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Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

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HOUSE BILL 696 State Prescription Drug Benefits - Retirees

DATE: March 19, 2026

COMMITTEE: Appropriations

POSITION: Letter of Opposition

SUMMARY OF BILL: HB696 HB 696 seeks to reinstate an employer-sponsored Medicare Part D plan for State of Maryland retirees originally hired prior to July 1, 2011. The benefit plan would become part of the State Employee and Retiree Health and Welfare Benefits Program (the Program).

Further, HB 696 seeks to partially repeal Chapter 767 of the Acts of the General Assembly of 2019. Medicare-eligible retirees hired on or after July 1, 2011 would still not be eligible to continue coverage under the Program.

EXPLANATION: Our actuaries have reviewed HB 696 and have calculated the projected impact on the State Health Plan Costs, as well as the impact on the State's OPEB accounting. Our understanding of the bill is that the current HRA setup and Life-Sustaining Prescription Drug Assistance Program for Medicare retirees would be eliminated July 1, 2026 and replaced with the following Medicare prescription drug benefits:

- If hired before July 1, 2011 – The Employer Group Waiver Program (EGWP) previously in place through December 31, 2024 is reinstated with no modifications
- If hired on or after July 1, 2011 - No coverage

Short-Term Projections
Short-term projections include the following assumptions:

- We assumed pricing terms in place in calendar year 2024. Actual short-term financial costs will depend on pricing guarantees.We have assumed that all EGWP members who were enrolled effective December 31, 2024 with the State and were hired prior to July 1, 2011 will re-enroll beginning July 1, 2026.

- Consistent with prior budgeting, projected EGWP subsidies under the HB696 scenario do not include reinsurance settlement payment or direct subsidy since they will go towards the general budget. Projected EGWP subsidies have also been adjusted due to the expected impact of the Inflation Reduction Act (IRA). We are anticipating that direct subsidies will make up a larger portion of EGWP subsidies in 2026 and beyond due to the IRA (since these dollars are excluded from the comparison, the cost impact of the change shown in the table below may be overstated). Actual amount of direct subsidy would depend on demographic profile of the population choosing to re-enroll July 1, 2026.

- EGWP cost estimate is lower compared to the estimate produced last year for HB 365 due to prospective reinsurance payments coming in higher than expected for CY 2026

- CY2026 costs under HB696 assume that HRA contributions are not returned to the State as of July 1, 2026 (in other words, we are assuming that HRA amounts will be fully-utilized in CY2026)

- State HRA contributions for CY2026 through CY2030 have been projected based on actual reimbursements and fees paid in CY2025 and anticipated future changes to Part D OOP maximums.

- Other than the adjustments to reinsurance and HRA contributions noted in the bullets above, our remaining assumptions for EGWP costs are the same as those noted in our response to HB365 in the previous year

- The projections in this response are estimates of future costs and are based on information available to Segal at the time the projections were made. Segal has not audited the information provided. Projections are not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure, trend rates, and claims volatility. The accuracy and reliability of projections decrease as the projection period increases. Unless otherwise noted, these projections do not include any cost or savings impact resulting from recently passed state or federal regulations. These projections may differ from other budget numbers used by the State and should not be used for budgeting purposes.

	Under HB696	**Current**	**Costs Increase from HB696**
CY2026	$190,770,000	$20,560,000	$170,210,000
CY2027	$279,850,000	$21,490,000	$258,360,000
CY2028	$308,340,000	$23,060,000	$285,280,000
CY2029	$339,710,000	$24,750,000	$314,960,000
CY2030	$374,240,000	$26,630,000	$347,610,000
Total	**$1,492,910,000**	**$116,490,000**	**$1,376,420,000**

The table above shows the projected cost under HB696 and the cost based on current legislation. The first column represents costs assuming that EGWP is reinstated beginning July 1, 2026, the second column represents costs based on the current legislation (Medicare HRA), and the final column represents the increase in costs associated with the proposed bill:

OPEB Impact

The projected impact on OPEB results is summarized in the table below:

	HB696 Compared to the 6/30/2025 Valuation Results
Increase in Net OPEB Liability	$10,190 million
Increase in OPEB Expense (Year 1)	$10,844 million
Increase in OPEB Expense (Years 2+)	$653 million

The projected costs of HB696 shown above represent the net impact of reinstating the EGWP for all participants hired before July 1, 2011 and eliminating the HRA and LSPDP benefits currently in place, effective July 1, 2026.

Aside from the change in prescription drug benefits, all other assumptions and plan provisions used for the OPEB analysis are identical to the June 30, 2025 valuation.

In comparison to the OPEB impact provided last year for HB356, the projected increase in OPEB costs associated with HB696 this year is significantly higher. The primary driver is the significant increase in assumed future prescription drug trends in the June 30, 2025 valuation, as compared to the June 30, 2024 valuation. There were also a number of other assumption changes made in the June 30, 2025 valuation (discount rate, rates of participation, and mortality/disability/turnover/retirement/sick leave/salary increase rates due to incorporation of a new experience study from the corresponding pension valuation) with varying impacts on this result, though these changes were less significant than the trend assumption.

The OPEB calculations were completed under the supervision of Mary Kirby, FSA, FCA, MAAA, who is a member of the American Academy of Actuaries and meets the qualification standards to render this actuarial opinion.

Other Considerations
In addition to the financial impact, we also want to raise the following considerations and challenges that were included last year:

- Potential contractual issues in terminating the current contract for Medicare HRA
- The State will need to determine how it will be contracted and potentially negotiate terms, which would be challenging on such a short timeline
- Less than 5 months would not provide the State enough time to properly re-implement the EGWP benefit, especially with CMS requirements
- This change would create significant confusion among retirees who will be forced to switch benefit mid-year – the mid-year switch would also result in administrative difficulties and potentially a loss of EGWP subsidies
- The State would need to determine how to treat the HRA for retirees who have not fully utilized their accounts
- Many retirees who are better off may not want to return to the EGWP and face another change

The Department of Budget and Management (DBM) is charged with submitting a balanced budget to the General Assembly annually and will be working with the General Assembly to achieve structural balance over the long term. This mission is further complicated by significant federal uncertainty in both policy and budgetary areas, which requires the State to maintain a higher degree of fiscal resilience. The Department urges caution when passing legislation that significantly increases expenditures without commensurate reductions elsewhere. In light of the current fiscal crisis, the state government must be disciplined and strategic in its funding decisions to protect essential services. Any legislation that increases spending should include specific, identified, and sustainable funding offsets.

Given forecasted out-year deficits and significant uncertainty about the federal budget and policy changes, it would be challenging for the State to manage this increase in spending. This challenge is compounded by major, unforeseen changes in federal policy and other ongoing budgetary pressures. The Department of Budget and Management (DBM) now forecasts significant shortfalls beginning in Fiscal Year 2027 and escalating into Fiscal Year 2028.

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