Massachusetts Taxpayers Foundation

News Release

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MTF Report: Major Cities Would Require Crushing Tax Hikes to Fund Retiree Health Care Liabilities

The average single family homeowner in 10 of the state's most economically vulnerable cities would need to pay an astonishing $13,685 today or absorb a crippling 20 percent property tax hike over the next 30 years to subsidize billions in unfunded retiree health care liabilities, according to a new report by the Massachusetts Taxpayers Foundation.

The MTF analysis, *The Crushing Burden of Municipal Retiree Health Care Liabilities*, concludes that the industrial hubs of Brockton, Fitchburg, Haverhill, Holyoke, Lawrence, Lowell, New Bedford, Pittsfield, Springfield and Worcester have a total of $4.5 billion in unfunded retiree health care liabilities, approximately double their unfunded pension liabilities. These retiree health care liabilities pose an overwhelming burden to single family homeowners in these communities, averaging $13,685 per property and ranging from a low of $10,404 per single family home in Pittsfield to a high of $19,826 in Brockton.

These liabilities are not some hypothetical obligation but constitute the actual amounts taxpayers owe in today's dollars for retiree health care benefits already earned by current retirees and eligible employees. The analysis follows the Foundation's February 2011 report, *Retiree Health Care: The Brick That Broke Municipalities' Backs*, which found the total unfunded retiree health care liability for the state's 50 largest cities and towns to be a shocking $20 billion.

Unfunded Retiree Health Care Liabilities, Total and Per Single Family Home (in thousands)

Municipality	Unfunded Retiree Health Care Liability	Unfunded Liability Per Single Family Home
Brockton	$693,570	$19,826
Fitchburg	186,634	13,390
Haverhill	299,042	13,481
Holyoke	300,166	18,297
Lawrence	323,977	15,660
Lowell	432,752	13,278
New Bedford	478,609	14,188
Pittsfield	236,149	10,404
Springfield	761,576	12,065
Worcester	765,312	11,597
Total	**$4,477,786**	**$13,685**

To pay for these retiree health care liabilities without sacrificing basic services, these communities – which have not passed an override in 20 years – would need to expand their tax levies exponentially with 30-year property tax hikes that far exceed the limits allowed under Proposition 2 ½. In Lawrence, the average single family tax bill would need to increase by 50 percent, while homeowners in Brockton, Fitchburg, Holyoke, Lowell and New Bedford would have to absorb property tax increases in excess of 20 percent. Brockton's single family homeowners would see tax bills rise by 36 percent – triple the total increase in the average single family tax bill (12 percent) between 2006 and 2011.

Businesses also would be severely impacted, with employers in these economically struggling communities required to pay an additional $70 million per year in property taxes – a 20 percent average tax bill increase – to fund their share of the retiree health care liability. Business owners in six communities would see their property taxes spike by more than 20 percent, while only Haverhill would require an increase in the single digits.

Employers in these cities already pay on average 35 percent of the total property taxes despite owning on average 21.5 percent of the total assessed property. The added taxes would force many businesses to cut jobs, eliminate expansion plans and, in some cases, close operations entirely.

"Simply put, the tax increases needed to fund these massive liabilities would crush these cities and their local economies," said Michael Widmer, president of the Massachusetts Taxpayers Foundation. "It is inconceivable that these cities would ever vote for overrides of this scale, so unless the Legislature passes serious reforms that rein in the costs of these exceedingly generous benefits, these communities will have no choice but to fund these obligations through devastating spending cuts to local services."

The urgency to act will only increase as the annual costs of retiree health care – which totaled $131 million for these 10 cities in fiscal 2010 – continue to rise much faster than local revenues, and thus consume larger and larger shares of tight municipal budgets.

"Without reforms, over the next 30 years municipalities would be forced to siphon tens of millions from education, public safety and other critical services simply to fund the annual costs of retiree health care, leading to the layoffs of hundreds if not thousands of municipal employees," the MTF report states.
In order to avoid these consequences, the MTF report lays out a series of recommendations to reduce liabilities and control the escalating costs of retiree health care. Most of the recommendations require changes in state law:

- Implement municipal health reform
- Tie benefits to years of service
- Raise the eligibility age for retiree health care
- Increase eligibility hours and prorate benefits for part-time employees
- End spousal/dependent coverage
- Reduce the municipal share of premium contributions

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, the Foundation has won more than a dozen prestigious national awards over the last two decades for its work on transportation reform, business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.

The full version of the report, including statistical tables for the 10 communities analyzed, is available online at www.masstaxpayers.org.