Reforming Maryland's Pension System: A Path to Sustainability

Governor Martin O'Malley
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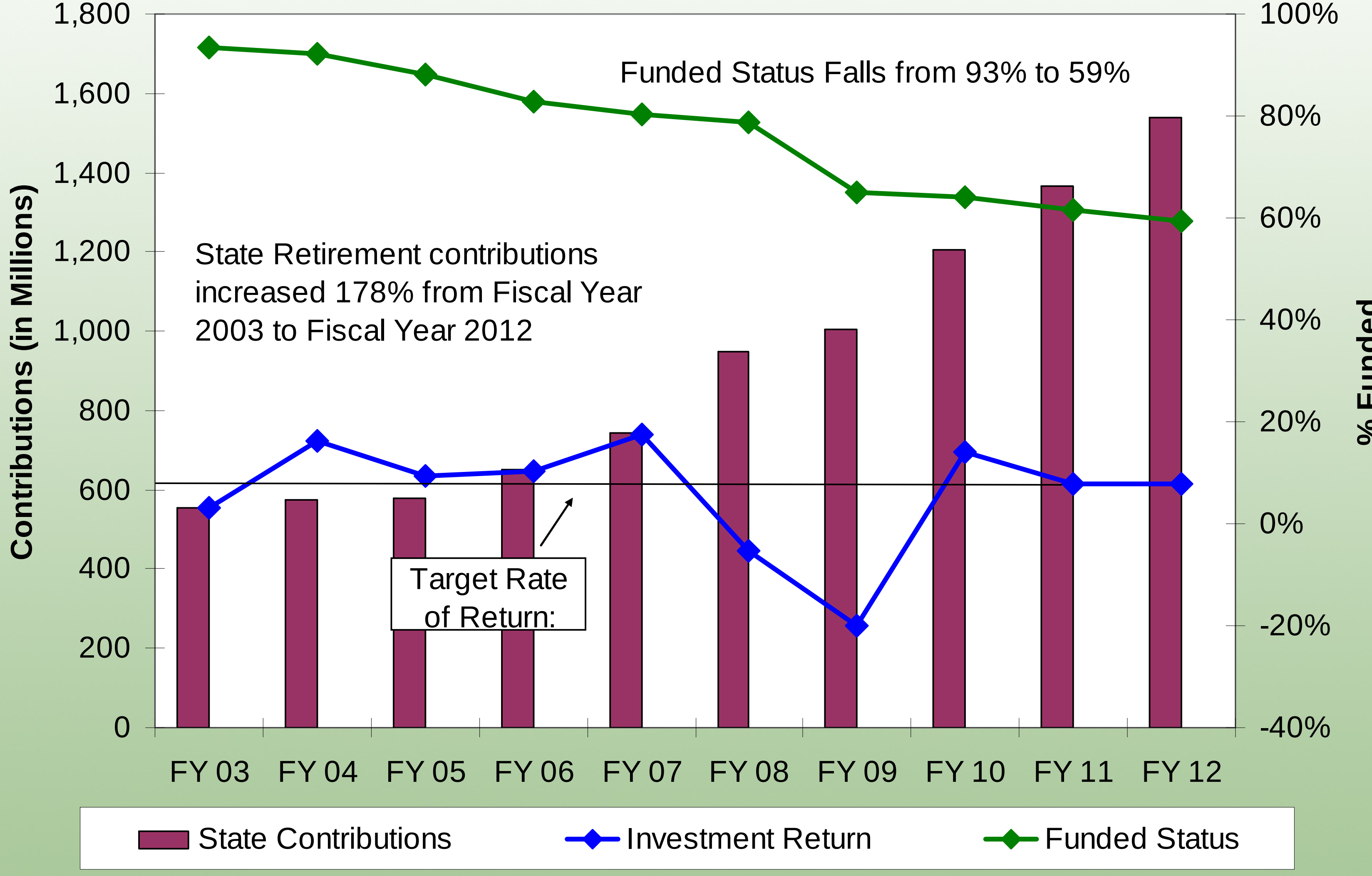
Maryland's Unfunded Liabilities – Where We Stand

- **Maryland's unfunded liabilities associated with benefits for retirees total $35 billion.**
  - Pension Liability = $19 B
  - Retiree Health Liability = $16 B
- **Maryland compares unfavorably to other states.**
  - Maryland's pension funded level of 64% ranks 30th among all states.
  - Maryland's Retiree Health liability is the 13th highest nationally.
  - Maryland's retiree health liability is only 1% funded.
- **According to the Pew Center on the States, "Many experts in the field, including the U.S. Government Accountability Office, suggest that a healthy system is one that is at least 80% funded."**
  - Maryland is 64% funded.

Pension Liability – Contributions Increase but Funded Status Declines

- **Maryland to contribute about $1.5 billion to the pension system in FY12, nearly tripling the $555 million contributed in FY03.**
- **In each year of the first term, the O’Malley-Brown Administration fully funded the State’s required pension contribution.**
- **Despite rapid increases in the State contribution, the funded status of the pension system dropped precipitously over the last decade.**
  - 95% funded in FY 2002
  - 64% funded in FY 2010
  - 59% funded in FY 2012 (projected)

Retirement System Funded Status Declines Despite Increased State Contributions



Retiree Health Liabilities

- **Almost half of the unfunded liability associated with retiree health benefits relates to Maryland's prescription drug benefit.**
- **Maryland's prescription drug cost sharing requirements are more generous than many states:**
  - Maryland requires a $5 co-pay for generic drugs.
    - More than half of state plans nationally require a co-payment of $10-19. (Segal Company, 2011)
  - Maryland requires a $25 co-pay for non-preferred drugs.
    - 87% of State plans apply co-pays of $30 or more and 68% require co-pays in excess of $40. (Segal Company, 2011)
  - Maryland is one of only 11 states with an out-of-pocket cap on drug costs. (Department of Legislative Services)

Sustainable Retirement Benefits

Goals of Benefit Reform

- Preserve Defined Benefit for State Workers
- Ensure Access to Medical/Rx Benefit
- Reduce Unfunded Liabilities
- Increase System Funding Level
- Ensure Sustainable Pension Funding

Proposal to Preserve Retirement Benefits Pension Changes

- **No impact on current retirees**
- **No impact on benefits already earned by active or former employees/teachers**
- **For benefits earned for service in FY 2012 and future years, active employees/teachers to make one-time choice:**
  - 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)
  - How does benefit multiplier work?
    - Employee earning multiplier of 1.8% for 30 years would receive a benefit = 54% of salary (1.8 multiplier x 30 years)
    - Employee earning multiplier of 1.5% for 30 years would receive a benefit = 45% of salary (1.5 multiplier x 30 years)

Proposal to Preserve Retirement Benefits - Pension Changes

New Employees/Teachers

- Adjusted benefit
  (7% contribution & 1.5% benefit multiplier)
- Tighter eligibility criteria
  (vesting at 10 rather than 5 years)
- Early Retirement age increased from 55 to 60
- Benefit calculated on highest 5 years of salary rather than highest 3 years
- Adjusted retiree COLAs if investment goals of system not achieved

Proposal to Preserve Retirement Benefits - Pension Changes

Other pension changes:

- Close DROP Program to future law enforcement participants
- Increase employee contribution for new judges from 6% to 8%
- Direct Compensation Commissions to review pensions for elected officials for sustainability and fairness

Proposal to Preserve Retirement Benefits - Health Changes

Changes for retirees

- Transition Retirees to Medicare Part D drug coverage in 2020 when the Part D “coverage gap” is phased-out
- Establish a State run Medicare Part D look-alike program in FY 2012 that mirrors Medicare Part D but fills in the “coverage gap”
- Under new plan, state will subsidize 75% of retiree drug costs after a $310 deductible.

Changes for 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 raised from $700 to $1,000 for individuals and $1,500 for couples/families

Proposal to Preserve Retirement Benefits - Impact of Reform

- **Proposed health changes will reduce unfunded retiree health liability by about $7 billion**
- **Reinvest reform impacts into retirement system to reduce the unfunded liability**
  - State will reinvest more than $1 billion of savings from reform in retirement system over next 6 years.
- **Achieve 80% funding of pension system by FY 2023**
  - Annual report on funded status required from pension system.
  - Dept of Budget & Management (DBM) required to prepare bi-annual report assessing financial health of pension system
    - Report to include recommendations concerning adjustments to state funding and/or future benefits

Unfunded Liability for Retiree Health Insurance Drops by Almost 50%