SB 490

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 490 (Senator Della)
Budget and Taxation

Personnel - State Employees - Health Benefits

This bill provides a health insurance benefit subsidy for the surviving spouse of a retiree who retires under an optional retirement program from a State institution of higher education in specified circumstances. An enrollee or the enrollee's surviving spouse is entitled to the same State subsidy as a State retiree with 16 or more years of creditable service, if the enrollee: (1) is at least 65 years old; (2) retires directly from service with a State institution of higher education; (3) has 16 or more years of creditable State service at the time of retirement; and (4) is married and whose spouse is at least 65 years old.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: State plan expenditures could increase by a potentially significant amount, beginning in FY 2007. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A State retiree with more than five years of service may participate in the State Employee and Retiree Health and Welfare Benefits 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. ORP is a defined contribution plan, where an employee’s contributions are invested in retirement annuity contracts. 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: State plan expenditures could increase by a potentially significant amount, beginning in fiscal 2007. Under current law, a surviving spouse is not eligible for any State subsidy unless the ORP retiree has at least 25 years of service. The bill authorizes full subsidization for a surviving spouse of an ORP retiree in specified circumstances. To the extent eligible surviving spouses enroll in the plan, State plan expenditures would increase. There are insufficient data to reliably estimate any increase, as it is unknown how many retirees meet these requirements and have spouses who are at least 65 years old. If an eligible surviving spouse enrolled in a preferred provider option medical plan and the prescription drug plan, State subsidy expenditures would be about $4,087 in fiscal 2007.

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

Additional Information

Prior Introductions: None.

Cross File: None.

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

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