Trends in Public Sector Post Retirement Health Care Benefits

and

Health Care Legislation in 2009

92% of all states provide some type of health care benefit plan to their retirees. However, the plans differ substantially across the states in their generosity and extent of coverage, and as a result, in their costs to the employer. Only 90% of the states offer retiree health coverage to new hires, and 76% of those that offer health benefits to retirees mandate that Medicare be the primary carrier as soon as it is available.

Financing retiree health care has become the critical question for pension systems who offer the coverage. Despite the GASB 45 standard that strongly suggests, although does not mandate, that systems prefund their Other Post Employee Benefits (OPEB) liability, 60% of those systems that offer the coverage still fund the benefits on a pay-as-you-go basis. 30% of the states have partial funding, meaning that they have begun to set aside at least something towards the goal of pre-funding their OPEB liability, and only 1 state has achieved full funding for the future cost of providing health care to their retirees.

States have taken a very hard look at the future of health care plans, and some have begun to make changes to address the ever-increasing liabilities. 10% of states have already incorporated a plan that limits the state subsidy for future retirees, while 2% have terminated health care benefits altogether for future retirees. According to a recent survey conducted by the *Center for State & Local Government Excellence*, 30% of states indicated they are somewhat likely to introduce a plan to limit subsidy for future retirees, while 6% are somewhat likely to terminate all subsidies for *current* retirees.

Many states are seeking changes in their actual health care benefits or access to health care benefits as a way to reduce their overall liability. Changes that have either been implemented or are under consideration include:

- Require the retiree pay a greater portion of the premium
- Increase the deductibles or co-pays
- Increase the number of years required to be vested in the health benefits
- Eliminate drug coverage for Medicare eligible retirees
- Increase the age at which retirement health care is available
- Introduce a catastrophic plan plus a retiree medical savings account

Recommendations for changes in health coverage contained in the final report of the Commission to Study the Long Term Viability of the New Hampshire Retirement System included the following:

- Adopt a new retiree health care model
- Pre-fund new health care model, using employee and employer contributions
- After new model is adopted, freeze current level of subsidy amount subject to biennial review
- Make changes that remove incentives for premature retirement by opening the new retiree health care funding plan to all public employees or extend the existing medical subsidy program in a manner that is financially supportable

The following legislation was enacted during 2009 relating to health coverage for retirees:

Connecticut - mandated that the existing health plan be converted to a self-insured arrangement

Georgia – created a state employees post-employment health benefit fund for teachers and other public employees

Kentucky – required the Kentucky Retirement System to establish employer contribution rates for the County Employees Retirement System that will phase in the full actuarially required contribution for the health insurance fund over 10 years

New Hampshire – provided for withholding from retirement benefits a charge of $65 per month for retired state employees under the age of 65 who are covered by retired employee health insurance

New Mexico – increased both employer and employee contributions rates to increase the actuarial soundness of the retiree health care fund

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