Bond Case Briefs

Municipal Finance Law Since 1971

Retiree Health Care Liabilities Keep Stacking Up For States.

Newly issued data show the financial challenge posed by "other post-employment benefits."

State governments face mounting costs for non-pension retirement benefits—mainly consisting of health care expenses, newly updated figures from The Pew Charitable Trusts indicate.

Pew says states reported total liabilities of $737 billion for "other post-employment benefits," or OPEB, in 2016, the most recent year for which comprehensive data is available. The latest figure marks a 6 percent increase from $692 billion in 2015.

These liabilities are not all due at once, but rather are the estimated costs of the benefits for retired public employees in the years ahead. They increased by about 5 percent in 2015 over 2014.

Meanwhile, the amount of assets states reported having to pay the benefits fell to $46 billion in 2016, from $48 billion in 2015, Pew said.

The nonpartisan non-profit's brief notes that the majority of state OPEB plans are covered on a "pay-as-you-go" basis. That's opposed to a pre-funding policy, where assets are set aside in advance to cover future costs, as with pension funds.

Across the 48 states Pew examined, 19 had not set aside any funds, or had only "negligible" funds, to pay for promised benefits. Eight states had a funded ratio of 30 percent or above.

S&P Global Ratings in a Nov. 28 report cautioned that OPEB liabilities are a "growing concern" for the credit quality of some states and "require attention to control higher future costs."

A survey by S&P found total unfunded OPEB liabilities for all states grew $63 billion, or by about 10 percent, in fiscal 2017.

States are paying for retiree health care at a time when medical costs are rising. Pew cites figures indicating that average annual health care premiums increased by 24 percent from 2010 to 2015 for single coverage, and by 61 percent over the past decade for families.

Pew suggests that one option for managing growing OPEB liabilities is pre-funding the benefits. Another possibility they offer is adjusting benefit levels, like deductibles, or co-payments, or the years of service required to qualify for a retiree health care plan.

Some jurisdictions have opted for other alternatives. For example, the city of Dearborn, Michigan last month moved ahead with the sale of $35 million of bonds to help defray the cost of retiree health care liabilities estimated to be around $162 million.

Similar to "pension obligation bonds," the idea is that the OPEB bond proceeds can be invested to yield returns that are higher than the borrowing costs.

But the Government Finance Officers Association recommends against issuing debt to fund OPEB obligations.

The group warns, among other reasons, that the bonds can be “complex instruments that carry considerable risk” and that investing the borrowed money might fail to earn more than the interest costs, leading to increased overall liabilities for the issuer.

A copy of Pew’s report can be found here.

Route Fifty

By Bill Lucia,
Senior Reporter

JANUARY 3, 2019