Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 486 (Senator Middleton, *et al.*)
Budget and Taxation

State Employee and Retiree Health and Welfare Benefits Program - Eligibility for Enrollment and Participation of Retirees

This bill allows retired employees of the State's three regional libraries to enroll and participate in the State Employee and Retiree Health and Welfare Benefits Program (State plan), with the approval of their respective former employer. It also specifies that a retiree's service with a regional library is considered State service for the purpose of establishing eligibility for the State plan.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: The bill has no direct effect on State expenditures or revenues because the regional libraries pay the full cost for their participating retirees (subject to cost-sharing arrangements with retirees). However, it may add as much as $15.6 million to the State's liability for other post-employment benefits (OPEB), although the actual increase may be somewhat less, based on the number of participating employees. If the libraries do not join the State plan, there will be no effect on State liabilities.

Local Effect: No effect on total revenues or expenditures for regional libraries, but expenditures on retiree health insurance benefits could increase or decrease, depending on participation rates and the level of employee cost-sharing.

Small Business Effect: None.

Analysis

Current Law: A retired State employee may enroll in the State's Health and Welfare Benefits Program and receive the same health insurance benefits and premium subsidies provided to a State employee if the retiree is receiving a retirement allowance from the State Retirement and Pension System (SRPS) and:

- retired directly from State service with a State retirement allowance on or after July 1, 1984, and had at least five years of creditable service;
- ended State service with at least 16 years of creditable service;
- 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 on or before June 30, 1984; or
- retired directly from State service with a State disability retirement allowance on or after July 1, 1984.

Spouses and dependent children of eligible retirees may also participate, and surviving spouses or dependent children of deceased retirees may also participate in the State plan 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 between 80% and 85% of the premium for all retirees with at least 16 years of service credit; retirees with between 5 and 16 years receive a prorated subsidy.

Chapters 129 and 130 of 2007 allow active employees, but not retirees, of the Southern Maryland, Eastern Shore, and Western Maryland Regional Libraries to participate in the State plan, with the approval of their respective employers. Each regional library determines the extent to which it will subsidize its employees' participation in the State plan and is responsible for paying the State all costs resulting from its employees' participation in the State plan.

Retired employees of the University of Maryland Medical System Corporation and the Maryland Transit Administration (MTA) are eligible to participate in the State plan, as long as they receive a retirement allowance from the State or the MTA, respectively.

Background: Despite the authorization provided by Chapters 129 and 130, all three regional libraries do not participate in the State plan for current employees. Eastern Shore and Southern Maryland both purchase coverage from a private insurance provider, while Western Maryland participates in the Washington County employee health plan and expects to continue participating in that plan. Legislative Services interprets the requirement that retirees must have the approval of their respective former employers to enroll in the State plan to mean that each library must participate in the State plan for both current employees and retirees. Under this interpretation, retirees will not be allowed to receive retiree health coverage under the State plan unless their former employer participates in the State plan.

In 2004, the Governmental Accounting Standards Board (GASB) issued new standards that require State and municipal governments to recognize OPEB liabilities (besides pensions) on their balance sheets as they accrue rather than on a pay-as-you-go (PAYGO) basis. In effect, the new standards require public employers to account for OPEB benefits (typically health insurance coverage for retirees) in the same way that they treat pension benefits. The standards require Maryland to conduct an actuarial valuation of its OPEB liabilities at least every two years, and to reflect any unfunded portion of those liabilities on its annual balance sheet beginning in fiscal 2008.

Like almost all states, Maryland previously accounted for and funded its retiree health benefits on a PAYGO basis. Current PAYGO costs, based on medical claims data, are estimated by the actuary to be $379 million. In 2006, largely in response to the looming GASB requirement, the State conducted its first actuarial valuation of its OPEB liability, and has conducted OPEB valuations each year since then. The 2010 valuation of the State's OPEB liabilities put the unfunded liabilities at $15.9 billion, with an annual required contribution (ARC) of $1.2 billion. The ARC represents the sum of the 30-year amortization payment of the accrued liabilities and the normal cost, or the liabilities accrued by active employees in the current year. If the State funds the ARC by paying the full amount into an irrevocable trust for the purpose of paying future retiree health care costs, it will have no net OPEB obligation under the GASB standards. Any portion of the ARC that is not funded on an annual basis appears as a liability on the State's balance sheet and accrues interest. To the extent that the State's unfunded OPEB liability multiplies at a rapid pace in the absence of a plan to restrain its growth, rating agencies may ultimately downgrade the State's AAA bond rating.

State Fiscal Effect: Although the regional libraries would be required to pay the full employer costs for their retirees (subject to any cost-sharing arrangements with employees and retirees), the OPEB liability generated by additional members of the State plan is reflected as State liabilities by the annual actuarial valuations of those liabilities. As the figures provided above indicate, the ARC payment necessary to fund the full liability is roughly three times the size of PAYGO costs. To the extent that the PAYGO costs paid by a former employer of a retiree do not pay the full ARC for that retiree, additional liabilities are reflected on the State's OPEB valuation.

Based on personnel information provided by the three regional libraries, between 30 and 35 current employees of the libraries would be eligible to receive health benefits from the State plan when they retire. They estimate that only about five of those employees would be eligible to retire within the next five years. They are also aware of not more than about 30 current retirees who, if they meet the eligibility criteria specified above, might be eligible to be covered under the State plan. It is not known how many of those retirees receive a retirement allowance from SRPS and therefore would qualify for retiree health coverage under the State plan (several current employees of the Western Maryland library, for instance, are not members of SRPS). Also, the regional libraries advise that most current retirees have been retired for many years; Legislative Services assumes that at least some of them have health coverage through a spouse, Medicare, and/or another former employer and may not opt for retiree coverage from the State. Therefore, Legislative Services estimates that not all current retirees from the regional libraries will qualify for and choose to enroll in the State plan, if allowed by their former employers.

The Department of Budget and Management estimates the per-individual liability to be between $170,000 and $240,000, depending on an individual's age and service; Legislative Services concurs with these estimates. Based on 35 current employees and as many as 30 current retirees, the total additional liability could be as high as $15.6 million; for the reasons given above, Legislative Services believes the actual additional liability may be somewhat smaller but cannot provide a reliable estimate. Legislative Services also notes that none of the libraries currently participates in the State plan, so there may be no actual State effect if the libraries do not join the State plan, because retirees cannot participate in the State plan without approval from their former employer.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Maryland State Department of Education, Eastern Shore Regional Library, Southern Maryland Regional Library, Western Maryland Regional Library, Department of Legislative Services

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