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Tighter Municipal Budgets Shrink Retiree Health Benefits.

Some city and state retirement programs swap in health stipends for medical plans or cut back benefits

America's retired workers are getting squeezed on their health care.

Cities and states can't afford to keep the same medical benefits they promised government retirees.

For all 50 states combined, revenue declines for 2020 and 2021 could reach 13% cumulatively, according to Moody's Analytics projections, while the average cost of an employer health-care plan for an individual increased 4% in 2020 to \$7,470, according to the Kaiser Family Foundation nonprofit.

"With Covid, revenue coming into governments is diminished, making it even more difficult for cities and states to fund retiree health care," said Marianne Steger, director of public sector and labor strategy for Willis Towers Watson, a multinational insurance brokerage and adviser.

The pandemic has crushed sales-tax income and tourism dollars, leaving local governments struggling to find ways to cut costs.

Over the past decade, New Jersey, Michigan, Connecticut, Kentucky and Texas reduced benefits, tightened eligibility requirements or increased premiums and fees, according to the National Association of State Retirement Administrators.

While state governments have legal protections for their workers' pension plans, not all have protections for retiree health plans.

Most states rely on a pay-as-you-go basis for these benefits, said David Draine, senior officer of the public-sector retirement systems project for the Pew Charitable Trusts. This means money isn't set aside to pay for these benefits in the future.

"We are seeing a greater divergence into places who are trying to prefund these benefits and those who aren't," he said.

Only three states—Alaska, Arizona and Oregon—have funded ratios for retiree benefits above 75%, according to a study published by S&P Global in December 2019. There were 17 states as of December 2019 that haven't accumulated any assets to prefund benefits such as health care.

For those prospective retirees who have yet to qualify for Medicare, medical-benefit cuts can mean working longer hours for more years, or even picking up another job.

"It's causing guys to have to work longer into their 60s and 70s, which could further impact injuries and health," said Steve Teolis, 64 years old, a retired firefighter who lives in Canton, Ohio, and is a member of the Ohio Police and Fire Pension Fund.

"I was still able to retire, but I knew the consequences when I left, that I had to eventually pay for my own health care," Mr. Teolis said.

The Ohio Police and Fire Pension Fund sponsored a self-insured health-care plan for its retirees from 1975 to 2018, said fund spokesman David Graham.

"With no dedicated funding source for this plan, it eventually became unsustainable," Mr. Graham said in a written statement, adding that retirees would have had to increase their contributions to keep the health-care fund solvent.

When Mr. Teolis retired, he was eligible to receive health services through a broker who contracted the services for the fund. Because none of the hospitals or doctors near him were covered by the insurance, he decided to purchase a plan on the market.

Now the Ohio fund offers a health stipend in place of medical benefits.

The health plan "still costs me roughly \$1,000 out of my pocket a month, and the stipend pays for about half of that," Mr. Teolis said.

Health stipends are a less-expensive option for retirement funds. When people under 65 are able to choose their own health-insurance plans on the marketplace, the state sheds the risk and liability of large claims that might come with old age, Ms. Steger said.

Mr. Teolis said he is looking forward to when his Medicare benefits kick in next year, when he turns 65.

Medicare allows retirees 65 or older extra coverage for medical expenses if they already have a group health plan from a former employer.

Generally, Medicare pays for a retiree's health-care bills first, and the group health-care plan coverage pays second.

Some funds such as the State Teachers Retirement System of Ohio, or STRS, are comparatively well-positioned to continue paying health-care benefits to retirees.

The net amount for STRS's health-care fund reached \$3.9 billion in 2019, according to the fund's annual financial report, with a 182% funded ratio as of last month.

"What we had to do is look at what we could afford to offer and we had to rely on premiums and reimbursements, as well as our investment earnings," said Nick Treneff, spokesman for the fund that serves about 160,000 benefit recipients.

This means if all goes as planned in the years to come, the fund is projected to be able to fully pay these benefits to retirees.

"If the fund didn't offer health care, I would work longer than I planned to, and I would probably work until I was 65 and could qualify for Medicare, and that's a very old age for teachers," said Dale Price, a high-school math teacher for Toledo public schools and an STRS board member.

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