Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 581 (Delegate T. Morgan, *et al.*)
Appropriations Budget and Taxation

State Employee and Retiree Health Benefits - Creditable Service

This bill redefines "creditable service" for the purpose of determining eligibility for retiree health benefits from the State Employee and Retiree Health and Welfare Benefits Program (the State plan) to be any period during which an individual was employed by the State in the Executive, Legislative, or Judicial branch and enrolled as a member of any plan in the State Retirement and Pension System (SRPS) or in the Optional Retirement Program (ORP). It makes conforming changes to the calculation of years of service under ORP for the purpose of calculating eligibility for retiree health benefits to include any employment in the Executive, Legislative, or Judicial branch during which an individual was a member of SRPS. **The bill takes effect June 1, 2023.**

Fiscal Summary

State Effect: Potential minimal increase in State liabilities for Other Post Employment Benefits (OPEB), as discussed below. No effect on revenues.

Local Effect: None.

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.

Creditable service, for the purpose of calculating eligibility for retiree health benefits, is defined as service credit toward a retirement allowance under State pension law. For members of ORP, the calculation of years of service for the purpose of determining eligibility for retiree health benefits includes only years of service while a participant in ORP.

Eligibility for Coverage and Subsidies

Upon their retirement, and provided they receive a retirement allowance from 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 creditable service;
- retired directly from State service with a disability;
- 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 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 creditable service;
- retire directly from State service with a disability;
- end State service with at least 25 years of creditable 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.

Similar rules apply to individuals who retire as ORP participants, except that the calculation of years of service includes only their time employed while a participant in ORP.

State Expenditures: The bill applies to individuals who have partial service credit in both ORP and SRPS, as the bill allows them to combine their service credit for the purpose of determining eligibility for retiree health benefits. Enrollment and disenrollment in ORP is generally managed by institutions of higher education in the State, and enrollment in SRPS is managed by the State Retirement Agency. Moreover, State public institutions of higher education maintain separate personnel systems from the State Personnel Management System. Therefore, there is no available data on how many employees have partial service in both ORP and an SRPS plan.

To the extent that some employees have credit in both programs, and that credit in either program is not sufficient to qualify for retiree coverage or a full subsidy, the bill likely increases State OPEB liabilities by allowing them to combine their service credit and claim a benefit (or a greater subsidy). In the absence of data on the number and characteristics of State employees who may qualify, a reliable estimate of the effect on OPEB liabilities is not feasible. Nevertheless, it is expected to be minimal. The most recent actuarial valuation measured the State's net OPEB liability to be $12.4 billion as of June 30, 2022. The State pays retiree health benefits on a pay-as-you-go basis, so any increase in liabilities has no immediate direct effect on State finances but likely increases benefit payments in future years. Any such effect is beyond the five-year scope of this fiscal and policy note.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 395 (Senator Bailey) - Budget and Taxation.

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

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