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Wayland and Weston dealing with possible budget breaker

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GateHouse News Service
Posted Jun 29, 2012 @ 01:14 PM
Last update Jul 01, 2012 @ 11:11 AM

WESTON/WAYLAND — Most town and city employees who work at least 20 hours a week for 10 years take home much more than a steady paycheck and benefits.

They also earn a promise from their employers to help bear the cost of health care for the rest of their lives.

When such workers retire, most Bay State communities still provide and pay for at least half the cost of their health benefits, including primary insurance for employees who can leave before age 65 and supplemental coverage for others eligible for Medicare.

As the cost of medical care has soared, benefits promised in cheaper times have become an increasingly expensive pledge for taxpayers.

If costs continue to rise, some municipal leaders and analysts predict municipalities will be forced to cut local services to fund future retiree medical bills, or that the cost eventually may prove unaffordable altogether.

“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 critical of retiree health care costs. “There’s no dodging it.”

Many towns and cities just recently began to understand the likely costs of health care benefits their current and future retirees have earned over time.

“Focusing on this is a major long-term priority,” said Geoff Beckwith, executive director of the Massachusetts Municipal Association, which represents town and city managers.

In a survey of towns and cities throughout eastern Massachusetts about the projected long-term cost of retirement health care benefits already earned by current and future retirees, the 116 communities that responded said they face an estimated cost of at least $12.9 billion combined over the course of their employees’ retirement.

Some communities are saving money toward paying for these obligations – about $99 million altogether among the towns and cities surveyed, or about 0.7 percent of the estimated liability.

Many are not saving at all, including Fall River, Malden, Westborough, Norwood and Stoughton. While some local officials note it is not required, Widmer argued these towns are forgoing interest earnings they could start to accrue by saving now – a more cost-effective option.

State policymakers also are grappling with this issue.

A state commission this spring began trying to gauge the long-term cost of public retiree health care statewide, as well as life insurance, dental coverage and other post-employment benefits (or OPEB for short) besides pensions.

The liability to towns and cities over time may be as much as $30 billion and another $16.2 billion for state government, more than for public pensions, said Henry Dormitzer, a former Department of Revenue commissioner and the OPEB commission’s chairman.

He said the group will ask: “Is this causing a cost problem, and if so, should we do something about it?”

The commission plans to deliver recommendations in November. Major public employee unions, which hold two commission seats, are arguing for a wait-and-see approach.

Some estimates of retiree health care liabilities are dated and have yet to reflect changes expected to yield major savings, said Shawn Duhamel, legislative liaison for the Retired State, County and Municipal Employees Association of Massachusetts.

“We do challenge the premise that this is unaffordable,” said Duhamel, a commission member.

For example, a 2011 law that gave towns and cities more power over employee health plans is already saving money and requires eligible retirees to enroll in Medicare if they have not already done so, he said.

“Let’s take a step back. Let’s see the result of these varying reforms,” Duhamel said.

The Taxpayers Foundation predicts these changes will trim retiree health care liabilities only about 10 percent, with many eligible retirees already on Medicare, Widmer said.

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

Until recently, few state or municipal leaders viewed these costs in such terms. Most governments simply paid for post-employment benefits when the bills came due.

That began to change when a board that sets financial reporting standards for state and local governments said public employers by 2008 should determine and report the projected long-term cost of retiree benefits as employees earn them.

“The cost of these future benefits is a part of the cost of providing public services today,” the Government Accounting Standards Board said in a summary of the new rules.

Now most towns and cities have estimated what such benefits will cost over time, as well as how much they would need to save each year to fully fund this liability in 30 years.

Even smaller communities face multi-million-dollar long-term liabilities. Larger towns and cities, such as Cambridge, Newton and Brockton, face estimated costs of well over $500 million.

In Fall River, the city’s liability is close to $1 billion.

In many cases, the amounts that towns would have to set aside to fund their liabilities are double their current bills for retiree health care.

Yet local officials caution these estimates are based in part on assumptions about shifting factors, such as the rate of health care cost growth, and are subject to change.

Regardless, a growing number of communities have begun setting aside money for retiree benefits, with some placing the money in special trust funds.

Wayland and Weston

Wayland Town Administrator Fred Turkington said his town, which has saved about $9.8 million toward its retiree health care liability, is taking the issue seriously.

“Frankly, it’s probably a bigger challenge for towns than pensions will be,” he said.

The unfunded liability for pensions should drop over time, but health care costs will likely remain just as high or continue to rise, Turkington said.

The number of retirees also is growing, and people are living longer, Turkington said.

“It’s a demographic problem that we’re all confronting, no different than the Social Security and Medicare problem at the national level,” he said.

One option might be retraining employees who otherwise might retire at younger ages from physical jobs, such as public safety workers, so they can do other tasks and keep working for longer, Turkington said.

“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,” he said.

In Weston, Town Manager Donna VanderClock said the town of Weston has begun funding its OPEB liability and so far has set aside nearly $5 million, which includes the appropriation made for fiscal 2013.

The money originally was in a Stabilization Fund created in 2005, and then was transferred to an OPEB Trust in 2009.

If towns set side money for retiree benefits, it could prove to be to their benefit in the near term, too. Bond rating agencies recently told the OPEB commission they view retiree health care liabilities with the same weight as debt and pension costs when considering a state’s financial health, Dormitzer said.

“I don’t think it’s a broad stretch to think that they would adopt a similar mechanism at the local level,” he said, a decision that could affect local bond ratings.

Even towns saving could find it impossible to keep up with costs, and changes to benefits for future retirees may be necessary, Widmer said.

Possibilities might include changing the ages when workers can retire with health care or basing a community’s contribution to workers’ retirement health care on their years of service, he said.

Another option may be requiring public employers and workers to set aside money for future health benefits today, similar to the pension system, Beckwith said.

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

The state should focus on the underlying problem – the rising cost of health care, said Andrew Powell, the AFL-CIO of Massachusetts’ representative on the state commission.

While unions are willing to consider reasonable ways to cut costs, “retirees can’t afford any additional cost shifting,” Powell said.

Whatever the answer, towns should start saving whatever they can now, said Hingham Town Administrator Ted Alexiades, who has spoken frequently to colleagues about retiree benefits. Those that fail to do so risk “draconian austerity measures” to balance budgets in the future, he said.

“We cannot ethically and morally as public administrators avoid this issue,” he said.

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