For more information:

Jason Stein (608-241-9789)
jstein@wispolicyforum.org
or
Rob Henken (414-276-8240)
rhenken@wispolicyforum.org

**For immediate release:**
July 9, 2018

**Unfunded liabilities improve but still pose challenge for state's 25 largest cities**

*Retiree health care obligations fell for most cities but total liability still tops $2 billion*

Over the past several decades, many cities in Wisconsin made the seemingly modest commitment to pay some or even all of their workers' health insurance costs in retirement. Since then, the size of this liability has shot upward along with the cost of health care. According to a new analysis by the Wisconsin Policy Forum (WPF), the state's 25 biggest cities held unfunded retiree health care liabilities valued at $2.25 billion in 2016. Some cities face obligations of hundreds — or even thousands — of dollars per resident.

The new WPF report – "Promises to Keep" – finds that between 2013 and 2016, most of the cities made progress in reducing their commitments. However, the projected costs in two cities— Milwaukee and Racine — rose so dramatically they erased the combined gains in all the other cities. Between 2013 and 2016, the expected cost of these post-retirement health care benefits in Milwaukee and Racine rose by a total of $228.1 million. That easily cancelled out the net $120.1 million decrease in those years in the expected benefit costs for the other 23 largest cities in Wisconsin and led to an overall increase of $108 million in retiree health care liability across the entire group.

Cities took on these liabilities by promising generous health care benefits to workers after they retired, sometimes in return for lower pay raises. Because some municipal employees can retire at young ages, the costs add up. For instance, in some cities, public safety employees can retire in their early 50s with the same health benefits and monthly premium as an active employee. As a result, many cities incur $200,000 or more in health care costs for each such employee until he or she reaches Medicare eligibility.

The WPF analysis finds many cities have started to address this challenge, however. La Crosse, for instance, has raised eligibility standards for retiree health care and has phased it out entirely for employees who were hired after January 2014. The city's projected liability fell by

$10.3 million, or 13%, from $76.7 million in 2013 to $66.4 million in 2016. Beloit saw its expected obligation fall $33.9 million, or 25%, from $136.4 million in 2013 to $102.5 million in 2016. Soon to be released numbers will show that Racine also made progress in 2017, reducing its liability to $386 million, a decrease of more than $117 million.

At the same time, local officials are not setting aside any money to cover these substantial future liabilities. Rather than trying to pay down these obligations, cities simply cover their retiree health care costs as they incur them. Six cities—Racine, Beloit, West Allis, Milwaukee, Oak Creek, and La Crosse—have liabilities that amount to more than $1,250 for each resident in their communities.

Elected officials in these cities will have to consider how to pay for their retiree benefits while retaining good employees, controlling the growth in property taxes, and maintaining local services. The good news, the report finds, is that going forward, many cities still have options under state law for controlling and even reducing the size of these liabilities. The WPF analysis, "Promises to Keep," is available now by visiting www.wispolicyforum.org.

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*The Wisconsin Policy Forum was created on January 1, 2018 by the merger of the Madison-based Wisconsin Taxpayers Alliance and the Milwaukee-based Public Policy Forum. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that same spirit of nonpartisanship.*