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Time for Maryland to Face Its Health Benefits Burden

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Maryland's looming structural budget deficit of $1.5 billion has attracted much attention, but almost no attention has been paid to unfunded health benefit liabilities for government employees that will cost the state billions of dollars far into the future. Indeed, Maryland has been tortoise-like in implementing new financial accounting standards that are intended to reflect the unfunded health benefit liabilities on the state's financial books.

Here's the little-known, seemingly arcane story with big-time fiscal consequences. In 2004, the Governmental Accounting Standards Board, a private organization that sets standards for government financial statements, adopted a new standard that requires government entities to reflect on their financial statements as liabilities the costs of future health benefits promised to government employee retirees. Compliance with the board's standards is one of the factors bond rating agencies consider when government bonds are issued.

Maryland is required to reflect the benefit liabilities starting with the fiscal year that began July 1. Actuarial consultants hired by the state estimate that the unfunded liabilities could range from $9 billion to $20 billion. If the state fails to adopt a plan to address these future costs, it risks jeopardizing its triple-A bond rating.

During its 2005 session, in response to the new standard, the General Assembly created the Task Force to Study Retiree Health Care Funding Options. The task force completed its work in November 2005; its report should be read by anyone concerned about Maryland's long-term budget situation.

The report recommended the state begin to fund the health and pension liabilities for government retirees with approximately $100 million in fiscal years 2007 and 2008 and $200 million in fiscal year 2009. The budget for those fiscal years did include $100 million for retiree health care liability in addition to the state's share of current expenses for providing retiree health care. That figure is about $700 million annually and rising. In relation to the size of the unfunded liabilities, the steps taken thus far are small.

The task force also recommended creating yet another commission to conduct a comprehensive review of the health benefits available to current state employees and retirees, and the funding of those benefits. During its 2006 session, the General Assembly created the Blue Ribbon Commission to Study Retiree Health Care Funding Options. This commission includes members from the legislative and executive branches.

Although its report is due Dec. 31, 2008, the commission did not hold its first meeting until this month, more than a year after it was created.

By any standard, Maryland has a very generous health benefit program for its retired government employees. For example, employees with as little as five years of service who become state employees at age 57 or older can qualify for participation in the plan. Eligible retirees receive a state subsidy equal to the subsidy provided active employees at the rate of one-sixteenth for each year of service, up to a maximum of 100 percent. The subsidy amounts to approximately 80 percent of the cost of health insurance for a retired employee, spouse and eligible dependents.

Moreover, during the 2006 legislative session, after the state was well aware of its burgeoning future health benefit obligations, the General Assembly enhanced state employee pensions at a cost of more than $100 million annually. And, to top it off, these latest pension enhancements were made retroactive, increasing benefits to state employees and public school teachers for 1998 through 2006.

The new accounting standard is intended to shed light on a government's unfunded health liabilities - liabilities that have been largely secreted away in the dark corners of the state's fiscal pantry and ignored. For Maryland, compliance with the accounting standard would substantially affect the state's long-term structural deficit picture, and not in a rosy way.

Unfortunately, so far, it appears Maryland's plan for addressing the new standard is simply to maintain business as usual. What that means is that despite all the talk about the budget deficit, Maryland's politicians intend to keep asking Maryland's taxpayers to fund benefits for government retirees that most taxpayers can only imagine in their sweetest dreams.

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