New Report Takes a Deeper Dive into Local Government Retiree Healthcare Subsidies in Florida Cities and Counties

~Analysis of 100 largest Florida cities and 67 counties show more than $7.5 billion in total unfunded liabilities~

TALLAHASSEE, Fla. – The LeRoy Collins Institute today released its latest report in the Tough Choices series, The Financial Challenges of Retiree Healthcare Subsidies in Florida Cities and Counties. This report is a follow-up to last year’s report on the cost and sustainability of a widely ignored non-pension retirement benefit – retiree healthcare subsidies – and offers an in-depth analysis of the 100 largest Florida cities and all 67 Florida counties. A grading system was developed by researchers and each city and county in the study received an A through F grade based on the financial condition of their retiree healthcare benefits. The findings indicate Florida’s cities and counties have approximately $7.5 billion in unfunded liabilities associated with retiree healthcare benefits. Below are questions and answers concerning this report and its key findings.

Q: What are the key findings in this report?

- Total unfunded retiree healthcare liabilities in the state are more than $7.5 billion as of fiscal year 2014.
- The majority of local governments have relatively low unfunded liabilities, but a handful of localities are carrying two-thirds, approximately $5 billion, of the total unfunded liabilities, which creates significant challenges for those local governments’ long-term financial conditions and short-term budgeting decisions. This study has provided more detail on individual plans for the governments with the largest unfunded liabilities.
- This report also finds that financial information on retiree healthcare benefits, costs and liabilities is not transparent and the information that is available is often vague and difficult to interpret.

Q: How was the grading system developed?

- A grades were given to governments with unfunded liabilities that are less than 10 percent of their general fund revenues. The A grade indicates an unfunded liability that creates no apparent concern to the government, neither to its long-term solvency nor to its operating budget.
- B grades were given to governments with unfunded liabilities that are between 10 percent and 50 percent of their general fund revenues. There is some potential that unfunded liabilities in this range may affect the long-term financial condition and operating budget of their governments, but the effect is currently minimal.
Governments with unfunded liabilities that are between 50 and 100 percent of their general fund revenues received C grades. There is a moderate level of concern that unfunded liabilities in this grade elevate the long-term risk and stretch the operating budgets of their governments.

D grades were given to governments with unfunded liabilities that are between 100 percent and 200 percent of their general fund revenues. The unfunded liabilities of these governments create even higher long-term financial risks and short-term budgetary challenges.

F grades were given to governments with unfunded liabilities that are more than 200 percent of their general fund revenues (i.e. more than two times greater than one year’s revenue). There is serious concern about the size of these governments’ unfunded liabilities and the risks these liabilities create to their government’s long-term financial condition and to the solvency of their operating budgets.

Q: What are the results of the grading system in FY2014?

- 62 (39.5 percent) of the local governments in this study received an A grade.
- 67 (43 percent) of the local governments in this study received a B.
- 16 (10 percent) of the governments in this study received a C grade.
- Seven governments (4.5 percent) in this study received a D grade.
- Five governments (3 percent) in this study received F grades.

Q: What are retiree health benefits?

- Retiree health benefits are part of Other Post-Employment Benefits (OPEB) provided to local government employees. Beyond providing subsidies for healthcare insurance premiums, OPEBs can also include subsidies for vision and dental care, life insurance and other non-pension benefits.
- Retiree health benefits are the most costly of these OPEBs and refer specifically to the promise of an employer to subsidize some or all of a retiree’s healthcare insurance costs.

Q: Why should Floridians be concerned about the cost of retiree health benefits?

- Some local governments have not set aside enough funds to cover the health insurance benefits they promise to employees. Instead, most governments opt to pass the cost of retiree health benefits that have been earned onto future taxpayers – this delay will likely only increase how much those benefits will eventually cost taxpayers.
- Over the next twenty years the number of workers who will begin to draw retirement benefits is expected to increase significantly as the Baby Boom generation retires.
- It is widely expected that healthcare costs and insurance premiums will require an increasingly larger portion of household incomes in the coming years.

Q: What are the types of retiree health benefits that exist?

- Implicit benefits: All local governments in Florida are required to provide their employees with implicit benefits via Florida Statutes (112.0801). Governments provide implicit benefits
by giving retirees an option to purchase the health insurance coverage that is available to their current employees at the same premium rates that apply to the current employees.

- Explicit benefits: Explicit benefits are not required by Florida Statute and usually take the form of monthly health insurance subsidies that are equal to the number of years an employee works multiplied by a specific dollar amount. 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 = $100).

Q: Where did the information come from?

- This report uses data collected from comprehensive annual financial reports for all 67 counties and for the 100 largest Florida cities. Most of the financial reports were collected from the Florida Auditor General’s website. Some of the financial reports were collected directly from city and county websites. The researchers collected financial reports covering fiscal years 2008 to 2014. The researchers’ analysis focuses on fiscal years 2010 to 2014.
- This report is based on data that was published in municipal financial statements in fiscal years 2010 to 2014. It is important to recognize that some municipalities may have changed their retiree health plans since the end of fiscal year 2014. For example, the City of Sarasota recently changed their retiree health plan and is expecting to cut their unfunded liability by more than half, which will significantly improve their grade.

For more than 20 years, LCI has studied and promoted creative solutions to key private and public issues. Beginning in 2005, the Institute published 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 were updated in 2014. The research concluded that Florida’s pattern of low spending and low taxes conflicted with the growing demands of the state’s residents, predicting trouble may be ahead. This is the eighth report on local governmental retirement funding issued by the LeRoy Collins Institute since February 2011.

To access a complete version of The Financial Challenges of Retiree Healthcare Subsidies in Florida Cities and Counties, please visit http://fla.st/1SZ7RWT.

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About the LeRoy Collins Institute: Established in 1988, the LeRoy Collins Institute is a nonpartisan, statewide policy organization which studies and promotes creative solutions to key private and public issues facing the people of Florida and the nation. The Institute, located in Tallahassee at Florida State University, is affiliated and works in collaboration with the State University System of Florida. Named in honor of former 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 other professionals from throughout the state.