SB 444

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 444 (Senator Kasemeyer)

Budget and Taxation Appropriations

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

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This bill extends the termination date for the Blue Ribbon Commission to Study Retiree Health Care Funding Options by two years, from June 30, 2010, until June 30, 2012. It also extends the deadline for submission of a final report from December 31, 2009, to December 31, 2011, and requires the commission to submit an interim report by December 31, 2010.

The bill takes effect June 1, 2010.

Fiscal Summary

State Effect: General fund expenditures of $150,000 annually by the Department of Budget and Management continue in FY 2011 and 2012, to retain the actuarial consulting firm that has been advising the commission. Continued staffing and reimbursement costs for the commission, including the preparation of an interim report can be handled by the Department of Legislative Services with existing budgeted resources. No effect on revenues.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	150,000	150,000	0	0
Net Effect	$0	($150,000)	($150,000)	$0	$0

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

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.

Other Post Employment Benefits

Accounting standards issued by the Government Accounting Standards Board's (GASB) 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 (OPEB) such as retiree health insurance. Under these standards, Maryland was 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 rating agencies 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 retiree health insurance subsidy paid by the State. The fund is a tax-exempt trust in accordance with § 115 of the Internal Revenue Code. 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.

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 current costs of retiree health care costs beginning in fiscal 2009. Proceeds from the Medicare Part D federal subsidy were restored to the Postretirement Health Benefits Trust Fund beginning in fiscal 2008. However, Chapter 487 of 2009 redirected the federal Medicare Part D employer subsidy from the Postretirement Health Benefits Trust Fund to the State Employee Health and Welfare Benefits Fund, a special fund from which State employee and retiree health insurance costs are paid, for three years beginning in fiscal 2010.

Blue Ribbon Commission

In response to a recommendation by a previous 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 multiyear plan to fully fund State obligations for retiree health benefits.

Chapters 228 and 229 of 2008 extended the termination date for the commission by one year, to June 30, 2010; the deadline for the final report was also extended by one year, to December 31, 2009.

A 2009 valuation conducted by Buck Consultants concluded that the State's unfunded OPEB liability for retiree health benefits was as high as $15.3 billion, requiring an annual State contribution of approximately $1.2 billion to avoid carrying unfunded OPEB liabilities on its balance sheets.

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. 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 costs $150,000 in each of fiscal 2011 and 2012. The Department of Budget and Management is responsible for paying the consultant's fees.

Additional Information

Prior Introductions: None.

Cross File: HB 771 (Delegate Griffith, *et al.*) - Appropriations.

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

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