Our Retiree Health Care Benefits

- We Need Them
- We Earned Them
- We'll Fight to Protect Them

AFSCME RETIREES

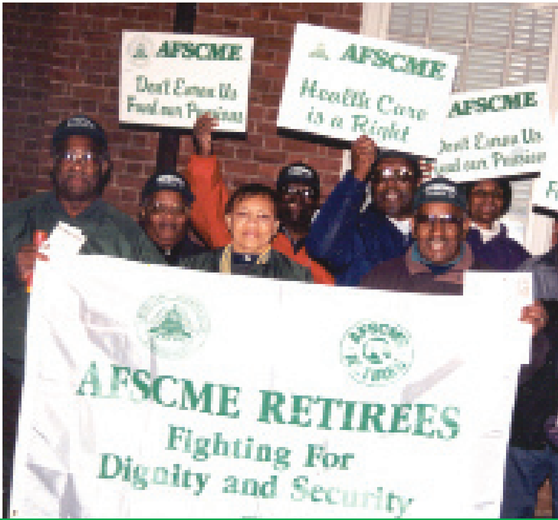
The Fight is On

Retiree Health Benefits Are Under Attack

As the population ages and the baby boomers head into retirement, the nation seems to be entering a new era of retirement *insecurity*. First came efforts to privatize Social Security. Next, the stock market collapsed. Then came attacks on traditional pension plans.

Employer-paid retiree health benefits – critical to old-age security for thousands of AFSCME retirees – have also been under attack, largely due to rising costs. Two big reasons for higher costs are longer life spans and the growing number of worker retirements.

As people age, they tend to develop chronic conditions, such as hypertension, arthritis and diabetes, which require treatment on a regular basis, including expensive prescription drugs. Also, older people are more likely to be hospitalized due to an acute or life threatening illness, such as cancer, heart attack or stroke.



But the biggest reason for cost increases is totally unrelated to age. Retiree coverage is simply one more victim of the same double-digit inflation that has plagued American health care for years.

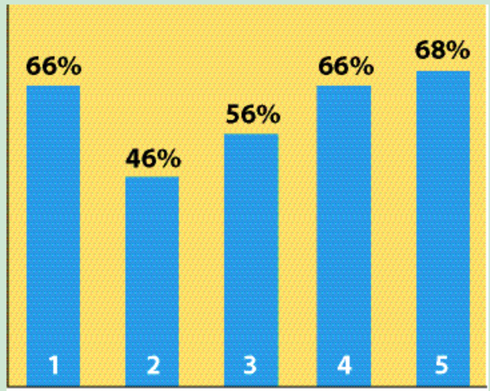
Fighting Cuts in State After State

None of this information is news to AFSCME councils, locals and retiree chapters. They've been fighting threats to retiree health care all across the country – in California, Hawaii, Illinois, Maryland, New York and Ohio. In these and other states and localities, employers have tried, and often succeeded, in shifting costs to retirees.

They've done it by increasing retirees' premiums and other co-payments; reducing benefits; raising the age of eligibility for retiree health care; and increasing the years-of-service needed to qualify.

Public employers' concerns over higher health costs have been reinforced by new accounting rules, which require them to calculate their costs for all *future* retiree health care. Focus on the size of these long-range obligations has triggered new and *unreasonable* efforts to cut benefits.

Percentage of States That Increased Retiree Cost-Sharing, 2004-2008



1. **Retiree share of premiums**
2. **Retiree deductible**
3. **Co-pay amounts**
4. **Drug co-pays**
5. **Spouse premiums**

Source: Survey by Center for State & Local Government Excellence (Retiree Health Care in the American States), December 2008.

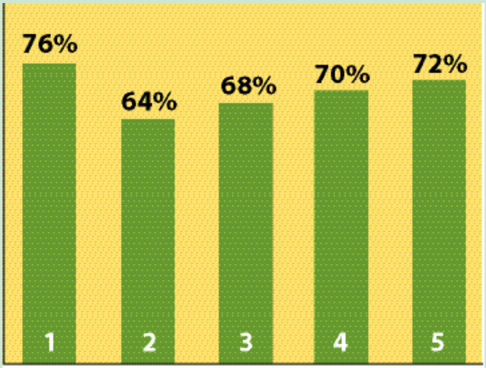
The GASB Monster

In the past, most public employers published only their current-year expenses for retiree benefits, which most fund on a pay-as-you-go basis. But starting in 2007, they are required to show *all* retiree health care costs on their books, including future obligations for today's employees. Even though most of the money won't be paid out for decades, employers' full liability must be estimated and printed on their balance sheets.

The new rules, set by the **Governmental Accounting Standards Board**, known as GASB (gazbee), are followed by virtually all states and localities. When similar rules were established for private sector employers in the early 1990s, a startling number of companies canceled their retiree health benefits. Most of them feared their stock prices would fall if millions in unfunded obligations suddenly appeared on financial statements.

The GASB rules have caused the same sort of shock waves in the public sector. Though GASB rules don't require jurisdictions to actually prefund future benefits, governments believe that merely showing them on their books could alarm taxpayers and lower bond ratings.

Percentage of States that Intend to Increase Retiree Cost-Sharing, 2008-2012*



1. **Retiree share of premiums**
2. **Retiree deductible**
3. **Co-pay amounts**
4. **Drug co-pays**
5. **Spouse premiums**

* Very likely or somewhat likely.

Source: Survey by Center for State & Local Government Excellence (Retiree Health Care in the American States), December 2008.

When Maryland assessed its retiree health care liability, it claimed that long-term obligations amounted to over $20 billion — more than the state's annual budget. Michigan estimated its obligations to be nearly $30 billion.

The city of Duluth, Minn., claimed its total retiree health care obligations would be approximately $178 million — high relative to its annual budget. But the mayor told *The New York Times* that "it's not the fault of the workers. The people here who've retired did earn their benefits."

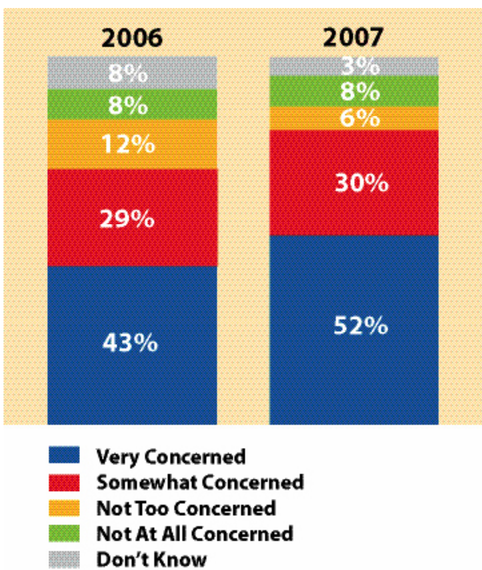
Media, Employers Overstate GASB Problem

While most media stories paint the issue as a crisis, AFSCME thinks the GASB panic is overstated and should be put in perspective. "Retirees need health care coverage, that's a fact," said AFSCME Pres. Gerald W. McEntee. "Public employers should set an example – protecting workers rather than reserving even more resources for tax cuts and other advantages for the wealthy.

"If governments abandon their employees on health care and pensions, can any worker expect better treatment? In my estimation, that's the death of retirement security in America." According to McEntee, taxpayers should recognize this and join in solidarity with public employees to protect workers' rights.

"Governments have been managing their obligations pretty well up to now, and GASB is only requiring book-keeping changes. So if they try to use GASB to justify cutting retiree health care, we will fight them all the way," he said.

Among Public Employers Familiar with GASB, Percentage Concerned About Financial Impact of GASB Rules



Source: CMWF/NORC Survey of Retiree Health Benefits: 2007; CMWF/HSC Survey of Retiree Health Benefits: 2006.

Good Reasons to Preserve Public Retiree Health Care Benefits

- Workers **sacrificed wages** in order to win retiree health benefits. They earned them and they deserve them.
- Politicians promised the benefits. They could have funded them in advance, like pensions, but decided not to. Now, it's their obligation to find a way to fulfill their promises – by **raising revenue** if necessary.
- Unfunded future obligations occur in many government functions, including Medicaid and prisoner costs, but

GASB doesn't address them. Retiree health care shouldn't be singled out for special rules.

- If GASB set standards that include the value of roads, stadiums and buildings on government balance sheets, those assets would **offset long-range obligations** for retiree health care.
- GASB methods tend to **overstate liability for health care** by making unfounded assumptions on future inflation and benefit levels, which are almost impossible to predict over the long term.

"New York, Maryland and several other states have authorized commissions to study retiree health coverage," said President McEntee. "These commissions are focused on reducing costs, which often means cutting benefits. The national union and AFSCME affiliates around the country will be watching them carefully in order to protect retiree members."

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