
Unfunded Retiree Healthcare: The Elephant in the Room



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Agenda



- I. Definitions and Accounting
- II. Scope of the Problem
- III. Retiree Health vs. Pensions
- IV. Proposals for Change

I. Defining OPEBs


- Other Post-Employment Benefits
- Primarily Retiree Health Care
- Government premium subsidies to Retirees
 - Received until eligible for Medicare
 - Occasionally last for lifetime of Retiree

I. OPEB Accounting Rules of GASB (Gov. Accounting Standards Board)



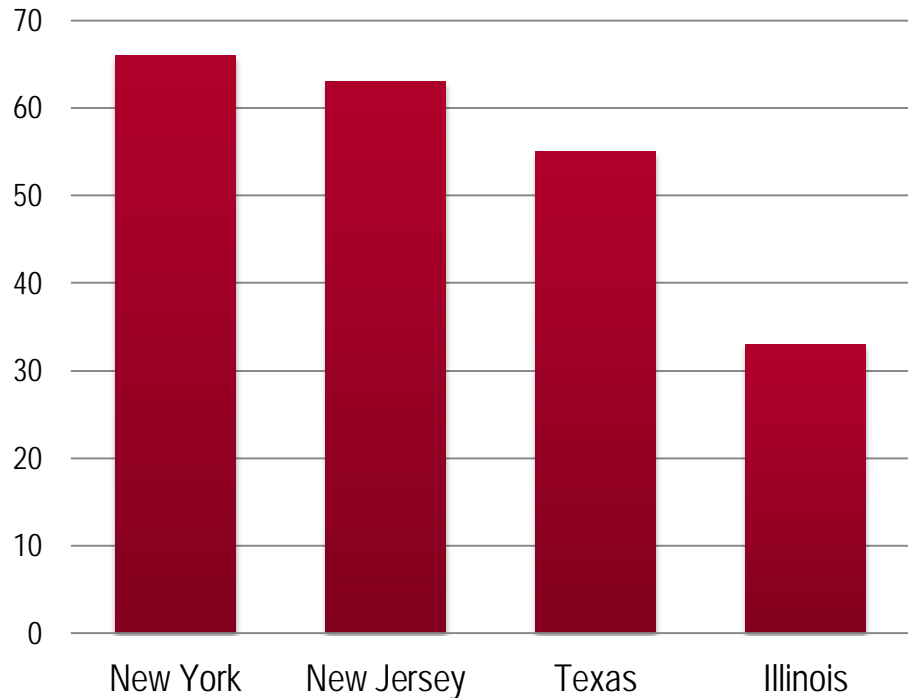
- Prior to 2006 not disclosed in Financial Statements
- Required in Financial Statement Footnotes as of 2006
- Currently Not Included as Liabilities on Balance Sheets
- No requirement for advance funding

I. Accounting Principle Proposals

- Standardize the discount rates used to calculate OPEB liabilities by equating them to the interest rates on AA rated municipal bonds

- Include OPEB as Liabilities on Balance Sheet
 - May impact credit ratings
 - promote political accountability
- Standardize the use of amortization: avoid back loading of OPEBs in out years

II. Scope of the Problem in 2012 - States (Outside CA)

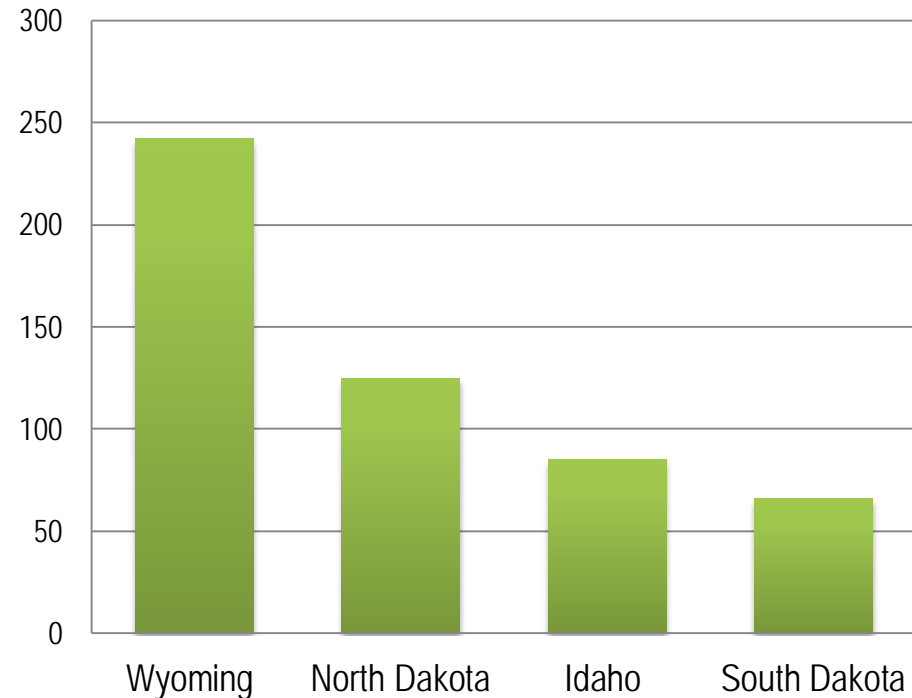
Highest Unfunded State OPEB (bil. \$)



3,397 7,206 2,127 2,586

Unfunded OPEB per capita

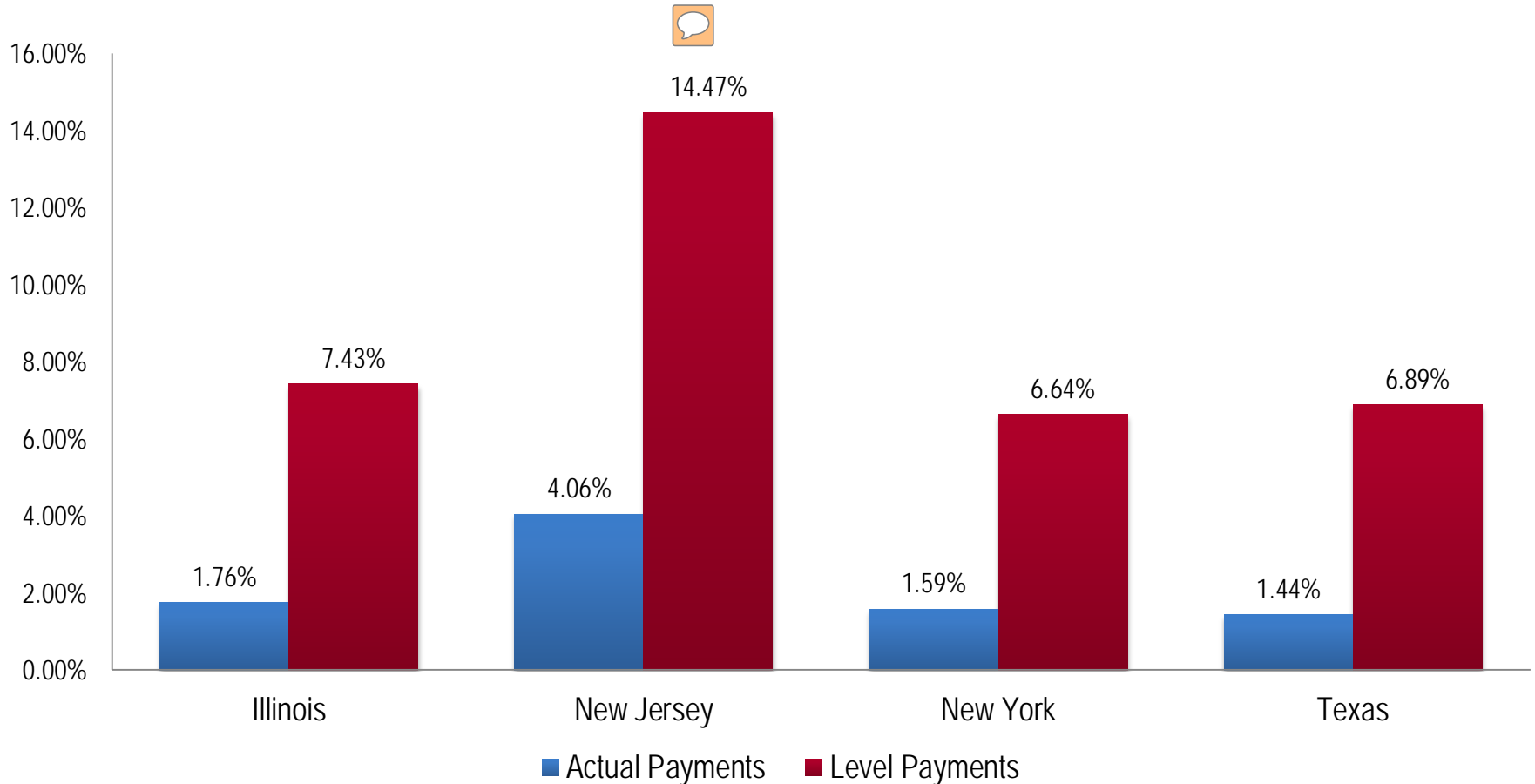
Lowest Total Unfunded State OPEBs (mil. \$)



419 178 53 79


Unfunded OPEB per capita

II. 2013 Actual vs. Required Contributions to OPEBs



Note: These are percentages of current state tax revenues (income tax, sales tax, and other revenue items)

II. 2013 Scope of the Problem - Cities

- 30 Largest Cities have over \$100 Billion in Unfunded Retiree Health Care and other OPEBs 

Cities with Largest Liabilities	Unfunded Liability (bil. \$)	Unfunded Liability per household	Funding Level
1 New York, New York	70.57	\$22,857	4%
2 Boston, Massachusetts	4.55	\$18,962	0%
3 Detroit, Michigan	4.97	\$15,682	<1%
Cities with Smallest Liabilities (mil. \$)			
1 Denver, Colorado	87.11	\$346	51%
2 Minneapolis, Minnesota	75.90	\$466	0%
3 Tampa, Florida	86.199	\$613	0%

II. 2013 Scope of the Problem - California

Type	Actuarial Accrued Liabilities (Billion USD)	Unfunded Liabilities (Billion USD)	Funding Ratio
State	64.58*	64.57	0.02%
Counties	34.89	33.26	4.67%
Cities	23.22	18.00	22.49%
School Districts	20.61	20.25	1.60%
UC System	13.03	12.98	0.34%
Trial Courts	1.39	1.37	1.23%
Total	157.72	150.44	4.60%

*\$1,737 = unfunded State OPEB liability per capita

III. OPEBs vs. Pensions




- Pensions require advance funding in separate trusts
- Minimal prefunding of OPEBS generally;
 - Usually financed from current tax revenues
- Pensions often protected by statute or constitution
- OPEBs are legally easier to change, but still subject to collective bargaining

III. OPEB Growth in Massachusetts – Relative to Property Taxes



Municipality	Retiree HC Current Cost 2009	Retiree HC Current Cost 2013	Difference, Retiree HC 2009 - '13	Total Property Tax Levy '09	Total Property Tax Levy '13	Difference, Property Tax Levy '09 - '13	Retiree HC Cost Growth as a % of Property Tax Growth
Amherst	\$2,139,934	\$3,075,000	\$935,066	\$34,871,426	\$41,799,726	\$6,928,300	13%
Holyoke	7,439,577	9,077,923	1,638,346	44,639,085	51,281,090	6,642,005	25%
New Bedford	12,537,241	15,806,016	3,268,775	88,797,309	95,218,502	6,421,193	51%
Springfield	25,004,396	31,172,202	6,167,806	163,078,974	167,403,337	4,324,363	143%

III. FY 2014 Impact of OPEBs – Newton, MA

- \$21 million was spent on total retiree health care = \$747 of each household's annual property tax bill
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- City proposed an override of proposition 2.5; Approved by voters for \$8.4 million
 - \$8.1 million went to pay Retiree Health Care
 - \$8.1 million translates to 79 additional teachers; an 8% increase over the number of current teachers

IV. Modifying Benefits & Premium Subsidies



- Increase future deductibles and copayments
- Reduce healthcare promises to new or recent municipal or state employees
- Reduce the scope of Healthcare provided
 - Require retirees to pay the full cost of dental and eye care



IV. Recent CA Court Decisions on OPEB Cuts

Local Government	Description of OPEB Cut	Court Ruling
Orange County	County separated retirees from the active healthcare pool, raising their healthcare premiums	Cut was upheld Retirees do not have an implied contract that prevents their separation from the active employee pool
Sonoma County	County cut the health subsidy to \$500 per month	Cut was upheld It was not shown the county agreed to provide <i>permanent</i> healthcare benefits
Sacramento County	County cut healthcare subsidies for retirees from \$244 to \$80.64 per month	Cuts were upheld Retirees have no right to permanent healthcare subsidies from county
Los Angeles City	City gave the option of a frozen monthly subsidy at current benefit levels OR increasing employee contributions by 4% for normally rising benefits	Cut was rejected The cut was ruled an impairment of a vested right to a substantial benefit. Cited precedents for vested pensions

IV. Revising Eligibility Standards



- In Massachusetts, initial qualification only requires 10 years of part time work
- In many municipalities, spouses and/or children are also covered by Retiree Health Care
- States or cities could end subsidies when retirees become eligible for Medicare at 65

IV. Changing Cost of Living Adjustments



- 30 states have COLAs built into statutes
- 17 states adjusted COLAs between 2010 and 2013, only 12 were later challenged in court
- Of the 9 where courts issued rulings, 8 upheld adjustments on the ground that the COLA portion of a pension is not considered a contractual right

IV. Utilizing the Affordable Care Act



- Federal premium subsidies for healthcare policies bought through a state connector
- Most OPEBs are done outside of state connectors and through high cost plans
- A few states now require OPEBs to utilize connectors to obtain federal subsidies to reduce local subsidies



IV. Massachusetts and the Affordable Care Act

Family of Four	Income = 35,000	Income = 50,000	Income = 75,000
Income as % of FPL	147%	210%	314%
Premium cap as a % of Income	3.92%	6.73%	9.5%
MA Sample Gold Plan Monthly / Annual Premium	\$1,319 per month \$15,828 per year	\$1,319 per month \$15,828 per year	\$1,319 per month \$15,828 per year
Monthly Government Subsidy	\$1,111	\$945	\$632
Monthly Cost to Family	\$208	\$374	\$687
Annual Deductible	\$1000 per family	\$1000 per family	\$1000 per family
Annual Out-of-pocket Maximum	\$6000 per family	\$6000 per family	\$6000 per family

Conclusion



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- Unfunded OPEBs are rising quickly and quietly, often faster than unfunded pension liabilities
 - But the new accounting rules will require unfunded OPEBs to be included on state and municipal balance sheets.
 - OPEBs have much less legal protection than pension promises, though they can still be subject to collective bargaining
 - So the public debate should focus on how OPEBs can be reasonably revised, for whom and when