Wisconsin Health Insurance for Public Retirees Needs Reform

November 19, 2014

Wisconsin's pension system is in better shape than in most states, and, in fact, its disability and life insurance programs for retirees are more than fully funded. In a new report from the National Center for Policy Analysis and the MacIver Institute, Cato Institute Senior Fellow Jagadeesh Gokhale explains why Wisconsin's pension system is stronger than most and how the state could make further improvements.

Wisconsin's pension system includes the following features:

- It does not guarantee annual retirement benefit increases or cost of living adjustments.
- Employees have a choice of investment funds to which to contribute.
- It provides for a benefit floor, meaning that retiree benefits are protected to a certain degree, even if the market tanks.
- It makes annual adjustments to benefits above that floor according to investment performance. Benefits increase if a fund's assets exceed the assumed benefit discount rate.

Since the year 2000, Wisconsin's retirement system -- which covers all public employees -- has had a funding ratio of almost 100 percent.

However, Wisconsin's post-employment health benefit program -- which provides health coverage for pre-Medicare retirees -- is unfunded and in need of reform. He offers two main principles that should guide Wisconsin policymakers:

- Beneficiaries should pay more for the benefits that they are receiving, and higher premiums and copayments could bring out-of-pocket spending more in line with health care utilization.
- Lawmakers should close the current health program for employees below the age of 45 and any future employees, who could be offered a new plan that is prefunded. This would limit the growth of unfunded obligations. This could be done by introducing health savings accounts for future employees.

Without reform, the burden on taxpayers to fund these health benefits will only grow, says Gokhale.