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District Wrestles with Retiree Healthcare Costs

By Cathy Tyson

Managing retiree health care costs is not easy. As health benefits get more costly and current teachers get older by the day, the Acalanes Union High School District, like many other school districts in California, is facing a daunting financial challenge. With pressure from teachers who don't want to see their benefits dwindle, along with concern from parents to continue to support a wide range of academic interests, the money for benefits has to come from somewhere.

"This District has been aggressive in addressing long-term liabilities," said Superintendent John Nickerson. "All employee groups have modest benefits upon their retirement - up to a five year health benefit that is intended to be a bridge to Medicare."

The AUHSD is funding Other Post-Employment Benefits or OPEB, specifically health care, dental and vision care for teachers and staff when they retire on a pay-as-you go basis, but at the same time, the district is chipping away at its staggering actuarial accrued liability of $16 million - much like contributing extra money to pay down the mortgage. "The goal is to fully fund this liability," said Nickerson.

The pay-as-you-go cost is the price of benefits for current retirees. These increasingly expensive benefits are a form of deferred compensation that are incurred during working years, but paid for during retirement.

In a report prepared by chief business official Julie Bautista for a recent school board meeting, she estimated the pay-as-you-go cost of providing retiree health benefits in the year beginning July 1, 2015 to be $855,000. She explains that on top of that amount, the district will be contributing an additional $800,000 to an irrevocable trust account to address the unfunded liability. Other contributions were made in 2013 and 2011; the trust account balance now stands at $1.1 million. There are only so many resources to go around, but the AUHSD and the school board are in favor of taking ownership of the challenge and working toward a solution, she added.

While the district is meeting its obligations now, and is starting to address the longer-term problem, the numbers highlight the growing issue. Right now the AUHSD has 248 retirees and an estimated six or seven additional retirees each year, with a possible uptick due to a significant number of teachers that are currently over 50 years old.

At the Nov. 4 AUHSD School Board meeting a number of recommendations were made during a presentation of the required bi-annual Actuarial Study of OPEB. Suggestions included increasing the minimum years of service from 10 to 15 in order to qualify, and increasing the minimum age for eligibility from 55 to 60 as well as to "explore options and develop a shared goal to restructure existing premium contributions to retirees." Any changes will have to be negotiated with the teachers union.

Starting in fiscal year 2007-08 the GASB, or the Government Accounting Standards Board, required public agencies to report their retiree healthcare benefits on an accrual basis, like pension liabilities, as a way to help taxpayers and government officials determine the ability to financially provide services and repay debt.

Before GASB 45, the only requirement was to report the annual amount that had actually been paid for benefits for current retirees.

Topping the list of California school districts with the largest per pupil unfunded OPEB liability, the Los Angeles Unified School District has a staggering liability of $17,067 per pupil.

By comparison, with roughly 5,556 students in the district and an unfunded OPEB obligation of $16 million, that translates to a liability of $2,879 per student for the AUHSD. This unfunded liability represents the present day cost of the promised benefits that employees and retirees have already earned based on their service.

An independent third party consultant, Total Compensation Systems, Inc. was hired to analyze liabilities associated with the district's current retiree health program. Consultant Geoffrey Kischuk said, "Overall Acalanes is ahead of the curve in managing benefits."

As people live longer, and health care costs continue to rise, the status quo may become unsustainable at some point. With no support from state coffers, the AUHSD has to shoulder the burden alone, and will surely seek a way to rein in costs.

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