Beyond Pensions: Florida Local Governments and Retiree Health Benefits
Introduction

What are Other Post-Employment Benefits (OPEBs) and retiree health benefits?

1. Employer may pay for or reimburse a portion of insurance premiums (explicit benefit)

2. Employers allow retirees to stay on their employee insurance plans as long as retirees pay the same insurance premium that applies to the younger workers (implicit benefit)

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

- Florida local governments have accumulated $8.4 billion in unfunded retirement health benefit liabilities.

- Most of the underfunded liability for retiree health benefits – more than $6.5 billion – comes from locally-administered plans.

- An additional $1.9 billion is from the cities’ and counties’ share of the Florida Retirement System (FRS) health insurance subsidies’ unfunded liability. Governments that use the “pay-as-you-go” approach to funding these obligations are placing the financial burden on future taxpayers and employees.

- More accurate and consistent reporting by local governments is needed to capture the full scope of retiree health benefits that have been promised and how those costs are being funded.
Retiree Health Benefits in Florida

- State-Administered v. Locally-Administered plans
- Explicit v. Implicit benefits

<table>
<thead>
<tr>
<th></th>
<th>State-Administered Explicit Benefit (i.e., FRS Health Insurance Subsidy)</th>
<th>Locally-Administered Explicit Benefit</th>
<th>Locally-Administered Implicit Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities</td>
<td>A small portion of city employees participate in FRS</td>
<td>Nearly 40 percent of cities in our sample</td>
<td>All local governments provide this benefit as required by Florida Statute (112.0801)</td>
</tr>
<tr>
<td>Counties</td>
<td>All county employees participate in FRS</td>
<td>Nearly 50 percent of counties</td>
<td></td>
</tr>
</tbody>
</table>
## Locally-Administered Explicit Benefits: Liability Levels

<table>
<thead>
<tr>
<th></th>
<th># Providing Explicit Benefit</th>
<th>Typical Liability</th>
<th>Combined Liability</th>
<th>% Funded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities</td>
<td>37 (of largest 100 cities)</td>
<td>$24 million</td>
<td>$3 billion</td>
<td>4.8%</td>
</tr>
<tr>
<td>Counties</td>
<td>32</td>
<td>$33 million</td>
<td>$3.5 billion</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
Locally-Administered Explicit Benefits: Contribution Requirements

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

- County:
  - ARC is 3% or less of payroll: 3.2%
  - ARC is between 3 and 6% of payroll: 16%
  - ARC is between 6 and 10% of payroll: 13%
  - ARC is between 10 and 20% of payroll: 35%
  - ARC is between 20 and 30% of payroll: 29%
  - ARC is greater than 30% of payroll: 3.2%

- City:
  - ARC is 3% or less of payroll: 8.8%
  - ARC is between 3 and 6% of payroll: 21%
  - ARC is between 6 and 10% of payroll: 21%
  - ARC is between 10 and 20% of payroll: 15%
  - ARC is between 20 and 30% of payroll: 29%
Locally-Administered Explicit Benefits: Contribution Requirements

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

- **County**
  - Green: Already contribute a full ARC (19%)
  - Red: Increase contribution by 2 to 5% of payroll (26%)
  - Blue: Increase contribution by 5 to 10% of payroll (32%)
  - Light Blue: Increase contribution by 10 to 20% of payroll (9.7%)
  - Brown: Increase contribution by more than 20% of payroll (9.7%)
  - Dark Green: Increase contribution by as much as 2% of payroll (3.2%)

- **City**
  - Green: Already contribute a full ARC (18%)
  - Red: Increase contribution by 2 to 5% of payroll (24%)
  - Blue: Increase contribution by 5 to 10% of payroll (18%)
  - Light Blue: Increase contribution by 10 to 20% of payroll (18%)
  - Brown: Increase contribution by more than 20% of payroll (2.9%)
Locally-Administered Implicit Benefits

Figure 3: The Size of Implicit Benefit Liabilities in Florida Cities and Counties
Locally-Administered Implicit Benefits

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

- Enhanced transparency: 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.

- Updating Florida Statutes: The state should consider repeal of its mandate requiring localities to provide implicit benefits.
Questions?