A fact sheet from THE PEW CHARITABLE TRUSTS | Dec 2018

Update: 50-State Survey of Retiree Health Care Liabilities

Most recent data show changes to benefits, funding policies could help manage rising costs

Overview

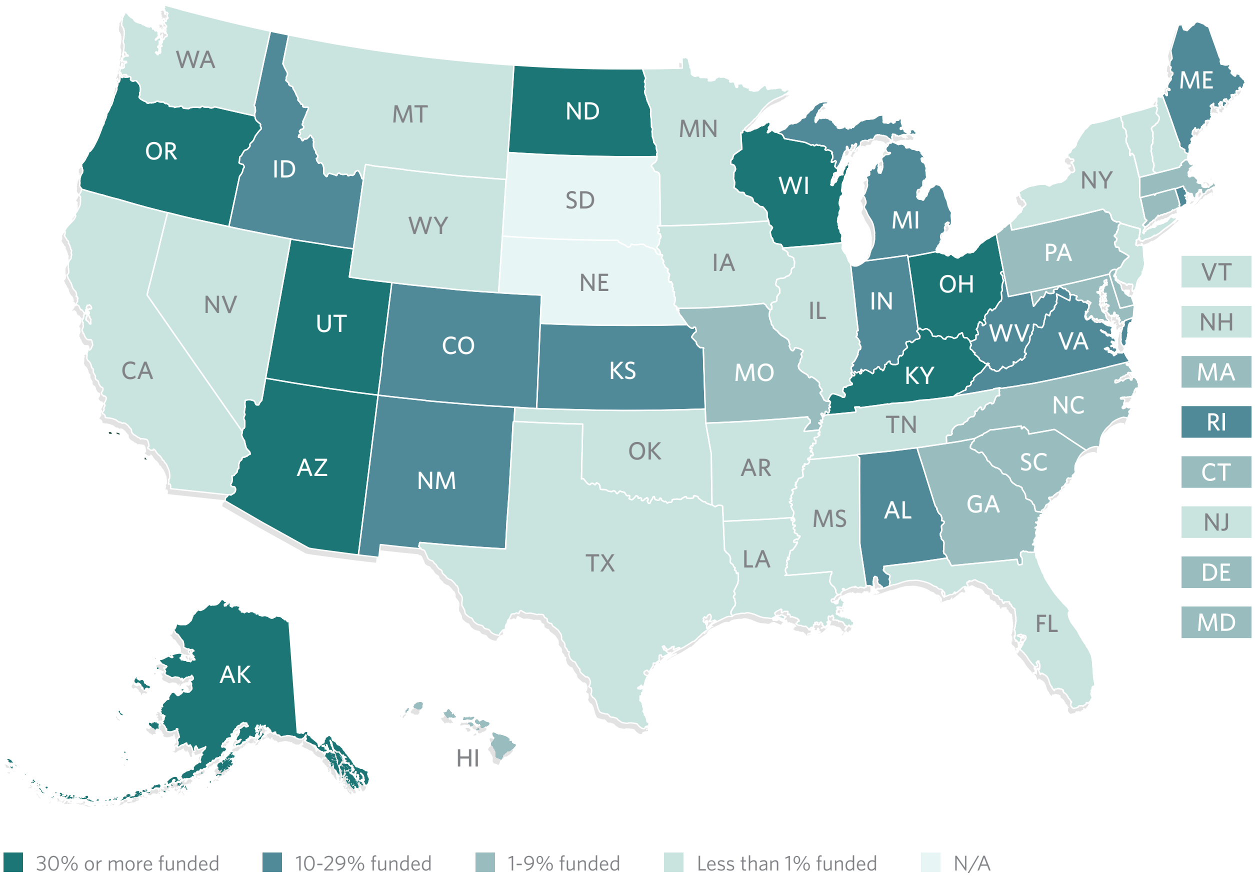
States reported a total liability of $737 billion in nonpension retirement benefits for their employees, known as other post-employment benefits (OPEB), in 2016. This figure represents a 6 percent increase from 2015, when states reported $692 billion in liabilities. However, states had only $46 billion in assets in 2016 to pay for these benefits—a slight drop from the $48 billion they reported in 2015. This fact sheet serves as a data update to a 2017 issue brief from The Pew Charitable Trusts, "State Retiree Health Care Liabilities: An Update," and explores two options to help states better manage rising OPEB costs.

Of the 48 states that reported OPEB liabilities in 2016, 19 have not put aside any funds to pay for promised benefits or their available funds are negligible; 10 have a funded ratio of less than 10 percent; 11 have a funded ratio of 10 to 29 percent; and only eight have a funded ratio of 30 percent or above. (See Figure 1.) Nebraska and South Dakota do not recognize OPEB in state financial reports. In contrast, every state pre-funds the pension benefits offered to public workers, with an average funded ratio of 66 percent.

Figure 1

2016 State OPEB Funded Ratio Map

A majority of states have funded levels below 30%



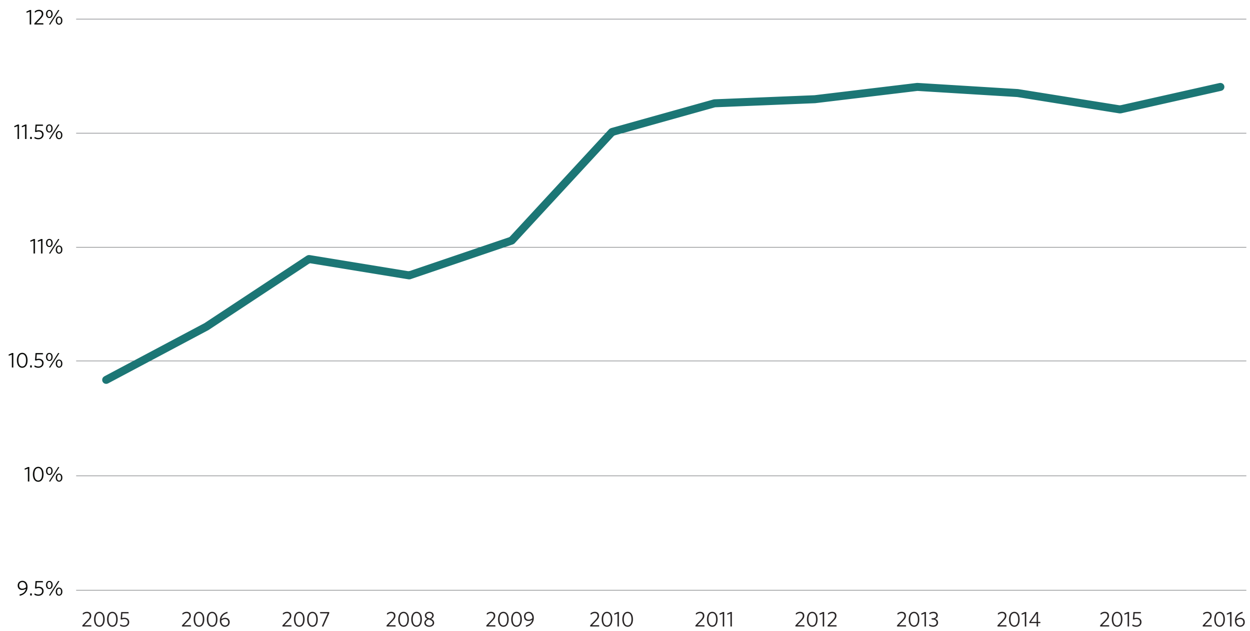
Sources: State comprehensive annual financial reports, OPEB actuarial valuations, and state data verification responses

Retiree health care costs account for almost all of states' OPEB liabilities, and the price tag for health care is continuing to rise. The average annual health care premiums for single coverage rose 24 percent from 2010 to 2015, and premium costs for family coverage have risen 61 percent over the past decade.[1] Consequently, employer health care costs as a percentage of total compensation have also increased. Figure 2 illustrates the increase in employer contributions for active employees.

Figure 2

Share of Total Compensation Spent on Health Care for Active Employees

Employer costs are rising



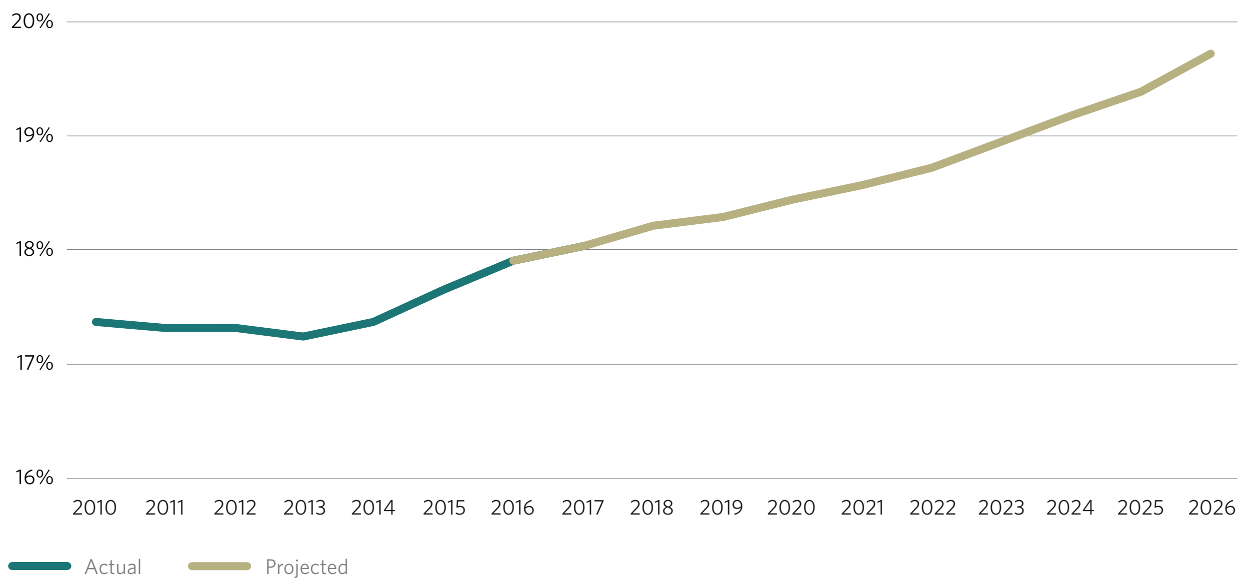
Source: Bureau of Labor Statistics, National Compensation Survey

Health care costs have been rising overall, with the Centers for Medicare & Medicaid Services projecting a 70 percent increase in national health expenditures in the coming decade as more Baby Boomers retire. But from 2010 to 2013, states experienced a reprieve because of lower-than-expected cost inflation. During this period, total OPEB liabilities declined, from $658 billion in 2010 to $628 billion in 2013, since actual health claims were lower than projected. In 2014, health cost inflation started to rise, however, and retiree health care benefits are expected to become increasingly expensive for states. Washington state's estimated OPEB liabilities rose 24 percent between 2013 and 2015 based on increases in health care spending and updated assumptions about cost growth. New Jersey's reported OPEB liabilities went up by 9 percent for similar reasons.

Figure 3

National Health Expenditures for All Americans as a Percentage of GDP Projections

Spending increases since 2014 are projected to continue



Sources: Centers for Medicare & Medicaid Services, Office of the Actuary; U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Census Bureau

Options for managing OPEB costs

The funding status of state retirement health care plans continued to fall from 2015 to 2016. As states grapple with rising unfunded liabilities for these plans, they have a couple of options, including pre-funding the benefits or reducing benefits.

For example, the majority of state OPEB plans are funded on a pay-as-you-go basis, using annual appropriations. However, 34 states have at least one plan that has adopted pre-funding policies, meaning that assets are set aside to cover the state's share of future benefit costs.

States with pre-funding policies calculate OPEB liabilities using their own accounting assumptions. As a result, those states can expect decreases in their reported unfunded OPEB liabilities. Of the 34 states with some level of assets accumulated in OPEB trust funds in 2016, eight had funded ratios over 30 percent.

Hawaii presents an example of the costs and benefits of pre-funding. The state committed to pre-funding its OPEB benefits with the passage of Act 268 in 2013. Pre-funding will require additional funds to build up the assets needed to match Hawaii's liabilities—the bill for that will end up being about $400 million in 2019 beyond simply paying out benefits as they come due. However, in 2045, when Hawaii's OPEBs are projected to be fully funded, the annual bill will drop by more than $1 billion, and the state is expected to save $800 million to $900 million annually compared to its earlier approach. The timing and magnitude of realized savings will depend on how investments and financial markets perform as well as trends in health care costs—risks that Hawaii and other states similarly manage with their pension plans. Pre-funding also ensures that retirement benefits are paid out of a dedicated trust rather than current budgets, so taxpayers are funding the public employees that are providing services today rather than requiring future generations to foot that bill.

States can also alter benefit levels to better manage costs. Unlike pension benefits, which accrue over an employee's tenure and have stringent legal protections, OPEB benefits typically have limited legal protections because they accrue only when employees reach a certain age or years of service. As a result, states can generally adjust benefit levels, deductibles, co-payments, and co-insurance amounts or restrict eligibility by requiring longer service to qualify.

For example, Maryland doubled its years-of-service requirement for eligible retirees to 10 years and changed its formula for premium contributions to decrease costs. It is important to note, however, that state law allowed for these changes. Other states may have more robust protections for OPEB benefits.

Given projections for continued increases in health care costs over the next decade, OPEB spending may cause growing pressures on state budgets. Adequate pre-funding of OPEB benefits, adjustment of benefit levels, or a combination of the two may provide states with the tools to prevent fiscal challenges in the future.

Figure 4

State OPEB Liabilities and Funded Ratios, 2016

Liabilities overall increased 6% while assets declined

State OPEB liabilities and funded ratios (in millions)							
State	2016 liability	2016 assets	2016 funded ratio	2016 actual contributions	2016 % annual required contribution paid	% change in liability, 2015-16	% change in contributions, 2015-16
Alabama	$10,267	$1,391	13.5%	$387	46.4%	-1.4%	7.0%
Alaska	$18,445	$10,211	55.4%	$292	25.9%	6.5%	-52.9%
Arizona	$2,295	$2,170	94.6%	$61	100%	-1.7%	-43.6%
Arkansas	$2,285	$0	0%	$59	28.7%	20.4%	11.4%
California	$78,679	$237	0.3%	$2,590	38.5%	-16.3%	-11.5%
Colorado	$2,253	$361	16%	$110	67.6%	-0.2%	1.0%
Connecticut	$22,117	$230	1%	$566	36%	0%	-0.9%
Delaware	$7,460	$310	4.2%	$217	51%	18%	-4.7%
Florida	$9,198	$0	0%	$148	20.6%	3.3%	40.3%

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State OPEB liabilities and funded ratios (in millions)							
State	2016 liability	2016 assets	2016 funded ratio	2016 actual contributions	2016 % annual required contribution paid	% change in liability, 2015-16	% change in contributions, 2015-16
Georgia	$17,238	$615	3.6%	$1,118	78.3%	-1.6%	38.8%
Hawaii	$9,287	$221	2.4%	$551	74.2%	8.9%	40%
Idaho	$146	$31	20.9%	$9	70.5%	-1.9%	3.5%
Illinois	$53,473	-$106	-0.2%	$298	7.7%	0%	-67.4%
Indiana	$476	$137	28.8%	$42	115.8%	8.4%	31.4%
Iowa	$643	$0	0%	$25	36.2%	2.1%	-5.7%
Kansas	$263	$40	15.1%	$53	82%	-44.2%	-29.7%
Kentucky	$6,925	$2,386	34.4%	$387	161.3%	2.5%	16.7%
Louisiana	$5,329	$0	0%	$206	58.1%	-28%	-3.5%
Maine	$2,121	$281	13.3%	$103	69.9%	-2.3%	0.8%
Maryland	$12,721	$291	2.3%	$495	70%	23.7%	6.8%
Massachusetts	$17,083	$760	4.5%	$614	43.3%	3.5%	-3.6%
Michigan	$10,982	$1,422	12.9%	$1,654	96.7%	-55.7%	-5.1%
Minnesota	$944	$0	0%	$54	44%	-2.4%	3.6%
Mississippi	$709	$0	0%	$32	68.2%	-3.1%	0.1%
Missouri	$3,213	$154	4.8%	$122	58%	-7.9%	1.5%
Montana	$458	$0	0%	$12	27.6%	-1.8%	-12.8%
Nebraska							
Nevada	$1,499	$1	0.1%	$42	29.2%	3.6%	-38.4%
New Hampshire	$3,013	$27	0.9%	$111	52.8%	7.1%	10.8%
New Jersey	$85,425	$0	0%	$2,274	27.9%	1.3%	11.4%
New Mexico	$4,277	$472	11%	$0		14.3%	

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State OPEB liabilities and funded ratios (in millions)							
State	**2016 liability**	**2016 assets**	**2016 funded ratio**	**2016 actual contributions**	**2016 % annual required contribution paid**	**% change in liability, 2015-16**	**% change in contributions, 2015-16**
New York	$134,759	$0	0%	$2,632	35.3%	70.6%	69.7%
North Carolina	$33,868	$1,401	4.1%	$943	36.6%	0%	9.2%
North Dakota	$191	$98	51.3%	$13	129%	16%	-36.9%
Ohio	$25,187	$15,595	61.9%	$290	30.3%	4.6%	-33.2%
Oklahoma	$5	$0	0%	$0	59.3%	8.3%	-0.9%
Oregon	$605	$484	80%	$24	24.2%	-0.3%	4.8%
Pennsylvania	$24,216	$526	2.2%	$1,066	64.6%	9.2%	2.3%
Rhode Island	$786	$142	18%	$53	100%	0%	-13.4%
South Carolina	$11,548	$1,063	9.2%	$465	60.9%	6.4%	-19.6%
South Dakota							
Tennessee	$1,380	$0	0%	$74	56.6%	-4.3%	-3.9%
Texas	$88,422	$641	0.7%	$1,630	22.8%	10.2%	-34.7%
Utah	$405	$220	54.4%	$37	122.2%	0.1%	16.8%
Vermont	$1,823	$0	0%	$49	40.4%	-13.5%	12%
Virginia	$7,276	$1,845	25.4%	$441	66%	4%	4.4%
Washington	$10,879	$0	0%	$151	14.7%	0%	0%
West Virginia	$3,417	$705	20.6%	$187	65.7%	0%	21.8%
Wisconsin	$2,642	$1,222	46.3%	$45	29.6%	1.3%	-16.1%
Wyoming	$666	$0	0%	$15	27.8%	163.8%	40.6%
U.S.	**$737,300**	**$45,584**	**6.2%**	**$20,747**	**37.2%**	**6.5%**	**-0.3%**

Note: Nebraska does not calculate its liability for retiree health care and other benefits. South Dakota stopped reporting an OPEB liability as of 2014.

Sources: State comprehensive annual financial reports, OPEB actuarial valuations, and state data verification responses

Endnotes

1 Kaiser Family Foundation, "Premiums and Worker Contributions Among Workers Covered by Employer (Employer-Sponsored Coverage), 1999-2018," https://www.kff.org/interactive/premiums-and-worker-contributions-among-workers-covered-by-employer-sponsored-coverage-1999-2018/#/?endYear=2015&startYear=2010.

For further information, please visit:

pewtrusts.org/pensions

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