



Health tab for public Pa. retirees nears \$34 billion

Fourth in a series

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By Mark Scoloro, The Associated Press

HARRISBURG -- Deep within a new 106-page document about a bond offering by the state of Pennsylvania is the first long-range estimate of the full cost of providing lifetime health benefits for tens of thousands of retired state workers.

Preliminary calculations put the price tag at \$33.8 billion over the next 30 years -- a figure larger than the Pennsylvania government's entire budget for the current year.

The state Budget Office produced the draft figures late last week to show it was working toward meeting a requirement by national accounting rules to put a dollar figure on the total future costs of its generous retiree health-care benefits.

The state government currently spends more than a half-billion dollars a year, on a pay-as-you-go basis, for retiree health care. But the latest analysis puts the state's annual benefit liability at more than \$1.1 billion, meaning much of the accumulating costs of coverage for retirees is going unfunded.

Pennsylvania does not expect to have final numbers until close to its deadline in 2008. Many municipalities also are working to produce their own figures, which in parts of the state will add considerably to the future burden on taxpayers.

"That's really the thing that's going to bust the bank," said Harvard Law School lecturer Elizabeth K. Keating, an expert in municipal pensions and financially distressed governments. "I think there's going to be a lot of hard looks about whether or not they can sustain the benefits they're offering."

Among the municipalities that have done the math already is the city of York, which estimates that its taxpayers should be contributing at least \$5 million a year to cover the health benefits the city has promised its employees -- roughly what the taxpayers are already paying as their share of city pensions. The insurance covers city retirees until they qualify for Medicare and then supplements the federal program.

Together, the pensions and health benefits would consume about one-third of the city's \$32 million general-fund budget.

"It certainly has been very challenging, and I anticipate that it will become more challenging

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and could reach the point of being crippling within the next 10 years," said York business administrator Michael J. O'Rourke.

Providing post-employment health benefits, far more common in government than in the private sector, is an expensive undertaking that is growing every year.

Pennsylvania officials caution that whatever the final figures are, it may not make much immediate difference in terms of state finances. There is no requirement that the state contribute the full \$1 billion-plus a year that it is now estimated would be needed to cover all its liabilities.

"Our requirement to disclose that number does not come with an obligation to fund it on an actuarial basis," said Gov. Ed Rendell's chief budget adviser, Michael Masch.

Budget Office spokeswoman Susan Hooper said the preliminary figures represented "the failure of governors before Gov. Rendell to set aside money to make good on commitments they made."

Even before health care is added to the equation, the annual cost of subsidizing Pennsylvania's pension plans for state workers and school employees is expected to triple in a little more than five years -- from less than \$1 billion to more than \$3 billion -- because of recent benefit increases and deferrals of taxpayer contributions.

States may find that the dual challenges of pensions and retiree health care will complicate efforts to address either one, said Sujit M. CanagaRetna, a fiscal analyst with the Council of State Governments in Atlanta. "Pretty much every element of our retirement infrastructure is in trouble."

Retiree health-care coverage had been offered by 43 percent of employers with 500 or more workers as recently as 1995, but by 2004 that figure had fallen to 26 percent, according to a recent survey by Mercer Health & Benefits LLC of New York.

By comparison, about 82 percent of public-sector employers offer retiree health coverage, down only slightly from 1995, Mercer found.

The rise in costs has been stratospheric within the Pennsylvania Employees Benefit Trust Fund, which administers health care for most state workers. It experienced a 66 percent cost increase since 2001-02, to \$1.24 billion annually, and retirees account for \$505 million.

That's in addition to the state judicial system's \$40 million-a-year program to provide medical, dental, vision and prescription drug coverage to 7,015 active workers, retirees and their dependents. Judges qualify for full retirement health-care coverage at any age if they've worked for the state for at least 10 years, while others in the judicial system have more stringent eligibility standards.

The Legislature also offers retiree benefits. The House plan, which costs more than \$31 million a year, extends medical, dental, vision and prescription drug coverage to 2,500 employees, lawmakers and retirees. In the Senate, it costs more than \$16 million to cover 2,773 people, including 295 retirees.

The looming crisis has drawn the attention of House Speaker John M. Perzel, R-Philadelphia, who appointed three members of his caucus to a task force searching for solutions in May. Back then, Perzel described retiree medical costs as "the biggest long-term fiscal challenge facing state and local government."

With Mr. Perzel apparently on the way out as speaker, the Democrat in line to succeed him, Rep. Bill DeWeese, of Greene County, isn't saying much about the problem. "We'll take into consideration the work the study committee has done and go from there," he said.

It's unclear whether the state can do much about the health-care costs for the active workers and retirees already in the system -- except pay them. That is because the state constitution prohibits lowering benefits for public-sector employees, and the same so-called "impairment of contracts" doctrine that makes pension benefits inviolate also may protect health care.

"To underscore how difficult the situation is, while our Supreme Court has not decided it definitively, it has sent a very broad signal in one important [1987] case that the impairment of contracts would apply to health care," said Pittsburgh employment-law attorney Robert E. Durrant.

There have been changes recently. Retirees collecting pensions from the State Employees' Retirement System have contributed to their health-care costs since July 2005, when eligible new retirees began paying 1 percent of their annual base salary at time of retirement. A retiree who had been making \$50,000, for example, would have \$41.67 deducted from his or her monthly pension.

Also, a provision that allows state workers 60 and older to get lifetime health insurance will be lengthened as of July 1, 2008, to require at least 20 years of state service rather than 15 years. (Those with at least 25 years qualify for majority-state-paid health insurance upon retirement, regardless of age.) A spike in retirements is expected to occur shortly before it takes effect.

Even as state leaders acknowledge the financial threat posed by rapidly rising retiree medical costs, they -- like the public-employee unions -- warn that Pennsylvania will pay a price if it takes too much away.

Post-retirement health care, pensions and other benefits may be expensive, but they help governments compete when it comes to recruiting and keeping talented workers, said Mr. Perzel's spokesman, Al Bowman.

"What you don't want to do is suddenly get into a high turnover," he said. "If you think health-care benefits and pension costs are high, wait till you see turnover costs."

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