HOUSE BILL 356 - State Prescription Drug Benefits - Retirees

STATEMENT OF OPPOSITION

DATE: March 12th, 2025

COMMITTEE: Appropriations

SUMMARY OF BILL:

HB 356 seeks to reinstate an employer-sponsored Medicare Part D plan for certain State of Maryland retirees hired prior to July 1, 2011. The benefit plan would become part of the State Employee and Retiree Health and Welfare Benefits Program (the Program).

Further, HB 356 seeks to partially repeal Chapter 767 of the Acts of the General Assembly of 2019. Medicare eligible retirees hired on or after July 1, 2011 would still not be eligible to continue coverage under the Program.

Our understanding of the bill is that the current HRA setup and Life-Sustaining Prescription Drug Assistance Program for Medicare retirees would be eliminated July 1, 2025 and replaced with the following Medicare prescription drug benefits:

- If hired before July 1, 2011 – The Employer Group Waiver Program (EGWP) previously in place through December 31, 2024 is reinstated with no modifications
- If hired on or after July 1, 2011 - No coverage

EXPLANATION:

Our actuaries have reviewed HB 356 and have calculated the projected impact on the State Health Plan Costs, as well as the impact on the State's OPEB accounting.

Short-Term Projections

Short-term projections include the following assumptions:

- We assumed pricing terms in place in the calendar year 2024. Actual short-term financial costs will depend on pricing guarantees.
- We have assumed that all EGWP members who were enrolled effective December 31, 2024 with the State and were hired prior to July 1, 2011 will re-enroll beginning July 1, 2025
- Consistent with prior budgeting, projected EGWP subsidies under the HB0356 scenario do not include reinsurance settlement payment or direct subsidy since they will go towards the general budget. Projected EGWP subsidies have also been adjusted due to the expected impact of the Inflation Reduction Act (IRA). We are anticipating that direct subsidies will make up a larger portion of EGWP subsidies in 2025 and beyond due to the IRA (since these dollars are excluded from the comparison, the cost impact of the change shown in the table below may be overstated).
- CY2025 costs under HB0356 assume that HRA contributions are not returned to the State as of July 1, 2025 (in other words, we are assuming that HRA amounts will be fully-utilized in CY2025)
- Costs under the current scenario have been adjusted based on January 2025 enrollment in the HRA
- Our remaining assumptions were the same as those noted in our 2025 projections

The table below shows the projected cost under HB0356 and the cost based on current legislation. The first column represents costs assuming that EGWP is reinstated beginning July 1, 2025, the second column represents costs based on the current legislation (Medicare HRA), and the final column represents the increase in costs associated with the proposed bill (please note that the cost for CY2025 under the current legislation is negative due to lagged receipt of EGWP rebates and subsidies from previous years, as well as lower than projected enrollment in the Medicare HRA):

	Under HB0356	Current	Costs Increase from HB0356
CY2025	$161,380,000	-$16,070,000	$177,450,000
CY2026	$262,260,000	$42,310,000	$219,950,000
CY2027	$288,350,000	$45,260,000	$243,090,000
CY2028	$317,060,000	$51,120,000	$265,940,000
CY2029	$348,640,000	$57,400,000	$291,240,000
Total	**$1,377,690,000**	**$180,020,000**	**$1,197,670,000**

OPEB Impact

The projected impact on OPEB results is summarized in the table below:

	HB0356 Compared to the 6/30/2024 Valuation Results
Increase in Net OPEB Liability	$6,917 million
Increase in OPEB Expense (Year 1)	$7,289 million
Increase in OPEB Expense (Years 2+)	$375 million

For both the short and long-term impact, the projected costs under HB0356 are compared relative to the current HRA setup that went into effect January 1, 2025.

Aside from the change in prescription drug benefits, all other assumptions and plan provisions used for the OPEB analysis are identical to the June 30, 2024 valuation.

Other Considerations
In addition to the financial and OPEB impact, the following considerations and challenges should be considered:

- Potential contractual issues in terminating the current contract for Medicare HRA
- The State will need to determine how it will be contracted and potentially negotiate terms, which would be challenging on such a short timeline
- Less than 5 months would not provide the State enough time to properly re-implement the EGWP benefit, especially with CMS requirements
- This change would create significant confusion among retirees who will be forced to switch benefit mid-year
- The State would need to determine how to treat the HRA for retirees who have not fully utilized their accounts
- Many retirees who are better off may not want to return to the EGWP and face another change

The Department of Budget and Management (DBM) is charged with submitting a balanced budget to the General Assembly annually and will be working with the General Assembly to achieve structural balance over the long-term. In light of current projected general fund deficits in fiscal 2027 forward, the Department urges caution in passing legislation to significantly increase general fund expenditures without commensurate decreases in other areas or additional revenue to fund the new activity. State government must be intentional, disciplined, and strategic with its allocation of State funding to ensure maximum impact toward priority outcomes.

Given the forecasted out-year deficits for the General Fund as well as significant uncertainty regarding the federal budget and policy changes, it would be challenging for the State to manage the projected cost of this legislation.