The Seattle Times

April 7, 2013

Lavish medical benefits imperil budgets

A Washington state retirement system created decades ago for now-veteran public servants has added particularly daunting burdens for some local governments. Those jurisdictions are struggling to manage costs for the most lavish medical plan possible.

By Mike Baker
The Associated Press

HOQUIAM, Grays Harbor County — After this coastal city's 1979 ladder truck finally broke down a few years ago, firefighters continued their duties by using hand ladders that only reach a couple of stories up.

Without the cash to buy a proper replacement truck, Hoquiam officials went to the ballot earlier this year with a levy proposal totaling $1.2 million. Voters in the town of 8,700 had previously rejected such a plan but this time agreed to bear the cost of a new truck over the next 20 years.

If it weren't for the medical expenses of a small group of retired firefighters and police officers, however, the city could have paid it all off in just two years — without raising taxes.

While local governments around the country have dealt with debilitating budget problems in recent years, a Washington state retirement system created decades ago for now-veteran public servants has added particularly daunting burdens for some jurisdictions. Those governments are struggling to manage costs for the most lavish medical plan possible, in which every expense is covered by taxpayers with no support from premiums, deductibles or even co-pays.

And with the aid of obscure disability boards often staffed by friends or former colleagues of the retirees, public money has directly covered things like hot tubs, penile implants and hypnotic treatments for weight loss, according to an AP investigation.

Still, the worst is yet to come.

As the old pension plan's population ages in the coming years, the growing costs of long-term care are projected to create a volatile new liability that could cause deeper turmoil for some governments and likely trigger cuts in areas such as active budgets for first responders. To cope, some local politicians are simply gambling their future budgets on the health of their retirees.

Costs skyrocket

Hoquiam's case illustrates that challenge: The city money going to the medical coverage of former firefighters and police officers in just the so-called LEOFF-1 pension system totaled $1.2 million over the past couple of years, according to budget documents. By comparison, the entire active Fire Department budget of salaries, medical, supplies and equipment totaled about $1.8 million during the same period.

The medical coverage may cover just a few dozen pensioners, but it is contributing to major spending reductions in road repaving and parks staff. The average age of Hoquiam's pensioners is 69, and officials fear the coming costs.

"It's just a huge nightmare," said Brian Shay, the Hoquiam city administrator. "I'm sure it was a grand idea when it was put in place years ago, but it's just a killer now."

State actuarial projections indicate that long-term care costs for local governments are going to rise 250 percent in the next 20 years to $37 million a year. That will put the total cost of medical care for that group of retirees at more than $120 million per year and contribute to a total long-term unfunded liability of $1.8 billion.

Officials expect that the largest expenses — related to retirees in convalescent homes or dealing with Alzheimer's — will be distributed in unpredictable and uneven ways.

That randomness is evident in the small city of McCleary, just west of Olympia, which has just two LEOFF-1 retirees, including one who has in-home care. Taking care of just that one person is costing McCleary about $90,000 a year — roughly $129 for every household in the city.

In Skamania County in south-central Washington, one of the eight pension beneficiaries is in long-term care, costing thousands of dollars extra each month.

Paul Pearce, who served as a Skamania County commissioner in recent years and is a friend of the ailing retiree, said the long-term care of that one person could last for another 20 years — potentially a $1.5 million liability for a county that has an annual general fund budget of just over $10 million. Pearce said the county explored long-term care insurance for each retiree but found it alarmingly expensive, so officials have decided to gamble on the health of local retirees and hope that the future care bills won't doom the area's finances.

"How do you plan for this long-term liability?" said Pearce, who is also a LEOFF-1 retiree. "Do we just roll the dice on a yearly basis?"

Solutions suggested

Lawmakers built the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 — also known as LEOFF-1 — in 1969 to consolidate an array of local pension systems for public servants. The state largely picked up the tab for funding the retirements of the pensioners in the system but has left local governments to cover the medical bills.

Some LEOFF-1 retirees said the medical benefits in the system were designed as an incentive to stay in the job when pay was low. Amid concerns about the sustainability of the system, the state created a new pension plan in 1977 but allowed everyone hired before that time to retain the benefits of LEOFF-1.

The medical benefit covers all expenses for "necessary medical services," with local disability boards deciding what is necessary. Over time, the benefits approved by disability boards have expanded to regularly cover things such as eyeglasses, dental care and erectile-dysfunction drugs. Others have paid for massage therapy and travel to medical facilities, including airfare.

Over the years, the cost of insuring the LEOFF-1 retirees has surged. In 2003, the cost of insuring one retiree through a plan organized by the Association of Washington Cities Employee Benefit Trust was $714 per month. That has more than doubled over the past decade to $1,573. Local governments can get a break once the retiree signs up for Medicare, but retirees still cost about $500 to $1,000 per month.

Pearce, the LEOFF-1 retiree and former county commissioner, said there's not much that the state can do to help manage the insurance costs. But he said the Legislature needs to explore implementing an insurance risk pool to help locals handle the threat of long-term care bills.

Pearce also thinks the state could tap extra dollars in the LEOFF-1 pension fund to help local governments cover the cost of the medical side.

Mark Curtis, who retired from the Thurston County Sheriff's Office and is now an advocate for LEOFF-1 pensioners, said he generally supports the insurance idea so long as it's fully paid by local governments. But he opposes tapping excess LEOFF pension dollars because it would make the system less secure.

Curtis said local jurisdictions have had decades to prepare for the medical costs that are now coming due and need to bear responsibility for them.

"They're still looking for another way to avoid it," Curtis said. "We're just going to hold their feet to the fire."

Lacey Mayor Virgil Clarkson has a different idea for lawmakers to consider: requiring retirees to use other medical options such as Medicare or veterans' benefits.

One of the retirees in Lacey previously served in the military but has declined to use the federal benefits available to him, Clarkson said. In recent years, the medical expenses for that retiree have included a $7,500 hot tub that local officials paid to install — a purchase that has also happened in at least one other jurisdiction.

"It was thought that this would give him some temporary relief," Clarkson said.

Recently, the pensioner began notifying officials that he may get dental implants in the near future — a procedure that could cause disruption in the local budget. The projected cost of the implants is $50,000.

That's three times more than Clarkson's annual compensation for serving as mayor.