

TOUGH CHOICES

FACING FLORIDA'S GOVERNMENTS



BEYOND PENSIONS: FLORIDA LOCAL GOVERNMENTS AND RETIREE HEALTH BENEFITS

The financial condition of public employee retirement systems is one of the most highly publicized and complex policy issues facing state and local governments. Most of the recent attention is focused on the cost and sustainability of public pensions, but pensions are not the only retirement benefits that can create significant taxpayer obligations. This report highlights another important potential ticking time bomb for many Florida local governments - commitments to subsidize healthcare insurance premiums for retired workers.

There are several reasons for concern. First, few Florida local governments have set aside funds to cover the promises they have made to their employees to provide health benefit subsidies during their retirement. Instead, most governments opt to pass the cost of retiree health benefits that have already been earned onto future taxpayers. This delay will likely only increase how much those benefits will eventually cost taxpayers. Second, over the next twenty years the number of workers who will begin to draw retirement benefits is expected to increase significantly as the Baby Boomer generation retires. Third, it is widely expected that healthcare costs and insurance premiums will require an increasingly larger portion of household incomes in the coming years.

The LeRoy Collins Institute first drew attention to retiree health benefit obligations of Florida's cities and counties in a February 2011 report titled *Trouble Ahead: Florida Local Government and Retirement Obligations*.¹ In that report, we called for increased oversight and transparency of local government retiree health benefits. The State of Florida currently monitors local government pension plans and provides annual reports to help interested stakeholders track pension contributions and funding levels. However, there is no such effort to ensure the transparency of the liabilities and costs for city and county retiree health benefits. In the same report, we also recommended that Florida lawmakers consider repealing a little-known state law that mandates a specific type of retiree health benefit called an implicit benefit.

BOX 1: LeRoy Collins Institute Recommendations on Local Retiree Health Benefits (February 2011)

(1) Provide state oversight of local retiree health benefits: State agency oversight should be provided, in statute, to manage local retiree health benefit obligations. This agency should establish standards and provide technical assistance, if desired, to local governments.

(2) Consider repeal of the law requiring implicit subsidization of healthcare benefits: Florida lawmakers should give much consideration to repealing current Florida law requiring the implicit subsidization of healthcare benefits for Florida local governmental retirees.

A number of other public sector observers are also raising alarms about the funding condition of public retiree health benefits. In a study of state-level retirement plans, the Pew Center on the States estimated that the unfunded liabilities associated with state-sponsored retiree health benefits are at least as large as unfunded pension obligations, making up more than half of the “trillion dollar” gap in retirement benefit obligations in the U.S.² In a 2011 *Governing Magazine* article, Girard Miller, a nationally-recognized public retirement expert, stated that, “while state and local government leaders and associations are totally focused on defending their pension plans, they should be devoting twice as much time and energy to their real nightmare: retiree medical benefits, also known as OPEBs (other post-employment benefits).”³

This report provides a brief description of Florida's local retirement health benefits and presents information on the size of benefit liabilities and annual costs in Florida's counties and 100 largest cities (those with populations greater than 20,000).

Our key findings include:

- The total size of unfunded retiree health benefit liabilities in Florida cities and counties is approximately \$8.4 billion (comprised of more than \$6.5 billion in locally-administered plans and \$1.9 billion in cities' and counties' share of the Florida Retirement System (FRS) Health Insurance Subsidies' unfunded liability).⁴
- The largest underfunding problems are in governments that provide explicit benefits (a type of direct health insurance subsidy that is similar to a pension benefit). Nearly half of Florida counties and larger cities provide locally-administered explicit benefits, which are in addition to the subsidy provided through the FRS Health Insurance Subsidy (FRS-HIS or HIS).
- Nearly all retiree health benefits are funded using a “pay-as-you-go” approach. This means that governments are not setting aside money to fund benefits as those benefits are earned, but instead, are leaving it to future taxpayers to pay the true costs of health insurance obligations.
- In order to fund their retiree health benefits on an actuarially sound basis, most local governments that sponsor a locally-administered explicit-benefit plan should increase their contributions by 2 percent to 10 percent of their payrolls.

» **WHAT ARE RETIREE HEALTH BENEFITS?**

In this report, we use the term “retiree health benefits” to refer to employer commitments to subsidize a portion (or all) of their retired workers’ healthcare insurance premiums. The technical term for these benefits is “other post-employment benefits” or “OPEBs.” OPEBs can also include subsidies for retiree vision and dental care, life insurance and other non-pension benefits, when they are provided. However, healthcare insurance subsidies are usually the most costly benefit and typically account for nearly all of a government’s OPEB liability. For clarity, this report generally avoids the term OPEB in favor of the more descriptive “retiree health benefits.”

While retiree health benefits have been around for years, recent changes in national accounting standards now compel state and local governments to measure and report their retiree health benefit liabilities and related funding activity to satisfy generally accepted accounting principles. Most local governments began publishing information on their retiree health benefit liabilities and contributions in fiscal year 2008 annual financial reports; smaller cities and counties implemented the accounting standards by fiscal year 2010 annual financial reports. This report is based on data from fiscal year 2011 annual financial reports.

» **RETIREE HEALTH BENEFITS IN FLORIDA**

There is significant variation in the retiree health benefit plans that cover Florida local government employees. This report recognizes two characteristics of retiree health plans that are policy and financially relevant:

1. The type of benefits provided (**implicit** and **explicit benefits**), and
2. Whether benefits are **locally-administered** or **state-administered**.

Types of Benefits

The first type of retiree healthcare benefit is called an **implicit benefit**. All local governments in Florida are required to provide their employees with implicit benefits (Florida Statutes 112.0801).

Governments provide implicit benefits by giving their retirees an option to purchase the health insurance coverage that is available to their current employees at the same premium rates that apply to those current employees. This benefit creates a cost because health care insurance for retirement-aged individuals is generally much higher than for working-age individuals. When retirees and current employees are combined into a single pool, the result is a blended rate that increases governments’ insurance costs from the amount that would have been charged if the insurance only covered the current employees. The dollar value of the implicit benefit is equal to the difference between the age-adjusted premium that would be charged if the government only provided health insurance to its current employees and the cost of the blended premium that includes current employees and retirees.

The second type of retiree health benefit is called an **explicit benefit**. Explicit benefits usually take the form of monthly health insurance subsidies that are equal to the number of years an employee works (often called service credits) multiplied by a specific dollar amount (often capped at a specified dollar limit). For example, a worker who retires after 20 years of service with a \$5 subsidy for each year of service will receive a monthly health insurance premium subsidy of \$100 (20 years x \$5/year).

Another variation is a plan that covers a percentage of retirees’ insurance premiums. Policies that cover a percentage of insurance premiums often have minimum and maximum benefit levels that are based on the number of years of service. In recent years, percentage-based benefits have tended to be more expensive than fixed-dollar subsidies due to rising health insurance costs.

Unless explicit benefits provide small subsidies or only affect a few workers, they tend to be much more expensive than implicit benefits. There are several reasons explicit benefits are more expensive. First, retirees only receive an implicit benefit if they stay on their employers' insurance plan, but explicit benefits usually subsidize health insurance premiums regardless of whether the insurance policy is provided through the employer. Second, most implicit-benefit policies require retirees to enroll in their health insurance policy soon after they retire (within a month or two) and retirees who do not enroll during that window are usually prohibited from enrolling in the future. Explicit benefits are usually lifetime benefits and do not require retirees to opt-in at retirement. Finally, implicit benefits usually expire once retirees qualify for Medicare. Thus, cities and counties that only provide implicit benefits are likely to have much smaller retiree health benefit liabilities and annual costs than those governments that also provide explicit benefits.

Locally or State-Administered

Florida local government employees are covered by locally and state-administered retiree health benefits.

- All local governments are mandated by the state to provide implicit benefits in the form of allowing retirees the option to stay on their employers' health insurance at the employee premium rate. This is considered a locally-administered benefit.
- Many cities (40 percent of our sample) and counties (50 percent) sponsor locally-administered explicit-benefit plans (in addition to the 67 counties, there are more than 400 incorporated cities in the state).
- Employees of some cities and all counties also receive explicit benefits as part of the FRS-HIS.

Table 1 summarizes the variation in benefit types and administration-source in Florida cities and counties.

It is important to note that these categories are not mutually exclusive. All counties provide implicit benefits and contribute to their employees' FRS-HIS benefits. At least half of Florida counties also provide a locally-administered explicit benefit to some or all of their workers. There is even more variation in cities. All cities provide state-mandated implicit benefits. Some also provide locally-administered explicit benefits. Others do not provide locally-administered explicit benefits but contribute to the FRS-HIS benefit for some or all of their workers. Some may be involved in all three types of benefits (some workers under FRS and others under locally-administered explicit benefits).

Table 1: Retiree Health Benefits for Florida Local Governments

	State-Administered Explicit Benefit (i.e. FRS Health Insurance Subsidy)	Locally-Administered Explicit Benefit	Locally-Administered Implicit Benefit
Cities	A small portion of city employees participate in FRS	Nearly 40 percent of cities in our sample	All local governments provide this benefit as required by Florida Statute
Counties	All county employees participate in FRS	Nearly 50 percent of counties	

The rest of this report looks at liabilities and costs of each of these three categories: (1) the FRS-Health Insurance Subsidy, (2) locally-administered explicit-benefit plans, and (3) locally-administered implicit benefits.

» **FRS-HEALTH INSURANCE SUBSIDY**

Local government retirees who are part of the Florida Retirement System (all county and school district employees and some municipal and special district employees) are provided a monthly insurance subsidy. The size of retiree subsidies depends on the number of years of credited service, multiplied by \$5. HIS provides a maximum monthly subsidy of \$150 (i.e. \$5 for 30 years) and a minimum monthly subsidy of \$50. HIS is funded by contributions from FRS-participating employers (state government, school districts, counties, participating cities and special districts), who contribute a percent of their covered payrolls to FRS each pay period for the HIS benefit.⁵

As of fiscal year 2011, the total accrued liability for HIS (for state and local employees) was valued at \$8.4 billion. FRS had set aside only \$291 million in assets to cover the HIS liability; this means HIS was just 3 percent funded (assets/liabilities x 100 percent) with an unfunded accrued liability of approximately \$8.2 billion. The funding condition has not improved since fiscal year 2011.

Given that county employees make up about 20.1 percent of FRS participants, we estimate that the county share of the HIS unfunded accrued liability is approximately \$1.6 billion (i.e. 20.1% x \$8.2 billion). Of course, some counties have more employees and; therefore, they bear a larger relative share of the unfunded liability. The largest five counties (in terms of number of employees) comprise 53.4 percent of all county employees in Florida: Miami-Dade (27.9 percent), Broward (7.1 percent), Palm Beach (6.6 percent), Orange (6.4 percent) and Hillsborough (6 percent).⁶

City and special district employees make up about 3.7 percent of FRS participants. We estimate that the city/special district share of the unfunded liability is approximately \$300 million (i.e. 3.7% x \$8.2 billion). It is difficult to assess which cities bear the largest portions of this burden. Relatively few cities include all their employees in FRS. Most of the larger cities that participate in FRS only cover their elected officials (i.e. Gainesville, Hollywood, Boca Raton and Pompano Beach). The largest cities (in terms of number of employees) that cover general employees in FRS include Daytona Beach, Pensacola, Melbourne, Bradenton and Margate.

FRS funds the HIS liability using the “pay-as-you-go” method. This type of funding uses annual contributions to make benefit payments to its current retirees. The “pay-as-you-go” approach shifts the costs of benefits that are earned today onto future taxpayers. If the state was to change its contribution policy to pre-fund the liability, the contribution rate may increase significantly.

» **LOCALLY-ADMINISTERED EXPLICIT BENEFITS**

This section reports on the liabilities and costs in cities and counties that provide locally-administered explicit-benefit plans. It is important to note that these governments also provide an implicit benefit. Their reported liabilities and costs, therefore, are the sum of their explicit and implicit benefit liabilities and costs. This section provides information on the liabilities and costs of governments that provide both types of benefits, but does not include information on the liabilities and costs created by the Health Insurance Subsidy. The liabilities in this report are the Actuarial Accrued Liabilities (AAL), which is similar to the liability concept that is used in most pension discussions, and not the net OPEB liability (or assets) that governments report on their basic financial statements. Governments that began to fully pay their annual pension contribution requirements in recent years will likely have an unfunded AAL for many years but will not show a net OPEB liability on their government-wide financial statements.

Thirty-two counties provide locally-administered explicit benefits and have a total liability of \$3.5 billion. Thirty-

seven cities provide locally-administered explicit benefits and bear a total liability of \$3 billion. Cities and counties have funded only a small share of these obligations. As a whole, counties are 3.5 percent funded and cities are 4.8 percent funded.

Box 2: The median is the middle observation—half of the values are larger than the median and half of the values are smaller. The median differs from the average because it is not disproportionately affected by extremely high or extremely low values (so-called outliers).

The median liability for counties with explicit benefits is \$33 million, and the median liability for cities with explicit benefits is \$24 million.

Governments with the largest total retiree health benefit liabilities are shown in Table 2.

Table 2: Local Governments with Large Locally-Administered Retiree Health Liabilities (FY 2011)

Government	Liability (\$ Millions)	Liability (% Payroll)	Funded Ratio (Assets/Liability × 100%)
Pinellas County	707	154	0
City of Miami	541	209	0
City of Hollywood	433	453	0
Lee County	406	197	10
Miami-Dade County	356	15	0
Palm Beach County	319	46	7
Broward County	295	51	0
City of Orlando	249	178	15
City of Hialeah	243	290	0
Polk County	228	123	0
City of Miami Beach	191	186	5
City of Cape Coral	191	298	0

Large liabilities for particularly large governments (column 2) may be less of a concern. However, large liabilities as a share of payroll (column 3) deserve attention. Local governments with explicit-benefit plans that exceed 100 percent of their payroll, but are not included in Table 2 because their total liability is not among the state's highest, are Franklin County, Monroe County, and the cities of Bradenton and Titusville.

It is useful to examine explicit-benefit plans that have relatively small liabilities. When we look more closely at these governments, we see that they tend to limit their explicit benefits in a variety of ways:

- Citrus County limits its explicit benefits to the Tax Collector's office and for just 36 months
- DeSoto County closed its explicit-benefit plan to participants who qualified prior to Dec. 31, 2008
- Pasco County Clerk provides an explicit benefit until retirees turn 65
- Pasco Board of County Commissioners requires participants to have 30 years of service credits to qualify for an explicit benefit
- City of Aventura only provides an explicit benefit to department directors who earn more than 10 years of service credits
- City of Coconut Creek reduced the benefits provided to police officers who were hired after Jan. 1, 2002

- City of Coral Springs provides a partial subsidy for those who participate in a specific healthcare plan and only until age 65
- City of Pinellas Park offers an explicit benefit that expires when the retiree turns 65
- City of Sebastian provides a partial subsidy for just two years

Some governments are working to pay down their unfunded liabilities, while others do not set aside assets and are leaving the liabilities for future taxpayers. Table 3 lists local governments that have set aside some assets.

Table 3: Governments that have Set Aside Assets for Explicit Health Benefits Liability (FY 2011)

Funded Level	Cities and Counties
1% to 5 %	Alachua County, Coral Springs, Lakeland, Titusville
6% to 25%	Indian River County, Lee County, Miami Beach, North Miami Beach, Delray Beach, Orlando, Pembroke Pines, Port St. Lucie, Sarasota, Tallahassee
26% to 50%	Orange County, St. Johns County
51% to 99%	Sarasota County, Gainesville ⁷
100% or greater	None

Funding Locally-Administered Explicit Benefits

Some governments that provide explicit benefits have already begun to set aside assets and are beginning to make a dent in their unfunded liability (see Table 3). However, more than two-thirds (73 percent) have not moved toward funding their liabilities. Instead they are using the “pay-as-you-go” approach.

The 27 percent of localities that have set aside assets usually do so by setting aside money in a reserve fund or in a qualified trust.

Accounting standards regard **setting aside money in a reserve fund** as equivalent to “pay-as-you-go” because a reserve fund does not qualify as a fiduciary fund where the assets belong to the future retirees and may be used for alternative purposes at the discretion of the government’s governing body. When economic times are difficult, it is expected that reserve funds will be used to meet more immediate resource demands than saving for future retirement benefit payments.

Only a few Florida cities and counties use the reserve fund approach. Some of the local governments that have used this approach are Broward County, Hillsborough County, Martin County, Osceola County, St. Lucie County, Volusia County, and the City of Temple Terrace.

The second approach is **setting aside assets in a qualified irrevocable trust** that is used to pay for future retiree benefits. This approach, often called pre-paying the liability, protects the assets for retirees. Twenty-four local governments have set aside assets in a qualified trust. It is difficult to know whether these governments will continue to pre-pay their liabilities; most include wording in their annual financial reports that they reserve the ability to use the “pay-as-you-go” approach in the future.

Counties with qualified trusts include Alachua, Indian River, Lee, Orange, Palm Beach, Sarasota and St. Johns.

Municipalities with qualified trusts include Coral Springs, Dania Beach, Davie, Deland, Delray Beach, Gainesville,

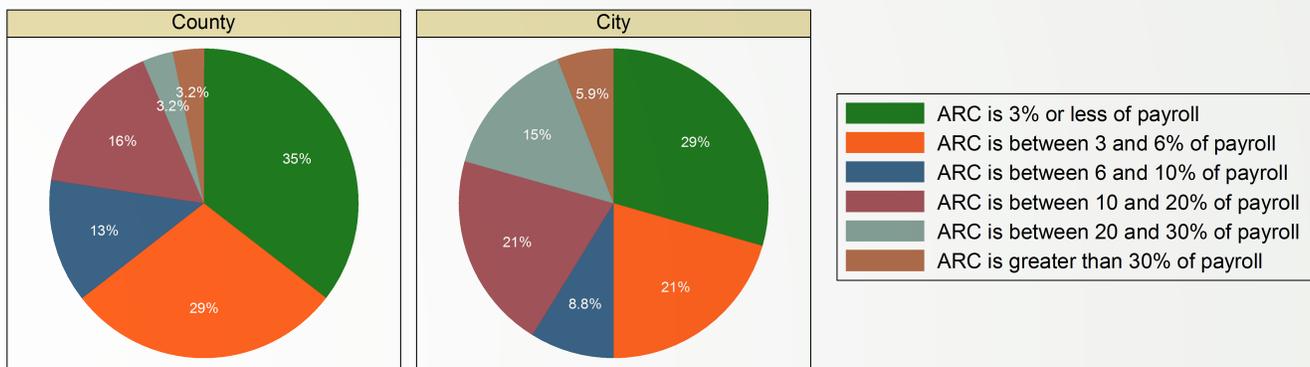
Lakeland, Miami Beach, North Miami Beach, Orlando, Pembroke Pines, Port St. Lucie, Sarasota, Tallahassee, Titusville, Wellington and West Palm Beach.

The Cost of Funding Locally-Administered Explicit Benefits

Actuaries work with local governments to determine how much money needs to be set aside every year to fund their retiree health benefits. The result is an Annual Required Contribution (ARC) that reflects the amount of money that is necessary to cover the benefits that were earned in the current year as well as the amount of money that is needed to pay down the unfunded portion of the total liability (which is smoothed over as many as 30 years).

Figure 1 illustrates the size of actuarial determined contribution rates as a share of payroll (called the Annual Required Contribution or ARC) for counties and cities with explicit benefits. The larger the ARC, the greater the budgetary cost to local governments.

Figure 1: Size of the Actuarially Determined ARC as a Share of Payroll (FY 2011)



Most cities and counties with explicit benefits need to contribute less than 6 percent of payroll to cover their full ARC. Twenty-nine percent of cities and 35 percent of counties need to contribute less than 3 percent of their payroll to cover their full ARC. Another 21 percent of cities and 29 percent of counties need to pay between 3 percent and 6 percent of their payroll. Many local governments that provide explicit benefits, however, need to contribute more than 6 percent of their payroll. Nearly 21 percent of cities and 6.4 percent of counties with explicit benefits need to contribute more than 20 percent of payroll to cover their full ARC. That is a significant burden and is very similar to the contribution rate in most public-safety defined-benefit pension plans.

Figure 2: Increase Necessary to Contribute a Full ARC (FY 2011)

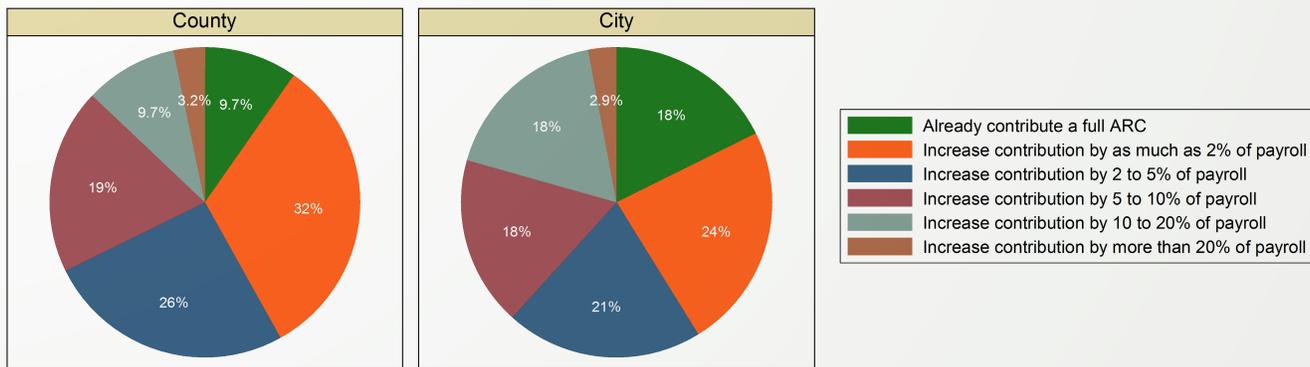


Figure 2 shows how much contributions need to increase if local governments are to pay their full ARC. Eighteen percent of cities and nearly 10 percent of counties with explicit-benefit plans are already paying their full ARC. Twenty-four percent of cities and 32 percent of counties need to increase their contributions by less than 2 percent of payroll. Another 21 percent of cities and 26 percent of counties need to increase their contribution by between 2 percent and 5 percent of payroll. Eighteen percent of cities and 19 percent of counties need to increase their contributions by 5 percent to 10 percent of payroll in order to pay a full ARC. Eighteen percent of cities and nearly 10 percent of counties with explicit-benefit plans need to increase contributions by 10 percent to 20 percent of payroll. And, nearly 3 percent of cities and 3.2 percent of counties with explicit benefits need to increase their contributions by more than 20 percent of payroll.

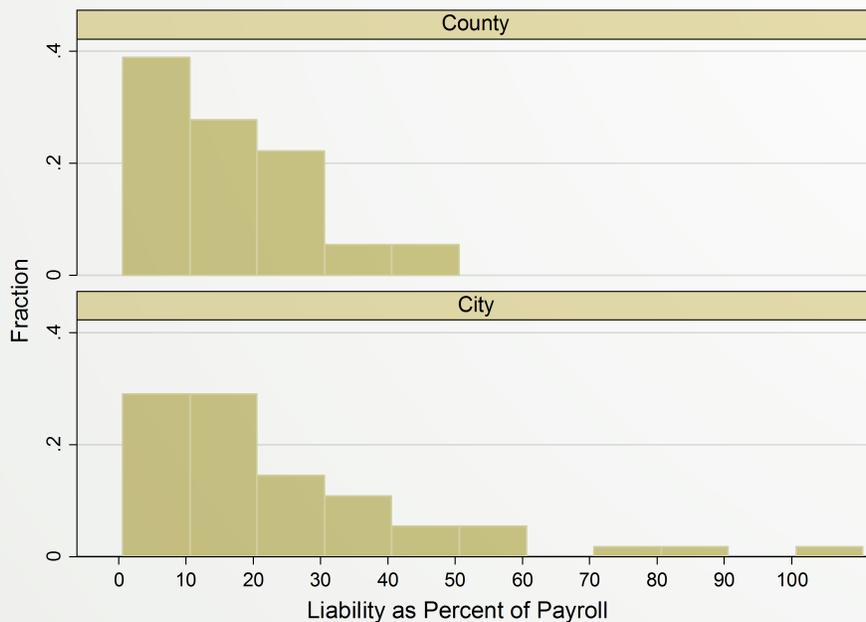
» **LOCALLY-ADMINISTERED IMPLICIT BENEFITS**

How much money do Florida's cities and counties need to set aside in order to cover the implicit benefits their current employees and retirees have already earned? The total size of liabilities for all counties that do not provide locally-administered explicit benefits is \$2 million. The total liability is \$4 million for cities. Clearly, these liabilities are much smaller than for those of governments that also provide explicit benefits.

For more than two-thirds of cities and counties that do not provide a locally-administered explicit benefit, the liability is less than 20 percent of their current payroll. Cities tend to have larger liabilities (as a share of payroll) than counties. The median liability for cities is 17.9 percent of payroll and 13.5 percent for counties. It is not clear why cities tend to have larger liabilities than counties. It may be that city workers are more likely to maintain their city-provided insurance benefits in retirement. It may also be that city workers, especially public safety workers, tend to retire earlier and therefore receive implicit benefits for more years.

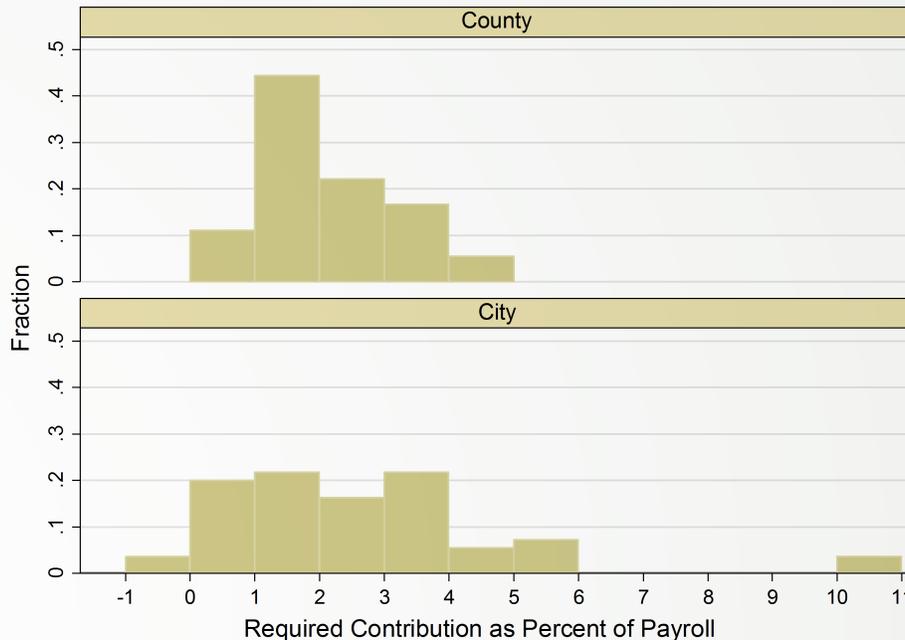
Figure 3 illustrates the variation in the size of implicit benefit liabilities in Florida cities and counties. At the high end, liabilities for implicit benefits are nearly 50 percent of payroll among counties and tend to be less than 60 percent of payroll in most cities. Most of the variation in implicit benefit liabilities is likely due to different demographic characteristics (i.e. the number of retirees and the number of workers that will retire soon), and differences in the current costs and the assumed growth in costs of health insurance.

Figure 3: The Size of Implicit Benefit Liabilities in Florida Cities and Counties



If city and county governments pay the full ARC, most need to pay between 1 percent and 6 percent of their payroll. Figure 4 illustrates the variation in actuarially-determined contribution levels. The most common contribution rates are between 1 percent and 3 percent of payroll. Two cities actually have actuarially-determined contribution rates that fall below zero; this is because those plans are fully-funded (the value of their assets is greater than their liabilities). Only one city has a liability that is more than its payroll.⁸

Figure 4: Required Contribution for Implicit Benefit Plans as a Percent of Payroll



Very few governments pay their full required contributions. Most only pay the minimal amount that is necessary to subsidize the implicit benefits for their current retirees. Obligations to pay for implicit benefits that were earned in the current year are left to future taxpayers.

As of fiscal year 2011, five cities and no counties had set aside assets toward satisfying that implicit benefit obligation. Those five are Dania Beach (23 percent funded), Davie (242 percent funded), Deland (67 percent funded), Wellington (154 percent funded) and West Palm Beach (38 percent funded).

Why do so many governments not pay their required contribution? There may be several reasons.

First, for most, the annual budgetary cost of the benefit is relatively small and the payment is co-mingled with their regular premium payments. Therefore it is simpler in most situations to continue to pay the full premium each year than to establish and manage an OPEB trust and use that trust to pay the portion of the premium that is related to the implicit benefit.

Second, many government managers do not view implicit benefits as true liabilities since they are relatively easy to change (compared to obligations for bonds or pensions). This is because of the direct relationship between governments' current health insurance policies that cover current employees and the size of implicit benefit liabilities. If governments change the insurance policies they provide to their current workers, the benefits they offer to their retirees will change as well.

» CONCLUSION

This report highlights the “hidden” retirement benefit issue facing Florida local governments—health benefits provided to retired local employees. Although the extent of the liabilities—and the seriousness of the funding shortfall—is lower than that of pensions, the issue is important and in a sense “piles on” to other retirement obligations. Overall, the total unfunded liability for locally-administered retiree health benefits in Florida local governments is more than \$6.5 billion. We also estimate that the city and county share of the state-administered retiree health benefit liability is approximately \$1.9 billion.

Ironically, the local governments that provide less generous benefits (only implicit benefits) are generally most likely to underfund those benefits. But the explicit benefits are more costly and present greater financial risks to the municipalities and counties that offer them.

The LeRoy Collins Institute has recommended more transparency in the city and county information on retiree health benefits. Unlike pensions, retiree health benefits are not monitored by state agencies and information on the costs and liabilities of these benefits is not readily available to citizens. Perhaps the state does not have the resources to provide better oversight. Information about the funding of retiree health liabilities could be required by the state to be presented on local government’s webpages so that local citizens can be better informed. The presentation would need to be simpler and more transparent than the current financial statement note disclosure requirements set forth by governmental accounting standards because of the obvious difficulty of the general public to understand the technical terms and numbers that are disclosed. The Institute has also recommended that the state consider repeal of its mandate requiring localities to provide implicit benefits.

The issue is not whether localities should provide these benefits, but rather whether they have accounted for their costs and make that information available to Floridians. There is also an issue of who should pay the costs of benefits provided to public workers. Governments that use a “pay-as-you-go” approach to funding their retiree health obligations are placing the costs on future taxpayers and future employees. These costs will not only likely be significantly higher, but also quite possibly unsustainable in the future. These are tough choices and deserve more attention from state and local policymakers and Florida’s taxpayers.

There is recent speculation on how the Affordable Care Act (ACA, often called Obamacare) will affect retiree health obligations. The ACA is not likely to significantly affect the liabilities for explicit-benefit plans, especially those providing fixed-dollar subsidies. However, the ACA may affect retiree decisions about whether to continue on their employers’ health program. It is reasonable to expect that more retirees will opt to not continue on their employers’ health insurance if they are not concerned about maintaining continued coverage and they expect to have more affordable options through health exchanges.

BOX 3: The Data

This report uses data collected from the annual financial reports of the 100 largest cities in Florida and all Florida Counties. The financial reports for fiscal years 2008 to 2011 were accessed from the Florida Auditor General website and data on local government OPEB plans were gathered from each report. Two researchers separately collected data from each of the financial reports to minimize coding errors.

The information in annual financial reports is sometimes too brief to fully understand the complexity of a government's situation. The data presented in this report may have not been reviewed by city or county administrators, thus there may be some errors in reporting. If data are corrected, we will publish revisions on the LeRoy Collins Institute website.

Several local governments have not reported their OPEB obligations and are not included in the study. The following local governments did not report their OPEB obligations, but state in their audited financial report that their OPEB liabilities are "not material": Baker County, Columbia County, Holmes County, Taylor County, Washington County, and the Cities of Lauderdale Lakes and Weston. The following counties and municipalities did not report their OPEB obligations and provide no explanation for its absence: Hamilton County, Lafayette County, Madison County, Union County, Town of Miami Lakes, and Village of Palmetto Bay.

This report uses cities and counties as the unit of analysis (not benefit plans). Most governments only sponsor a single retiree health plan. Eight counties sponsor multiple plans, usually creating a separate plan for public safety workers (Lee, Levy, Okaloosa, Pinellas, St. Lucie) and sometimes for those who work under other constitutional officers, such as the clerk (Palm Beach, Pasco). Orange County has a separate plan for those who work in the county courts and the library system. Only three cities in our sample have more than a single plan for all their workers. Miami and Delray Beach sponsor separate plans for public safety workers. Fort Pierce sponsors a separate plan for public utility workers. In cases where there are multiple plans in the same city or county, we aggregated asset, liability, payroll and contribution data to the government level.

» ENDNOTES

1. <http://collinsinstitute.fsu.edu/files/ToughChoiceTroubleAheadReport.pdf>
2. Pew Center on the States. (2010, February). The trillion dollar gap: Underfunded state retirement systems and the roads to reform, <http://www.pewtrusts.org/en/research-and-analysis/reports/2010/02/10/the-trillion-dollar-gap>
3. <http://www.governing.com/columns/public-money/Misplaced-Pension-Hysteria.html>
4. We estimate the local government share of the FRS-HIS unfunded liability by multiplying the share of FRS members in counties (20.1 percent) and cities and special districts (3.7 percent) by the unfunded liability reported in the 2011 FRS annual report (23.8 percent × \$8,173,071,000 = \$1,945,009,225). Estimates on the cities' portion of the unfunded liability may be overestimated because it includes special districts.
5. The contribution rate is determined by state statute. The contribution rate was 1.11 percent of payroll from July 2001 to July 2013. The current rate is 1.20 percent (though a December 2012 actuarial report suggested that the contribution rate should be set closer to 1.71 percent).
6. FRS and HIS data in this paragraph are based on information in the FY2011 FRS Annual Report and employment data are based on information in the U.S. Census, 2012 Census of Governments: Government Employment & Payroll
7. It is important to note that Gainesville issued bonds to partially fund their liability. That means that the liability still exists but it is now a bond liability and not a retiree health benefit liability.
8. The City of Winter Haven reports a retiree health benefit liability that is more than 100 percent of their covered payroll and that they only provide an implicit benefit to their retirees. A phone conversation with a city financial official verified that the city only provides an implicit benefit but the official was not able to explain the high liability level.



Established in 1988, the LeRoy Collins Institute is a nonpartisan, statewide policy organization which studies and promotes creative solutions to key private and public policy issues facing the people of Florida and the nation. The Institute, located in Tallahassee at Florida State University (FSU), is affiliated and works in collaboration with the State University System of Florida.

Named in honor of Florida Governor LeRoy Collins, the Institute is governed by a distinguished board of directors, chaired by Lester Abberger. Other board members include executives, local elected officials and senior professionals from throughout the state.

Beginning in 2005, the Institute produced several reports in a series called *Tough Choices: Shaping Florida's Future*. These publications provided an in-depth analysis of Florida tax and spending policy and concluded that Florida's pattern of low spending and low taxes conflicted with the growing demands of the state's residents. Also included in the *Tough Choices* publications is our research on municipal pensions and other post-employment benefits (OPEBs). This report is the seventh in our series of reports on local retirement benefits dating from February 2011. The *Tough Choices* research series is supported by the Jessie Ball duPont Fund.

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