico State Investment Council.
- Medicare Part D and other revenues increased by approximately \$6.7 million or 18.3% from the prior year. Contributions increased by approximately \$10.9 million, or 3.3%, from the prior year. Contributions by source were as follows:

	Year Ended June 30,	
	2022	2021
Retirees	\$ 180,500,394	\$ 177,054,535
Employer	101,585,358	96,585,103
Employee	50,792,679	48,292,552
Employer buy-ins interest portion	53,494	57,807
Total contributions	\$ 332,931,925	\$ 321,989,997

The Authority reported an estimated net OPEB liability of \$2,311,603,002 and \$3,290,349,790 as of June 30, 2022 and 2021, respectively, representing a decrease of \$978.7 million during the year ended June 30, 2022. The decrease is the result of a change in assumption related to an increase in the blended discount rate from 3.62% to 5.42%. The net OPEB liability as of June 30, 2022 is comprised of the Authority's total OPEB liability of \$3,467,298,517 calculated by the Authority's independent actuaries, offset by the plan's fiduciary net position of \$1,155,695,515. As of June 30, 2022, the plan's fiduciary net position as a percentage of the total OPEB liability (funded status) was 33.33%, an increase of 7.94% compared to the 25.39% funded status as of June 30, 2021.

BUDGETARY ANALYSIS

The fiscal year 2022 operating budget authorized expenditures totaling \$356.8 million, including \$2.1 million in personal services and employee benefits, \$354.1 million in contractual services, and \$0.6 million in other expenses. Actual expenditures totaled \$327.3 million, supported by revenues totaling \$363.5 million, resulting in an increase in net position of \$36.2 million.

New Mexico Retiree Health Care Authority

Management's Discussion and Analysis

June 30, 2022

CURRENTLY KNOWN FACTS, DECISIONS, AND CONDITIONS

The New Mexico Retiree Health Care Act (the 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 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 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).

Based on actuarial projections at June 30, 2022, the Authority is projected to become insolvent in fiscal 2059 (37 years). As in prior measurement periods, the solvency assumes changes to variables such as medical and prescription drug trends, plan participation, growth in payroll and investment earnings. While accurately projecting medical costs 10 years, 20 years, and 30 years from now is difficult, the solvency study helps measure the long-term impact of policies adopted by the Board of Directors each year. The successes of these policies are reflected by the continued improvements to the estimated life of the trust fund.

The solvency analysis indicates continued improvements to the financial outlook of the program, on a pay-as-you-go basis. However, the solvency analysis 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 long-term challenges associated with providing healthcare to a growing retiree population have been exacerbated by the COVID-19 pandemic. For example, as members delay or avoid seeking care for conditions that could be detected and treated early, they may not be able to avoid more costly and less successful treatments when a disease or condition advances. Typically, the longer it takes to identify and begin treating a disease condition, the more expensive and less successful the outcome becomes. This, combined with the reported long-term effects of COVID-19 on surviving members, has the potential to significantly increase plan costs in the near future.

FINANCIAL CONTACT

Any questions regarding the financial statements of the Authority should be directed to the Executive Director, New Mexico Retiree Health Care Authority, 6300 Jefferson St. NE, Suite 150, Albuquerque, NM 87109.

New Mexico Retiree Health Care Authority
Statement of Fiduciary Net Position
June 30, 2022

ASSETS

Interest in State General Fund Investment Pool	\$ 71,261,671
Receivables	
Contributions - employers, employees, and retirees, net	14,456,835
Due from other state agencies	3,074,008
Due from charter schools	479,868
Accounts receivable - rebates and Medicare Part D	3,323,266
Buy-in obligations receivable	680,447
Total receivables	22,014,424
Investments with State Investment Council	
U.S. Large Cap Index Pool	160,808,342
Non-U.S. Emerging Markets Active Pool	84,128,784
Non-U.S. Developed Markets Index Pool	128,530,680
Private Equity Pool	170,463,818
Credit and Structured Finance Pool	161,594,765
Real Estate Pool	131,966,936
U.S. Small/Mid Cap Alternative Weighted Index Pool	21,888,101
Real Return Pool	52,298,585
Core Bond Pool	179,633,512
Total investments	1,091,313,523
Capital assets, net of accumulated depreciation and amortization	2,039,782
Total assets	1,186,629,400

LIABILITIES

Accounts payable	3,955,977
Payroll liabilities	67,607
Lease liabilities	1,086,837
Compensated absences	104,777
Reserve for loss and loss adjustment expense	25,420,000
Retiree premiums received in advance	298,737
Total liabilities	30,933,935

**NET POSITION RESTRICTED FOR POSTEMPLOYMENT
BENEFITS OTHER THAN PENSIONS**

\$ 1,155,695,465

See accompanying notes to these financial statements.

New Mexico Retiree Health Care Authority
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2022

ADDITIONS

Contributions		
Retiree		\$ 180,500,394
Employer		101,585,358
Employee		50,792,679
Employer buy-ins interest portion		53,494
Total contributions		<u>332,931,925</u>
Investment (loss) income		
Net depreciation in fair value of investments		(49,644,028)
Interest adjustment on State General Fund Investment Pool		100,415
Net investment loss		<u>(49,543,613)</u>
Other		
Tax administration suspense fund revenue		36,888,100
Medicare Part D subrogation and rebates		43,201,979
Total other		<u>80,090,079</u>
Net additions		<u>363,478,391</u>

DEDUCTIONS

Premiums and claims paid		323,478,948
General and administrative expenses		3,080,880
Refunds to retirees		336,755
Depreciation and amortization expense		385,888
Total deductions		<u>327,282,471</u>

NET INCREASE IN NET POSITION 36,195,920

**NET POSITION RESTRICTED FOR POSTEMPLOYMENT
BENEFITS OTHER THAN PENSIONS**

Beginning of year		<u>1,119,499,545</u>
End of year		<u>\$ 1,155,695,465</u>

See accompanying notes to these financial statements.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 1 – Retiree Health Care Act Plan

The New Mexico Retiree Health Care Authority (the Authority) was formed on 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) (the Fund) 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 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 Fund (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 Fund to be selected by the New Mexico Municipal League;
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New Mexico Retiree Health Care Authority

Notes to Financial Statements

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 Fund 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 157,371 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, 2022:

Plan membership	
Current retirees and surviving spouses	53,092
Inactive and eligible for deferred benefit	11,759
Current active members	92,520
	157,371
Active membership	
State general	18,691
State police and corrections	1,919
Municipal general	20,357
Municipal police	1,573
Municipal FTRE	756
Educational Retirement Board	49,224
	92,520

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

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

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

New Mexico Retiree Health Care Authority

Notes to Financial Statements

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.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

New Accounting Standard

GASB Statement No. 87 *Leases* (GASB No. 87) defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (e.g., buildings, land, vehicles, equipment) as specified in the contract for a period of time in an exchange or exchange-like transaction. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources (revenues), or outflows of resources (expenses) based on the payment provisions of the contract. A lessee is required to recognize a lease liability, measured at the present value of payments expected to be made during the lease term, and an intangible right-to-use lease asset, measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessor is required to recognize a lease receivable, measured at the present value of lease payments expected to be received during the lease term, and a deferred inflow of resources, measured at the value of the lease receivable, plus any payments received at or before the commencement of the lease term that relate to future periods. This statement includes an exception for short-term leases (those with a maximum possible term of 12 months or less), contracts that transfer ownership, leases of assets that are investments, and certain regulated leases.

The Authority adopted GASB No. 87 as of July 1, 2021. Accordingly, the Authority evaluated contracts that were formerly accounted for as operating leases to determine whether they meet the definition of a lease as defined in GASB No. 87. The Authority has one contract to lease office space and one contract to lease equipment (see Note 15) that meet the definition of a lease and the Authority calculated and recognized right-to-use assets of \$1,211,545 and lease liability of \$1,211,545 as of July 1, 2021.

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 (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, 2022 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 employer 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 13 years and are in addition to regular monthly contributions.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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. The Authority is subject to the Uniform Prudent Investor Act, NMSA 45-7 and has structured their investment policy to comply to NMSA 45-7.

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 are provided using the straight-line method over the estimated useful lives of the assets. Right-to-use assets are amortized over the lesser of the lease term or the useful life of the leased asset. The useful lives are 10 years for furniture and office equipment and three to seven years for computer equipment.

Leases

The Authority recognizes lease contracts or equivalents that have a term exceeding one year and the cumulative future payments on the contract exceed \$25,000 that meet the definition of an other-than-short-term lease. The Authority uses a discount rate that is explicitly stated or implicit in the contract. When a readily determinable discount rate is not available, the discount rate is determined using the Authority's incremental borrowing rate at start of the lease for a similar asset type and term length to the contract. Short-term lease payments are expensed when incurred.

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 Authority 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 and, therefore, the net position is reported as restricted pursuant to 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.

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.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Budgetary Process and Budgetary Basis of Accounting

The Authority prepares its budget on the accrual basis. Investment gains and losses, depreciation, and changes in incurred but not reported (IBNR) claim expenses 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.

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, 2022. 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.

Net Pension Liability and Related Pension Amounts

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 that 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.

Postemployment Benefits – State Retiree Health Care Plan

The Authority, as part of the primary government of the State of New Mexico, is a contributing employer to the Fund on behalf of the Authority's employees and for persons who have retired from certain public service positions in New Mexico. 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.

Information concerning the net pension and OPEB liabilities, benefit expenses, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico Annual Comprehensive Financial Report for the year ended June 30, 2022 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.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Upcoming Accounting Standards

GASB Statement No. 101, *Compensated Absences*, increases the usefulness of governments' financial statement by requiring that liabilities for compensated absences be recognized for leave that has not been used and for leave that has been used but not yet paid in cash or settled through noncash means. The statement is effective for the year ending June 30, 2025. The Authority is currently examining the impact, if any, to its current accounting policies and financial reporting from this Statement.

Note 3 – Interest in State General Fund Investment Pool

Compliant with Section 6-10-3, NMSA 1978 and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office. Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP. The comprehensive cash reconciliation model compares aggregated agency claims on the SGFIP to the associated resources held by the State Treasurer's Office. As of June 30, 2022, the DFA provides the following assertions:

- 1) Resources held in the pool were equivalent to the corresponding business unit claims on those resources.
- 2) All claims as recorded in SHARE shall be honored at face value.

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.	June 30, 2022
Benefits Fund	38100	\$ 70,932,580
Administrative Fund	38000	329,091
Total interest in State General Fund Investment Pool		\$ 71,261,671

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.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

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

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) through 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, 2022, as management deems any uncollectible amounts as immaterial.

As of June 30, 2022, the buy-in receivable includes notes receivable from Sierra County. The remaining balance on the note is \$680,447. 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 \$64,521 and \$615,926, 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 \$3.0 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 \$3.0 million per year and froze the 12% annual increases until July 1, 2019. For the year ended June 30, 2021, revenues totaled \$32,935,803. As of June 30, 2022, amounts due from other governments consist of balances due from the Taxation and Revenue Department (Business Unit: 33300; Fund: 83200) totaling \$4,120,209 and accrued reversions receivable from the Benefits Fund totaling \$197,502.

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.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 5 – Investments and Fair Value Measurements (continued)

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

The following schedule summarizes the current investment allocation policy as of June 30, 2022:

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

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

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 5 – Investments and Fair Value Measurements (continued)

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used as of June 30, 2022.

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:

Investments Measured at NAV Practical Expedient	Fair Value June 30, 2022	Redemption Frequency	Redemption Notice Period
U.S. Large Cap Index Pool	\$ 160,808,342	Daily	5 business days
Non-U.S. Emerging Markets Active Pool	84,128,784	Daily	6 business days
Non-U.S. Developed Markets Index Pool	128,530,680	Daily	5 business days
Private Equity Pool	170,463,818	4 times per year	3 months
Credit and Structured Finance Pool	161,594,765	4 times per year	3 months
Real Estate Pool	131,966,936	4 times per year	3 months
U.S. Small/Mid Cap Alt Weighted Index Pool	21,888,101	Daily	7 business days
Real Return Pool	52,298,585	4 times per year	3 months
Core Bond Pool	179,633,512	Daily	5 business days
	<u>\$ 1,091,313,523</u>		

The U.S. Large Cap Index Pool is a passively managed portfolio and seeks to invest in U.S. 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.

The Non-U.S. Emerging Markets Active 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.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 5 – Investments and Fair Value Measurements (continued)

The Credit and 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 NMSIC. The Authority 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 Alternative Weighted 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.

The Real Asset Pool is managed across 34 funds with 18 managers. The pool seeks to provide a higher rate of return than the Real Assets CPI + 300 bps benchmark. 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 Core Bond Pool seeks to exceed returns of the Barclays US Aggregate Bond Index through active external management using complementary core-plus strategies. Redemptions are permitted up to five days prior to month-end. Redemptions larger than \$5 million require 30 days' notice.

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, 2022, the annual money-weighted rate of return on the Authority's investments, net of related investment expenses, was -0.86%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

New Mexico Retiree Health Care Authority
Notes to Financial Statements

Note 6 – Capital Assets

A summary of capital asset balances and activity during the year ended June 30, 2022 is as follows:

Description	June 30, 2021	Additions	Deletions	Transfers	June 30, 2022
Furniture and equipment	\$ 235,463	\$ 29,439	\$ -	\$ -	\$ 264,902
Leased asset - office space	-	1,158,896	-	-	1,158,896
Leased asset - equipment	-	52,649	-	-	52,649
Information technology	2,031,450	-	-	-	2,031,450
	<u>2,266,913</u>	<u>1,240,984</u>	<u>-</u>	<u>-</u>	<u>3,507,897</u>
Accumulated depreciation and amortization	(1,082,227)	(385,888)	-	-	(1,468,115)
	<u>\$ 1,184,686</u>	<u>\$ 855,096</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,039,782</u>

Depreciation expense totaled \$242,837 for the year ended June 30, 2022, of which \$11,996 of depreciation was allocated to the Administrative Fund while \$230,841 was allocated to the Benefits Fund. Amortization expense totaled \$143,051 for the year ended June 30, 2022, all of which was recognized in the Administrative Fund.

The Authority has evaluated the right-to-use assets for impairment and determined there was no impairment for the year ended June 30, 2022.

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.

June 30, 2021	Leave Accrued	Leave Used	June 30, 2022	Amount Due Within One Year
<u>\$ 111,229</u>	<u>\$ 113,150</u>	<u>\$ (119,602)</u>	<u>\$ 104,777</u>	<u>\$ 104,777</u>

New Mexico Retiree Health Care Authority

Notes to Financial Statements

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, 2022, 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, 2022. 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, 2022, the estimated claims liability for claims incurred but not reported (IBNR) totaled \$25,420,000. This estimated liability represents liability for outstanding claims for services rendered prior to July 1, 2022 and paid after June 30, 2022.

Note 9 – Net OPEB Liability

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

	<u>June 30, 2022</u>
Total OPEB liability	\$ 3,467,298,517
Plan fiduciary net position	<u>1,155,695,465</u>
Net OPEB liability	<u><u>\$ 2,311,603,052</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability ("funded status")	33.33%

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 9 – Net OPEB Liability (continued)

The total OPEB liability was determined by an actuarial valuation as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022, using the following actuarial assumptions:

Valuation date	June 30, 2021
Actuarial cost method	Entry age, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.30% for ERB; 2.50% for PERA
Projected payroll increases	3.00% to 13.00% based on years of service, including inflation
Investment rate of return	7.00%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Discount rate	5.42%
Healthcare cost trend rate	8.00% graded down to 4.50% over 14 years for Non-Medicare medical plan costs and 7.50% graded down to 4.50% over 12 years 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. The target allocation and projected arithmetic real rates of return for each major asset class, net of assumed inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized as follows:

<u>Asset Class</u>	<u>Long-Term Rate of Return</u>
U.S. core fixed income	0.4%
U.S. equity - large cap	6.6%
Non-U.S. emerging markets	9.2%
Non-U.S. developed equities	7.3%
Private equity	10.6%
Credit and structured finance	3.1%
Real estate	3.7%
Absolute return	2.5%
U.S. equity - small/mid cap	6.6%

New Mexico Retiree Health Care Authority
Notes to Financial Statements

Note 9 – Net OPEB Liability (continued)

The discount rate used to measure the total OPEB liability is 5.42% as of June 30, 2022. 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, 2059. The 7.00% assumed investment return on plan assets, which includes the assumed inflation rate of 2.50%, was used to calculate the net OPEB liability through 2059. The index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher (3.54%) was used beyond 2059, resulting in a blended discount rate of 5.42%.

The following presents the net OPEB liability, calculated using the discount rate of 5.42%, as well as what the Fund's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

1% Decrease (4.42%)	Current Discount (5.42%)	1% Increase (6.42%)
\$ 2,876,647,742	\$ 2,311,603,052	\$ 1,861,093,455

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

1% Decrease	Current Trend	1% Increase
\$ 1,852,195,881	\$ 2,311,603,052	\$ 2,703,138,257

New Mexico Retiree Health Care Authority

Notes to Financial Statements

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.nmpera.org.

Funding Policy – Plan members are required to contribute 9.42% of their gross pay. The Authority is required to contribute 17.74% 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, 2022 totaled \$245,289, 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 Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Authority. The Authority provides healthcare insurance and prescription drug benefits to retired employees of participating employers, their spouses, dependents, and surviving spouses and dependents. The Authority's Board was established by the Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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

New Mexico Retiree Health Care Authority

Notes to Financial Statements

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

The Authority issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the New Mexico Retiree Health Care Authority at 6300 Jefferson Street NE, Suite 150; Albuquerque, NM 87109.

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.org.

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, 2021, 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, 2022 totaled \$28,031, which equals the required contributions for the year.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

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 healthcare 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 voluntary coverages to eligible retirees: 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, NMSA 1978, the Authority's Board is charged with determining what is to comprise 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.

New Mexico Retiree Health Care Authority

Notes to Financial Statements

Note 15 – Leases

The Authority entered into a noncancellable occupancy agreement with a third party for a lease of office space, effective September 1, 2020 with an ending date of August 31, 2030. The Authority also entered into a noncancellable agreement with a third party for a lease of office equipment, effective September 29, 2020 with an ending date of September 17, 2024. There are no residual value guarantees included in the measurement of the Authority's lease liability for either lease or recognized as expenses for the year ended June 30, 2022. The Authority does not have any commitments that were incurred at the commencement of the leases. No termination penalties were incurred during the year ended June 30, 2022.

The change in lease liability for the year ended June 30, 2022 is summarized as follows:

<u>June 30, 2021</u>	<u>GASB No. 87 Implementation</u>	<u>Payments</u>	<u>June 30, 2022</u>
\$ -	\$ 1,211,544	\$ (124,707)	\$ 1,086,837

Future principal and interest lease payments as of June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 128,360	\$ 7,641	\$ 136,001
2024	132,874	6,705	139,579
2025	123,535	5,760	129,295
2026	125,460	4,837	130,297
2027	130,326	3,879	134,205
2028-2031	446,282	5,539	451,821
	<u>\$ 1,086,837</u>	<u>\$ 34,361</u>	<u>\$ 1,121,198</u>

Note 16 – Commitments and Contingencies

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

New Mexico Retiree Health Care Authority
Notes to Financial Statements

Note 16 – Commitments and Contingencies (continued)

The Authority has entered into various service contracts with healthcare providers. The total amount of these contracts approximates \$367.5 million for costs expected for fiscal year 2023.

Note 17 – Appropriations and Reversions

The following operating transfers occurred between the Authority's functional activities during the year ended June 30, 2022:

	Benefits 38100 From (To)	Administration 38000 From (To)
Administration appropriation	\$ (3,280,700)	\$ 3,280,700
Reversion of administration	197,502	(197,502)
	<u>\$ (3,083,198)</u>	<u>\$ 3,083,198</u>

The purpose of the transfers was to fund appropriations, to revert unused appropriations between funds, and was conducted on a routine basis. At June 30, 2022, the Authority's administration fund owes \$197,502 for the reversion amount net of \$3,083,198 expenses paid for by the administration fund on behalf of the benefits fund.

The Authority submits annually for approval an Administrative Budget Request as part of the operating budget. The DFA and the Legislative Finance Committee (LFC) review the request, and the Legislature takes action to approve and/or amend the Authority's 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 \$3,280,700 appropriation from the Benefits Fund to the Administration Fund for fiscal year 2022 (NM-HB2, Section 3). As of June 30, 2022, reversions totaling \$197,502 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, 2022

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Investment income	\$ 3,280,700	\$ 3,280,700	\$ 2,998	\$ 3,277,702
Total revenues	<u>3,280,700</u>	<u>3,280,700</u>	<u>2,998</u>	<u>3,277,702</u>
EXPENSES				
Personal services/employee benefits	2,110,700	2,123,600	1,969,367	154,233
Contractual services	621,400	621,400	589,795	31,605
Other	548,600	548,600	382,689	165,911
Total expenses	<u>3,280,700</u>	<u>3,293,600</u>	<u>2,941,851</u>	<u>351,749</u>
TRANSFERS				
Transfers in - Intra agency from SHARE 38100	3,280,700	3,280,700	3,280,700	-
Transfers out - Intra agency to SHARE 38100 - reversion	-	-	(197,502)	197,502
Net transfers	<u>\$ 3,280,700</u>	<u>\$ 3,280,700</u>	<u>\$ 3,083,198</u>	<u>\$ 197,502</u>
NET CHANGE (budgetary basis)			\$ 144,345	
Depreciation and amortization			(155,047)	
NET CHANGE (GAAP basis)			<u>\$ (10,702)</u>	

New Mexico Retiree Health Care Authority
Schedule of Revenues and Expenses – Budget and Actual: Benefits Fund
Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Retiree contributions	\$ 174,974,800	\$ 174,974,800	\$ 180,500,394	\$ (5,525,594)
Employer/employee contributions	114,570,500	114,570,500	152,378,037	(37,807,537)
Pension taxes	36,881,000	36,881,000	36,888,100	(7,100)
Investment income	400,000	400,000	97,417	302,583
Miscellaneous revenue	30,000,000	30,000,000	43,201,979	(13,201,979)
Total revenues	<u>356,826,300</u>	<u>356,826,300</u>	<u>413,065,927</u>	<u>(56,239,627)</u>
EXPENSES				
Contractual services	353,501,700	353,501,700	321,462,093	32,039,607
Other	43,900	43,900	39,029	4,871
Total expenses	<u>353,545,600</u>	<u>353,545,600</u>	<u>321,501,122</u>	<u>32,044,478</u>
TRANSFERS				
Transfers in - Intra agency from SHARE 38000 - reversion	-	-	197,502	197,502
Transfers out - Intra agency to SHARE 38000	(3,280,700)	(3,293,600)	(3,280,700)	(12,900)
Total transfers	<u>\$ (3,280,700)</u>	<u>\$ (3,293,600)</u>	<u>\$ (3,083,198)</u>	<u>\$ 184,602</u>
NET CHANGE (budgetary basis)			\$ 88,481,607	
Loss on investments excluding interest			(49,644,028)	
Employer buy-ins revenue and interest portion			53,494	
Change in IBNR liability			(2,116,855)	
Refunds - retirees			(336,755)	
Depreciation			(230,841)	
NET CHANGE (GAAP basis)			<u>\$ 36,206,622</u>	

New Mexico Retiree Health Care Authority
Schedule of Changes in Net OPEB Liability
Year Ended June 30, 2022

	Year Ended June 30,					
	2022	2021	2020	2019	2018	2017
TOTAL OPEB LIABILITY						
Service cost	\$ 155,314,732	\$ 171,993,017	\$ 123,904,973	\$ 156,597,766	\$ 188,372,284	\$ 265,229,268
Interest	163,469,038	147,282,724	169,239,236	208,666,100	199,583,585	187,563,383
Differences between expected and actual experience	(36,122,262)	57,769,743	(150,535,215)	(754,197,414)	(145,524,098)	(210,435,519)
Changes in assumptions	(1,125,435,751)	(894,201,807)	989,792,910	(535,456,730)	(225,363,066)	(958,756,001)
Change of benefit terms	-	802,116	6,623,960	14,004,267	-	-
Claims and premiums	(323,478,948)	(315,956,002)	(318,068,212)	(295,383,494)	(320,403,577)	(294,107,402)
Retiree's contributions offset to claims and premiums	180,500,394	177,054,535	178,132,212	172,270,192	167,949,226	153,464,136
Medicare Part D and rebates offset to claims and premiums	43,201,979	36,525,086	30,352,322	26,625,941	30,255,096	26,944,632
NET CHANGE IN TOTAL OPEB LIABILITY	(942,550,818)	(618,730,588)	1,029,442,186	(1,006,873,372)	(105,130,550)	(830,097,503)
TOTAL OPEB LIABILITY - BEGINNING	4,409,849,335	5,028,579,923	3,999,137,737	5,006,011,109	5,111,141,659	5,941,239,162
TOTAL OPEB LIABILITY - ENDING (a)	3,467,298,517	4,409,849,335	5,028,579,923	3,999,137,737	5,006,011,109	5,111,141,659
PLAN FIDUCIARY NET POSITION						
Contributions - employee and retiree	231,293,073	225,347,087	226,384,131	216,528,376	210,650,057	196,393,352
Contributions - employer	101,585,358	96,585,103	96,503,837	88,516,368	85,401,662	85,858,432
Net investment income	(49,543,613)	217,737,204	10,836,882	41,663,496	49,757,591	67,759,695
Other revenue	80,143,573	69,518,696	59,821,098	52,949,453	57,529,941	55,556,164
Claims and premiums paid	(323,815,703)	(315,956,002)	(316,936,067)	(296,417,494)	(321,479,577)	(294,393,452)
Administrative expenses	(3,466,768)	(3,404,448)	(3,686,967)	(4,147,502)	(3,672,021)	(4,179,901)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	36,195,920	289,827,640	72,922,914	99,092,697	78,187,653	106,994,290
PLAN FIDUCIARY NET POSITION - BEGINNING	1,119,499,545	829,671,905	756,748,991	657,656,294	579,468,641	472,474,351
PLAN FIDUCIARY NET POSITION - ENDING (b)	1,155,695,465	1,119,499,545	829,671,905	756,748,991	657,656,294	579,468,641
NET OPEB LIABILITY (a) - (b)	\$ 2,311,603,052	\$ 3,290,349,790	\$ 4,198,908,018	\$ 3,242,388,746	\$ 4,348,354,815	\$ 4,531,673,018
DISCOUNT RATE	5.42%	3.62%	2.86%	4.16%	4.08%	3.81%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY	33.33%	25.39%	16.50%	18.92%	13.14%	11.34%
COVERED PAYROLL	\$ 4,745,115,641	\$ 4,614,243,876	\$ 4,298,116,494	\$ 4,172,928,635	\$ 4,290,616,760	\$ 4,290,616,760
NET OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	48.72%	71.31%	97.69%	77.70%	101.35%	105.62%

New Mexico Retiree Health Care Authority
Schedule of Changes in Net OPEB Liability (continued)
Year Ended June 30, 2022

NOTES:

Changes in assumptions consist primarily of the effects of changes in the discount rate each year and items noted below:

2019: Changes in assumptions include decrease in expected participation rates for future retirees from 75% to 60%, and a decrease in the spousal coverage rate for future male retirees from 55% to 35%.

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.

New Mexico Retiree Health Care Authority
Schedule of Employer Contributions
Year Ended June 30, 2022

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
2022	\$ 101,585,358	\$ 101,585,358	\$ -	\$ 4,745,115,641	2.14%
2021	\$ 96,585,103	\$ 96,585,103	\$ -	\$ 4,614,243,876	2.09%
2020	\$ 96,503,837	\$ 96,503,837	\$ -	\$ 4,298,116,494	2.25%
2019	\$ 88,516,369	\$ 88,516,369	\$ -	\$ 4,172,928,635	2.12%
2018	\$ 85,401,662	\$ 85,401,662	\$ -	\$ 4,290,616,760	1.99%
2017	\$ 85,858,432	\$ 85,858,432	\$ -	\$ 4,165,647,340	2.06%

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.

Actuarial methods and assumptions used:

Actuarial cost method	Entry age, level percent of pay, calculated on individual basis
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	7.00%
Inflation rate	2.50%
Salary increases	3.00%-13.00%

New Mexico Retiree Health Care Authority
Schedule of Investment Returns
Year Ended June 30, 2022

Year Ended June 30,	Annual Money - Weighted Rate of Return
2022	-0.86%
2021	22.59%
2020	1.43%
2019	6.53%
2018	9.06%
2017	13.98%

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

Supplementary Information

New Mexico Retiree Health Care Authority
Combining Schedule of Fiduciary Net Position by Functional Activity
June 30, 2022

	Benefits 38100	Administration 38000	Eliminations	Total
ASSETS				
Interest in State General Fund Investment Pool	\$ 70,932,580	\$ 329,091	\$ -	\$ 71,261,671
Receivables				
Contributions - employers, employees, and retirees	14,456,835	-	-	14,456,835
Due from other governments	3,074,008	-	-	3,074,008
Due from charter schools	479,868	-	-	479,868
Accounts receivable - rebates and Medicare Part D	3,323,266	-	-	3,323,266
Buy-in obligations receivable	680,447	-	-	680,447
Due from other funds	197,502	-	(197,502)	-
Total receivables	<u>22,211,926</u>	<u>-</u>	<u>(197,502)</u>	<u>22,014,424</u>
Investments with New Mexico State Investment Council				
U.S. Large Cap Index Pool	160,526,095	282,247	-	160,808,342
Non-U.S. Emerging Markets Active Pool	83,981,123	147,661	-	84,128,784
Non-U.S. Developed Markets Index Pool	128,305,086	225,594	-	128,530,680
Private Equity Pool	170,164,624	299,194	-	170,463,818
Credit and Structured Finance Pool	161,311,138	283,627	-	161,594,765
Real Estate Pool	131,735,311	231,625	-	131,966,936
U.S. Small/Mid Cap Alternative Weighted Index Pool	21,849,684	38,417	-	21,888,101
Real Asset Pool	52,206,792	91,793	-	52,298,585
Core Bond Pool	179,318,224	315,288	-	179,633,512
Total investments	<u>1,089,398,077</u>	<u>1,915,446</u>	<u>-</u>	<u>1,091,313,523</u>
Capital assets, net of accumulated depreciation	935,672	1,104,110	-	2,039,782
Total assets	<u>1,183,478,255</u>	<u>3,348,647</u>	<u>(197,502)</u>	<u>1,186,629,400</u>
LIABILITIES				
Accounts payable	3,746,667	209,310	-	3,955,977
Payroll liabilities	-	67,607	-	67,607
Lease liabilities	-	1,086,837	-	1,086,837
Compensated absences	-	104,777	-	104,777
Reserve for loss and loss adjustment expense	25,420,000	-	-	25,420,000
Retiree premiums received in advance	298,737	-	-	298,737
Due to other funds	-	197,502	(197,502)	-
Total liabilities	<u>29,465,404</u>	<u>1,666,033</u>	<u>(197,502)</u>	<u>30,933,935</u>
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS				
	<u>\$ 1,154,012,851</u>	<u>\$ 1,682,614</u>	<u>\$ -</u>	<u>\$ 1,155,695,465</u>

New Mexico Retiree Health Care Authority
Combining Schedule of Changes in Fiduciary Net Position by Functional Activity
Year Ended June 30, 2022

	Benefits 38100	Administration 38000	Eliminations	Total
ADDITIONS				
Contributions				
Retiree	\$ 180,500,394	\$ -	\$ -	\$ 180,500,394
Employer/employee	152,378,037	-	-	152,378,037
Employer buy-ins interest portion	53,494	-	-	53,494
Total contributions	<u>332,931,925</u>	<u>-</u>	<u>-</u>	<u>332,931,925</u>
Investment income				
Net depreciation in fair value of investments	(49,644,028)	-	-	(49,644,028)
Interest	97,417	2,998	-	100,415
Total investment income	<u>(49,546,611)</u>	<u>2,998</u>	<u>-</u>	<u>(49,543,613)</u>
Other				
Taxation administration fund revenue	36,888,100	-	-	36,888,100
Medicare Part D subrogation and rebates	43,201,979	-	-	43,201,979
Total other	<u>80,090,079</u>	<u>-</u>	<u>-</u>	<u>80,090,079</u>
Total additions	<u>363,475,393</u>	<u>2,998</u>	<u>-</u>	<u>363,478,391</u>
DEDUCTIONS				
Premiums and claims	323,478,948	-	-	323,478,948
General and administrative expenses	139,029	2,941,851	-	3,080,880
Refunds to retirees	336,755	-	-	336,755
Depreciation and amortization	230,841	155,047	-	385,888
Total deductions	<u>324,185,573</u>	<u>3,096,898</u>	<u>-</u>	<u>327,282,471</u>
Transfers in (out), net	<u>(3,083,198)</u>	<u>3,083,198</u>	<u>-</u>	<u>-</u>
NET CHANGE	36,206,622	(10,702)	-	36,195,920
NET POSITION RESTRICTED FOR POSTEMPLOYMENT				
BENEFITS OTHER THAN PENSIONS				
Beginning of year	<u>1,117,806,229</u>	<u>1,693,316</u>	<u>-</u>	<u>1,119,499,545</u>
End of year	<u>\$ 1,154,012,851</u>	<u>\$ 1,682,614</u>	<u>\$ -</u>	<u>\$ 1,155,695,465</u>

New Mexico Retiree Health Care Authority
Schedule of Investment Fees
Year Ended June 30, 2022

Investment Class	Value of Investment	Management Fees
U.S. Large Cap Index Pool	\$ 160,808,342	\$ 19,259
Non-U.S. Developed Mkts Index Pool	128,530,680	60,156
Non-US Emerging Markets Active Pool	84,128,784	557,387
U.S. Small/Mid Cap Alt Weighted Index Pool	21,888,101	11,465
Credit and Structure Finance Pool	161,594,765	-
Core Bond Pool	179,633,512	221,565
Private Equity Pool	170,463,818	-
Real Estate Pool	131,966,936	-
Real Return Pool	52,298,585	44,114
	<u>\$ 1,091,313,523</u>	<u>\$ 913,946</u>

Other Information

New Mexico Retiree Health Care Authority
Combining Schedule of General and Administrative Expenses
by Functional Activity
Year Ended June 30, 2022

	Benefits 38100	Administration 38000	Total
GENERAL AND ADMINISTRATIVE EXPENSES			
Professional services	\$ -	\$ 1,409,582	\$ 1,409,582
Employee benefits	-	559,785	559,785
Operating costs	39,029	319,171	358,200
Contractual services	100,000	589,795	689,795
Repairs and maintenance	-	3,065	3,065
Supplies	-	43,784	43,784
Out-of-state travel	-	3,667	3,667
In-state travel	-	13,002	13,002
	<u>\$ 139,029</u>	<u>\$ 2,941,851</u>	<u>\$ 3,080,880</u>

New Mexico Retiree Health Care Authority
Combining Schedule of State General Fund Investment Pool
June 30, 2022

	Benefits 38100	Administration 38000	Total
INVESTMENT BALANCES PER DFA			
New Mexico State Treasurer			
Share Fund 34300-38100	\$ 70,932,580	\$ -	\$ 70,932,580
Share Fund 34300-38000	-	329,091	329,091
	\$ 70,932,580	\$ 329,091	\$ 71,261,671

**New Mexico Retiree Health Care Authority
Schedule of Appropriations
Year Ended June 30, 2022**

Description	Authority	Appropriation Period	Share Fund	Total Appropriation	Prior Year Expenditures	Current Year Expenditures	Current Year Reversion Amount
Administrative Fund program support	Laws 2021 House Bill 2	2022	38000	\$ 3,280,700	-	\$ 3,083,198	\$ 197,502

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 18. Unexpended amounts under the special appropriation are not recognized until all eligibility requirements have been fulfilled under the appropriation including the expenditure of allowable amounts.

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

The Board of Directors
New Mexico Retiree Health Care Authority

Brian S. Colón, Esq.
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the fiduciary net position and changes in fiduciary net position of New Mexico Retiree Health Care Authority (the Authority) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise New Mexico Retiree Health Care Authority's basic financial statements, and have issued our report thereon dated November 21, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2022-01.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Mess Adams LLP

Albuquerque, New Mexico
November 21, 2022

New Mexico Retiree Health Care Authority
Schedule of Findings and Responses
Year Ended June 30, 2022

FINANCIAL STATEMENTS

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified not considered to be material weakness?

Yes No

Yes None reported

Compliance and other matters noted?

Yes No

New Mexico Retiree Health Care Authority
Schedule of Findings and Responses (continued)
Year Ended June 30, 2022

FINANCIAL STATEMENT FINDINGS

2022-001 (2018-001) – Funded Status (Other Matter)

Condition – The New Mexico Retiree Health Care Fund’s (the Fund’s) funded status was approximately 33.33% as of June 30, 2022. While the Fund’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 Fund is jeopardized. Management has addressed this issue with legislators and the Authority’s actuary, but legislative statutes or other political action will be required to effect significant improvement in the funded status.

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

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

Recommendation – We recommend that management and those charged with governance of the Fund work with legislators and other funding sources to develop and adopt a funding policy to improve the funded status and position the Fund 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 – The New Mexico Retiree Health Care Authority (NMRHCA) agrees with this finding. NMRHCA appreciates that this issue does not relate to internal controls or a create a risk of a material misstatement. Funding status is a critical part of ensuring long-term solvency and is a NMRHCA priority. Developing a long-term funding policy is dependent on budgetary appropriations and potential changes to the Fund’s provisions. NMRHCA will continue working with the New Mexico Legislature and the Governor to increase program funding. NMRHCA will also continue opposing policies and legislative proposals that would increase program costs, particularly relating to vendor programs, prescription drug prices, and provider network access, while still providing quality member benefits. This is an ongoing process that NMRHCA intends to continue through fiscal 2023.

Responsible Persons – NMRHCA Board, New Mexico State Legislature and Governor

**New Mexico Retiree Health Care Authority
Schedule of Findings and Responses (continued)
Year Ended June 30, 2022**

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

None

**New Mexico Retiree Health Care Authority
Schedule of Prior Year Findings
Year Ended June 30, 2022**

RESOLUTION OF PRIOR YEAR FINDINGS

2021-001 (2018-001) Repeated

2021-002 Resolved

2021-003 Resolved

New Mexico Retiree Health Care Authority
Exit Conference
June 30, 2022

An exit conference was held remotely on November 21, 2022 in a closed session, with the following in attendance:

New Mexico Retiree Health Care Authority Personnel and Board Members

Neil Kueffer, Executive Director

Sheri Ayanniyi, Chief Financial Officer

Raquel Alirez, Board Member - New Mexico Environment Department

Sanjay Bhakta, Board Member - Municipal League, City of Albuquerque

Tomas Salazar, Board Member - New Mexico Association of Educational Retirees

Jeff Biggs, RHCA

Keith Witt, RHCA

Moss Adams LLP

Kory Hoggan, Partner

Aaron Hamilton, Senior Manager

The Authority is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation and formatting of the financial statements.