



## Fiscal Estimate Narratives

DOR 4/19/2010

LRB Number	09-4123/1	Introduction Number	AB-0907	Estimate Type	Original
<b>Description</b> Funding postretirement health care benefits of local government employees					

### Assumptions Used in Arriving at Fiscal Estimate

#### CURRENT LAW

Current law permits towns, villages, cities, and counties to provide their retired employees with certain benefits, including health care benefits. There are two general ways to fund post-retirement benefits. One is on a pay-as-you-go (current operating expense) basis. The other is to recognize the cost of post-retirement benefits as they are "earned" by the employee before retirement and to accumulate money in trust or other funds to actually pay the benefits after the employees retire. When this second approach is used, the amount recognized as an expense is based on an "actuarial valuation" of the post-retirement benefit. This valuation uses certain assumptions about items such as future employment levels, employee mortality, and health care cost trends. State law does not specify which of these methods should be used.

#### PROPOSED LAW

Under the bill, towns, villages, cities, and counties would be prohibited from providing post-retirement health benefits to employees hired after the bill takes effect unless the cost of the benefit is fully funded on an actuarial basis (in effect, the second method discussed above).

#### FISCAL EFFECT

The Department of Revenue (DOR) does not have information on which towns, villages, cities, and counties provide post-retirement health benefits and how those places that provide such benefits fund them. In addition, the financial reports filed with the DOR do not have information on the cost of post-retirement health benefits provided by local governments. However, based on information from comprehensive annual financial reports of certain larger population localities, it appears that, when provided, most post-retirement health benefits are funded on a pay-as-you-go basis.

The requirement that post-retirement health benefits for new employees be funded on an actuarial basis will increase the current cost of providing such benefits, but eventually (after the employees retire) reduce the current cost of providing such benefits. Local governments may respond to this requirement by (1) recognizing the increased current cost, as required under the bill, (2) requiring new employees to pay for an increased share (compared to current employees) of the post-retirement health benefit, or (3) by eliminating post-retirement health benefit for new hires. The DOR is unable to predict how local governments will react to the bill, and therefore is unable to reasonably estimate the change in costs, and the resultant change in property taxes, that this bill could engender.

### Long-Range Fiscal Implications