Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 568 (Senator McFadden, *et al.*)
Budget and Taxation

State Employee and Retiree Health and Welfare Benefits Program - Retiree Dependent Participation in the Maryland Rx Program

This bill extends the date before which the State must continue providing prescription drug benefits to Medicare-eligible retirees under the State Employee and Retiree Health and Welfare Benefits Program to January 1, 2020. It also requires that Medicare-eligible retirees be allowed to elect to have a non-Medicare-eligible dependent continue to be covered under the State prescription drug benefit plan after coverage ends for Medicare-eligible retirees. The Department of Budget and Management (DBM) must notify retirees of impending changes to prescription drug coverage by July 1, 2019.

Fiscal Summary

State Effect: State employer contributions increase by $44.7 million in FY 2020 to extend prescription drug coverage for Medicare-eligible retirees by six months and to retain prescription drug coverage for non-Medicare-eligible spouses and dependents. In FY 2021 and beyond, costs reflect only continued coverage for non-Medicare-eligible spouses and dependents. All costs increase annually according to assumed health care cost inflation rates, and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds. No effect on revenues. **This bill maintains an entitlement that would otherwise terminate beginning in FY 2020.**

($ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	26.82	3.48	3.81	4.16
SF Expenditure	0	8.94	1.16	1.27	1.39
FF Expenditure	0	8.94	1.16	1.27	1.39
Net Effect	$0.00	($44.70)	($5.80)	($6.35)	($6.94)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: Health benefits provided to retirees are often referred to as Other Post Employment Benefits (OPEB) to distinguish them from pension benefits.

Upon their retirement, and provided they receive a retirement allowance from the State Retirement and Pension System, retired State employees are entitled to enroll and participate in any of the health insurance options provided by the State Employee and Retiree Health and Welfare Benefits Program. Until the enactment of Chapter 397 of 2011, this had entitled retired State employees to retain the same health coverage they had as active employees. In addition, active State employees accrue eligibility for a partial State subsidy of the cost of health insurance coverage under the program. Chapter 397 established new eligibility requirements for retirees to enroll in the program and qualify for the premium subsidy if they are hired on or after July 1, 2011. Therefore, the eligibility requirements to enroll in the program 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 service;
- retired directly from State service with a disability;
- ended State service with at least 16 years of 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 begin employment with the State *on or after* July 1, 2011, will be eligible to enroll in the program if they:

- retire directly from the State with at least 10 years of service;

- retire directly from State service with a disability;
- end State service with at least 25 years of 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. For those hired before July 1, 2011, eligible retirees 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 health maintenance organization premiums). If a retiree has less than 16 years of State service (but more than 5 years), the benefit is prorated. The State subsidy for health insurance is determined by the amount of creditable service the retired State employee earned. With 5 years of creditable service (the minimum required to participate in the State's program), a retired State employee is entitled to 5/16 of the State subsidy provided to active employees. For each additional year of creditable service up to 16 years, an additional 1/16 of the subsidy is earned. Retirees who began employment with the State 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 less than 25 years (but more than 10) the benefit is prorated.

As noted earlier, Chapter 397 made changes to OPEB coverage provided to State retirees, particularly in the area of prescription drug coverage. First, it authorized the State to establish separate health insurance benefit options for retirees that differ from those for active State employees. This represented the first time under State law that coverage of the two populations was allowed to be separated. In addition, Chapter 397 also increased the share of the premium for prescription drug coverage paid by retirees from 20% to 25% (it remained 20% for active State employees), and raised out-of-pocket limits for retirees to $1,500 for a single retiree and $2,000 for family drug coverage (previously, the limit had been $750 for single or family coverage for both active employees and retirees). Finally, it required that the State cease providing prescription drug coverage for Medicare-eligible retirees in fiscal 2020 because that is the year that improvements to Medicare Part D prescription coverage are fully phased in, so that Medicare-eligible retirees can get comparable prescription coverage through Medicare instead of from the State. The bill specifies that coverage ends on January 1, 2020, because the State's plan year begins on January 1 of each year.

In response to the new authority to establish separate coverage for retirees, DBM established a new Employer Group Waiver Plan, effective January 1, 2014, to provide prescription drug coverage to Medicare-eligible retirees. Employer Group Waiver Plans are authorized under the 2003 Medicare Prescription Drug Modernization Act and essentially "wrap" employer coverage around the Medicare Part D prescription drug coverage. Participating retirees are not aware of any change in their coverage because all interactions between the State plan and Medicare are handled administratively.

State Expenditures: Absent the bill, State prescription drug coverage for Medicare-eligible retirees ends on July 1, 2019 (*i.e.*, the beginning of fiscal 2020). Thus, the bill extends coverage for those retirees by six months. It is assumed that, absent the bill, prescription drug coverage for non-Medicare-eligible spouses and dependents of Medicare-eligible retirees would end due to the termination of those benefits for the retirees. Thus, the bill also maintains coverage for non-Medicare-eligible spouses and dependents beyond fiscal 2020.

Based in part on data provided by DBM and its own analysis of claims costs, the Department of Legislative Services estimates that the six-month extension of coverage and the retention of coverage for non-Medicare-eligible spouses and dependents increase claims costs by $119.6 million in fiscal 2020. This increase is partially offset by prescription drug rebates and Medicare Part D discounts totaling $60.0 million. This results in a net increase of $59.6 million in claims costs. As Maryland self-insures for employee and retiree medical coverage, nonbudgeted expenditures from the Maryland Employees' and Retirees' Health Insurance Account increase by $59.6 million.

Because the State self-insures the health coverage it provides to employees and retirees, any increase in nonbudgeted costs must be covered by a commensurate increase in employer and employee/retiree contributions to the health insurance account. Employees/retirees pay 25% of program costs, so employer contributions by the State increase by $44.7 million, or 75% of the total increase. Employer contributions for employee benefits are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds.

In fiscal 2021 and subsequent years, the State continues to provide coverage to non-Medicare-eligible spouses and dependents at a cost of approximately $12.3 million. This increase is partially offset by prescription drug rebates totaling $4.7 million (Medicare Part D discounts terminate when the State stops providing prescription coverage to Medicare-eligible retirees). With employees/retirees paying 25% of the net increase of $7.7 million, State employer contributions increase by $5.8 million in fiscal 2021, increasing annually according to assumed health care inflation rates. Those costs are also assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds.

DBM can provide the necessary notice with existing resources.

Additional Information

Prior Introductions: None.

Cross File: HB 629 (Delegate Krimm, *et al.*) - Appropriations.

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

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md/rhh

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