

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 93
Appropriations

(Delegate Elmore)

Budget and Taxation

**State Personnel - State Employee and Retiree Health and Welfare Benefits
Program - Participation by Former Employees of Somerset County - Authorized**

This bill permits a former employee of Somerset County, while receiving an allowance under the Employees' Retirement System or the Employees' Pension System, to enroll and participate in the State Employee and Retiree Health and Welfare Benefits Program (State plan). Enrollment requires the approval of the Somerset County Commissioners. Participation is subject to the same terms and conditions as other former employees, with the County Commissioners of Somerset County required to pay to the State the total costs resulting from program participation and determine the extent to which the county will subsidize participation of its former employees.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: State plan reimbursable revenues could increase by a minimal amount, beginning in FY 2007, for the 2% administrative fee. No effect on expenditures.

Local Effect: Depending on the number of Somerset County retirees that choose to leave the county health benefits program and enroll in the State plan, county expenditures could decrease by a minimal amount, beginning in FY 2007. It is assumed the county commissioners would only approve enrollment in the State plan if such enrollment decreased county health benefit expenditures. In addition, it is assumed the bill's provision requiring the county commissioners to pay to the State the total costs resulting from program participation authorizes the county to pay the 2% administrative fee charged by the State. No effect on revenues.

Small Business Effect: None.

Analysis

Current Law: Individuals eligible to enroll in the State Employee and Retiree Health and Welfare Benefits Plan include: (1) State employees; (2) elected officials; (3) registers of wills and their employees; (4) clerks of the court and their employees; (5) board of commission members; (6) employees of political subdivisions that have chosen to participate in the State plan; (7) employees of agencies, commissions, or organizations permitted by law; (8) State retirees; and (9) enrollees' eligible dependents.

Employees of non-State organizations and entities that participate in the State plan do not receive State subsidies and must pay any administrative costs associated with enrollment.

Background: Somerset County has approximately 25 retirees. In fiscal 2006, the county projects its subsidy for retiree premiums at \$132,298.

State Fiscal Effect: State Employee Health Benefits Plan reimbursable revenues could increase if Somerset County retirees choose to participate in the State plan.

Currently, the State plan has 35 satellite accounts with 1,500 satellite account members. Satellite account members are not part of the State's Central Payroll Bureau system, and therefore must be enrolled, billed, and tracked manually. Satellite organizations are required to pay the State plan a 2% administrative fee on premiums of participating employees. Somerset County has approximately 25 retirees. To the extent that any of these retirees choose to participate, State plan reimbursable funds would increase, beginning in fiscal 2007.

Administrative costs associated with processing Somerset County retirees as a satellite account could be handled with existing State plan resources.

Additional Comments: The Government Accounting Standards Board (GASB) has issued Statements Nos. 43 and 45 for the recognition and disclosure for public entities sponsoring post-retirement benefit plans (other than pensions). The rationale behind accounting for future liabilities is that other post-retirement benefits, like pensions, are a form of deferred compensation. GASB states that the current "pay-as-you-go" method does not accurately reflect the true costs that governments are accumulating for future benefits of current employees, and the promise of future benefit is an expense that must be recorded on a government's financial statements rather than deferred as a liability to a future generation.

The addition of new enrollees in the State plan would contribute to the State's future liabilities, currently estimated at \$20 billion over the next 30 years. New enrollees would be included in future biennial valuations; however, any increase from Somerset County retirees is expected to be minimal.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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