HB 1294

Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1294 (Delegate Mautz)
Appropriations

State Employee and Retiree Health and Welfare Benefits Program - BWI Airport Fire and Rescue Department - Employees and Dependents

This bill makes specified retirees of the Baltimore-Washington International (BWI) Thurgood Marshall Airport Fire and Rescue Department and their surviving spouses and dependents eligible for health insurance benefits under the State Employee and Retiree Health and Welfare Benefits Program (the State plan). Specifically, former employees (and surviving spouses and dependents) of the BWI Airport Fire and Rescue Department who (1) began employment before October 1, 1993, and (2) receive a retirement allowance from the Baltimore City Fire and Police Retirement System are eligible to participate in the State plan. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: The State's net liability for other postemployment benefits (OPEB) increases by between $20.2 million and $24.6 million, which represents total State liabilities over the next 30 years, for just the retirees. Annual claims costs for the State plan increase by between $270,000 and $1.1 million, depending on the Medicare eligibility of the retirees and the outcome of a pending lawsuit, as discussed below. State actuarial contributions to the State plan (all funds) increase annually to cover those costs, but a reliable estimate is not available. No effect on revenues.

Local Effect: The bill does not materially affect Baltimore City finances or operations.

Small Business Effect: None.

Analysis

Current Law: The State plan is established in statute to provide health insurance benefit options to State employees and retirees. The Secretary of Budget and Management is charged with developing and administering the State plan, including selecting the insurance options to be offered.

Health benefits provided to retirees are often referred to as OPEB to distinguish them from pension benefits.

Eligibility for Coverage and Subsidies

Upon their retirement, and provided they receive a retirement allowance from the State Retirement and Pension System (SRPS), retired State employees may enroll and participate in any of the health insurance options provided by the State plan. Until the enactment of Chapter 397 of 2011, this had allowed retired State employees to retain the same health coverage they had as active employees. In addition, active State employees earn eligibility for a partial State subsidy of the cost of health insurance coverage when they retire.

Chapter 397 established new eligibility requirements for retirees to enroll in the State plan and qualify for the premium subsidy if they are hired on or after July 1, 2011. Therefore, the eligibility requirements to enroll in the State plan are different for those who began employment with the State before July 1, 2011, and those who began employment with the State on or after that date. Employees hired *before* July 1, 2011, are eligible to enroll and participate in the group coverage when they retire if they have:

- retired directly from the State with at least 5 years of service;
- retired directly from State service with a disability;
- ended State service with at least 16 years of service;
- ended State service with at least 10 years of creditable service and within 5 years of retirement age; or
- ended State service on or before June 30, 1984.

Employees who began employment with the State *on or after* July 1, 2011, are eligible to enroll in the State plan if they:

- retire directly from the State with at least 10 years of service;
- retire directly from State service with a disability;
- end State service with at least 25 years of service; or

- end State service with at least 10 years of creditable service and within 5 years of normal retirement age.

Similarly, eligibility for the premium subsidy differs depending on when the retiree began employment with the State. A retiree hired *before* July 1, 2011, must have at least 16 years of service to receive the same subsidy of health insurance premiums that is provided to active employees:

- 80% of preferred provider organization premiums;
- 83% of point of service premiums; and
- 85% of premiums for exclusive provider organizations and integrated health models.

If a retiree has fewer than 16 years of State service (but at least 5 years), the benefit is prorated. A retiree hired *on or after* July 1, 2011, must have 25 years of service to receive the same subsidy as that provided to active employees. If a retiree has fewer than 25 years (but at least 10), the benefit is prorated.

Satellite Organizations

Specified nonprofit organizations and local governments may elect to participate in the State plan as satellite organizations. They must pay the full cost of their participation to the State, including any premiums and administrative costs. In general, only employees, but not retirees, of satellite organizations may elect to participate in the State plan. However, employees, retirees, and their surviving spouses and dependent children of the governmental entities listed below may participate in the State plan (retirees and surviving family members must be receiving an allowance from the Employees' Retirement System/Employees' Pension System in order to qualify):

- Maryland Environmental Service;
- Northeast Maryland Waste Disposal Authority;
- Baltimore Metropolitan Council;
- Maryland Automobile Insurance Fund; and
- the City of Hyattsville.

Each of these entities is required to pay the full cost of their participation in the State plan, including the cost of retirees' participation.

State Expenditures: According to the Maryland Aviation Administration (MAA), employees of the BWI Airport Fire and Rescue Department who were previously employees of Baltimore City became State employees in 1974. However, the Department of Budget and Management advises that these employees remained members of the Baltimore City Fire and Police Retirement System because it offered a better retirement benefit than the equivalent State pension plan. According to MAA, 58 retirees and one active employee are currently eligible for benefits under the bill; as all other employees of the BWI Airport Fire and Rescue Department (anyone hired on or after October 1, 1993) are now members of SRPS, no other retirees or employees are, or will be, affected by the bill.

The bill allows individuals who retired (or will retire) as members of the Baltimore City Fire and Police Retirement System to participate in the State plan, with the State covering the employer's share of the cost of their participation. Current law requires that retirees in the State plan be receiving a *retirement* benefit from SRPS, so the bill expands coverage to retirees who otherwise would not be eligible for coverage. However, as these individuals were State employees for most, or all, of their tenure, the State (rather than Baltimore City) is responsible for the employer contribution for their coverage.

The State is currently engaged in a federal lawsuit related to the provision of prescription drug benefits to Medicare-eligible retirees in the State plan. The outcome of the lawsuit will ultimately determine the value of the health benefits available to Medicare-eligible retirees in the State plan.

The actuary for the State plan advises that the additional 59 retirees (including the one active member) increase the State's OPEB liability by between $20.2 million and $24.6 million, depending on the outcome of the pending lawsuit; this represents the total cost to the State over the next 30 years. The actuary further advises that each additional pre-Medicare retiree adds approximately $18,300 to the cost of the State plan, and each Medicare-eligible retiree adds between $4,600 and $8,200, depending on the outcome of the lawsuit. In the absence of information regarding whether the affected retirees are eligible for Medicare, the addition of 59 members to the State plan increases total costs by between $270,000 and $1.1 million, depending on the Medicare eligibility of the added retirees and the outcome of the pending lawsuit. As the State plan is self-funded, those costs result in higher actuarial contributions for the State as the employer, but a precise estimate is not currently available.

The actual impact on OPEB liability and annual contributions is likely greater and depends on enrollment of the retirees' spouses and dependents and any surviving spouses and dependents.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Department of Budget and Management; State Retirement Agency; Maryland Department of Transportation; Department of Legislative Services

Fiscal Note History: First Reader - March 15, 2022
fnu2/ljm

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510