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As Retiree Health-Care Costs Soar, Public Employers Turn to Private Insurers.

Retiree health care is one of the fastest-growing line items in government budgets and, in response, some governments are scrapping their traditional health plans.

SPEED READ:

- Unfunded retiree health-care liabilities have increased by $100 billion over the past two years to total just under $700 billion.
- To offload some of the costs, states and localities are scrapping government-sponsored health plans and paying retirees instead to purchase insurance on insurance exchanges run by private companies.
- That shift is expected to save Memphis, Tenn., $300 million over the next few decades.

The cost of retiree health care is spiraling out of control. In just two years, according to a recent S&P Global Ratings report, unfunded retiree health-care liabilities across the 50 states increased by $100 billion to now just under $700 billion.

The problem is becoming so alarming that Dearborn, Mich., recently borrowed money to help fill the gap, a move deemed risky by financial analysts. A more acceptable approach taking hold, thanks in part to the Affordable Care Act (ACA), is scrapping government-sponsored health plans and instead paying for retirees to purchase a plan on a private health insurance exchange. The change is expected to save some cities hundreds of millions of dollars and make their annual retiree health-care costs more predictable.

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