South Tahoe grappling with $44.9 million health care bill

By Kathryn Reed

It would cost South Lake Tahoe close to an additional $2 million a year for the next 20 years to fully fund its retiree health care plan. That's because as of Sept. 30, 2011, that account had an unfunded liability of $44.9 million.

The city currently pays its share plus $400,000 a year. It's still not enough because for years the full amount was not paid. The more that is paid each year means the projected 6.5 percent return on investment will help defray the deficit.

"We have a moral and legal obligation to make sure the retiree health plan is solvent. This is a time bomb that will go off," City Manager Tony O'Rourke said.

But the city doesn't know what it is going to do to fix the problem.

On Feb. 7 the City Council heard the dire news from John Bartel, president of Bartel Associates out of San Mateo.

He called the retiree health benefits "generous". An expensive component, Bartel said, is also the average age of city retirees. For those in public safety, the average age at retirement is 53.9 years, while for everyone else it is 56.3 years.

"That exacerbates the problem," Bartel told the council.

With Medicare not being available until one turns 65, it means the city – via the taxpayers – are footing the entire bill. For city employees hired before Jan. 1, 2008, many receive all of their medical care for the rest of their lives, plus for their spouse and dependents.

Fifty-eight percent of the retirees pay nothing for health benefits.

Councilman Hal Cole asked why the premiums don't significantly drop when retirees start on Medicare.

Bartel said the city's insurance broker needs to answer that question. But he also said the city needs to make sure retirees are signing up for Medicare so the city's plan then becomes the secondary policy.

"If you continue this policy, you will pay more in retiree health care than you do in employee payroll for these employees," Bartel said of the overall retiree health plan.

The staff report written by O'Rourke says, "The city's retiree health plan liability has grown due to higher than expected claims ($4.3 million), more retirees than expected ($2.4 million), insufficient invest principal and earnings ($3.7 million) projected higher health care costs trends ($8.4 million) and updated CalPERS demographic assumptions ($2.4 million)."

The city pays $1,700 month for active employees and $1,100 for retirees.

The health plan was changed four years ago to be less generous. But it didn't solve the burden of paying for those in the system before that date. And with stats from the consultant saying the last 90 days of a person's life are the most expensive in terms of health care, the bills are going to keep accruing.

A higher deductible was put into place for this fiscal year that has an immediate savings of $4.7 million and an ongoing operational savings of $500,000 per year.

While it’s the 134 retirees who are at issue, they receive the same health benefits as the current 139 employees. So, any changes to employee health benefits affects retirees.

This problem did not pop up overnight. It has, though, essentially been ignored by previous councils and administrations. This council on Tuesday agreed something needs to be done. (Councilwoman Angela Swanson was absent.)

“We need to increase the cost-efficiency of the plan,” O’Rourke said.

That will take the six employee groups to come to the table.

Jerry Copeland, who represents the admin-confidential group, said one problem is the isolated location of South Lake Tahoe limiting health care options. But he also said, “It does need to be discussed as an entire budget issue. It needs to be transparent and open.”

In recent years, the whole unfunded liability of retiree health care has not been discussed in the open.

Retirees have not been asked to the table. Nor is the city contractually obligated to invite them. But it is possible some of them might opt for a cash payment instead of being on the health plan.

Mayor Claire Fortier asked what paying down the debt would equate to in layoffs. O’Rourke said the loss of 17 to 20 people. But he also said with departments so thin and employees being tasked with doing the jobs of multiple people, he doesn’t see how cutting jobs is a possibility. Plus, it would mean the reduction in services to the public.

Tuesday’s meeting was a workshop, with no action plan. More definitive ideas are expected to be brought to the council at the March 6 meeting, with the five likely to be asked to take action. However, they will be limited in what they can do based on contractual agreements. But they can direct staff to negotiate for certain things.

Employees can accrue 500 hours of sick time and be paid out when they leave. That could be negotiated.

Councilman Tom Davis would like to work on increasing revenues via special events that would put heads in beds and therefore up the city’s hotel and sales tax collections.

“Revenue is not a real solution. We need to look at the expense side,” O’Rourke said. “The burden doesn’t rest with the retirees; it’s with the current employees.”