

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 614

(Senator Hollinger, *et al.*)

Budget and Taxation

Appropriations

State Employee Retirees - Retention of Prescription Benefits Plan

This bill requires the State Employee and Retiree Health and Welfare Benefit Plan (State plan) to continue to include a prescription drug benefit plan and make it available to retirees notwithstanding the enactment of the federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 or any other federal law permitting states to discontinue prescription drug benefit plans to state retirees.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: None. The bill would not materially affect State finances or operations.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The State plan provides health insurance and other benefits to employees and retirees. The Secretary of Budget and Management determines the benefits available to enrollees.

State retirees are entitled to the same health benefits offered to State employees. If a retiree has at least 16 years of creditable service, the retiree is also entitled to the same subsidy the State provides to employees. When a retiree becomes eligible for Medicare,

the retiree must sign up for both Medicare Parts A & B. Medicare then becomes the primary coverage and the State plan is supplemental to Medicare. Generally, State plan premiums for a Medicare enrollee are decreased by half, and the State plan covers most out-of-pocket costs not covered by Medicare.

Background: On December 8, 2003 President George W. Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 which establishes a voluntary prescription drug benefit as Medicare Part D. It is slated to begin providing comprehensive drug coverage in January 2006. Until then, the plan provides a discount prescription drug card, expected to be available this spring, giving all Medicare enrollees a discount on prescription drugs and providing a subsidy to certain low-income enrollees.

The comprehensive drug coverage that begins in 2006 includes a \$35 monthly premium, a \$250 annual deductible, and 25% cost sharing up to the initial \$2,250 coverage limit. If an enrollee purchases additional drugs beyond the \$2,250 limit, the enrollee must pay all costs of drugs between \$2,250 and \$3,600 the first year. If an enrollee spends more than \$3,600, the enrollee is subject to 5% cost sharing or certain low copayments.

Group health plans, such as the State plan, that provide employment-based retiree health care coverage with a drug benefit at least actuarially equivalent to the Medicare Part D plan will receive federal subsidies of 28% of costs for coverage (above \$250 and up to \$5,000) per qualified retiree in 2006. A qualified retiree is an individual who participates in the employer's retiree prescription drug benefits, and who is eligible but not enrolled in a Medicare prescription drug plan or Medicare Advantage (formerly Medicare+Choice) drug plan.

Group health plans may also pay Medicare Part D premiums for its retirees or supplement Part D coverage.

There are approximately 46,000 State retirees and eligible dependents enrolled in various health plans, of whom about 22,000 are now Medicare eligible. The State's subsidy for retiree health benefits in the Governor's fiscal 2005 budget allowance is \$157.8 million. In calendar 2003, the total retiree drug cost was approximately \$112 million.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management (Employee Benefits Division), Department of Legislative Services

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n/mdr

Analysis by: Susan D. John

Direct Inquiries to:
(410) 946-5510
(301) 970-5510