

Public Employees' & Retirees' Benefit Sustainability Briefing Summary

January 26, 2011

Department of Legislative Services Joint Hearing Room

Chairman Casper Taylor, Public Employee Retirement and Benefits Sustainability Commission began.

Healthcare:

Commission recommends cutting State expenditures by 10% to bring Maryland in line with peer jurisdictions.

- Reduced premium subsidies and plan design changes
- These changes should reduce State spending by \$100 million per year

The unfunded liability for retiree healthcare is \$16 billion.

Commission recommends cutting State expenditures for current retirees by 15%.

- Increase years of service for health benefits from 5- 15 yrs
- Increase from 16 – 25 years of service for retiree benefits
- Require employees to retire directly from state service
- Require state retirees to join medicare part D

Pensions:

Achieve 80% funding status in 10 years and full funding status in 30 years.

- Give retiring members a menu of options to choose from.
- Increase vesting for all plans from 5 years to 10 years
- Increase eligibility for normal service to age 62 or age and service of 92 years
- Study and recommend changes to judges and legislative retirement systems
- 3 year phase in of 50/50 split of pension with local school boards with wealth equalization formula

Chief Legislative Officer Joe Bryce and Secretary T. Eloise Foster then presented on the Governor's proposal.

Unfunded retiree liabilities total \$35 billion. Maryland's pension funded level (64%) ranks 30th among all states.

Maryland prescription drug cost sharing requirements are much higher than many states.

Pension Proposal:

Governor's proposal offers a one-time decision for current employees:

- Continue to pay 5% of salary towards retirement with adjusted benefit (1.5% benefit multiplier for each future year of service rather than current 1.8% benefit multiplier); OR
- Increase contribution to retirement from 5% to 7% of pay and continue to earn benefits at the current level (1.8% benefit multiplier for each future year of service)

For New Employees/Teachers:

- Adjusted benefit (7% contribution and 1.5% benefit multiplier)
- Increased vesting from 5 years to 10 years
- Early Retirement age increases from 55 to 60
- Benefit calculated on highest 5 years of salary rather than highest 3 years
- Adjusted retiree COLAs if the investment goals of the system are not achieved

Healthcare Proposal:

Retirees:

- Transition retirees to Medicare Part D drug coverage in 2020
- Establish a State run Medicare Part D program in FY 2012 that fills the coverage gap
- 75% of retiree drug costs are subsidized after a \$310 deductible is met

Active Employees:

- Align co-pays with national trends. New co-pays range from \$10 for generic drugs to \$40 for non-preferred drugs.
- Out-of-pocket cap is raised from \$700 to \$1000 for individuals and \$1500 for couples and families.

Michael Rubenstein and Diane Baker of the Department of Legislative Services (DLS) presented a comparison of the Commission and the Governor's proposals.

Comparison of Governor's Proposal to Commission's Proposal:

- Governor's plan only affects active employees
- Governor's changes would save the State at least \$10 million per year.
- The large savings from the Governor's plan comes from the transfer of all retirees into a separate prescription plan. The savings come from a \$310 deductible not in the current plan.
- Governor's plan reduces unfunded liability by 41%, compared with the Commission's target of 50%
- Governor's plan does not address eligibility for retiree health benefits
- In terms of employees' choice between the stable benefit and the stable contribution, it is projected that 96% of employees in the Teachers' pension system would receive more net benefits under the stable benefit option. This is largely because the majority of the employees have a number of years of service and of older age. However, for younger teachers, the stable contribution option would provide greater net benefits.
- The Governor's plan reaches the 100% funding level significantly faster than the Commission's 30 year target. This is because the Governor's plan does not shift any costs to the local school boards.

Senator Brinkley – Asked about whether a defined contribution plan could be incorporated.

DLS Staff – the Commission concluded that maintaining a combined benefit plan was the best option for Maryland. Shifting to a defined benefit plan would actually cost the State more in the near future.

Delegates Griffith and Robinson – How long will it take to educate employees to make a decision about their retirement options?

DLS Staff – It is expected that employees will have to make a decision by June 15th.

Senator Madaleno – Should we make a permanent change in reaction to stock market volatility or should we take a longer term approach?

Delegate Barkley - Why are we making drastic changes to the pension system if we're not getting any immediate benefits to the pension system? Why is money going to the general fund?

Speaker Taylor – The Commission is only remaining alive in the event that the General Assembly does not take the actions necessary to create a sustainable system. He calls for a 5 year ongoing review of the system.

Delegate James – Shouldn't the governor's proposal for retiree health benefits also be increased from 5 to 10 years? Can't we reduce COLAs?

DLS Staff – The AG's office advised that changes in the COLAs would not sustain a constitutional challenge.