SB 480

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE

Senate Bill 480 (Senator Harris)
Budget and Taxation

Optional Retirement Program - Health Insurance Benefits for Surviving Spouses and Dependent Children

This bill changes health insurance benefit enrollment options and subsidy amounts for the spouse and dependent children of an individual who retires under an optional retirement program from a State institution of higher education on or after July 1, 2006.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: To the extent spouses or dependent children enroll in the State plan, State plan expenditures could increase. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: If a State retiree was employed by a State institution of higher education, retires on or after July 1, 2006, and has elected to enroll and participate in the health insurance benefit options available to retirees, the eligibility of the retiree's spouse or dependent child to participate in the health benefits options depends on the retiree's length of service.

If the retiree has fewer than 16 years of service in the Executive, Legislative, or Judicial branch, the retiree's spouse or dependent child is not entitled to enroll and participate in the health insurance benefit options available to retirees.

If the retiree has at least 16 years but fewer than 25 years of service, the retiree's spouse or dependent child *may* enroll and participate in the health insurance benefits. In this situation, the funding budgeted for the enrollee's full salary and fringe benefits at the time of the enrollee's retirement must be used to cover: (1) the State's subsidy for the enrollee's spouse or dependent child until the enrollee's years of service as a State employee plus the enrollee's years of retirement equal 25; and (2) the full salary and fringe benefits of any employee hired to replace the enrollee after the enrollee retires.

If the retiree has 25 or more years of service, the spouse or dependent child *may* enroll and participate in the health insurance benefit options and is entitled to the same State subsidy allowed a retiree with 16 or more years of service.

Current Law: A State retiree with more than five years of service may participate in the State Employee and Retiree Health and Welfare Benefit Plan (State plan) in order to receive health benefits. Whether the retiree receives any State subsidy toward the retiree's coverage or the coverage of the retiree's spouse or dependent child depends on the retiree's number of years of service and the retirement or pension system in which the retiree participates.

A State retiree, not including one who retired under an optional retirement program, may enroll in the State plan. If the retiree receives a State disability retirement allowance or has 16 or more years of service, the retiree or the retiree's surviving spouse or dependent child is entitled to the same State subsidy allowed a State employee. In all other cases, if a retiree has at least 5 years but fewer than 16 years, the retiree, surviving spouse, or dependent child is entitled to 1/16 of the State subsidy for each year of the retiree's creditable service.

An optional retirement program retiree may enroll in the State plan if: (1) the retiree ended service with a State institution of higher education with at least 10 years of service and was at least 57 years old; (2) ended service with a State institution of higher education with at least 16 years of service; or (3) retired directly from and had at least 5 years of service with a State institution of higher education with a periodic distribution of benefits on or after July 1, 1984. A retiree from a State institution of higher education is entitled to the same State subsidy allowed a State retiree. The subsidy does not apply to a retiree's spouse or dependent child unless the retiree has 25 or more years of service.

Background: The Optional Retirement Program (ORP) is an alternative to the State Retirement and Pension System that provides flexible and portable pension benefits for faculty and senior administrators at the State institutions of higher education. The ORP is a defined contribution plan, where an employee's contributions are invested in retirement annuity contracts. The ORP is portable and may be rolled over into other similar plans, such as 401 (a), 403(a), and 401(k) retirement plans, and rollover IRAs. This portability, not available under the State Retirement and Pension System, permits a faculty member or senior administrator to work at different institutions of higher education nationwide while still accruing a retirement benefit.

State Fiscal Effect: To the extent spouses or dependent children enroll in the State plan, State plan expenditures could increase. In cases where an enrollee has at least 16 but fewer than 25 years of service and retires on or after July 1, 2006, the enrollee's spouse or dependent child may enroll and participate in the State plan. There are insufficient data to reliably estimate how many spouses or dependent children might enroll after July 1, 2006 and who are eligible for the State subsidy. State plan expenditures could increase by $4,767 in fiscal 2007 for each spouse and by $4,144 for each child not yet eligible for Medicare who enrolls in the State plan and chooses the preferred provider option medical plan and prescription drug coverage.

State plan expenditures assume a fund mix of 60% general funds, 20% federal funds, and 20% special funds; with 20% of expenditures reimbursable through employee contributions.

In circumstances where a retiree has at least 16 but fewer than 25 years of service, the bill requires that the funding budgeted for the enrollee's full salary and fringe benefits at the time of the enrollee's retirement be used to cover: (1) the State subsidy for the cost of participation for the enrollee's spouse or dependent child until the enrollee's years of service as a State employee plus the enrollee's years of retirement equal 25; and (2) the full salary and fringe benefits of any employee hired to replace the enrollee after the enrollee retires. Since the average State salary was $42,746 in fiscal 2005, funding for the retiree's old position likely would not be sufficient to pay health benefits coverage for a spouse and/or dependent child(ren) for up to nine years (until retiree's combined years of employment and retirement equal 25). This could lead to funded yet vacant positions at universities and colleges.

Additional Comments: The bill does not permit an ORP retiree's spouse or dependent child to enroll in the State plan if the retiree has fewer than 16 years of creditable service. An ORP retiree's spouse or dependent child is currently permitted to participate in the State plan, but receives no subsidy. The bill would make some current enrollees ineligible to continue coverage in the State plan and would prohibit other spouses or dependent children from enrolling if the retiree has fewer than 16 years of creditable service. While this has no direct fiscal impact on the State, it could increase the number of uninsured in the State.

Additional Information

Prior Introductions: An identical bill, SB 549 of 2004, was not reported by the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): University System of Maryland, Maryland State Retirement Agency, Maryland Higher Education Commission, Department of Budget and Management, Department of Legislative Services

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