

HOUSE BILL 1247

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CF SB 780

By: **Delegates Conway, Aumann, Barkley, Barve, Bates, Bohanan, Busch, G. Clagett, DeBoy, Gutierrez, Guzzone, Haynes, Heller, James, Jones, Levy, Murphy, Proctor, Robinson, Schuh, Sophocleus, Stocksdale, and Wood**

Introduced and read first time: February 21, 2007

Assigned to: Rules and Executive Nominations

Re-referred to: Appropriations, March 5, 2007

Committee Report: Favorable with amendments

House action: Adopted

Read second time: March 20, 2007

CHAPTER _____

1 AN ACT concerning

2 **Postretirement Health Benefits Trust Fund – Clarification**

3 FOR the purpose of specifying that certain funds shall be deposited into the
4 Postretirement Health Benefits Trust Fund; limiting the amount to be paid for
5 administrative expenses for operating the Postretirement Health Benefits Trust
6 Fund; altering the time period when payments may be made from the
7 Postretirement Health Benefits Trust Fund; altering the amount and the
8 manner in which certain payments may be made from the Postretirement
9 Health Benefits Trust Fund; repealing certain provisions that require assets of
10 the Postretirement Health Benefits Trust Fund to be transferred to the General
11 Fund under certain circumstances; altering the membership of the Blue Ribbon
12 Commission to Study Retiree Health Care Funding Options; requiring the State
13 Retirement Agency to request certain documentation from the Internal Revenue
14 Service; and generally relating to the Postretirement Health Benefits Trust
15 Fund.

16 BY repealing and reenacting, with amendments,

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 Article – State Personnel and Pensions
 2 Section 34–101 and 34–201
 3 Annotated Code of Maryland
 4 (2004 Replacement Volume and 2006 Supplement)

5 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
 6 MARYLAND, That the Laws of Maryland read as follows:

7 **Article – State Personnel and Pensions**

8 34–101.

9 (a) There is a Postretirement Health Benefits Trust Fund.

10 (b) The Postretirement Health Benefits Trust Fund shall be established as a
 11 tax–exempt trust, in accordance with § 115 of the Internal Revenue Code or other
 12 applicable federal statute.

13 (c) The purpose of the Postretirement Health Benefits Trust Fund is to
 14 assist the State in financing the postretirement health insurance subsidy, as specified
 15 in § 2–508 of this article.

16 (d) Beginning in fiscal year 2008, **THE FOLLOWING FUNDS SHALL BE**
 17 **DEPOSITED INTO THE POSTRETIREMENT HEALTH BENEFITS TRUST FUND:**

18 (1) any subsidy received by the State that is provided to employers as
 19 a result of the federal Medicare Prescription Drug, Improvement, and Modernization
 20 Act of 2003, or similar federal subsidy received as a result of the State’s prescription
 21 drug program[, shall be deposited into the Postretirement Health Benefits Trust
 22 Fund]; AND

23 (2) ANY FUNDS APPROPRIATED TO THE POSTRETIREMENT
 24 HEALTH BENEFITS TRUST FUND, WHETHER DIRECTLY OR THROUGH THE
 25 BUDGETS OF ANY STATE AGENCY.

26 ~~(2)~~ (E) AFTER JUNE 1, 2008, ANY FUNDS DEPOSITED INTO THE
 27 DEDICATED PURPOSE ACCOUNT IN FISCAL YEAR 2007 THAT WERE
 28 APPROPRIATED IN CHAPTER 216 OF THE ACTS OF 2006 FOR THE PURPOSE OF
 29 DEFRAYING THE FUTURE COSTS ASSOCIATED WITH RETIREMENT BENEFITS FOR
 30 STATE EMPLOYEES; AND EMPLOYEES, MAY BE DEPOSITED INTO THE
 31 POSTRETIREMENT HEALTH BENEFITS TRUST FUND.

1 ~~(3) ANY FUNDS APPROPRIATED IN THE STATE BUDGET BILL FOR~~
2 ~~THE PURPOSE OF FUNDING THE ACCRUED LIABILITY FOR RETIREE HEALTH~~
3 ~~CARE BENEFITS UNDER THE STATE EMPLOYEE AND RETIREE HEALTH AND~~
4 ~~WELFARE BENEFITS PROGRAM.~~

5 ~~(e)~~ (F) (1) The Board of Trustees are the trustees of the Postretirement
6 Health Benefits Trust Fund.

7 (2) Notwithstanding any other provision of law:

8 (i) the Board of Trustees shall have full power to invest and
9 manage the assets of the Postretirement Health Benefits Trust Fund to achieve the
10 statutory purpose of the Fund; and

11 (ii) each member of the Board of Trustees shall discharge the
12 member's duties with respect to the Postretirement Health Benefits Trust Fund as a
13 fiduciary and be indemnified in accordance with the provisions of Title 21, Subtitle 2 of
14 this article.

15 (3) The Board of Trustees may incur reasonable investment expenses
16 payable from the assets of the Postretirement Health Benefits Trust Fund, and in
17 accordance with § 21-315(d) of this article, for:

18 (i) services of managers to invest the assets of the
19 Postretirement Health Benefits Trust Fund;

20 (ii) services of one or more duly qualified banks or trust
21 companies for the safe custody of the investments and banking services; and

22 (iii) any other service that the Board of Trustees deems
23 reasonable and necessary in connection with the investments of the Postretirement
24 Health Benefits Trust Fund.

25 (4) (i) The Board of Trustees may incur reasonable administrative
26 expenses payable from the assets of the Postretirement Health Benefits Trust Fund.

27 (ii) Administrative expenses paid under subparagraph (i) of this
28 paragraph may not exceed [an amount equal to the amount of administrative expenses
29 paid by the Board of Trustees under § 21-315(c) of this article multiplied by a fraction:

1 1. the numerator of which equals the total assets of the
2 Postretirement Health Benefits Trust Fund; and

3 2. the denominator of which equals the combined total
4 assets of the several systems and the Postretirement Health Benefits Trust Fund]
5 **\$100,000 ANNUALLY.**

6 (5) The Board of Trustees is not subject to Division II of the State
7 Finance and Procurement Article for:

8 (i) obtaining services of managers to invest the assets of the
9 Postretirement Health Benefits Trust Fund; and

10 (ii) expenditures to manage, maintain, and enhance the value of
11 the assets of the Postretirement Health Benefits Trust Fund.

12 ~~(G)~~ **(G)** To the extent possible, the assets of the Postretirement Health Benefits
13 Trust Fund shall be invested in the same manner as those of the several systems.

14 ~~(H)~~ **(H)** [For fiscal year 2008 through fiscal year 2017] **PRIOR TO FISCAL YEAR**
15 **2009**, no payments may be made from the Postretirement Health Benefits Trust
16 Fund.

17 ~~(I)~~ **(I)** [For fiscal year 2018 and each fiscal year thereafter] **BEGINNING IN**
18 **FISCAL YEAR 2009**, the Board of Trustees [shall] **MAY** transfer **AN AMOUNT FROM**
19 **THE POSTRETIREMENT HEALTH BENEFITS TRUST FUND** to the [General Fund]
20 **THE DEPARTMENT OF BUDGET AND MANAGEMENT, SUBJECT TO**
21 **APPROPRIATION IN THE STATE BUDGET**, for the sole purpose of assisting in the
22 payment of the State's postretirement health insurance subsidy[, the lesser of:

23 (1) one-quarter of the prior year's investment gains of the
24 Postretirement Health Benefits Trust Fund; or

25 (2) the amount necessary to pay the annual health insurance
26 premiums and other costs that constitute the State's postretirement health insurance
27 subsidy specified in § 2-508 of this article].

28 ~~(J)~~ **(J)** [If for any reason the State discontinues the postretirement health
29 insurance subsidy specified in § 2-508 of this article or a successor subsidy, the assets
30 of the Postretirement Health Benefits Trust Fund shall be transferred to the General
31 Fund.

1 (j)] On or before October 1, 2009, and on or before October 1 thereafter, the
2 Board of Trustees shall publish an annual consolidated report that includes:

3 (1) the fiscal transactions of the Postretirement Health Benefits Trust
4 Fund for the preceding fiscal year; and

5 (2) the amount of the accumulated cash, securities, and other assets of
6 the Postretirement Health Benefits Trust Fund.

7 34–201.

8 (a) There is a Blue Ribbon Commission to Study Retiree Health Care
9 Funding Options.

10 (b) The Commission shall consist of the following members:

11 (1) [three] **FIVE** members from the Senate of Maryland, appointed by
12 the President of the Senate[, including:

13 (i) the Senate Chair of the Joint Committee on Pensions; and

14 (ii) two members from among the members of the Joint
15 Committee on Pensions];

16 (2) [three] **FIVE** members from the House of Delegates, appointed by
17 the Speaker of the House[, including:

18 (i) the House Chair of the Joint Committee on Pensions; and

19 (ii) two members from among the members of the Joint
20 Committee on Pensions];

21 (3) the State Treasurer, or the Treasurer's designee;

22 (4) the Comptroller, or the Comptroller's designee;

23 (5) the Secretary of Budget and Management, or the Secretary's
24 designee;

25 (6) the Chancellor of the University System of Maryland, or the
26 Chancellor's designee;

1 (7) the Executive Director of the State Retirement and Pension
2 System, or the Executive Director's designee; and

3 (8) three members of the public with expertise in either funding
4 retiree health benefits, the economics of affordable retiree health care programs, or
5 investing pension fund assets, with one member each appointed by the Governor, the
6 President of the Senate, and the Speaker of the House.

7 (c) [The Senate and House Chairs of the Joint Committee on Pensions shall
8 serve jointly as the Chairs of the Commission.] **THE PRESIDENT OF THE SENATE
9 AND THE SPEAKER OF THE HOUSE SHALL JOINTLY DESIGNATE CO-CHAIRS OF
10 THE COMMISSION FROM THE SENATE MEMBERS AND HOUSE MEMBERS
11 APPOINTED TO THE COMMISSION.**

12 (d) The Commission shall be guided by the following principles:

13 (1) a recognition that:

14 (i) funding State retiree health benefits solely on a
15 pay-as-you-go basis is no longer a viable solution; and

16 (ii) any proposed solution, funding or otherwise, should treat
17 employees, retirees, and taxpaying citizens fairly;

18 (2) in light of the enormity of the State's projected unfunded accrued
19 liability for retiree health care ~~that is estimated to be as high as \$20,400,000,000~~ and
20 the potential effect this liability may have on the State's bond rating, the State's
21 ultimate goal should be to fully fund the obligations set forth under the Government
22 Accounting Standards Board (GASB) Statement 45;

23 (3) a clear message should be sent to the bond rating agencies that the
24 State is taking this issue seriously, and a multiyear plan that clearly articulates the
25 State's commitment to address this issue should be implemented as soon as
26 practicable;

27 (4) any funding solution proposed by the Commission will likely
28 include some direct State appropriation, with the Commission pursuing any and all
29 viable funding sources, including the possibility of employee contributions during
30 active service;

31 (5) the Commission should consider the actual impact any changes in
32 the State Employee and Retiree Health and Welfare Benefits Program will have on

1 the State's annual required contribution and should look for appropriate cost
2 efficiencies that maintain the quality health care coverage the State provides for
3 retirees; and

4 (6) special consideration should be given to State retirees who are
5 receiving benefits or State employees who have accrued at least 16 years of service
6 with the State and have vested for State retiree health benefits under current law,
7 recognizing that while there may be no legal obligation on the part of the State to
8 provide retiree health care benefits to these individuals, the Commission should view
9 the commitment to provide retiree health care benefits to these individuals as an
10 ethical one.

11 (e) The Commission shall:

12 (1) contract with an actuarial consulting firm to:

13 (i) commission an actuarial valuation that illustrates the
14 State's annual required contribution as both a fixed dollar amount and also as a
15 percentage of payroll; and

16 (ii) provide ongoing services to the Commission throughout its
17 existence;

18 (2) review the specific legal obligations of the State to provide retiree
19 health benefits to existing retirees, fully vested employees, active employees, and new
20 employees;

21 (3) study the cost drivers associated with the State's unfunded retiree
22 health care liabilities which provide the basis for the unfunded accrued liability ~~that is~~
23 ~~estimated to be as high as \$20,400,000,000~~ as well as the ongoing normal costs
24 associated with the retiree health care liabilities;

25 (4) review the current health care benefit levels for both State
26 employees and retirees and how the benefits compare to benefits provided under
27 Medicare, by private employers, and by other public employers, with a particular
28 emphasis on whether the various levels are appropriate, equitable, and sustainable;

29 (5) review the eligibility requirements for State retiree health care
30 benefits with a particular emphasis on whether the requirements are appropriate and
31 equitable;

32 (6) review alternative vehicles for providing health care benefits to
33 State retirees including Voluntary Employee Beneficiary Accounts (VEBAs), Section

1 401(h) accounts, Section 115 trusts, health reimbursement arrangements, and health
2 savings accounts; and

3 (7) recommend a multiyear implementation plan to address fully
4 funding the obligations of the State as set forth in GASB Statement 45 as soon as
5 practicable.

6 (f) (1) The Commission shall be staffed by the Department of Legislative
7 Services.

8 (2) (i) The Department of Budget and Management shall provide
9 any information the Commission may require with regard to health care benefits and
10 health benefit costs for State employees and retirees.

11 (ii) If the Department of Budget and Management is unable to
12 provide the information requested by the Commission under subparagraph (i) of this
13 paragraph, the Commission may contract with an independent health care consulting
14 firm for assistance.

15 (3) (i) The Department of Budget and Management shall provide
16 the funding for the Commission to hire more than one actuarial consulting firm and a
17 health care consulting firm.

18 (ii) 1. The Commission may request up to two actuarial
19 valuations annually.

20 2. If the Commission requests two actuarial valuations
21 in the same year, each shall be performed by a different actuarial consulting firm.

22 (g) On or before December 31, 2008, the Commission shall issue a final
23 report of its findings and recommendations to the Governor and, in accordance with §
24 2-1246 of the State Government Article, the General Assembly.

25 **SECTION 2. AND BE IT FURTHER ENACTED, That:**

26 (a) On or before August 1, 2007, the State Retirement Agency shall request a
27 determination letter from the Internal Revenue Service that confirms the qualification
28 of the Postretirement Health Benefits Trust Fund under Section 1 of this Act as a
29 tax-exempt trust established in accordance with § 115 of the Internal Revenue Code.

30 (b) The State Retirement Agency, within 5 days after receiving the
31 determination letter from the Internal Revenue Service, shall forward a copy of the

1 ruling to the Executive Director of the Department of Legislative Services, 90 State
2 Circle, Annapolis, Maryland 21401.

3 SECTION ~~2~~ 3. AND BE IT FURTHER ENACTED, That this Act shall take
4 effect July 1, 2007.

Approved:

Governor.

Speaker of the House of Delegates.

President of the Senate.