Massachusetts Taxpayers Foundation

Bulletin

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Retiree Health Care Costs are Straining Budgets in the State's Poorest Cities

In 2011, the Foundation published *Retiree Health Care: The Brick That Broke Municipalities' Backs*, a groundbreaking report that detailed the enormous liabilities for retiree health care facing municipalities in Massachusetts. Cities and towns in the state are estimated to have a total of $30 billion in unfunded retiree health care liabilities, and funding those obligations would crush municipal budgets and taxpayers.

Following the Foundation's report, the state formed an Other Post-Employment Benefits (OPEB) Commission in 2012 to study what drives the liabilities and to make recommendations for reform. These recommendations were the basis for the Governor's reform proposal in 2013 to toughen eligibility standards and link benefits to length of service. The Legislature has taken no action on his or any other proposal for OPEB reform.

Facing liabilities that are simply unaffordable and beyond their capacity to fund in advance, municipalities instead use a "pay-as-you-go" approach (referred to as "paygo") in which they fund only their share of health care premiums for that year's retirees. Under such an approach, municipalities set nothing aside for the costs of benefits that current employees will receive upon retirement. Instead, those obligations are pushed into the future and added to existing liabilities.

However, relying on paygo to meet obligations has serious consequences. As annual spending on retiree health care grows, the fiscal squeeze already pressuring municipalities tightens further and forces cuts in basic services. Even if municipalities ignore their long-term obligations and do not pay down their retiree health care liabilities, they cannot escape the fact that those costs are rising and eroding the resources available for important services like education and public safety.

This bulletin analyzes retiree health care spending in nine of the 10 municipalities with the lowest per capita incomes in the state and populations of at least 10,000. It includes data for Amherst, Chelsea, Everett, Fitchburg, Holyoke, Lawrence, New Bedford, North Adams, and Springfield.[1] The bulletin examines two measures of retiree health care costs: the increase in retiree health care spending relative to the increase in property tax revenues between fiscal 2009 and fiscal 2013, and retiree health care spending as a share of total property tax revenues in fiscal 2013.

[1] Per capita income data is as reported by the Division of Local Services. Fall River, which has one of the 10 lowest per capita incomes and population greater than 10,000, did not begin reporting its retiree health care costs until fiscal 2012 so it is excluded from this analysis. Data from 2013 is included in Tables 2 and 3 for reference.

Municipalities have few options for controlling paygo costs because benefit eligibility is determined almost entirely by state law. An employee needs only 10 years of service to receive full benefits for life beginning as early as age 55.[2] In many municipalities, part-time employees qualify for the same benefits as full-time employees. Furthermore, nearly all municipalities contribute at least 50 percent towards the cost of premiums, though many contribute more than that. With such generous benefits, it is not difficult to understand why the costs of retiree health care are growing much faster than property taxes.

The Challenge of Finding Municipal Financial Data

Historically, there was little reporting required on retiree health care costs. That changed with the implementation of new standards from the Governmental Accounting Standards Board (GASB), effective for most Massachusetts municipalities beginning in fiscal 2009.

However, despite the reporting requirement, there remains a significant lack of transparency on retiree health care costs—and, for that matter, finances in general—in many communities. As noted in this bulletin, Fall River only began reporting retiree health care liabilities in fiscal 2012, a full three years after the GASB deadline. Furthermore, the current requirements are just the beginning—GASB has already expanded pension reporting requirements and, over the next several years, will expand retiree health care reporting requirements as well.

The lack of financial accountability and transparency speaks to a larger issue that the state and municipalities must address. Only five of the 10 poorest communities had a financial statement from the most recent fiscal year readily available online. In some cases, the annual budgets are little more than a listing of various accounts without any discussion of revenue or expenditure changes, trends, or other factors that affect budgets. Only in rare cases do budgets provide a separate line item for annual retiree health care spending.

Clear, accurate financial information is crucial to understanding the scope of these enormous burdens. In addition, residents are entitled to understand how a municipality spends its revenues, and should have easy access to current and historical data that is presented in a useful manner. Technology makes it easier than ever for municipalities to provide this information to residents.

Retiree Health Care Costs Outpacing Growth in Property Taxes

Between fiscal 2009 and fiscal 2013, the total costs for retiree health care coverage in the nine municipalities rose from $71.8 million to $88.8 million, an increase of 24 percent, while property taxes grew at half that rate, a modest 12.1 percent.

The surge in retiree health care costs, ranging as high as 44 percent growth in Amherst, means that a large share of increased property tax revenues was dedicated to paying for these benefits rather than addressing other needs. In fact, the increase in retiree health care costs consumed 26 percent of the growth in property taxes in the nine communities between fiscal 2009 and 2013, as Table 1 on page 3 shows.[3]

The jump in retiree health care spending is especially striking when considered in the context of the tiny two percent growth in the total budgets of these nine communities between 2009 and 2013. As a result of the fiscal squeeze, they reported nearly 1,000 fewer full-time employees in fiscal 2013 than in fiscal 2009 as they held wage and salary growth to $8.7 million, or one percent—half the $17 million increase in retiree health care costs.

[2] For employees hired after April 2, 2012, the eligibility age increased by five years for each pension classification. Most hires (Group 1) are still eligible for benefits as early as age 60 and public safety groups are eligible as early as age 55.

[3] Some of the increases in retiree health care spending may include modest contributions to OPEB trust funds, but those are only a fraction of what municipalities should be setting aside to pay for benefits. Property tax revenues include not only the increased property taxes on existing property owners but also the revenues resulting from newly constructed property.

Table 1: Growth in Retiree Health Care Costs Compared to Growth in Total Property Taxes, 2009-2013

Municipality	Retiree Health Care, 2009	Retiree Health Care, 2013	Difference, Retiree Health Care 2009-2013	Total Property Tax Levy, 2009	Total Property Tax Levy, 2013	Difference, Property Tax Levy 2009-2013	Retiree Health Care Cost Growth as a % of Property Tax Growth
Amherst	$2,139,934	$3,075,000	$935,066	$34,871,426	$41,799,726	$6,928,300	13%
Chelsea	3,375,643	4,111,897	736,254	33,263,028	41,208,288	7,945,260	9%
Everett	5,183,195	6,349,879	1,166,684	73,489,134	87,262,044	13,772,910	8%
Fitchburg	5,443,728	5,942,982	499,254	36,531,102	42,312,177	5,781,075	9%
Holyoke	7,439,577	9,077,923	1,638,346	44,639,085	51,281,090	6,642,005	25%
Lawrence	7,843,000	10,328,000	2,485,000	45,012,874	54,761,398	9,748,524	25%
New Bedford	12,537,241	15,806,016	3,268,775	88,797,309	95,218,502	6,421,193	51%
North Adams	2,861,058	2,943,932	82,874	11,052,149	13,686,384	2,634,235	3%
Springfield	25,004,396	31,172,202	6,167,806	163,078,974	167,403,337	4,324,363	143%
Total	**71,827,772**	**88,807,831**	**16,980,059**	**530,735,081**	**594,932,946**	**64,197,865**	**26%**

Sources:
Retiree health care costs and premium contribution rates are as reported in annual financial statements, fiscal years 2009 and 2013. Chelsea's 2009 retiree health care cost as reported in the 2009 financial statement did not include retired teachers so the city provided revised 2009 data.
Property tax data is from the state's Division of Local Services.

In Springfield, retiree health care costs jumped from $25 million to $31.2 million between fiscal 2009 and 2013, almost 50 percent greater than the $4.3 million increase in property taxes over the same period. Clearly, it becomes impossible to fund basic services when retiree health costs are consuming more than the entire growth in property tax revenues. For example, had Springfield's retiree health care costs held steady instead of increasing by $6.2 million, the city could have funded some 75 additional teachers.[4]

New Bedford faces a similar squeeze as the growth in retiree health care costs consumed half of the growth in property tax revenues, rising from $12.5 million in fiscal 2009 to $15.8 million in fiscal 2013. That 26 percent increase in retiree health care was more than three times the 7.2 percent growth in property tax revenues.

Notably, these increases occurred despite steps taken by several municipalities to control costs, such as requiring eligible retirees to enroll in Medicare, adopting municipal health reform, or reducing contribution levels.

Retiree Health Care Consumes a Large Share of Property Tax Revenues

Even in the communities in which retiree health care grew at a slower rate, those costs consume a large share of property tax revenues. As Table 2 details, in fiscal 2013 retiree health care costs were equal to 15 percent of total property tax revenues in the nine municipalities, ranging from seven percent in Amherst and Fitchburg to 22 percent in North Adams.

Table 2: Retiree Health Care Costs as a Percentage of Property Taxes, Fiscal 2013

Municipality	Retiree Health Care, 2013	Total Property Tax Levy, 2013	Retiree Health Care Costs as a % of Property Tax Levy	Average Single Family Tax Bill, $ Amount to Retiree Health Care
Amherst	$3,075,000	$41,799,726	7%	$479
Chelsea	4,111,897	41,208,288	10%	N/A
Everett	6,349,879	87,262,044	7%	N/A
Fitchburg	5,942,982	42,312,177	14%	419
Holyoke	9,077,923	51,281,090	18%	589
Lawrence	10,328,000	54,761,398	19%	477
New Bedford	15,806,016	95,218,502	17%	459
North Adams	2,943,932	13,686,384	22%	445
Springfield	31,172,202	167,403,337	19%	467
Total	**88,807,831**	**594,932,946**	**15%**	**N/A**
Fall River	*18,445,638*	*79,433,714*	*23%*	*582*

[4] The Department of Elementary and Secondary Education reports the average teacher salary for Springfield in 2013 was $58,693. The estimate adds a 33 percent benefit factor to that salary amount to account for the costs of health insurance and other benefits.

In North Adams, $445 of the average single family homeowner's property tax bill was dedicated to retiree health care in fiscal 2013. For the average single family homeowner in Holyoke, the retiree health care costs consume more than $500 of the annual tax bill. In each municipality, the average single family homeowner pays more than $400 per year to fund the costs of retiree health care.[5]

Not only are property taxpayers funding retiree health care at the expense of other services, they are also funding a benefit that most of them do not receive. Few residents have access to any retiree health care benefits themselves, let alone the generous ones provided by municipalities. According to the Agency for Health Care Quality and Research, in 2013 only 7.3 percent of Massachusetts private sector establishments offer health insurance to retirees over age 65, and only 8.8 percent offer it to retirees prior to age 65. This includes employers that require retirees to pay the entire share of premiums. By contrast, all but one of the nine municipalities contribute 75 percent or more of the cost of premiums (Table 3).

Table 3: Municipal Contribution Rates for Retiree Health Care Premiums

Municipality	Municipal Share of Premium
Amherst	75% to 90%
Chelsea	75% to 82.5%, includes part B
Everett	85% to 90%
Fitchburg	70 to 75%
Holyoke	50%
Lawrence[6]	80%
New Bedford	75%
North Adams	75%
Springfield[7]	75%
Fall River	*75%*

The state's municipalities, and particularly the poorest cities and towns, are facing a long-term fiscal squeeze with retiree health care consuming an ever larger share of limited growth in local budgets. Massachusetts cities and towns simply cannot afford the exceedingly generous benefits that they currently provide.

As costs and liabilities grow each year, it becomes more urgent for the Legislature to implement reforms. The reforms must increase the eligibility from 10 years of service to at least 20 years,

[5] The cost per average single family tax bill is not calculated for Chelsea and Everett. These two municipalities are among the 13 statewide that provide residential property tax exemptions; the Division of Local Services does not report the average single family tax bill data for such communities.

[6] In its fiscal 2013 financial statement, Lawrence reports that it contributes 75 percent towards retiree health care premiums. However, the city's contribution is listed as between 80 percent and 90 percent, depending on the date of retirement, on the rate sheet provided by the GIC, of which Lawrence is a member. The city contributes 75 percent towards the health care premiums of active employees.

[7] Springfield contributes 78 percent towards Medicare premiums for retirees whose pensions were less than $30,000 as of June 30, 2006.

tie benefits to years of service, pro-rate benefits for part-time employees, and eliminate expensive pre-Medicare coverage. In order to address these huge unfunded liabilities, the reforms must apply to a broader group than new hires.

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The Massachusetts Taxpayers Foundation is a nationally recognized, independent, nonprofit research organization whose purpose is to promote the most effective use of tax dollars, improve the operations of state and local governments, and foster positive economic policies. Over the past 20 years the Foundation has won 16 national awards for its work on health care access and costs, transportation reform, business costs, capital spending, state finances, MBTA restructuring, state government reform, and municipal health reform.