DBM Proposed FY2025 Budget Hearing **February 28, 2024**

Senate Budget and Taxation Committee

Written Testimony of Karen Fohner

Dear Chairman Guzzone, Vice Chair Rosapepe, and Members of the Committee,

There is a way forward to maintain prescription drug coverage for Medicare-eligible retirees and improve the State's posture in the eyes of the rating agencies. It will take the will to do so, and a reexamination of past assumptions that have blamed retirees for the State's OPEB liability for all these years.

Retirees over 65 are not the problem. Prescription coverage is not the largest component of Other Post-Employment Benefits (OPEB). The portion of the State's prescription drug coverage costs attributable to the State's Medicare-eligible retirees is smaller yet. Less than 15% of the total.

The prescription drug benefit for Medicare-eligible retirees is only a small part of OPEB costs and so is NOT a major contributor to the State's Other Post-Employment Benefits (OPEB) burden. It is NOT a threat to the State's important AAA bond rating.

The DLS analysis of DBM's FY25 proposed budget includes the State's actuary's estimate that restoring full State-funded prescription drug coverage for retirees would increase the liability by $8.9 billion. **But their basis, assumptions and calculations have never been analyzed.** DLS notes, "Any estimate of what the annual cost would be to pre-fund retiree health care costs is highly sensitive to the assumptions about how the plan would be designed. Decisions about the amortization period, the discount rate, and funding goals would have large effects on the contribution amount." This should be examined.

Additionally, based on the actuarial reports prepared for the State, it appears that the annual addition to Net OPEB Liability due to the retiree prescription plan is miniscule compared to the overall Net OPEB liability. AND the rating agencies have never downgraded a state's rating based solely on unfunded OPEB liability. The State's "pension funding discipline"- or lack thereof - is judged the greater threat to Maryland's bond rating.

In 2004 (after Medicare Part D was enacted as part of the Medicare Modernization Act of 2003), the General Assembly unanimously passed Chapter 296 (SB614), **"requiring the State Employee and Retiree Health and Welfare Benefits Program to include a prescription drug benefit plan for State retirees notwithstanding any changes in federal law permitting a state to discontinue prescription drug benefit plans for state retirees."** This fact has been lost in the fog of history as few in the General Assembly today were 'in the room where it happened.'

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The threat to the State's AAA bond rating related to OPEB is its decades-long failure to fund its OPEB trust fund. The issue of OPEB costs and liability is not about just the one component of OPEB - prescriptions (of which Medicare-eligible retiree prescriptions are just a small part). It's about ALL of the components of OPEB: medical, prescription, and dental.

Despite much expressed concern about the OPEB liability burden, the State effectively failed to do anything about it. This is not the fault of state retirees. Maryland failed to fund the OPEB Trust Fund for over a decade, even though pre-funding of the Trust Fund is what GASB guidelines recommend. Now, with last year's contribution of approximately $25 million to the OPEB Trust beyond the pay-as-you-go cost of $706,945,934, the State has taken a first step forward, as so many have recommended. It can build on that.

Most governments continue to fund their retiree health benefits on a "pay-as-you-go" basis even as they assess strategies to deal with escalating costs. Change the assumptions and stretch out the start and schedule for funding (as has been done more than once for funding the State's SRPS Pension Trust Fund), and what had appeared impossible and unaffordable could be feasible.

Many of you and your fellow-state representatives have reported receiving many calls and emails from your constituents on the subject of retirees' prescription drug benefits. That's because the 74.3% of State retirees who live in Maryland live in your districts. They spend their money in your districts. And they and their concerned friends and family members vote in your districts. State retirees are confident the General Assembly, with the support of the Governor and his administration, can address the valid concerns about the financial stability of the State while honoring its promise to those employees hired before July 1, 2011. By its actions, this Committee can accomplish both.

Thank you for your consideration in this matter,

Retiree, Karen Fohner

Programmer/Analyst, Maryland Transit Authority (MTA 1994-2001)

DBA, Maryland Department of Natural Resources (DNR 2001-2016)