

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 859

(Senator Kasemeyer)

Budget and Taxation

Appropriations

Blue Ribbon Commission to Study Retiree Health Care Funding Options -
Extension of Reporting and Termination Dates

This bill extends the termination date for the Blue Ribbon Commission to Study Retiree Health Care Funding Options by one year, from June 30, 2009 until June 30, 2010. It also requires an interim report of the commission's findings by December 31, 2008 and extends the deadline for submission of a final report from December 31, 2008 to December 31, 2009.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund expenditures by the Department of Budget and Management increase by \$150,000 in FY 2010 to retain the actuarial consulting firm that has been advising the commission for an additional year. The additional report could be prepared with existing resources. Continued staffing and reimbursement costs for the commission could be handled by the Department of Legislative Services with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: A retired State employee 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. Depending on the health plan selected, the State subsidizes 80% or 85% of the premium for all retirees with at least 16 years of service credit; retirees with between 10 and 16 years receive a prorated subsidy.

Accounting standards issued by the Government Accounting Standards Board's Statement 45 in 2004 require governmental employers to account for liabilities associated with the employers' commitment to what is referred to as Other Post Employment Benefits such as retiree health insurance. Moreover, under these standards, Maryland will be required to account for these OPEB liabilities on its balance sheet at the conclusion of fiscal 2008. If the State carries large unfunded OPEB liabilities on its balance sheet, 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.

Chapter 466 of 2004 established the Postretirement Health Benefits Trust Fund to assist the State in financing the postretirement health insurance subsidy paid by the State. The fund is a tax-exempt trust in accordance with § 115 of the Internal Revenue Code or any other applicable federal statute. Beginning in fiscal 2006, any subsidy received by the State that is provided to employers as a result of the federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 or other similar federal subsidy was to be deposited into the fund. However, Chapter 444 of 2005 (the Budget Reconciliation and Financing Act) diverted the Medicare Part D subsidy from the fund to pay for employee and retiree health premiums in fiscal 2006 and 2007. Proceeds from the Medicare Part D federal subsidy were restored to the Postretirement Health Benefits Trust Fund beginning

in fiscal 2008. Chapter 355 of 2007 authorized the transfer of funds from the trust fund to the Department of Budget and Management to assist in defraying the costs of retiree health care costs beginning in fiscal 2009.

In response to a recommendation by a prior task force, Chapter 433 of 2006 established the Blue Ribbon Commission to Study Retiree Health Care Funding Options and authorized it to commission annual valuations of the State's OPEB liabilities. Chapter 433 set 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. It also required 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 multi-year plan to fully fund State obligations for retiree health benefits.

A 2007 valuation conducted by Buck Consultants concluded that the State's unfunded OPEB liability for retiree health benefits was as high as \$15.2 billion, requiring an annual State contribution of approximately \$1.2 billion to avoid carrying unfunded OPEB liabilities on its balance sheets.

The commission has met three times, and three workgroups assigned at its most recent meeting have also met one time each. In addition to receiving the results of two actuarial valuations of State liabilities, the commission has heard presentations on retiree health care benefits and liabilities in other states and Maryland counties, trends in retiree health benefits in the private sector, the legal status of retiree health benefits, and prescription drug benefits available under Medicare Part D.

State Fiscal Effect: Chapter 433 of 2006 authorized the commission to hire an actuarial consultant to conduct a valuation of the State's retiree health care liabilities under GASB 45 and to provide ongoing assistance to the commission throughout its existence. The Department of Budget and Management is responsible for paying the consultant's fees. An actuarial and health benefits consulting firm has been advising the commission since its inception. Legislative Services estimates that continued retention of this consulting firm for an additional year would cost \$150,000.

Additional Information

Prior Introductions: None.

Cross File: HB 1233 (Delegate Griffith, *et al.*) – Appropriations.

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

Fiscal Note History: First Reader - March 3, 2008
ncs/ljm Revised - Enrolled Bill - April 22, 2008

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