



Maryland

DEPARTMENT OF BUDGET
AND MANAGEMENT

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SENATE BILL 349 - State Prescription Drug Benefits - Retirees

STATEMENT OF OPPOSITION

DATE: February 26, 2024

COMMITTEE: Budget and Taxation

SUMMARY OF BILL: Senate Bill 349 would repeal provisions established by Chapter 397 of 2011 and Chapter 767 of 2019 which transitions Medicare-eligible retirees from the State's prescription drug plan to Medicare Part D. Senate Bill 349 would repeal this transition for retirees hired prior to July 1, 2011. Medicare-eligible retirees hired on or after July 1, 2011, would remain ineligible for State prescription drug benefits effective January 1, 2025.

EXPLANATION: Chapter 397 of 2011 made three changes to prescription drug benefits for Medicare eligible retirees. Most notably, it eliminated prescription drug coverage as of July 1, 2019, to coincide with improvements in Part D plans on the individual market. The elimination date was accelerated to January 1, 2019, due to further improvement in Part D plans and to align the elimination date with the State health plan's enrollment period.

Since 2011, there have been significant changes to Medicare Part D. Following the passage of the Inflation Reduction Act (IRA), Medicare Part D plans have been redesigned. The elimination of the catastrophic coverage tier in 2024 and the out-of-pocket spending threshold set at \$2,000 in 2025 have greatly improved the value of the Medicare Part D plan.

The Kaiser Family Foundation's analysis of the Centers for Medicare and Medicaid Services 2023-2024 data show national enrollment in a stand-alone Medicare Part D plan is 41%. Another 44% are enrolled in Medicare Advantage w/ Prescription Drug (MAPD) plan. Only 9% of Medicare beneficiaries are enrolled in an employer-sponsored Employer Group Waiver Plan (EGWP). Thus, given the improvements, this is a feasible alternative for State retirees and consistent, nationally, with a majority of Medicare eligible beneficiaries.

Senate Bill 349 maintains the existing EGWP for prescription drug benefits for Medicare-eligible State retirees hired prior to July 1, 2011, and their Medicare-eligible dependents. Under current law, these Medicare-eligible retirees will transition fully onto Medicare Part D prescription drug plans effective January 1, 2025. The cost to continue the current EGWP as written in Senate Bill 349 over the next five

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years is projected to be approximately \$1.22 billion. Future costs would be dependent upon plan design, eligible drugs and overall trends. The expected cost for plan years 2025 through 2029 is reflected in the table below*:

	Proposed by SB349	Current Law	Increase w/ SB 349
CY 2025	\$ 202,590,000	\$ 10,290,000	\$ 192,300,000
CY 2026	\$ 223,760,000	\$ 66,970,000	\$ 156,790,000
CY 2027	\$ 244,040,000	\$ 76,140,000	\$ 167,900,000
CY 2028	\$ 266,100,000	\$ 85,850,000	\$ 180,250,000
CY 2029	\$ 290,080,000	\$ 96,140,000	\$ 193,940,000
Total	\$1,226,570,000	\$335,390,000	\$ 891,180,000

***Notes:**

- The Senate Bill 946 cost in 2025 is offset by lagged rebates and EGWP subsidies of approximately \$48 million that are expected in the first quarter of CY2025.
- Senate Bill 946 cost assumes full utilization of Health Reimbursement Accounts (HRA). Based on historical drug costs, we would project that 15% to 20% of HRA amounts would not be utilized if the State limits the program to only reimbursing for Part D Out-of-Pocket (OOP) costs.

Separately, the projected impact on Other Post Employment Benefits (OPEB) liability results is measured relative to the most recently completed valuation as of June 30, 2023, which assumed that prescription drug benefits for Medicare-eligible retirees under Senate Bill 946 would be implemented through a reimbursement setup effective January 1, 2025. The OPEB impact is summarized in the table below:

Impact on OPEB under SB 349 as compared to current law

Increase in Net OPEB Liability	\$7,730 million
Increase in OPEB Expense (Year 1)	\$7,842 million
Increase in OPEB Expense (Years 2+)	\$115 million

Net OPEB Liability as of June 30, 2023 = \$11.1 billion
Estimated Net OPEB Liability with SB 349 = \$18.8 billion

POSITION: OPPOSE. DBM opposes this legislation due to both the ongoing annual costs and impact to the State’s OPEB liability. Further, following the District Court’s order granting summary judgment to the State on September 29, 2023, and in accordance with Chapter 767 of 2019, DBM is in the process of transitioning Medicare-eligible retirees onto Medicare Part D plans effective January 1, 2025.

To comply with the current law, DBM and the Employee Benefits Division (EBD) is currently soliciting a vendor to assist retirees one-on-one with their transition to a Medicare Part D prescription drug plan. Retirees were informed of the change to their coverage and notified of the high level of direct support they will receive with this transition. In addition to mail communication and updates to various DBM websites, the State will hold information sessions in each Maryland county to support retirees through this transition. EBD staff are currently assisting retirees with questions and current information available about the transition. Medicare-eligible retirees will be notified of the State's vendor selection and reminded of the support available to them in the second quarter 2024.

**For additional information, contact Laura Vykol-Gray at
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