

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 322

(Senator Astle)

Finance

Education - Retirees of a County Board of Education - Health Benefits

This bill requires county boards of education that provide medical, dental, and prescription coverage to current principals, teachers, and other school staff to also provide medical, dental, and prescription coverage to retired principals, teachers, and other school staff. The county boards may establish different cost-sharing ratios for retirees and current employees.

Fiscal Summary

State Effect: None.

Local Effect: No direct effect on local expenditures assuming local boards of education already provide health benefits to retirees. However, the bill would restrict the local boards' ability to reduce their retiree health liabilities by eliminating benefits for retirees. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: State law does not require county boards of education to provide health insurance for retirees. All four counties contacted by the Department of Legislative Services indicate that they already provide health benefits for their retired personnel.

The State has a State Employee and Retiree Health and Welfare Benefits Program administered by Department of Budget and Management. The State provides a

subsidiary of either 80% or 85% to all State employees and eligible State retirees and spouses for health insurance, prescription, and dental.

Background: In 2005, the Governmental Accounting Standards Board (GASB) issued new standards that require state and local governments to account for liabilities associated with the employers' commitment to provide Other Post Employment Benefits (OPEB) such as health insurance for retirees. Under these standards, all public employers will be required to account for these OPEB liabilities on their balance sheets beginning in fiscal 2008. Under the new GASB rules, if a government employer carries large unfunded OPEB liabilities on its balance sheets, bond raters could downgrade its bond rating. A lower bond rating could cost the employer millions of dollars in interest payments on its general obligation bonds.

Chapter 433 of 2006 established a blue ribbon commission to study options for funding health care for State retirees. An actuarial valuation performed for the commission in 2006 estimated the State's current OPEB liabilities to be \$14.5 billion. To avoid carrying those liabilities on its balance sheet, and thus imperiling its AAA bond rating, the State would have to make annual amortization payments of between \$468 million and \$810 million above its current pay-as-you-go costs beginning in fiscal 2008.

Several Maryland jurisdictions have already contracted with actuarial consultants to calculate their own OPEB liabilities. Baltimore City estimates its liabilities to be between \$1.5 and \$2.5 billion. Baltimore County and Montgomery County reported liabilities of \$2 billion, although Montgomery County's liability is based on a 2003 valuation and includes employees of the Washington Suburban Sanitary Commission. Howard County reported a liability of \$477 million.

Local Fiscal Effect: Assuming that all local school boards in the State already provide health benefits to retirees, the bill would not increase local expenditures. However, it would preclude local school boards from eliminating retiree health benefits in an effort to lower their OPEB liabilities. This was a common practice in the private sector when similar accounting rules took effect for private employers in the 1990s. Over time, almost half of the large private employers that offered retiree health benefits opted to eliminate them completely in an effort to reduce their OPEB liabilities. The State's blue ribbon commission is charged in part with reviewing current benefit levels for State employees and retirees and with reviewing eligibility requirements for retiree health benefits.

The bill would not prevent local school boards from reducing health benefits for retirees, although it would require them to offer at least a mixture of health, dental, and prescription coverage.

Additional Comments: It is unclear whether the bill requires local school systems to cover all retirees without establishing eligibility criteria. For example, one county requires educators to have at least 10 years of service within the county before qualifying for retiree health benefits, and other counties (and the State) have similar eligibility requirements. If the bill requires local school boards to provide health benefits to all retirees it would dramatically increase the school systems' OPEB liabilities. One county estimates that its liability would increase by 35%.

Additional Information

Prior Introductions: None.

Cross File: HB 912 (Delegate Barkley, *et al.*) – Appropriations.

Information Source(s): Montgomery County, Prince George's County, Caroline County, Calvert County, Howard County, Maryland Association of Boards of Education, Maryland State Department of Education, Baltimore City, Department of Legislative Services

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