HB 1095

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1095 (Delegates Busch and James)
Appropriations Budget and Taxation

State Retiree Health Care Protection Act

This bill establishes the Postretirement Health Benefits Trust Fund.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: Federal fund revenues could increase by a significant amount beginning in FY 2006. The State Retirement Agency could handle fund administration with existing budgeted resources. No effect on the State Employee and Retiree Health and Welfare Benefits Plan (State plan) until 2016, at which point funds could reduce the State's share of retiree health benefit expenditures.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The purpose of the fund is to assist the State in financing the postretirement health insurance subsidy paid by the State. The fund is a tax-exempt trust in accordance with § 115 of the Internal Revenue Code or any other applicable federal statute.

The Board of Trustees of the State Retirement and Pension System are the fund's trustees. The board is not subject to Division II of the State Finance and Procurement

Article for: (1) obtaining managerial services to invest the fund's assets; and (2) expenditures to manage, maintain, and enhance the value of the fund's assets. The board of trustees may commingle assets of the several retirement and pension systems, including the Postretirement Health Benefits Trust Fund; separate accounts for the fund must be maintained.

Beginning in fiscal 2006, any subsidy received by the State that is provided to employers as a result of the federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 or other similar federal subsidy must be deposited into the fund. The fund's assets must be invested to the extent possible in the same manner as those of the other systems of the State Retirement and Pension System. For fiscal 2006 through 2016, no payments may be made from the fund. For fiscal 2016 and each fiscal year thereafter, the board must transfer to the general fund, for the sole purpose of assisting in the payment of the State's postretirement health insurance subsidy, the lesser of: (1) one-quarter of the prior year's investment gains; or (2) the amount necessary to pay the annual health insurance premium and other costs that constitute the State's postretirement health insurance subsidy. If for any reason the State discontinues the postretirement health insurance subsidy, the fund's assets must be transferred to the general fund.

By October 1, 2007 and annually thereafter, the board must publish an annual consolidated report that includes: (1) the fund's fiscal transactions for the preceding fiscal year; and (2) the amount of the fund's accumulated cash, securities, and other assets.

Current Law: The State Employee and Retiree Health and Welfare Benefits Plan (State plan) provides health insurance and other benefits to employees and retirees. A retiree with 16 or more years of creditable service may receive the same State subsidy that current employees receive. A retiree with between five and 16 years may receive a prorated subsidy based on the number of years of service. The State currently provides an 80% subsidy for medical and prescription drug plans to its employees and eligible retirees.

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. The federal subsidy is 28% in 2006, and then indexed in out-years to the annual growth in average per capita spending by Medicare beneficiaries for Part D drugs.

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

State Fiscal Effect: It is unknown how many retirees would be eligible for the Medicare Part D benefit beginning January 1, 2006 or what their drug expenditures would be. Currently, there are approximately 21,975 Medicare-eligible retirees and dependents enrolled in the various health plans. *For illustrative purposes only*, assuming the average annual drug expenditure per Medicare-eligible enrollee is $2,250, the federal subsidy to the State could total $13.8 million in fiscal 2006.

Additional Information

Prior Introductions: None.

Cross File: SB 548 (Senators Kasemeyer and McFadden) – Budget and Taxation.

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

Fiscal Note History:	First Reader - March 2, 2004
mll/mdr	Revised - House Third Reader - March 30, 2004
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