

# PRESS-REGISTER

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*'Time bomb' health costs: State's estimated 30-year bill adds up to nearly \$20 billion*

*By Sean Reilly*

Government financial crises usually follow a simple storyline: too little tax money, too many expenses. But, as with a family adding up its credit card debt, another kind of shock sets in with the discovery of just how big some bills are.

Under pressure from a national accounting board, state and local governments have started facing the long-term cost of underwriting health insurance for retired teachers and other employees. For Alabama, the estimated 30-year price tag amounts to almost \$20 billion.

While officials have already taken some small steps to close the gap, "it's just a time bomb sitting there kind of ticking," said Marc Reynolds, deputy director of the Retirement Systems of Alabama, the pension agency that also runs the teachers' health insurance program.

In the long run, Reynolds said, policymakers will either have to cut benefits or pump in a lot more money. And with yearly state spending on health insurance already past the \$1 billion mark, the debate could revive pressure on workers and retirees to pick up more of the cost of coverage — a step they have resisted on the grounds that their salaries are lower than those in the private sector.

"Ultimately, the employees are going to have to put something in there too, and that's just a fact of life," state Finance Director Jim Main said last week.

"I think you have to look at total compensation," responded Paul Hubbert, executive secretary of the Alabama Education Association, the state's largest teachers union.

Alabama teachers still earn far less than the national average, Hubbert said. On top of monthly pre-

miums, he added, they face higher costs from rising co-payments for prescription drugs and a monthly surcharge on smokers. As chairman of the teachers' health insurance board, Hubbert has blocked past attempts to raise contributions.

Between them, the teachers program and a separate plan for other state employees cover some 355,000 active workers, retirees and family members, according to official numbers.

The broader public also has a stake, said Robert Ward, deputy director of the Nelson A. Rockefeller Institute of Government, a research arm of the State University of New York. Money for retiree health care is "either going to come from the tax bill or it's going to represent a dollar that's diverted from transportation, education and other services," Ward said.

Forcing the issue is a recent requirement that state and local governments calculate the future cost of health coverage and other benefits promised to retirees. Adopted three years ago by the Governmental Accounting Standards Board, a Connecticut-based, nonprofit organization, the new standard is just now taking effect. Although it is not legally binding, governments could risk a lower credit rating — thus requiring them to borrow money at higher interest — if they don't comply.

So far, the rule has helped force "a lot of governments to come to terms with the fact that they had benefits that were in some cases extremely expensive," said Dean Mead, the accounting board's research manager.

The city of Mobile, Mobile County and Baldwin County all have actuaries at work reckoning their retiree obligations, but no numbers are yet available, finance officials for all three governments said last week.

In Alabama, active teachers pay a base rate of \$2 a month for individual coverage and \$134 for a family plan. For other state employees, family coverage costs \$180 per month; individual coverage is free.

Those out-of-pocket expenses are well below average for Alabama's workforce as a whole, according to federal statistics. While retirees pay more as a rule, the state still typically picks up the lion's share of the cost.

Health insurance spending across the country has ballooned, although the rate of increase in Alabama has slowed since the Legislature imposed what is now a \$22-per-month smokers' surcharge and other cost-cutting moves in 2004.

But in their "pay-as-you-go" mindset, lawmakers have rarely discussed the obligations piling up behind the fiscal horizon. When actuaries finally ran the numbers last year, they found that the state employees' plan had an "unfunded accrued liability" over 30 years of about \$5.3 billion, while the teachers' program was some \$14.6 billion in the hole.

This June, voters approved a constitutional amendment creating two trust funds to serve as vehicles for paying off those obligations. But the legislation didn't spell out where the money is supposed to come from.

Today, the State Employees' Insurance Board is set to vote on shifting \$50 million in surplus money to one of those funds, along with another \$6.6 million in the next fiscal year, Chief Operating Officer Gary Matthews said Tuesday.

The teachers' health insurance trust fund recently received some \$200 million in left-over state money. Administrators also plan to earmark the roughly \$5 million collected each year from the smokers' surcharge, Reynolds said.

"Shoot, no," he answered when asked whether that sum would be sufficient. Completely covering the anticipated liability would take more than \$1 billion each year, he said. and lower taxes to sustain job growth.