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Moody's: Moving Retirees to Exchanges Not Easy Option for Cities Looking to Lessen Healthcare Burden.

New York, April 09, 2014 — Cities looking to lower their healthcare and benefit expenses by cutting benefits and encouraging retirees to enroll in the healthcare exchanges created by the Affordable Care Act (ACA) will face many challenges, according to a new report from Moody's Investors Service.

Citing the experience of Stockton, Chicago and Detroit, which recently cut or eliminated healthcare coverage for retirees, "Affordable Care Act Health Exchanges Will Not Bring Quick Budget Relief to US Cities" discusses the hurdles that may prevent other cities from using exchanges and other provisions of the ACA to reduce their growing healthcare benefits, also known as OPEB (other post-employment benefits).

"Retiree healthcare costs represent a sizable and mostly unfunded liability for cities," said Cristin Jacoby, Moody's Assistant Vice President and Analyst. Stockton and Detroit, both bankrupt, and Chicago, which has the highest pension liability of any municipality Moody's rates, have tried to lower their budgets by reducing retiree healthcare and pointing retirees to the ACA healthcare exchanges.

"Retiree lawsuits in these cities have already challenged this move and could deter other cities from trying the same," cautions Jacoby.

It may also be politically risky for cities to push retirees toward the healthcare exchanges. Public opinion about the exchanges is low following their troubled rollout, and uncertainty regarding coverage and protection could create a backlash if cities cut or eliminate municipal benefits.

"Given the slow economic rebound and stagnating household income, cities may find it is easier to cut other services or raise taxes rather than cut retiree healthcare benefits," said Jacoby.

For the few cities that ultimately default on their debt, fulfilling these healthcare liabilities may reduce bondholder recovery rates.

"Affordable Care Act Will Not Bring Immediate Budget Relief to Cities" is available to Moody's research subscribers at https://www.moodys.com/research/Affordable-Care-Act-Health-Exchanges-Will-Not-Bring-Immediate-Budget-PBM_PBM167411.

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