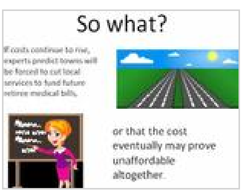
WICKED LOCAL WAYLAND
WITH NEWS FROM THE WAYLAND TOWN CRIER

Most towns poorly prepared to pay for retirement benefits

By David Riley and Michael Morton and Laura Krantz, Daily News staff
MetroWest Daily News
Posted Jul 01, 2012 @ 12:00 AM

Video



VIDEO: What is OPEB?

The question drew nervous laughs, the answer a few gasps: longtime Hopkinton volunteer Ken Weismantel shuffling to the Town Meeting microphone to ask about the future cost of municipal retirees, beyond pensions.

The next voter then broached the technical name: What are "other post-employment benefits" anyway? she asked.

Answer: an expense known as OPEB, driven mainly by health care costs. And thanks to recently changed accounting standards, towns — and in some cases their residents — are starting to take notice.

A survey by the Daily News and its sister newspapers shows that 18 cities and towns in MetroWest and around Milford have a projected $1.3 billion they will need to spend in coming years — a sum watchdogs believe will overwhelm budgets and taxpayers, unless changes are made and savings set aside now.

The burden — or pledge, depending on the point of view — is often larger than pension forecasts, a more widely understood challenge.

"The employee benefit side of things is a monster," said Joe Delano of Marlborough's City Council, which just earmarked another $1 million for the expense. "It took a while to get city officials revved up to go, but it is a major liability that's going to be hung around the necks of taxpayers in the next generation if we don't start building it up and try to take care of this."

For pensions, payments are based on years served and earnings, accounting for hours on the job.

But state law says any municipal worker who worked at least 20 hours per week for 10 years can get the maximum retiree health benefit.

Most cities and towns also pay at least 50 percent of premiums, both for normal plans when workers choose to retire as early as 55 and then for supplemental coverage when they reach Medicare eligibility. Some chip in more, driving expenses higher.

While health care was once an affordable tradeoff in union negotiations, some municipal leaders and analysts predict rising costs could eventually force cuts to local services to fund retiree medical coverage. Even then, the existing model may prove too expensive, they argue.

"Over time, it will take more and more of the budget," said Michael Widmer, president of the business-backed Massachusetts Taxpayers Foundation, which issued two recent reports criticizing the benefits. "There's no dodging it."

A town's future liability ebbs and flows a little each year, adjusted for how much it will cost to cover each existing and future retiree for a lifetime.

Individual municipal numbers might also prove low if number-crunchers low-ball the likely growth in health costs, or overestimate the interest towns can earn on savings.

In MetroWest and Milford, the projected burden ranges from $25.9 million in Hopkinton to up to $371.5 million in Framingham — though local leaders like Natick Selectman Josh Ostroff caution the numbers are based on shifting assumptions subject to change. Natick's latest liability stands at $126 million.

An accounting oversight board encourages towns not only to pay health insurance for current retirees, but also to set aside money for the future, so the liability is fully funded in 30 years.

Those that do so can earn interest, lessening the future taxpayer burden — especially if they protect it in an untouchable trust providing a better investment return.

Those that don't are likely to soon draw scrutiny from bond agencies that award credit ratings, which can drive up borrowing costs for municipal projects.

Many towns don't sock away money at all, though. And those that do typically don't set aside enough to fully fund the long-term costs any time soon. In MetroWest, the combined savings is $20.5 million — just 1.5 percent of the liability.

"I think that's going to be a difficult hurdle to clear," said Executive Assistant Paul Blazar of Hudson, which has a long-term estimated liability of $51.9 million but no savings. "We're living barely within our means to stay within Proposition 2 1/2 (tax limits)."

But in Framingham, new Town Manager Robert Halpin said the town has a roadmap for tucking savings away and that the liability shouldn't cause panic.

"It can't be an excuse for not doing other things we need to do," he said. "It's a matter of balance, and having a plan."

Besides Hudson, towns without savings include Ashland, Northborough, Southborough, Sudbury, Westborough and

Bellingham.

But Wayland has $9.8 million saved and Weston $5 million — 21 percent and 7 percent of their respective liabilities.

In many cases, the annual amounts towns should set aside is double what they are actually paying.

Despite Marlborough's recent earmark, for example, consultants recommend the city set aside $8.7 million each year — far more than the $2.63 million it does today.

Even towns with savings accounts could find it impossible to keep up with costs — potentially making changes to benefits a necessity, Widmer said.

A state commission studying long-term costs is expected to make recommendations this fall. The group includes Shrewsbury Town Manager Daniel Morgado, labor representatives and others.

Unions are already saying the real issue is larger state health care costs — a burden the Legislature and Gov. Deval Patrick are trying to tackle.

The unions also challenge the premise that the benefits will prove too expensive. They argue for a wait-and-see approach, since a law only recently took effect giving towns more control to target low co-pays and deductibles that have contributed to expensive premiums. Towns must also enroll eligible retirees in Medicare, rather than chipping in for their full care until death as some were before.

In Northborough, the Medicare switch and so-called "plan redesign" helped the town reduce its long-term liability from $90 million to $34 million. It now stands at $28.1 million.

But the taxpayers foundation still predicts these changes will only trim retiree health care liabilities about 10 percent, with many eligible retirees already on Medicare, Widmer said.

"This is still a mammoth and unaffordable obligation," he said.

Suggestions from the foundation include ending spousal coverage, contributing a set dollar amount toward premiums instead of a percentage, and basing coverage amount on years and hours worked.

The foundation has also proposed raising the eligibility age.

"I think the days of a police officer retiring at 55 and expecting to do nothing until they pass on, the economics don't work for that," said Wayland Town Administrator Fred Turkington, suggesting retraining for less physically demanding public jobs at that point.

Another option may be requiring public employers and workers to set aside money for future health benefits, similar to the pension system, said Geoff Beckwith, executive director of the Massachusetts Municipal Association.

"There are going to be a wide range of solutions," he said. "Some will be very controversial and some won't be."

The questions are whether changing benefits just for future retirees will provide enough relief — and whether there's political will to include those currently receiving benefits.

While unions are willing to consider reasonable ways to ease the burden, "retirees can't afford any additional cost-shifting," said Andrew Powell, who represents the Massachusetts AFL-CIO on the state commission.

Larry Marsell, 77, retired from the Holliston Police Department in 1990.

"Are retirees worried about the liability of the municipalities to contribute?" he said. "Obviously."

But in Ashland, 86-year-old Ginny Smith thinks it's out of her control. She worked for Ashland schools and Town Hall for 15 years and has had a knee and a hip replaced.

"I don't worry about that a whole lot because I know there's not a lot I can do about it," Smith said.

Daily News staff contributed to this report.

(David Riley can be reached at 508-626-4424 or driley@wickedlocal.com.)

Comments (23)
Knight owl
2 months ago
Report Abuse
You must be logged in to report abuse.