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MacIver, NCPA suggest changes to health care benefits for Wisconsin public retirees

By Jessie Opoien
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A report published by a Dallas-based libertarian think tank and Wisconsin's conservative MacIver Institute calls for changes to the state's health care benefit program for public retirees.

The MacIver Institute and the National Center for Policy Analysis presented the recommendations, drawn from two reports, at the state Capitol on Wednesday. One report, authored by Cato Institute senior fellow Jagadeesh Gokhale, delves into Wisconsin's pension system and calls for reforms based on that system's strengths.

The Wisconsin Retirement System has for years received plaudits for its stability, considered one of the healthiest in the nation. The investment research firm Morningstar Inc. deemed WRS the country's strongest funded state pension system in 2012 and 2013, with a funded ratio of 99.9 percent.

A 2012 study from the Pew Center for the States gave similar praise: Wisconsin was the only state to be ranked a "solid performer" for its funding of pensions and health care benefits for retirees. That study also found that Wisconsin was the only state with enough money set aside to cover its pension and health care obligations for public employees.

The pension system has maintained a near-100 percent funded level since 2000, even before Gov. Scott Walker and Republican lawmakers made changes to the system under Act 10.

Walker's signature legislation required covered public employees to contribute 5 percent of their salary to their retirement, along with about 12 percent of the cost of their health insurance premiums. Those contributions were previously covered by employers, a benefit achieved through collective bargaining over the years.

The policy paper offers recommendations for both the pension system and the state's post-employment health benefit program.

MacIver Institute communications director Nick Novak said the two reports the organization released jointly with NCPA are not legislative proposals.

"We simply identified problems facing Wisconsin's Long-Term Care services and retiree pension and health care benefits and have outlined why they are problems," Novak said in an email. "The experts at NCPA also outlined possible solutions to address these challenges. Our goal is to educate the public about these and many other important policy issues facing our state."

The suggestions for the pension system include raising the retirement age and using two discount rates for current employees and retirees.

The study assesses the state's health insurance program's actuarial accrued liability at 29 percent.

"Thus, Wisconsin’s OPEB (other post-employment benefits) obligation due to its health plan represents a significant prospective financial burden on employees and taxpayers and should be reformed. Indeed, without early and meaningful reforms, the rapid projected growth in health care costs will likely escalate this financial burden and require additional contributions from active members and state taxpayers," the report reads.

NCPA senior fellow John Graham said during Wednesday's briefing that the organization believes funding assumptions in the state's health insurance program are unrealistic, based on rosy projections of health care cost increases.

The report suggests retirees should pay higher premiums, copayments and deductibles.

It also recommends that the state close the current program for employees below age 45 and any future employees. Those employees would be shifted to a new, pre-funded plan. The most straightforward approach, Gokhale wrote, would be to introduce health savings accounts for those younger and future employees.

"A reform along these lines would go a long way toward helping the state reduce its unfunded health plan liabilities and leave more general fund revenues for developmental, environmental, education and other needs," Gokhale wrote.

Asked how the introduction of health savings accounts has fared in other states, Graham referred to Indiana as an example.

"Once it happened, they accepted it," Graham said. "It’s a point of resistance because I think there’s some ideological oppositions to health savings accounts (among unions) … once it gets done and the actual employee or retiree sees they’re controlling more of their health care dollars, they accept it and they find it empowering."

State Rep. Duey Stroebel, R-Cedarburg, circulated a bill last spring to increase the retirement age for employees under 40.

Most employees in the Wisconsin Retirement System can retire at age 55 with reduced pensions, but must work until age 65 in order to collect full benefits. Stroebel's bill would have increased the minimum age to 57 and to 52 for police and firefighters.

Graham said during Wednesday's briefing that the organization would recommend raising the retirement age to 65.

The groups also recommend Wisconsin complete the consolidation of its retirement system by rolling in Milwaukee County's pension system, which was the only county not to be consolidated with the state in 1981.

"Since 2009, public pensions have struggled," Graham said. "The Wisconsin Retirement System stands out. It's really on a pedestal."