Massachusetts Taxpayers Foundation

News Release

333 WASHINGTON STREET
BOSTON, MA 02108-5170
617-720-1000
FAX 617-720-0799

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MTF Report: Massachusetts Municipalities Face Staggering Retiree Health Care Liabilities

The 50 largest cities and towns in Massachusetts face a crushing $20 billion liability for retiree health care benefits that threatens to wreak havoc with local government services, according to a new report released today by the Massachusetts Taxpayers Foundation.

The report, *Retiree Health Care: The Brick That Broke Municipalities' Backs*, is the first analysis of municipal retiree health care liabilities in Massachusetts. The $20 billion represents what these governments must pay in today's dollars for the lifetime health care benefits already earned by 150,000 current employees and retirees in the 50 communities.

Though public discussion has focused on unfunded pension liabilities, every community has a larger unfunded retiree health care liability than unfunded pension liability. In the aggregate, the retiree health care liability for the 50 communities is 99.98 percent *unfunded* and two-and-a-half times larger than their unfunded pension liability.

The report concludes that funding these obligations would place an overwhelming burden on taxpayers. The average single family homeowner in Lawrence would pay an extra $180,000 in taxes over 30 years to meet that city's obligation. In Boston, the average single family homeowner would pay nearly $100,000 in additional taxes. In seven other communities—Worcester, Lowell, Brockton, Newton, Revere, Attleboro, and Holyoke—the average homeowner would pay more than $50,000 in additional taxes over 30 years.

"These are not hypothetical future obligations but the amount that communities actually owe today," said MTF President Michael J. Widmer. "It's the equivalent of a gigantic credit card debt which grows and grows the longer it is ignored."

"Retiree health care costs are simply unaffordable," the report concludes. "The exploding costs of employee benefits have already eroded local budgets and forced cuts to basic services—and municipalities have not even begun to fund retiree health care liabilities. This hemorrhaging will intensify as the soaring costs of retiree health care and other employee benefits force more severe cuts than municipalities have already implemented."

Emphasizing the need for urgent action, the report lays out a series of recommendations to reduce liabilities and control the spiraling costs of retiree health care. Most of the recommendations require changes in state law:

- Give local officials the authority to adjust health plans outside of collective bargaining.
- Contribute set dollar amounts and cap municipal contributions instead of tying contributions to a percentage of the premium.
- Base benefits on years of service as is done with pensions, rather than providing full benefits after 10 years of service.
- Raise the retiree health care eligibility age from 55 to 62.
- For part-time employees, increase the minimum eligibility hours to 1,400 per year and prorate benefits.
- End spousal/dependent coverage for future retirees.
- Improve public access to information and centralize reporting in the state.

In addition, municipalities may take action on their own by reducing their share of premium contributions and requiring that eligible retirees enroll in Medicare if they have not already done so.

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 a series of prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, government reform, and health care.

The full report, including detailed tables, is available online at www.masstaxpayers.org.

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