

Department of Legislative Services  
Maryland General Assembly  
2005 Session

FISCAL AND POLICY NOTE

House Bill 184 (Delegate Kelly)  
Appropriations

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State Employee and Retiree Health and Welfare Benefits Program - Calculation  
of State Subsidy for Retirees

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This bill specifies that 10 years of full-time contractual service is considered “creditable service” for the purpose of determining the amount of the State subsidy paid on behalf of a retiree in the State Employee and Retiree Health and Welfare Benefits Plan (State plan).

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Fiscal Summary

**State Effect:** Depending on the number of State retirees that become eligible for the State subsidy, State plan expenditures could increase by a significant amount beginning in FY 2006. Revenues would not be affected.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Current Law:** The amount of creditable service determines the amount of the State health benefits subsidy to which a retiree is entitled. If a retiree has 16 or more years of creditable service, the retiree is entitled to the same State subsidy allowed an active State employee. In all other cases, if a retiree has at least five years of creditable service, the amount of State subsidy is prorated depending on the amount of State service up to the full 16 years.

**Background:** A contractual employee is an individual who, under written contract, provides temporary personal services to the State for pay and who is not employed in a budgeted position.

As an employee benefit, the State currently pays about 80% of a budgeted employee's health insurance premiums. A contractual employee may enroll in the State plan and pay the entire premium; the State does not provide any subsidy for contractual employee health insurance.

The Department of Budget and Management advises that there are approximately 25,000 contractual employees working for the State, including the University System of Maryland. About 525 (2%) current contractals have 10 years of contractual service, and only 25 are full time. The State subsidy for health benefits is \$6,042 per retiree in fiscal 2006.

**State Fiscal Effect:** There are insufficient data at this time to estimate the number of State retirees that may benefit from counting contractual service toward eligibility to receive the State subsidy for health insurance benefits. *For illustrative purposes only*, for every 100 State retirees who become eligible for the full State subsidy of \$6,042 due to prior contractual service, State expenditures could increase by \$604,200 in fiscal 2006. Future year expenditures would increase by 11.7% annually due to health insurance inflation in the State plan. Future year expenditures could also increase as more contractual employees become eligible for retirement.

State plan expenditures assume a fund mix of 60% general funds, 20% federal funds, and 20% special funds. Revenues would not be affected.

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### 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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mam/jr

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Analysis by: Susan D. John

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