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States Aim Ax at Health Cost of Retirement

By STEVEN GREENHOUSE

Governors and mayors facing large deficits have set their sights on a relatively new target — the soaring expense of health benefits for millions of retired state and local workers.

As they contend with growing budget deficits and higher pension costs, some mayors are complaining that their outlays for retiree health benefits are rising by 20 percent a year — a result of the wave of retirements of baby boomers and longer life expectancies on top of the double-digit rate of health care inflation.

The nation's governors face a daunting \$555 billion in unfunded liabilities to finance retiree health coverage. The Pew Center on the States [calculated](#) those long-term obligations last year, saying New Jersey had the largest amount, \$68.9 billion, with California second, at \$62.5 billion.

“Up to now, the action taken to deal with this problem has been gradual, but it’s begun to explode,” said John Thomasian, director of the National Governors Association [Center for Best Practices](#). “In 14 states, the state pays 100 percent of the health benefits for retirees. That’s very generous.”

Michigan officials are stunned by the looming challenges of paying retirees’ health benefits, along with pension costs. “It’s pretty astronomical,” said John Nixon, the state’s budget director. “What’s happening with post-retirement health care is the biggest piece and biggest surprise.”

“The issue isn’t to attack these folks or go after them,” he continued. “The main issue is how do we deal with this liability.”

In state after state, the changes are occurring rapidly. For example, New Hampshire has stopped financing **health insurance** for many future retirees, while North Carolina has begun requiring state employees to work 20 years, up from five years, to qualify for full retiree health benefits. Michigan officials complain that retiree health obligations consume one-seventh of the state’s payroll costs, and New York City is slated to pay \$2 billion toward retiree health next year.

Over all, the **Center for State and Local Government Excellence** found that 68 percent of city and county officials surveyed said they were pushing to have retirees assume more of their health costs, while 39 percent said they had eliminated or planned to eliminate retiree health benefits for new hires.

In many cases, states and municipalities are not required to negotiate these changes with retirees, and lawsuits challenging the cutbacks as a breach of contractual promises to retirees have resulted in mixed decisions. Many state or local workers retire before age 60, making them too young to turn to **Medicare**, prompting them to rely heavily on state and local plans for retirees.

In Omaha, officials are seeking to work with their public-sector labor unions to have future retirees begin contributing toward their premiums.

Omaha officials predict that their retiree health costs will quintuple, to \$111 million, by 2020, at that point consuming nearly a third of the city’s budget.

Richard O’Gara, Omaha’s director of human resources, put the numbers in perspective. “We’re going to reach a point where in five years, retiree health care will cost us more than employee health care,” he said, adding that was partly because the city was shrinking its work force and partly because retirees used far more medical services than active workers.

Governors and mayors are also tackling the fast-rising health costs for the nation’s 19 million state and

local workers, often focusing first on the government employees who pay nothing toward their health premiums for individual plans in 14 states. That is a benefit few private-sector workers have.

In Oregon, Gov. [John Kitzhaber](#), a Democrat, is demanding that state employees start paying part of their premiums. Oregon is the only state in which state employees do not contribute to any of their premiums for either family or individual health plans.

“The bill is too big for us to pay,” Mr. Kitzhaber said. “Public employees should contribute to the cost of their health care premiums.”

Just last Friday, Gov. Scott Walker of Wisconsin, a Republican, proposed that union negotiations should be limited only to wages and that workers pay 12.6 percent of their health care premiums, double the old average.

In Jacksonville, Fla., Mayor John Peyton is insisting that police and firefighters begin paying 5 percent of the premiums toward their individual health plans, and the police union is balking.

“In this budget crisis, taxpayers are becoming more concerned about where their tax payments are going,” Mr. Peyton said. “And many see a huge disconnect between what private-sector workers are getting on benefits and what the public sector is getting.”

While some studies show that the public sector benefits are more generous, union officials counter that other studies show that overall compensation — wages and benefits taken together — are slightly lower for public workers when education levels and age are factored in.

Unions representing state and city workers often assert that public employees have become a scapegoat. They argue that reckless Wall Street behavior, not public-sector unions, caused the recession, leading to sharp drops in tax revenues that propelled the deficits.

“We’re in some of the most difficult negotiations we’ve ever been in because of the economic environment, and health care is very much on the table,” said Steven Kreisberg, director of collective

bargaining for the [American Federation of State, County and Municipal Employees](#). “Some people have a political agenda to score points on this issue.”

Ken Allen, the executive director of that union’s Oregon operation, opposes Mr. Kitzhaber’s plans for premiums. “We’ve given up wage increases for four of the past eight years in order to keep fully paid health care,” Mr. Allen said. “Yes, we have fully paid health care, but we gave up a lot to keep it.”

According to the [Bureau of Labor Statistics](#), state and local employees pay 11 percent of the cost of individual medical plans on average, compared with 20 percent for private-sector employees, and state and local employees pay 27 percent of the cost of family plans, compared with 30 percent for private-sector employees.

In White Plains, the mayor and City Council, struggling to avoid huge tax increases, began requiring retired city employees to pay 15 percent of their premiums, up from zero. But retired police officers and firefighters sued, and a federal judge granted an injunction suspending the payments after their lawyers argued that the city had breached a longstanding promise to provide fully financed health coverage to retirees.

Some governments are also pushing to raise co-payments and deductibles to discourage overuse of medical services. For instance, in Tucson, where city workers have had a wage freeze for four years, employees pay \$20 per doctor visit, up from \$10, and face a \$500 deductible for inpatient services, up from zero.

Many states and cities have also become creative in holding down health costs. Georgia’s insurance plan imposes a \$80 monthly surcharge for smokers. In Wauwatosa, Wis., a wellness coach works with every city employee on issues like [high blood pressure](#), and all employees must have a [colonoscopy](#) at age 50, to help forestall [cancer](#), and potentially high treatment costs.

Richard Johnson, national public sector health practice director at the Segal consulting firm, said cutting retirees’ health coverage raised moral and legal issues. “It’s a tough group to deal with,” he said.

“You have to remember that state and local governments have routinely catered to them and often promised them being able to retire with full benefits. Those are huge promises.”



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