

Overview of Previous Studies of Retiree Health Care Funding Options

Legislation

Senate Bill 583 of 2000 attempted to create a Post-retirement Health Funding System to assist in the funding of the State's retiree health insurance subsidy for retired State employees. Specifically, the bill would have created a "sweeping" mechanism so that if there was a decline in pension contributions from one year to the next, the State would have been required to contribute the difference in pension contributions between the two years to the Post-retirement Health Funding System. While the Senate Budget and Taxation Committee reported Senate Bill 583 unfavorable, the committee referred the bill to the Joint Committee on Pensions for further study during the 2000 interim.

In its 2000 interim report, the Joint Committee on Pensions noted that the State's actuary recommended initiating plans to ensure adequate funding for the State's subsidy of retiree health insurance. However, given the complexity of this issue, the magnitude of the cost of full actuarial prefunding, and the variety of approaches taken by other states, the joint committee believed that further study was necessary to develop a plan for the State that would address the State's needs and fiscal resources. As a result, the joint committee introduced Senate Bill 329 of 2001, which would have created a task force to further study the issue of retiree health insurance liabilities. Senate Bill 329 received an unfavorable recommendation by the House Appropriations Committee.

In 2004, the State Retiree Health Care Protection Act was enacted (Chapter 466). The State Retiree Health Care Protection Act embarked the State on prefunding the liabilities resulting from the State's commitment to subsidizing retiree health insurance by establishing the Post-retirement Health Benefits Trust Fund. The legislation provided that federal revenues associated with employer subsidies for retiree prescription insurance subsidies would be directed to the fund. Following the establishment of the fund, legislation was enacted in 2005 creating the Task Force to Study Retiree Health Care Funding Options (Chapter 298). The membership of the task force included legislators, elected officials, and appointees of the Executive Branch.

The Task Force to Study Retiree Health Care Funding Options

The Task Force to Study Retiree Health Care Funding Options held three meetings during the 2005 interim. Chapter 298 of 2005 specifically charged the task force to develop options for addressing the unfunded liability associated with State retiree health care that would have to be included on the State's financial statements and the costs associated with each option. In addition, Chapter 298 also required the Department of Budget and Management to commission an actuarial valuation of the State's retiree health care liabilities.

Over the course of its study, the task force received significant information that included:

- an overview of the State's retiree health benefits;
- a review of the State's financial statement;
- the legal obligations of the State relating to retiree health care benefits;
- an overview of retiree health benefits in other states and Maryland local governments; and
- alternative plans to provide retiree health benefits.

At the conclusion of its study, the task force made two recommendations. The first was a recommendation that the State set a goal of funding normal costs for retiree health benefits beginning in fiscal 2008. To date, this recommendation has not been adopted. The second recommendation of the task force was that legislation be introduced establishing an ongoing blue ribbon commission to further study the issue. The task force stated in its final report that, due to the complexity and high importance of this issue, the blue ribbon commission should be charged with considering the cost drivers of the liabilities, as well as various alternatives to address the costs and alternatives which would allow the State to prefund the large liabilities while balancing the needs of State employees and retirees. The task force also reported that the commission should be charged with considering approaches with varied solutions that may be different for employees who have already retired; fully vested employees; active employees who have not vested; and new employees who will be hired in the future.

Blue Ribbon Commission to Study Retiree Health Care Funding Options

Chapter 433 of 2006 established the Blue Ribbon Commission to Study Retiree Health Care Funding Options. The membership of the commission includes legislators, elected officials and appointees of the Executive Branch, and members of the public with expertise in either funding retiree health benefits, the economics of affordable retiree health care programs, or investing pension fund assets. The commission contracted with an actuarial consulting firm that has conducted three annual actuarial valuations of the State's retiree health care liabilities and has provided ongoing services to the commission throughout its existence.

The full commission met twice during the 2007 interim and once during the 2008 interim to hear presentations by the commission's actuary, the Department of Legislative Services, and various experts in the area of retiree health care. In addition, the commission formed three working groups in the areas of finance, benefits, and legal requirements. Each working group met once during the 2007 interim, and the benefits workgroup met once during the 2008 interim.

The presentations that have been received by the commission, include:

- a comparison of Maryland's retiree health benefits to those in other states with AAA bond ratings;
- the trends in retiree health benefits among private sector employers;
- a briefing on an opinion by the State's Attorney General regarding the State's legal obligation to provide and maintain retiree health benefits;
- a study by the commission's actuary of the Medicare Part D subsidy;
- a study by the commission's actuary regarding the potential benefits of shifting Medicare-eligible retirees to Medicare Advantage plans;
- a briefing by the State Treasurer's financial advisor on the advantages and potential risks of using debt to finance a portion of the State's retiree health care liability; and
- a briefing on options for redesigning retiree health benefits in ways that would reduce future liabilities without placing undue financial burdens on current or future retirees.

In December 2008, the commission issued its interim report summarizing its work to that point. The commission has not resumed meeting since that time.