SB 431

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 431 (Senator Kasemeyer, *et al.*)

Budget and Taxation Appropriations

Blue Ribbon Commission to Study Retiree Health Care Funding Options

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This bill establishes a blue ribbon commission to study options for funding health care for State retirees, staffed by the Department of Legislative Services (DLS). The commission must issue a final report to the Governor and the General Assembly by December 31, 2008.

The bill takes effect July 1, 2006 and terminates June 30, 2009.

Fiscal Summary

State Effect: General fund expenditures by the Department of Budget and Management could increase by $375,000 in FY 2007 and 2008 to pay for the actuarial valuations and health care consulting contract authorized by the bill. Providing staff for the commission could be handled with existing budgeted resources.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	$0	$0	$0	$0	$0
GF Expenditure	375,000	375,000	0	0	0
Net Effect	($375,000)	($375,000)	$0	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill sets forth six principles to guide the commission's work, most notably that it must find an alternative to pay-as-you-go funding for retiree health care and that it should treat employees, retirees, and taxpaying citizens fairly.

The bill requires the commission to contract with different actuarial firms to conduct up to two annual actuarial valuations of the State's liability with respect to funding retiree health insurance. Funding for the valuations is provided by DBM. The bill also requires the commission to:

- review the State's legal obligation to provide retiree health benefits;
- study the factors contributing to the rising cost of retiree health benefits;
- review current benefit levels for State employees and retirees;
- review the eligibility requirements for retiree health benefits;
- review alternatives for providing health benefits to State retirees; and
- recommend a multiyear plan to fully fund State obligations for retiree health benefits.

As the administrator of the State Employee and Retiree Health and Welfare Benefits Program, DBM must provide any information requested by the commission about employee and retiree health benefits and their costs. If DBM is not able to provide requested information, the commission may contract with an independent health care consulting firm for assistance, with DBM covering the cost of the consulting contract. The bill authorizes the transfer of funds into the Dedicated Purpose Account in fiscal 2007 to help defray the future costs of retiree benefits, as provided in the budget.

Current Law: A retiree may enroll in the State's Health and Welfare Benefits Program and receive the same health benefits and premium subsidies provided to a State employee if the retiree:

- ended State service with at least 10 years of creditable service and within 5 years before the age at which he/she would be eligible to retire;
- ended State service with at least 16 years of creditable service;
- ended State service on or before June 30, 1984;
- retired directly from State service with a State retirement allowance on or after July 1, 1984 and had at least 5 years of creditable service; or

- retired directly from State service with a State disability retirement allowance on or after July 1, 1984.

The surviving spouse or dependent child of a deceased retiree may also participate in the program as long as the spouse or child receives a regular survivor's pension payment from the State.

Background: Chapter 298 of 2005 created the Task Force to Study Retiree Health Care Funding Options.

Chapter 298 required the task force to commission an actuarial valuation through DBM of the liabilities associated with Government Accounting Standards Board (GASB) Statement 45. Chapter 298 provides that the task force is specifically charged to:

> develop options for addressing the unfunded liability associated with State retiree health care that will have to be included on the State's financial statements … as a result of Governmental Accounting Standards Board Statement 45, and evaluate the costs associated with each option.

The GASB standards will require governmental employers to account for liabilities associated with the employers' commitment to what is referred to as Other Post Employment Benefits (OPEB) such as retiree health insurance. Moreover, under these standards, Maryland will be required to account for these OPEB liabilities on its balance sheets in fiscal 2008. If the State carries large unfunded OPEB liabilities on its balance sheets, bond raters could downgrade the State's bond rating from its long-held AAA status, costing the State millions of dollars in interest payments on its general obligation bonds.

The actuarial valuation commissioned by the task force determined that the State's unfunded liability for retiree health benefits was as high as $20.4 billion, requiring an annual State contribution of approximately $1.6 billion to avoid carrying unfunded OPEB liabilities on its balance sheets. In its final report, issued in January 2006, the task force recommended that the State begin by paying its annual normal costs, which is the present-day value of the future retiree health benefits incurred by current employees. That normal cost payment is approximately $600 million in fiscal 2008, with the State already paying about $300 million annually toward retiree health benefits. The fiscal 2007 budget, as enacted, sets aside $100 million in fiscal 2007 toward the recommended fiscal 2008 normal cost payment, plus an additional $51.5 million from excess funds budgeted for State employee health insurance for future retiree benefits.

The task force also recommended the establishment of a blue ribbon commission to further study the issue and make recommendations regarding strategies for funding the State's current retiree health liabilities and reducing future liabilities.

State Expenditures: It is assumed that the commission would exercise its full authority to conduct two actuarial valuations annually and to contract with an independent health care consulting firm. It is further assumed that this work would be undertaken and completed in fiscal 2007 and 2008 to allow the commission sufficient time to assess the findings and develop recommendations for inclusion in its December 2008 report. DBM estimates the total cost of the actuarial valuations and health care consulting contract required by the bill to be $750,000, or $150,000 for each service. DLS concurs with this estimate. These expenses are divided evenly between the commission's first two years of operation.

Additional Information

Prior Introductions: None.

Cross File: HB 1125 (Delegate James) – Appropriations.

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

Fiscal Note History: First Reader - February 20, 2006
ncs/ljm Revised - Senate Third Reader - March 25, 2006
Revised - Updated Budget Information - May 4, 2006

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