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Retiree Health Plans for Public School Teachers

After GASB 43 and 45

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Retiree Health Plans for Public School Teachers After GASB 43 and 45

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ABSTRACT

Most public elementary and high school teachers are covered by health insurance provided by their employer while they are employed. In most cases, these health plans are managed at the state level. At retirement, teachers with sufficient years of service are allowed to remain in the health plan. Retiree health plans for teachers vary widely across the country with some states paying the full premium for the retired teacher while other states require that the retiree pay 100 percent of the premium. Recent changes in the accounting rules now mandate that public sector employers report the accrued liabilities associated with these plans. This paper documents the unfunded liabilities of teacher retiree health plans in the various states, examines the reasons for these differences, and considers how these plans might evolve in the future.

The promise by an employer to allow employees to remain in the employer-provided health plan after they retire is a valuable employee benefit that helps employers attract and retain quality employees. These plans are a valuable benefit that can be an important component for a successful retirement for qualified employees. Depending on the provisions of retiree health plans, the annual premium for medical insurance can range from around $5,000 for a retiree to over $10,000 per year for a retired couple. The promise of health insurance in retirement is an important component of the compensation for public school teachers throughout the United States.[1] Many teachers begin their careers immediately after completing their college degrees in their early 20s. If they remain in the profession, they will complete 30 years of service in the mid 50s and be eligible for full retirement benefits in most states.

Retiring prior to age 65 and not being eligible for Medicare means that individuals must be concerned about obtaining health insurance and its cost. To retain coverage in an employer-provided medical plan is an important benefit. If the employer pays some of all of the premium, the retiree will have more income for other forms of consumption. The offer of retiree medical coverage is a strong inducement for teachers to remain on the job until they qualify for coverage and employer subsidies and once fully qualified for these benefits, retiree health insurance together with a generous pension encourages older teachers to retire. This paper assesses the widespread coverage of retiree health insurance for public school teachers, presents data from the latest actuarial reports indicating the liabilities facing governments from these programs, and speculates on likely changes in these plans due to the new accounting requirements associated with GASB 45.

I. A BRIEF HISTORY OF RETIREE HEALTH PLANS

Employer-provided retiree health plans typically require some specified years of service to qualify before the retiree is eligible for participation in the plan, often this means that the retiree must be eligible to receive a pension benefit. Some plans require the retiree to pay the full premium for the health insurance, while in other plans employers pay 100 percent of the premium. Many plans allow retirees to remain in the plan for life but others end coverage at age 65 when the individual becomes eligible for Medicare. Plans that provide post-65 coverage almost always require the retiree to enroll in Medicare. By federal law, Medicare is the primary payer of health care for retirees while employer-provided plans are the secondary payer.

After the passage of Medicare in 1965, many large companies, especially those that were covered by collective bargaining agreements, adopted retiree health plans. State and local governments also began offering health insurance to their retirees in the 1960s and 1970s. Initially, these plans were used to facilitate early retirement for older workers (Blau and Gilleskie, 2001; Marton and Woodbury, 2006; Robinson, 2008). Combining generous pension plans with subsidized early retirement provisions along with the promise of continuing health coverage in retirement, employers provided significant retirement incentives to career employees in their 50s and early 60s.

Since retiree medical plans tended to be linked to Medicare, the cost of providing such coverage was dramatically lower after Medicare was established. Thus, many employers found retiree medical plans to be an effective human resource tool while the labor force was growing rapidly during the 1970s and 1980s (Clark, Ghent, and Headen, 1994). However since 1990, retiree health insurance plans have been disappearing as an employee

benefit in the private sector of the U.S. economy. The rapid decline in coverage by these plans is due to several factors including the ever rising cost of medical insurance, the aging of the workforce, the increase in the ratio of active workers to retirees, reductions in Medicare, and the change in financial accounting standards.

In 1989, the Financial Accounting Standard Boards (FASB) required private employers to report accrued liabilities associated with the promise of retiree medical plans (FASB, 1989). Prior to this time, employers tended to report the annual expenditures on health care for active and retired employees, i.e. their annual reports did not reveal the unfunded liabilities associated with the promise to provide health insurance to retirees. Subsequent statements based on the new FASB requirements revealed that the promises of medical coverage to retirees represented billion dollar commitments in many large companies.

After the change in the accounting rules, there was a sharp decline in the proportion of private sector employers offering retiree health plans. The Kaiser Family Foundation (2006) reports that in 1988 before the adoption of the FASB standards, 66 percent of employers with 20 or more employees offered retiree health plans. After the standards were issued the proportion of private employers offering such plans dropped to 46 percent in 1991 and further to 36 percent in 1993. In the twenty-first century, there has been a continued movement away from these plans in industries where the legacy cost of retiree medical plans were large, e.g. in the automobile industry. Fronstin (2005) reports that the proportion of private sector establishments that offered retiree health insurance to early retirees declined from 22 percent in 1997 to 13 percent in 2002.

In contrast to the sharp decline in coverage in the private sector, most public sector employers continue to offer retiree medical coverage to their retirees and most public school teachers are covered by retiree medical plans. For example, Fronstin (2005) finds that 92

percent of states offered retiree medical plans for their retirees under age 65, an increase from 76 percent in 1997. In most states, retired teachers are covered by statewide medical plans that also include general state employees, while in other states, retiree teachers participate in separate health insurance plans that do not include civil servants. In a few states, retiree medical plans for teachers are provided by local school districts. Medical expenses tend to be relatively large for older persons and can account for a high proportion of household expenditures if retirees are not covered by some type of employer-provided medical insurance. Thus, retiree health insurance is an important component of teacher compensation and as such, should help public schools attract and retain quality teachers. These plans, along with the defined benefit pension plans that cover most public school teachers, also provide significant incentives for teachers to retire in their 50s and early 60s.

Until recently, the cost of retiree medical programs were treated as an annual expense for public employers and attracted relatively little attention and scrutiny. However, the Governmental Accounting Standards Board (GASB) changed the accounting standards for public employers in 2004. Governments are now required to report the liabilities associated with these programs in actuarial statements in the same manner as private employers. The actuarial reports that have been released over the past three years reveal that some states have large and growing unfunded liabilities and the annual cost of providing health care to retirees is growing rapidly (Clark, 2009; Clark and Morrill, 2009). In some states, the majority of the state's unfunded liability for these programs is due to the promise of health insurance to retired teachers. The large, unfunded liabilities reported by some states has created concern among policymakers and analysts concerning the ability of states

and local governments to continue to provide generous medical coverage to their retirees (Goldman Sachs, 2007; Zion and Varshney, 2007)

Determinants of the cost of retiree health plans for teachers include the generosity of the plans, eligibility conditions for coverage, the size of the public sector in the states, and the assumptions used to calculate the future cost of providing health care to retirees. These programs vary widely in their provisions, degree of government subsidy, the cost to the state government, and the method of funding retiree health plans.[2] Some states require retired teachers to pay the full cost of participating in the plan while others offer health insurance that does not require any premium payment by the retiree. Typically, the "full cost" of a retiree health plan paid by retirees is the average cost of all participants in the state's health plan for active workers and retirees. Due to age-related differences in the cost of health insurance, allowing retirees to pay the same premium for participating in the plan as active teachers involves an implicit subsidy. The new GASB standards require public employers to measure and report this subsidy to retirees.

This paper focuses on the current financial status of state retiree health plans for teachers as presented in the GASB statements. The unfunded actuarial accrued liabilities (UAAL), is the difference between all actuarial accrued liabilities (AAL) and any assets that the employer has set aside in an irrevocable trust. If the plan is completely pay-as-you-go, the UAAL is equal to the AAL because there are no assets. In some of the state actuarial reports, the UAAL is reported separately for teachers even when they are included in the same health plan. The UAALs for many states are large in absolute value and relative to total state expenditures, debt, and per capita income of the citizens of each state (Clark and Morrill, 2009; Pew, 2007).

The annual required contribution (ARC) is the normal cost as calculated by the actuary plus the amount needed to amortize the existing unfunded liability over a 30 year period. The normal cost is the portion of the present value of benefits that is allocated to the current fiscal year of active employees. ARCs and UAALs have been growing over time in most states and are now a major public policy issue for many states.

II. GASB STATEMENT NO. 45

On June 21, 2004, the Government Accounting Standards Board approved Statement No. 45 (GASB 45). This statement requires public employers to produce an actuarial statement assessing the financial status of these programs using generally accepted accounting standards as set forth by GASB.[3] In general, GASB 45 requires states to report the present discounted value of the future liability of health care promises to current workers as these benefits are accrued along with the present value of these promises to current retirees.[4] The actuarial statements also report whether the government has established a trust fund, any assets held in the trust, the UAAL, and the ARC.

GASB 45 does not require that states move toward prefunding these plans or even to establish trust funds for retiree health plans. Thus, states are free to continue pay-as-you-go financing. However, several states have enacted trust fund legislation for their retiree medical plans. In part, the movement to establish irrevocable trusts has been in response to GASB 45 and the public disclosure of these liabilities. Some states have maintained trust funds for their retiree benefit plans for several decades. Ohio with approximately $12 billion in assets has the largest trust fund among the states.

The present value of benefits based on current programs is determined by projecting the future age and service structure of the state labor force and retired state employees, and the cost of the health care promises made to these workers and retirees and then discounting all of these costs back to the date of the report. The actuarial accrued liabilities represent the total cost associated with providing health insurance to current retirees and the expected cost of retiree health insurance earned to date by current employees. The AAL indicates the amount of money needed to pay all these future liabilities. Alternatively, this means that if the state had a dedicated fund with assets equaling the AAL, then all currently accrued liabilities could be paid from the fund without any further contributions from the state. This is similar to having a fully funded pension plan or stating that the pension has a funding ratio of 100 percent.

There are several interesting economic issues associated with the methodology and assumptions used to make these projections. There is currently a debate between actuaries and economists concerning the appropriate discount rate for projecting the liabilities associated retirement benefits. Thus far, most of the discussion has centered on pension plans but similar issues arise in determining the accrued liabilities associated with retiree medical plans. GASB 45 allows firms to use a discount rate equal to the assumed rate of return on the funds used to finance the expenditures for the health plans. States that have established irrevocable trust funds for their retiree medical plans typically employ discount rates between 6 and 8 percent while states that use pay-as-you-go financing usually adopt discount rates between 4 and 5 percent (Clark and Morrill, 2009). From an economic perspective, the debate focuses on whether the use of a higher discount rate is appropriate

even with full funding or whether these liabilities should be treated more like long term bonds and "marked to market" using the interest rate on state bonds.

Retiree medical plans generally promise to pay all or part of the premium for health insurance to retirees. GASB requires that these promises be evaluated based on current plan characteristics and the future cost of providing medical coverage. A key element in the projection is the assumed rate of health care inflation. Most of these reports assume a rapid decline in the rate of increase in expenditures per capita. If these declines do not occur, the reported UAAL will be an underestimate of the future cost of these programs. Clark (2009) provides a more detailed discussion of these issues.

III. LIABILITIES OR PROMISES?

Is the promise to provide health insurance to retired teachers a *real* liability? Retiree health plans provided by state and local governments do not have the same legal status as pensions and most public sector employers have reserved the right to amend and alter these plans. The ability of an employer to terminate or modify retiree health plans is limited by the need to attract and retain employees and in some states, by collective bargaining agreements. State and local governments tend not to be restricted from altering the promise for future health insurance by state constitutions or statues. States and local governments have been amending their health plans for active workers and retirees in response to rising health care costs. Changes include higher premiums, higher deductibles, higher co-payments, and more years of service to qualify for retiree health plans. The ability to modify retiree health plans provides states with some options to decrease their projected

health care liabilities and thus reduce the UAAL and ARC presented in these actuarial statements.

The U.S. GAO (2008) reports that all states have legal protections for their retirement plans that limit the ability of a legislature to substantially alter the generosity of the pension. The majority of states have constitutional provisions that describe how their retirement plans are to be "funded, protected, managed, or governed." However, retiree health plans are not accorded similar status. Reductions in or the elimination of retiree health benefits may be constrained by collective bargaining contracts but in general, legislatures have more flexibility to reduce and modify retiree health benefit plans for public sector employees. For example, the Ohio 2007 Comprehensive Annual Financial Report (Ohio 2007, p. 32) states "unlike pensions, the health care benefits OPERS provides (with the exception of Medicare B reimbursement) are not a guaranteed benefit….OPERS continues to make changes to the plan design of the health care benefits…"

The ability to modify retiree health plans raises the questions of whether the promise of future health insurance should be considered a liability and reported as part of state financial statements. A related question is whether knowing the value of these promises should encourage states to fund these programs. Future coverage of teachers by retiree medical plans may well depend on how states and local governments adjust the eligibility conditions for participation in these plans along with the employer subsidies.

IV. UNFUNDED LIABILITIES OF RETIREE HEALTH PLANS

Determining the unfunded liability for teacher retiree health plans in the United States is a difficult and somewhat complex task. I have obtained the required actuarial

reports for all states that have prepared the GASB statements; however, I have not obtained access to statements for plans provided by municipalities and other local governments. The states are sorted into three groups. The first group includes states where teachers are in the same pension and retiree health plans as general state employees. For these states, I have obtained the actuarial statement for the combined plan covering both teachers and other state employees.

The second group of states includes states in which teachers are in different pension plans but are covered by the same retiree health plan. For states in both of these groups, the GASB statements provide a detailed picture of the total liabilities that a state confronts in maintaining its current retiree health plan. The retiree health plans for all of these states are managed by the state and one would assume that the state bears the ultimate responsibility for funding these plans. In these states, it is clear that retiree medical plans for teachers are directly linked to how the state treats general state employees. Clark and Morrill (2009) provide a detailed analysis of all of these retiree health plans for the first two groups of states.

The final group includes states where teachers are in different pension plans and different retiree health plans. Some of the retiree medical plans for teachers in these states are managed at the state level and include most of the teachers in the state. In other states, the retiree medical plans are managed and financed at the local school district level. In states where local plans dominant, there are significant differences in the generosity of the plans across the school districts.

Teachers in combined plans with other state employees

The actuarial reports for state-managed retiree medical plans generally provide information on persons covered by the plan and the unfunded liabilities. Table 1 presents the total unfunded liability for each state where the teachers are included in the same pension and same retiree health plan as other civil servants. In general, all retirees receiving a benefit from the pension plan are eligible for participation in the retiree medical plan in these states. Only three of these states separately report the unfunded liability due to teachers being included in the plan. In Maine, South Carolina and Virginia, the proportion of total state liabilities due to coverage by teachers represents over half of the total UAAL for the state plan.

[Table 1]

Table 2 presents the total unfunded liability for each state where teachers are in the same health plan as other state employees but they are not in the same pension plan. The actuarial reports of these states are somewhat more likely to report the liabilities attributable to teachers. The reports from five states include the UAAL associated with teachers. In each of these states, the unfunded liability due to coverage of teachers represents 41 to 63 percent of the total state liabilities. The average proportion of the total state UAAL associated with teachers in the 8 states shown in Tables 1 and 2 with separate data for teachers is 54.0 percent.

[Table 2]

One could attempt to assign a component of the total liability in each state shown in Tables 1 and 2 to teachers by determining the proportion of total state employment attributable to teachers. The Pew Center for the States (2007) takes similar estimates of state liabilities and then assigns a portion to general state employees. If teachers and state employees are in the same plan and if the state is responsible for these liabilities, prorating these liabilities to teachers and other state employees may be a meaningless task. What is certain is that the fate of teachers is linked to the retiree medical benefits provided to all state employees.

Retiree health plans covering only teachers

Table 3 presents data for those states where teachers do not participate in the same pension plans as state employees nor or they included in the same retiree health plan. In most of these states, teachers are covered by statewide retiree health plans and I have obtained the GASB statements for these states. UAALs for teachers are reported for nine state-managed plans; Alabama, Alaska, Connecticut, Kentucky, Michigan, Ohio, Pennsylvania, Tennessee, and Texas. The unfunded liability for teachers exceeds that for other state employees in Alabama, Kentucky, Michigan, and Texas.

[Table 3]

The liabilities for teacher retiree health plans are more difficult to assess in those states where the plans are managed at the local level. In Minnesota, retiree health plans for teachers are managed by the local school district. A report by the Office of the State Auditor found that among all local governmental units in the state, seven of the ten units

with the highest ratio of retiree health liabilities to total current revenues were school districts. In each of these districts, the ratio of liabilities to annual revenues exceeded 225 percent. The report stated "These unfunded liabilities will have a real impact on these districts as it may be difficult for them to reduce costs enough and/or tax their way out of the problem" (Office of the State Auditor of Minnesota, 2006, p. 16). The report also notes the variation in benefits across the state with some school districts having generous retiree medical benefits while others do not have a plan.

In California, pension benefits for school employees are standardized statewide. In comparison, health care benefits vary greatly among school districts. Each school district provides a unique benefits package to its active and retired employees. According to an employer survey, all districts provide retiree health to their teachers. Some school districts have joined together to create a larger risk pool, some have contracted with CalPERS for health insurance, and others have individual policies (Public Employee Post-Employment Benefits Commission, California, 2007). California school districts offer varying levels of health benefits to employees and retirees. Premiums, employer contributions, copayment levels, deductibles, covered services, and retiree benefits differ based primarily on collective bargaining agreements (Legislative Analyst's Office, California, 2006).

A survey by CalSTRS in 2003 estimated that in California districts covering 57 percent of retired teachers statewide pay all or a portion of retirees' health insurance premiums. The survey also showed that only about 7 percent of districts offer lifetime benefits such as those offered by the state, UC, and some of the largest school districts. In more than half of responding districts retired teachers were required to pay all of their own health insurance premiums beginning at age 65. Clearly, there is substantial variation in the retiree health plans

for teachers across California with large school districts providing more generous benefits. Thus, these districts have substantial UAALs. In 2006, the Los Angeles Unified School Districts which pays 100 percent of the premium for qualified retirees report that it faced a $10 billion dollar unfunded liability. This represented an adjustment in the projected UAAL from $4.9 billion reported in 2004. This dramatic increase in the UAAL was due to changes in assumptions concerning life expectancy, retirement rates, and health cost increases along with a lowering of the discount rate (Holmquist, 2006). An August 2005 report estimated that the Fresno Unified School District had a UAAL of $1.1 billion (Legislative Analyst's Office, California, 2006).

Total state UAALs and their implications for teachers

It is very likely that the future of retiree medical plans for teachers will be linked to plans offered by states to general public sector employees. As seen in Tables 1 and 2, teachers are often included in the same medical plans as other state employees and so any changes in the statewide plans in these states would cover teachers. It is also probable that in other states where teachers are in teacher-only plans, the generosity of these plans, for political reasons, cannot differ too much than the benefits provided to other state employees.

Tables 1 to 3 report the total liabilities associated with retiree health plans for state employees and teachers. There are substantial differences in the unfunded liabilities of state retiree health plans. Among the states with plans covering teachers and other state employees, North Dakota ($31 million), Wyoming ($72 million), South Dakota ($76 million), Iowa ($220 million), and Kansas ($293 million) have the lowest reported unfunded liabilities. In comparison, New Jersey ($68.8 billion), New York ($49.7 billion), Illinois ($24.2 billion), and North Carolina ($23.8 billion) have the highest UAALs. Among those states were teachers are

in separate state-managed plans or plans managed by local school districts, California ($63,780 billion), Texas ($39,259 billion), Michigan ($38,925 billion), Ohio ($28,501), and Connecticut ($24.0 billion) have the highest combined unfunded liabilities for teachers and state employees.

The importance of the UAAL for a state is a function not only of the absolute size but also relative key economic concepts such as the implied per capita debt and the UAAL as a percent of the state budget. Alaska, New Jersey, and Hawaii have the highest per capita retiree health insurance debt with values of $8,723, $7,947 and $7652 respectively. States with the lowest per capita debt are North Dakota ($49), Arizona ($74), Iowa ($74), Oregon ($85), and South Dakota ($97). States with the highest values of UAAL as a percent of the state budget include New Jersey (140 percent) and Hawaii (115 percent). States with the lowest UAAL as a percent of their budget include North Dakota (0.9 percent), Iowa (1.6 percent), Oregon (1.6 percent), Wyoming (1.8 percent), and Arizona (1.8 percent).

The large differences in the magnitudes of the UAAL, UAAL per capita, and UAAL as a percent of the state budget across the states are due to differences in the generosity of the retiree health plans offered to retirees. The primary difference is associated with who pays the premium for health insurance. States that promise to pay 100 percent of the premium for eligible retirees tend to have relatively large unfunded liabilities while states that require the retiree to pay 100 percent of the premium typically have low UAALs.

V. WHO PAYS FOR RETIREE HEALTH INSURANCE?

The GASB statements also describe the total premium for these public retiree health plans, how the premium is divided between the retiree and the government, and age and service requirements for coverage. Participation in the plan is often limited to retirees with

some minimum number of years of service or only those that have sufficient credited service to be receiving a pension benefit. In many states, the proportion of the premium paid by the retiree is a function of the number of years of service; for example a retiree with 10 years of service might have to pay 50 percent of the premium while the state would pay the entire premium for retirees with 20 years of service.

Table 4 describes the eligibility requirements for participation in the retiree medical plans for states where we have data for teachers. Over the past 5 or so years, many states have amended these requirements to reduce the rate of increase in annual expenditures and to lower the reported UAALs. To receive the full subsidy offered by the government, many states have increased the number of years of service and adopted a graded scale so that retirees with fewer years of service must pay a higher proportion of the premium.

[Table 4]

Comparing these statements to the total UAAL shown in Tables 1 to 3 reveals that states that pay 100 percent of the premium for qualified retirees tend to have relatively high accrued liabilities while states that offer access to the medical plan but require the retiree to pay the full premium have relatively low liabilities. In addition, states that simply offer a dollar amount per month that the retiree can apply toward the insurance premium also have relatively low UAALs.

VI. CONCLUDING OBSERVATIONS

Analysis of the cost and liabilities of retiree medical plans for teachers illustrates the substantial liabilities facing states, local governments, and school boards. Relatively few public sector employers have established trust fund legislation to help finance these future costs, and that even fewer are making use of laws that allow funding. These substantial liabilities pose a serious financial problem for some public employers. These unfunded liabilities will confront policy makers with difficult choices in the future. In 2006, the annual cost to state and local governments for retiree health plans average about 2 percent of employee salaries. If public sector employers continue to pay for these benefits on a pay-as-you-go basis, the cost of retiree health plans is projected to rise to 5 percent of payroll in 2050 (GAO, 2008). These estimates are based on simulations reported in GAO (2007, page 29) which concludes that "the key reason for this substantial increase is the more general rise in health care costs, which, if left unconstrained, will continue to cause costs to rise as a percentage of salaries."[5]

As annual costs for retiree medical plans rise, the need to allocate more public monies to retiree health insurance programs may cause other priorities to be unmet and the overhang of billion dollar liabilities may influence future bond ratings.[6] There are a number of options that public school administrators can adopt to address the impeding financial burden. School boards, city councils, and legislators can either increase revenues to support their public schools or the benefits associated with these programs can be reduced. Alternatively funds can be diverted from other state and local priorities.

Governmental units that provide funds to public schools can attempt to reduce expenditures on retiree health plans by reducing their generosity or shifting the cost from the

employer to active and retired teachers through higher premiums, co-payments, and deductibles. Employers can also increase the years of service required for eligibility in these programs thus reducing the number of eligible participants or further increasing the cost to retirees. States and local governments might also consider the total elimination of retiree health plans or the shift from defined benefit type plans to retirement saving account plans although some entities may face constitutional and statutory restrictions on eliminating these plans. Finally, states may adopt various methods to address the actual cost of health benefits. Such techniques include more effective delivery of health care to retirees, proper and efficient coordination with Medicare and the use of health improvement programs such as wellness programs to reduce the utilization of medical care by their retirees.

Reducing the generosity of retiree health plans for public teachers will not come without some adverse labor market effects. A decline in total compensation will make public education jobs less attractive relative to teaching in private schools and other private sector jobs. Increases in the number of years of service required for participation in the retiree health plan or increases in the premium the retiree is required to pay will likely delay retirement. School administrators will have to assess the impact of later retirement on teaching quality and the cost of other forms of compensation such as salaries and pension contributions.

Determining the unfunded liabilities associated with retiree health insurance plans for public school teachers is a difficult task. Many states offer medical plans that cover teachers and general state employees. The GASB 45 statements for these plans often do not provide separate information for the different types of employees covered so often there is no direct allocation of costs to teachers. This suggests that the fate of retiree medical plans

for teachers is tied closely to decisions for all state employees. In response to GASB 45 and the financial pressures associated with health care promises, states are considering many of options to reduce annual expenditures on these plans and the unfunded liabilities associated with these programs. Thus, policy changes may limit the actual future cost of retiree health plans in the public sector.

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Table 1. UAAL of Teacher Retiree Health Plans: Teachers in Same Pension Plan and Same Retiree Health Plan as State Employees

State	UAAL for Teachers (in millions)	Total UAAL for State Including Teachers (in millions)	Teacher UAAL as percent of Total State UAAL
Arizona	$	$ 438	
Colorado		1,033	
Delaware		3,106	
Florida		3,082	
Hawaii		9,679	
Idaho		362	
Iowa		220	
Kansas		293	
Maine	2,459	4,756	51.7
Maryland		14,543	
Mississippi		570	
Nevada		2,295	
New Hampshire		2,859	
North Carolina		23,786	
Oregon		264	
Rhode Island		480	
South Carolina	5,796	10,048	57.7
South Dakota		76	
Tennessee[1]		1,806	
Utah		569	
Virginia	977	1,616	60.5
Wisconsin		1,473	
Wyoming		72	

Source: GASB 45 actuarial statements for the retiree health plans for the states.

[1] Although some teachers are in TheTennessee Plan Postretirement Health Benefits, there is also has a separate plan for Local Education Employee Group Postretirement Health Benefits (see Table 3).

Table 2. UAAL of Teacher Retiree Health Plans: Teachers in Same Retiree Health Plan as State Employees but not in Same Pension Plan

State	UAAL for Teachers (in millions)	Total UAAL for State Including Teachers (in millions)	Teacher UAAL as percent of Total State UAAL
Georgia	9,113	15,035	60.6
Illinois		24,210	
Louisiana	8,075	19,609	41.2
Missouri		2,186	
New Jersey	36,472	68,833	53.0
New Mexico		4,110	
New York		49,663	
Oklahoma		815	
Vermont	890	1,419	62.7
Washington	3,356	7,495	44.8
West Virginia		7,761	

Source: GASB 45 actuarial statements for the retiree health plans for the states.

Table 3. UAAL of Teacher Retiree Health Plans: Teachers not in Same Retiree Health Plan as State Employees and not in Same Pension Plan[1]

State	UAAL for Teachers (in millions)	UAAL for State Not Including Teachers (in millions)	Teacher UAAL as percent of Total State UAAL
Alabama	$12,532	$ 3,104	80.1
Alaska	1,330	3,139	42.3
Arkansas		1,465	
California	15,902	47,878	24.9
Connecticut	2,319	21,681	10.7
Indiana		442	
Kentucky	5,788	4,833	54.5
Massachusetts		13,287	
Michigan	25,000	13,925	64.2
Minnesota	1,341	565	70.4
Montana		449	
Nebraska[2]			
North Dakota		31	
Ohio	9,778	18,723	34.3
Pennsylvania	963	8,659	11.1
Tennessee[3]	932	2,146	30.3
Texas	21,584	17,675	56.4

Source: GASB 45 actuarial reports from the states and information from state websites.

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Texas. http://www.trs.state.tx.us/about/documents/trscare_actuarial_valuation_report.pdf

[1] The table also includes several states that I have not yet been able to sort into the various categories.

[2] Nebraska will not prepare a GASB report due to the limited liability associated with its retiree medical plan.

[3] Although some teachers are in TheTennessee Plan Postretirement Health Benefits, there is also has a separate plan for Local Education Employee Group Postretirement Health Benefits.

Table 4. Eligibility Requirements and Premiums for Retiree Medical Plans

Alabama

Retiree medical eligibility is attained when a teacher retirees, and is immediately eligible to draw a retirement annuity from the Alabama Teachers Retirement Systems. Retiree medical contribution varies "based on plan election, dependent coverage, Medicare eligibility and election, and tobacco use."

"The premium for retiree coverage is broken down into the employer share and the retiree share. Under the sliding scale, the retiree will still be responsible for the retiree share, however, the employer share will increase or decrease based upon a retiree's years of service. For those employees retiring after September 30, 2005 with 25 years of service, the employer pays 100% of the employer share of the premium. For each year less than 25, the employer share would be reduced by 2% and the retiree's share increased accordingly. For each year over 25, the employer share would be increased by 2% and the retiree share reduced accordingly."

Alaska

The plan provides medical benefits to qualified recipients of the Retirement Systems. The Retirement Systems pay the medical premiums for recipients hired before July 1, 1990. Employees hired after June 30, 1990 may purchase medical benefits by paying the premium.

Arizona

Retirees with 5 or more years of service are eligible for the retiree medical plan. The maximum benefits for retirees with 10 or more years of service are $150 per month if the retiree is under age 65 and $100 per month if the retiree is 65 or over. For retirees with 5 to 9 years of service, these dollar amounts are reduced by 10% for year less than 10 of service

California

Teachers participate in locally managed plans whose characteristics vary by school district.

Colorado

"The maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the subsidy is $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is for benefit recipients who retirement benefits are based on 20 years or more of service. For those with less service credit, the subsidy is reduced by 5 percent for each year less than 20 years."

Connecticut

Retirees pay a portion of the medical premium as follows:

Retired before July 1, 1997: retiree pays 0%
Retired July 1, 1997: retiree pays 0% in some plans and 3% in other plans

Delaware

For retirees hired prior to July 1, 1991, state pays 100% of state contribution; retirees under age 65 pay same contribution as active employees; retirees over age 65 pay no premium. For retirees hired after July 1, 1991, state pays 100% of state contribution for those with 20 years of service and retiree younger than 65 pay the same as active employees while those over 65 pay no premium. For those with 15 years of service the state pays 75% of the state contribution and under 65 retirees pay a premium that is 125% of the active contribution; 65 year olds pay 25% of the active contribution. For those with 10 years of service, the state pays 50% of the state contribution and retirees less than 65 pay 150% of the active premium; 65 and older retirees pay 50% of the active premium. For those with less than 10 years, the state pays 0% of the state contribution and the retiree pays the full premium.

Florida

Retirees under age 65 pay a premium that is comparable to the total premium cost of active employees. Retirees over age 65 in a PPO pay less than the full cost of coverage while those who participate in an HMO pay the full premium cost

Georgia

Retiree medical eligibility is attained when an employee retires and is immediately eligible to draw a retirement annuity. Premiums vary based on plan election, dependent coverage, Medicare eligibility and election, and tobacco use.

Hawaii

For retirees hired before July 1, 1996 with less than 10 years, the state pays 50% of total contributions; for those with more than 10 years, the state pays 100%. For retirees hired after July 1, 1996, the state pays 0% for those with less than 10 years of service, 50% for those with 10-14 years, 75% for retirees with 15 to 25 years; and 100% for retirees with more than 25 years.

Idaho

All retirees receiving a monthly benefit are eligible to be in the retiree health plan. Benefit must exceed premium for retiree medical coverage or retiree must have 10 or more years of service. Retirees pay the specified premium.

Illinois

Retirees age 62 with 5 years of service, retirees age 60 with 10 years of service, and retirees age 55 with 20 years of service can participate in the retiree health plan. State pays 100% of premium

for retirees with 20 years of service. Payment of full premium is reduced by 5% for each year of service smaller than 20.

Iowa

The State of Iowa provides access to postretirement medical benefits to all retirees. Retirees generally pay 100% of the premium. Retirees over age 65 are in a separate risk pool and pay full premium, no implicit subsidy.

Kansas

Employees retire and are eligible for the retiree medical plan if they are 55 with 10 years of service or have 85 points; retirees pay full cost of premiums.

Kentucky

Retiree medical eligibility is attained when an employee retires, which is possible after completion of 27 years of service or attainment of age 55 and 5 years of service. The proportion of the premium paid by the state for persons hired after 7/1/2002 is: 100% for those with 27 or more years of service, 95% with 26 years, 90% with 25 years, 65% with 20-25 years, 45% with 15-20 years, 25% with 10-15 years and 10% for those with 5-10 years. For those hired before 7/1/2001 the state pays 100% for everyone with 20 or more years of service, 90% for those with 15-20 years, 80% with 10-15 years, and 70% for those with 5-10 years.

Louisiana

Employees hired prior to January 1, 2002 pay approximately 25% of cost of coverage. Employees hired after January 1, 2002 with less than 10 years of service pay 81%; those with 10-14 years pay 62%; those with 15-19 years pay 44%; those with 20 years or more pay 25%

Maine

Retirees hired before July 1, 1991 receive 100% of the retiree only premium. Retirees hired after July 1, 1991 with 5 years of service receive 50% of the retiree only premium, increasing to 100% after 10 years of service; effective January 1, 2006, teachers receive 45% of the retiree only premium

Maryland

Retirees with 16 years of service receive 100% subsidy from state; retirees with 5 or more years of service but less than 16 receive a prorated subsidy (years of service/16 times 100%).

Michigan

Employees hired after June 30, 2008 with 10 years or less of service receive no subsidy, those with 10 years of service receive a 30% subsidy paid by the state; each additional year over 10

adds 4% to the state payment. State payment is capped at 90% of total premium. If member retires before age 60 with fewer than 25 years of service, the subsidy does not start until age 60

Minnesota

Teachers participate in locally managed plans whose characteristics vary by school district.

Mississippi

Eligible individuals retiring from the State of Mississippi may elect coverage at retiree contribution rates. Teachers can retire at any age with 25 years of service or at age 60 with 8 years of service. Retiree contributions are specified by the state and depend on type of plan.

Missouri

State contribution is 2.5% of premium per year of service to a maximum of 65% for retirement after January 1, 2005.

Nevada

Retiree must be receiving a pension benefit to be eligible for the retiree health plan
Retirees age 65 with 5 years of service receive an unreduced benefit as do retirees age 60 with 10 years and those with 30 years of service regardless of age.

New Hampshire

Retirees hired prior to July 1, 2003 with 10 years of service are eligible at age 60; retirees hired after July 1, 2003 with at least 20 years of service are eligible at age 60; retirees with at least 30 years of service are eligible at any age. There are no retiree premium contributions required for eligible retirees.

New Jersey

Retirees are eligible at age 60 or at any age with 25 years of service; retired teachers pay no premium.

New Mexico

All retirees receiving a pension are eligible for the retiree health plan. Total contribution requires a retiree premium plus a state subsidy. Retirees with 5 years of service receive 6.25% of the maximum state subsidy, the proportion of the subsidy paid by the state increases by 6.25% per year of service to a maximum of 100% for those with 20 years of service.

New York

The state sets retiree contributions as a percentage of the total premium. Retirees contribute varying percentages of premiums. The most common percentage is 10% for coverage of the retiree.

North Carolina

Employees who are eligible to retire and receive pension are eligible for retiree health plan. Retiree who were hired prior to September, 2006 do not pay any premium for their retiree health plan.

Oklahoma

Teachers need 10 years of service to be eligible for retiree medical plan. Employer contributions toward insurance premium is specified by law, $105 per month, retirees pay the remainder of the premium.

Oregon

No coverage after Medicare, retiree pays 100% of the blended premium.

Pennsylvania

For employees who retired before July 1, 2005, the Commonwealth pays 100% of the cost. For retirees between June 30, 2005 and July 1, 2007, the retiree contribution is set at 1% of the employee's final salary; for those who retired after July 1, 2007, they must pay the same rate as active employees. Thus, the retiree contribution is 1.5% of final salary for FY 2008/2009, 2% for FY 2009/2010, and 3% thereafter.

Rhode Island

Retired teachers under the age of 65 pay the same contribution as active employees pay; retirees 65 or older and Medicare eligible purchase a post-65 benefit plan and pay the full cost. State pays the portion of the cost above the active group rate.

South Carolina

Retirees are in the general employee pool and thus receive an implicit subsidy. There is also a state funded subsidy that relates to the proportion of the total premium paid by the state and school district. Currently, the retiree pays only about 17% of the total cost.

South Dakota

To qualify for the retiree medical plan, retirees must be receiving a pension benefit. Dollar amount of premium paid by retiree is set by law.

Tennessee

Retirees eligible for a pension benefit are also eligible to be included in retiree medical plan. Retiree contribution as a percent of the blended premium is 20% for those with 30 years of service; 30% for those with 20-29 years of service, and 40% for those with less than 20 years of service.

Texas

Teachers need to be age 60 with 10 years of service to be eligible for the retiree health plan. Retiree pays no premium.

Utah

Employees who retired after June 30, 2000 are required to pay the same portion of the premium as active employees are paying. Employees who retired prior to July 1, 2000 are not required to pay the active premium.

Virginia

The state provides a health credit of $4 per month per year of service for retired teachers. Members who retire with less than 15 years of service are not eligible for the credit, retirees who were not eligible to begin receiving benefits at the time they terminated service are not eligible for the credit.

Washington

The explicit subsidy to retirees is a set dollar amount which changes each year. In 2007, the explicit subsidy was $150. Retirees receiving a pension are eligible for participation in the retiree medical plan. The premium the retiree pays depends on the medical plan they choose.

Wisconsin

The state provides access to postretirement medical benefits to qualifying retirees in the Wisconsin Retirement System. Retirees must pay 100% of the premium, non Medicare eligible retirees pay the same premium rate as active members. The state uses a sick leave conversion program to help retirees pay the insurance premium. Unused sick leave hours are converted into a dollar amount using the retiree's highest salary. Health insurance premiums for the retiree are paid from this account until it is exhausted. Then the retiree pays the full premium.

Wyoming

The state of Wyoming does not explicitly subsidize retiree health insurance premiums. Retirees participate in the state's group health plan and pay the full cost of premiums. Retiree premiums are subsidized by pooling retirees with actives.

ENDNOTES

[1] While this paper refers to teacher retirement and health plans, most of these public sector plans also include other certified educational professions such as administrators, school counselors, etc.

[2] Robinson, et al (2008) provide a detailed description of the retiree health plans of each state including eligibility conditions for coverage, premiums, co-payments, and deductibles. They also include the websites for each of the state health plans so the interested reader can examine the health plans in more detail.

[3] GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (OPEB)* was issued by the Governmental Accounting Standards Board in 2004. Basically, GASB 45 requires public employers to treat OPEB using the same methods used to estimate the liabilities associated with pensions. The complete standard can be seen at http://www.gasb.org/st/summary/gstsm45.html. Earlier in 2004, GASB issued Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*. GASB 43 sought to establish uniform reporting standards for OPEB plans.

[4] Vicente (2006) provides a useful explanation of the new accounting standards and a summary of the issues raised by GASB 45.

[5] The key assumption in this simulation is that health care costs will grow at a higher rate than the growth in GDP (GDP growth rate plus 1.2 percent). Since 1974, the growth in medical expenditures has risen at an average rate of 1.4 percent per year above the per capita GDP growth rate (GAO 2007).

[6] Moody's Investors Service (2005) stated that "Moody's does not anticipate that the liability disclosures will cause immediate rating adjustments of a broad scale" and that "Moody's therefore will exclude OPEB liabilities from calculations of state or local debt burdens, but include them as a factor in the overall credit assessment of an issuer. This practice is consistent with Moody's approach to municipal pension liabilities."

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