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Health care costs threaten stability of town budgets

Retiree health costs projected to balloon

By Fred O. Williams
NEWS STAFF REPORTER

Health care benefits for government retirees have been called a fiscal time bomb that is ticking away for the next generation of taxpayers.

Now, a new federal accounting rule is forcing governments to calculate the future costs of those benefits.

The result: It won't take a generation for retirement benefits to make a painful dent in town budgets.

For example, the Town of Orchard Park will see its costs for retiree health care leap 70 percent by 2012, reaching \$821,000, according to projections reported to the Town Board last week.

For the current work force, the town's total cost for retiree health care in future years is estimated at \$11.5 million. By way of comparison, that amounts to 77 percent of the town budget for this year.

The affluent suburb is one of the first towns in the region to compute the future costs under the new accounting rule.

"There are many other municipalities that have it worse than Orchard Park," said Wayne Drescher. His accounting firm, Drescher & Malecki, handles budgeting for several municipal governments around the region.

This is the first year that most towns are getting a look at their future costs for retiree health care.

Under a new accounting rule called GASB Statement 45, towns are required to compute their future costs in order to get a handle on the unfunded liability. Unlike future pension benefits, governments don't set aside reserves for retiree health care.

The Governmental Accounting Standards Board is an independent organization that sets accounting standards for state and local governments.

Governments larger than towns were required to compute the figure last year, including Buffalo and Erie County.

The results led to an outcry over unfunded liabilities. Buffalo's total future costs are put at \$945 million, according to a study by the University at Buffalo. Erie County's annual costs are \$18 million a year now and are expected to triple in 10 years.

"This [coverage] started years and years ago when health care was

pretty cheap," Drescher said. Many towns promised lifetime health care to some classes of retirees. For others, coverage stops at age 65, the age of Medicare eligibility.

Orchard Park Supervisor Mary Travers Murphy said she will ask the town's labor attorney to look into any possible savings that can be made under existing rules.

In addition, the value of the benefit will be a significant factor in future negotiations.

"We need to have this [information] with us every time we hit the bargaining table," she said.

While future contracts may be modified, it's a dangerous legal tactic to try to revoke promises already made to workers, Town Attorney Leonard Berkowitz said.

In addition, towns cannot legally reserve money for future health care costs under current state law — even if they had the funds to do so, Drescher said.

According to the actuarial report for Orchard Park, which was prepared by Harbridge Consulting Group LLC in Syracuse, police benefits of \$6.2 million account for more than half of the total \$11.5 million in future outlays.

The pattern will be similar in other towns, Drescher said, because of earlier retirement ages generally available to police. Spending more years in retirement boosts the cost of retiree health care.

The second costliest group, at \$2.2 million, is made up of elected officials. They are eligible for lifetime coverage after reaching age 55 and 14 years of full-time service, the report said.

In Lancaster, Supervisor Robert H. Giza was reluctant to discuss details of the actuarial report, which is only in draft form, he said.

However, he said the town's retiree health care costs have stabilized because the town has dropped lifetime benefits for workers. That benefit was

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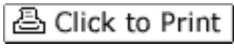
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cut for most new hires starting sometime in the 1970s, he said, while the Police Department followed more recently.

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