The Next Challenge: Retiree Health Benefits (Updated April 25, 2012)

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Last month, State leaders acted to reduce future costs and create substantial long-term savings for taxpayers by adopting pension benefit reforms for new public employees. The next challenge is to address the high costs of retiree health insurance. While retiree health benefits vary across the state, State and local governments all face large unfunded liabilities for other post-employment benefits (OPEB), the largest share of which is health insurance coverage. Several proposals in the State Legislature would freeze or increase the level of retiree benefits, severely limiting managerial discretion, locking-in added costs and hindering the ability of public employers to respond to fiscal challenges. These proposals should be defeated.

In fiscal year 2012, New York City will pay $1.6 billion for retiree health insurance, up 44 percent from just five years ago; similarly, New York State paid $1.2 billion in fiscal year 2011-2012, one third more than in fiscal year 2006-2007. These costs would be even greater if retiree health benefits were funded actuarially instead of on a “pay-as-you-go” basis. The cumulative unfunded OPEB liability is approximately $56 billion for New York State, including SUNY, and approximately $84 billion for New York City. One estimate placed the total unfunded liability for all New York state and local retiree health obligations at approximately $205 billion in 2010. [1]

New York City’s liability is the greatest because it provides retiree health benefits on the most generous basis. It takes ten years to vest for retiree health benefits, which begin upon retirement and require no premium contribution by retirees. In addition, the City reimburses retirees over age 65 for the full premium cost of Medicare Part B. New York State, on the other hand, does not pay for the full premium cost of Medicare Part B or retiree health insurance; retirees make contributions on the same basis as employees. Recently, the requisite contribution was increased from 10 percent for individual coverage and 25 percent for family coverage to 12-16 percent for individual coverage and 27-31 percent for family coverage, depending on income. [2] In other local governments, health insurance arrangements vary widely; this analysis of school districts shows that the average contribution for coverage in most regions is smaller than that required of retired employees of New York State.

Unlike pensions, health benefits for current employees and retirees are not constitutionally guaranteed and can be altered by public employers without state legislation. The only exception is for teachers in school districts outside New York City, who were given statutory protection of
then-current retiree health insurance benefits as part of legislation passed in 2009. Other state and local public employee unions have sought to win these protections for their members; several bills have been passed by the Legislature, but been vetoed by the Governor.[3]

This session, six bills have already been introduced in the Legislature to prevent any reduction in health benefits for public retirees. Three of these bills, A.4532, S.916A and A.2007/S.4371, apply to all state and local workers. The others cover only certain employees. One bill, A.6536/S.4515, refers to civilian employees in the state system and two others, S.5714 and A.9923, apply to state and local police and fire employees. Because the bills do not confer new benefits, the fiscal notes claim there is no fiscal impact, but they clearly would impede the ability to restructure health benefits to achieve savings.

All these bills contain similar provisions preventing State and local governments from reducing health benefits for retirees unless public employee unions agree to an equivalent reduction for their active members through collective bargaining. Since the Taylor Law prohibits unions from bargaining on behalf of retirees, this change would represent an important shift in authority from public employers to public employee unions.

There are also two other bills that would increase retiree health benefits provided to employees of the Metropolitan Transportation Authority (MTA). A.5742/S.4343 would allow New York City Transit employees to vest for retiree health benefits after 10 years of service, instead of the current 25 years. A.6371 would require the MTA to increase its reimbursement of Medicare Part B premiums from 50 to 100 percent – essentially doubling the cost of providing this benefit. The fiscal notes to the bills do not provide cost estimates, but the bills would undoubtedly add stress to the MTA’s already precarious financial position.

Passing legislation that protects retiree health benefits would add to the fiscal challenges faced by New York State and its local governments. Public employers need flexibility to manage employee benefits, including retiree health insurance; any legislation limiting this discretion severely constrains the ability to respond to rising costs and achieve savings. Proposals to establish restrictive protections on health insurance benefits should be defeated.