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Transparency—Shedding Light on Government Activities I: How Will Maine Afford Retiree Health Care Benefits for State Employees and Public School Teachers?

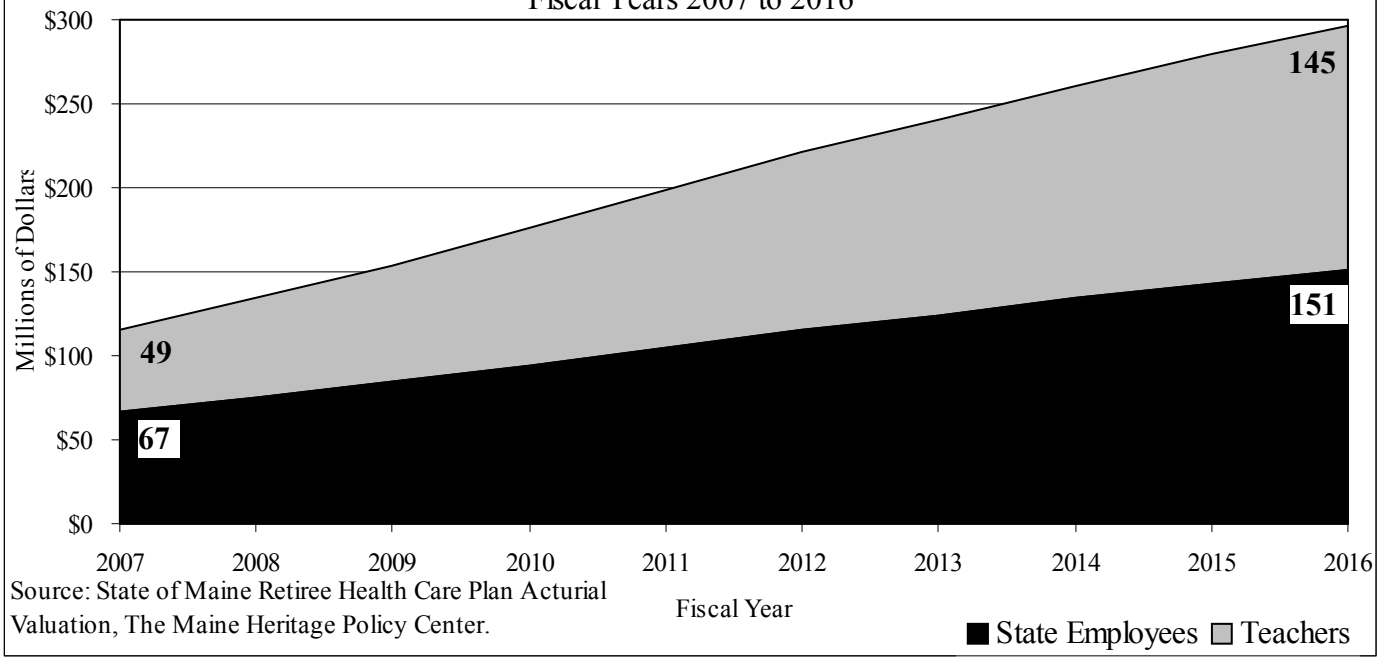
By J. Scott Moody

Maine is abuzz with the recent news that the state government's budget deficit has doubled from $95 million to $190 million. While legislators frantically try to plug this hole in the ship, a much larger iceberg looms in the distance—the funding of retiree health care for Maine's state employees and public school teachers. In fact, retiree health care will be one of the fastest growing parts of the state budget skyrocketing by a projected 155 percent from fiscal years 2007 to 2016.[1] The best solution for Maine taxpayers would be to reduce the promised level of retiree health care benefits—a necessary step many states have already taken.

Amazingly, only a few years ago, Maine state government was blissfully unaware of this enormous expense because it was under no requirement to calculate the future cost of retiree health care benefits for state employees. Since June 2004, however, the Government Accounting Standards Board (GASB) now requires states to estimate the cost of these types of benefits—technically known as "Other Post-Employment Benefits (OPEB)". The ruling itself is called GASB 45.

Unfortunately, GASB 45 has brought more bad news to Maine's taxpayers. According to the report commissioned by Maine state government to comply with GASB 45, Maine has promised to pay its state employees and teachers $4,756,000,000 in retiree health care benefits. Overall, there are three basic ways to deal with this expense: (1) "pay-as-you-go" (PAYGO); (2) enact a pre-funding plan; or (3) reduce benefits.

Chart 1
Projected "Pay-As-You-Go" Expense for Retiree Health Care Benefits
Fiscal Years 2007 to 2016



Source: State of Maine Retiree Health Care Plan Acturial Valuation, The Maine Heritage Policy Center.

Chart 1 and Table 1 show the ramifications of the first option. PAYGO essentially maximizes the cost to Maine's taxpayers. Between fiscal years 2007 to 2016, the projected yearly cost will grow by $180,000,000 (155 percent) to $296,000,000 from $116,000,000—an amount nearly equivalent to today's current budget deficit.

Table 1
Projected "Pay-As-You-Go" Expense for Retiree Health Care Benefits
Fiscal Years 2007 to 2016

Fiscal Year	Total		State Employees		Teachers	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
2007	$116,000,000	--	$67,000,000	--	$49,000,000	--
2008	$134,000,000	15.5%	$75,000,000	11.9%	$59,000,000	20.4%
2009	$154,000,000	14.9%	$84,000,000	12.0%	$70,000,000	18.6%
2010	$176,000,000	14.3%	$94,000,000	11.9%	$82,000,000	17.1%
2011	$199,000,000	13.1%	$105,000,000	11.7%	$94,000,000	14.6%
2012	$221,000,000	11.1%	$115,000,000	9.5%	$106,000,000	12.8%
2013	$241,000,000	9.0%	$124,000,000	7.8%	$117,000,000	10.4%
2014	$261,000,000	8.3%	$134,000,000	8.1%	$127,000,000	8.5%
2015	$280,000,000	7.3%	$143,000,000	6.7%	$137,000,000	7.9%
2016	$296,000,000	5.7%	$151,000,000	5.6%	$145,000,000	5.8%
Total	$2,078,000,000	155%	$1,092,000,000	125%	$986,000,000	196%

Source: State of Maine Retiree Health Care Plan Actuarial Valuation, The Maine Heritage Policy Center.

The second option, which is more taxpayer friendly, is to pre-fund the health care expense by setting money aside in a special account where it can be invested. The interest earned on the investment can be used to off-set the future costs. The state report found that pre-funding could reduce the cost to Maine's taxpayers by $1,522,000,000 (32 percent) to $3,234,000,000 from $4,756,000,000.[2]

The third option, which is the most taxpayer friendly, is to reduce the overly generous level of promised retiree health care benefits—some states have done just that: Pennsylvania requires new retirees to contribute 1 percent of their annual base salary to their health care costs; North Carolina increased the time required to qualify for benefits; Maryland increased co-payments and premium payments and Alaska ended early retiree health coverage for new employees.[3]

Maine also needs to reconsider the level of health care benefits it provides to its state employees. Recent MHPC research has found that benefits are 92.9 percent higher for state government employees than for private sector employees in 2006—the 5th highest ratio in the country.[4] More specifically, Maine state government employees have very expensive health care benefits, even when compared to other states. According to data from National Conference of State Legislators, the monthly premium costs (family coverage) for a Maine employee was $1,454.78 in 2006—the 3rd highest in the country.[5] Clearly policymakers need to consider the needs of Maine's beleaguered taxpayers and ask state employees and teachers to pick up some of the load.

Notes and Sources:

[1] John Bartel and Steven Glicksman, State of Maine: Retiree Health Care Plan Actuarial Valuation, January 2007. http://maine.gov/osc/pdf/admin/BA%20GASB%2045%206-30-06%20valuation%20report%2007-01-10.pdf

[2] Maine state government has made some moves to pre-fund the costs of retiree health care. However, according to a report by the Pew Center on the States, Maine must put aside $177,000,000 in 2006 to be fully funded but only set aside $73,000,000—only 41 percent of the necessary amount. http://www.pewcenteronthestates.org/uploadedfiles/Promises%20with%20a%20Price.pdf

[3] Ibid.

[4] http://www.mainepolicy.org/Portals/0/Issue%20Brief,%20No.%2024.pdf

[5] The National Conference of State Legislators: http://64.82.65.67/health/StateEmpl-healthpremiums.pdf

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