

# \$58 Billion Shortfall for New Jersey Retiree Care

Top of Form 1

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In 1994, [New Jersey](#) decided to stop setting aside money in a fund to pay for health care for its retired public workers. The savings paved the way for a big tax cut.

Meanwhile, hundreds of thousands of public workers were being told that as long as they worked 25 years, the system would provide virtually free health care for them when they retired, often when they were as young as 55.

No one added up the cost — until now.

It turns out that New Jersey will need about \$58 billion, in today's dollars, to provide all the care it has promised its current and future retirees. That's nearly twice the state budget and nearly twice the amount of its outstanding debt. And because of the step it took in 1994, the state has virtually no money in reserve to cover those costs.

In addition, New Jersey's towns and other local governments owe about \$10 billion for health care for their own retirees.

Many other states have been promising retiree health care without keeping track of the cost. They, too, are tallying what they owe, to comply with a new accounting rule that applies to all state and local governments. The numbers tend to be big, but so far, New Jersey's obligation, which the state planned to announce tomorrow, appears to be the biggest.

"This is a very pressing situation that can't go on much longer without being repaired," said Clifford A. Goldman, New Jersey's treasurer from 1976 to 1982.

Some governments are responding to the problem by setting aside money in trust funds for retiree health care. Though this requires cash upfront, the investment gains over the years can greatly reduce the cost, said Don Rueckert Jr., a senior vice president at Aon, a national insurance and consulting company. "For every dollar you put aside, you get four or five back in terms of long-term cost reductions."

New York City and Duluth, Minn., have created such trust funds. Some other places, like Texas, do not even want to disclose the long-term cost, fearing it will lead to pressure to cut retirees' benefits, and say they will pay as they go.

New Jersey officials say the state simply cannot afford to create a reserve at this time, given its debt. Instead, they plan to pay each year's retiree benefits out of revenues and work to control future costs.

The portion of the \$58 billion that they need to come up with each year will rise sharply because of soaring health costs and a burgeoning population of retirees, according to the New Jersey Treasury. The state will spend about \$1.1 billion on this year's care, and the figure is expected to double in five years.

Meanwhile, the state's revenues are largely static. That means that unless something changes, New Jersey will have less money each year to pay for vital services like colleges, hospitals and mass transit. Its popular program to preserve green space just fell victim to the need to devote huge amounts to the retirement plans and debt servicing.

Word of the amount owed for retiree health care over the long term comes on the heels of revelations that the state's pension fund is woefully short and needs contributions of about \$2.2 billion a year to bring it back into balance.

Gov. [Jon S. Corzine](#)'s administration has been making bigger pension contributions than the previous four administrations put together, and the fund has enjoyed strong market returns over the last year, but the payments are still only about half of what is needed. To create a retiree health fund from scratch, Mr. Goldman estimated, New Jersey would need to start by setting aside \$6 billion a year to make up for all the years of no contributions.

That is on top of the pension fund's pressing needs for new contributions.

Finding a way to keep these fixed commitments from swamping the state budget "truly keeps me awake at night," Governor Corzine said last month.

The Corzine administration has plans to rein in the state's retiree health costs by making more retirees pay for part of their health premiums and by switching retirees into a network of doctors at negotiated fees. Currently, most state retirees can see any doctor. As of 2003, fewer than half the states allowed retirees to do so.

The switch to a network is set for 2008. But the plan to make more state retirees pay part of their premiums had a setback in June. The government agreed to drop it for retirees who signed up for wellness programs, which are supposed to save money by reducing the incidence of preventable diseases.

Meanwhile, retired teachers have dodged the bullet entirely. Their union, the New Jersey Education Association, negotiates contracts with school districts and not with the state, and the state has not asked them to chip in for their premiums.

The Corzine administration's third tool, the sale or lease of the New Jersey Turnpike to raise money, has also been postponed.

The governor's advisers had hoped to use the turnpike proceeds to pay down debt or fund the state's retirement plans. But in June, Mr. Corzine acknowledged that the effort had become a political lightning rod, with his opponents whipping up fear around predictions that the turnpike would fall into foreign hands.

He said foreign ownership was not in the cards, nor is a sale to a profit-making company. For now, he says he wants more planning and public debate, putting off any way to use the turnpike as a financial resource until after the state legislative elections in November. "I'm going to fight for it," the governor said. "The status quo is unacceptable."

State retirees who have watched cutbacks in the private sector wonder if they are next. In the '90s, the [Financial Accounting Standards Board](#), forced companies to begin disclosing their retiree health costs, and many companies responded by cutting benefits. In October, New Jersey's Office of Legislative Services, a nonpartisan research body, issued a legal opinion that retirees may not be stripped of their health benefits, but that "reasonable modifications" are possible. No one knows what those modifications may be. "I'm scared; I really am," said Pat Provnick, 62, a retired teacher in Hammonton.

Ms. Provnick taught grade school for 33 years and retired in 2000. Although she does not have to make contributions to the retired teachers' health plan — the state covers 100 percent of the premiums — she does have to make a \$5 co-payment every time she sees a doctor, up to a yearly maximum.

For now, she can still see any doctor she wants.

"I'm very lucky," she said. But there are clouds on the horizon. When Ms. Provnick

retired, her maximum out-of-pocket expense each year was \$380. Then, in the last two years, it shot to \$1,090 — just when she was undergoing knee surgery and making frequent visits to doctors and physical therapists.

Ms. Provnick still requires extensive care. She must also make co-payments for each prescription, and pay for the dental and vision coverage that she had at no cost when working. Recent work on a tooth cost her \$500, she said.

“I’m a homeowner, sure I am. I pay property taxes, too,” she said. “I understand the problem. But you can’t wait till I’m 62 to tell me that the benefits that you’ve promised me are too expensive because somebody made a mistake in 1994. Where does that leave me? I can’t go back and earn more money now.”

When New Jersey stopped funding its retiree health plan 13 years ago, it also stopped trying to keep track of the cost. That created the illusion that the long-term obligation was zero, not billions of dollars, and made it easy for the state to enhance its already rich benefits.

Public workers have generally been able to retire at 55, with free health care after 25 years. That is expensive because the state must often provide coverage for as long as 10 years before retirees — and sometimes their spouses — can join the federal Medicare program. Then, the state has to pay only for supplementary benefits.

Since 1994, New Jersey has offered its workers five buyouts, pushing more of them into retirement and raising its costs for those people and their replacements. A State Treasury analysis for legislators showed the buyouts would not increase health care costs.

Recently, the Corzine administration raised the normal retirement age for state workers to 62. That will help lower costs, albeit very slowly because it applies only to new hires.

Another problem is that for years, New Jersey has allowed towns, school boards and other local governments to set pay and benefits. School districts, which contribute to health care only for active workers, can help their own budgets by negotiating small pay increases and reassuring their employees that the state will retain ample retirement packages. The state then has to come up with the money.

From 1987 through 1994, New Jersey was one of only a handful of governments that went to the trouble of setting aside money for retiree health care. Gov. [Christine Todd Whitman](#) stopped the practice the year she took office, along with cutting back on pension contributions.

The official explanation was that inflation in health costs had subsided and that setting aside money could create a bigger reserve than was needed. Also, her administration noted, the Clinton White House was working on a national health plan.

Not long afterward, though, health inflation went to double digits, and the Clinton initiative collapsed. But by then, New Jersey’s lawmakers had grown accustomed to using retiree-health dollars to balance the budget, which was required under the State Constitution.

The Corzine administration said that if financial flexibility improved, it should consider, with the Legislature, bringing back a retiree health fund, while weighing other budget priorities.

The imbalance between what is owed and what states can afford has grown so big that some officials in New Jersey, as in many other states, say they now view a national health care plan as the only realistic long-term solution.