Facing the Challenge of Retiree Health Care: Liabilities and Responses of State and Local Governments

Herb Bergson
Former Mayor of Duluth, MN

Health costs bleeding Duluth dry

◄ DULUTH FROM B1

Union leaders say that if the city more quickly follows a task force's recommendations on addressing the problem, Duluth can continue to be generous with retirees, even as most companies and governments go the other direction.

A larger problem

With the growth in both health costs and the number of retiring baby boomers, local governments nationwide are wondering how they'll continue to pay for retiree health care.

Nearly half of Minnesota's school districts pay for all or part of their retirees' health insurance, but that number is shrinking.

Last year, teachers in Crosby-Ironton had the second-longest teachers strike in state history over proposed cuts to their retiree health insurance. They settled for trust accounts or health savings accounts.

Municipal employees also are being pressured to give up such benefits.

Said Laura Kushner of the League of Minnesota Cities: "I think there's been a trend in the last five or 10 years to change those benefits to health care savings plans, or [cities] are getting out of the [retiree health care] business altogether."

Kushner said part of the problem is that a new federal rule requires state and local governments to record post-retirement benefits as a liability.

That can affect a city's bond rating. Some portfolio managers are holding off on buying bonds issued by Duluth until they see how the problem is handled.

Kushner said that while many cities are feeling fallout from the accounting change, Duluth's problem may be more acute because it covers not only retirees, but also their dependents.

PAYING FOR RETIREES' CARE

The issue: Duluth is one of many governments nationwide struggling with how to honor agreements to insure the health of retirees.

Worst-case scenario: Bankruptcy — though most agree the city is working proactively enough to reduce its unfunded liability, currently projected to be more than $300 million.

How generous? Duluth pays for everything not covered by Medicare, for as long as the retiree lives, at no cost to the retiree. Also covered is the retiree's spouse, even after the retiree's death.

The justification: Retirees and employees say they've given up a lot of pay and benefits over the years to retain free retiree health care. They also say it's the right thing for the city to do, and they say it should be emulated across the country.

LARRY OAKES

'Generous' benefits

Duluth's human resources manager, Gary Meier, acknowledges that the city's retiree benefits are "generous" and says they influenced his decision to leave a better-paying job in the private sector in 2000.

He said Duluth's plan dates to 1983, when city administrators gave it in exchange for workers' giving up the right to accumulate and cash large amounts of sick leave and vacation. "In 1983, we didn't have double-digit medical inflation," said Meier, "and they had no way of predicting that things would get so out of hand."

He said the city has 835 employees and 695 retirees, but pays retiree health care for 1,333 "covered lives" — including retirees' spouses, widows or widowers, and dependents.

The city is self-insured, though it carries a "stop loss" policy for extraordinary claims. The retirees are covered at no cost, though the city requires them to enroll in Medicare at 65, after which the city covers what Medicare won't.

Fixes planned

Bergson said that this year the city will try to implement many of the 14 recommendations called for by a task force led by Arend Sandbulte, retired chairman and CEO of Minnesota Power.

City officials said they were bitterly disappointed when the Legislature failed this year to help them implement one of the most important recommendations: a law that would allow the city to set up an irrevocable trust fund for retiree health care. They plan to try again next session.

Another recommendation is getting all active employees and retirees on the same health plan, which would greatly reduce administrative costs.

Meanwhile, the city is asking employees to share more expenses and to give up lifetime retiree health care for people hired from now on.

The city also plans to ask current retirees to pay something for their health care too, though courts may have to decide if imposing changes on them is legal.

Ken Loeffler-Kemp, representing 500 employees in the American Federation of State, County and Municipal Employees Local 66, said he wishes the city would focus harder on the other recommendations and ask for fewer concessions from employees and retirees.

"Everybody in this country," he said, "should have access to affordable health care at the time when they need it the most — when they are retired.

"It would be shameful for us to join the race to the bottom."

Larry Oakes • 1-218-727-7344

Riders take pride the distance year

◄ IRON BUTT FROM B1

James, who now lives in North Carolina, started the ButtLite as a spinoff of the Iron Butt rally, which covers 11,000 miles in 11 days all over North America and is considered the premier motorcycle endurance event in the world.

"You start off knowing you're going to push yourself," said Jim Winterer, a veteran of the ButtLite and the Iron Butt. "You're in a competitive frame of mind for 11 days. Every minute of the 11 days you have to be doing something right, even when you're sleeping."

Easy riders

By day, Winterer is a mild-mannered public affairs officer at the University of St. Thomas in St. Paul. Off campus, he spends vacations roaring around the continent.

Last spring he rode through 49 of the 50 states, more than 8,000 miles, in just over eight days. Over Memorial Day he rode from Prudhoe Bay in Alaska to his home in St. Paul.

"I had to be back at work on Tuesday," he said. "I stopped once, for a 15-minute nap."

Winterer, who has written magazine articles about his motorcycle trips, says that riding 1,000 miles a day is "easy."

"As long as [you] never get tired, never get lost, never have a head wind, never have to deal with rain or fog, never have to fix the bike and never

a way out

Duluth Mayor Herb Bergson's administration has developed a **six-step plan** to reduce this unfunded liability. It's a combination of new investments, the creation of an irrevocable trust fund and concessions from current employees.

1 Create irrevocable trust. The city of Duluth will be allowed to establish an irrevocable trust for the purpose of setting money aside to cover the liability. This is a trust that cannot be used for **ANYTHING** other than paying for retiree health care expenses. The city needs the consent of the state legislature to create such a fund. Because of the large amount of Duluth's liability, and lost opportunities to invest available funding at higher rates of return, Duluth urges the legislature to enact a "Duluth only" bill early in the 2007 session.

2 Start with $12 million. The city would initially fund the trust with $10 million from our Community Investment Trust Fund (CIT), or the "casino money," and $2 million from our health care fund balance. Presently, the interest from the casino money pays for the street improvement fund's debt service. The CIT currently has a principal balance of $60 million, but for this purpose, it would be reduced to about $50 million, and the interest earnings available to pay for streets would be reduced.

3 Invest with the State Board of Investment. The trust's funds can be invested with the State Board of Investments (SBI), the same board that handles state pension funds. The SBI has a long track record of high rates of return—about 9.5-10%. There is actually a fee paid to the SBI for managing the funds, so it is really a "win-win."

4 Reinvest remaining Community Investment Trust money. The balance of the CIT fund would be invested with the SBI as well. This would generate a higher rate of interest, and offset the loss in interest from pulling the $10 million from principal. Currently, CIT money earns about a 4.6% rate of return.

5 Earmark revenue from TIF districts. Duluth has three Tax Increment Financing (TIF) districts that are about to close. One of them sunsets in 2007, and two sunset in 2009. The city's share of this new tax revenue is approximately $1.1 million annually. This revenue will be assigned to the irrevocable trust, as well as funds from modest utility rate increases.

6 Union concessions. These steps do not lessen the important role our employee bargaining units have in solving this problem. We will continue to seek concessions from active employees and retirees. And so far, we've had some success. The city supervisors' union recently signed a contract that requires they pay more for health care, both now and in the future. We also have tentative agreements with both the fire department and the confidential unit that will make additional concessions to help us get to where we have to go. It's a great first step.

This plan will help generate hundreds of millions over the next 20-30 years—helping to fund the liability without devastating tax increases for Duluthians.