

Financial gridlock still on horizon

All city employees' medical, pension benefits contribute to Ann Arbor's financial crisis

OTHER VOICES

BY JOHN L. BOYLE II

The Ann Arbor News' articles last month regarding the City of Ann Arbor's poor financial health (March 16-17) were insightful on many fronts, were remiss on a few counts and missed the main reason the city's finances will continue to deteriorate.

First of all, the problems with the city's labor costs and finances have been absolutely obvious for many years. In a letter to The News published on July 2, 1989, I stated the wages and benefits for the police and firefighters - far in excess of those for workers in the private sector - would mortgage the city's future. In a second letter published in The News on May 22, 1991, I suggested the wages and benefits for Ann Arbor employees constituted an abuse of the taxpayer and that the city council members who are responsible for this abuse would be gone when the bills came due.

The News articles correctly suggested the greatest beneficiaries of the city's benefits largesse were the firefighters. What should be emphasized, however, is the fact that all Ann Arbor city employees have benefits packages vastly superior to those in the private sector - and that's on top of salaries that are competitive with private industry - with some individual retirees receiving pension and retiree medical benefits worth more than \$2.5 million for less than 25 years of service.

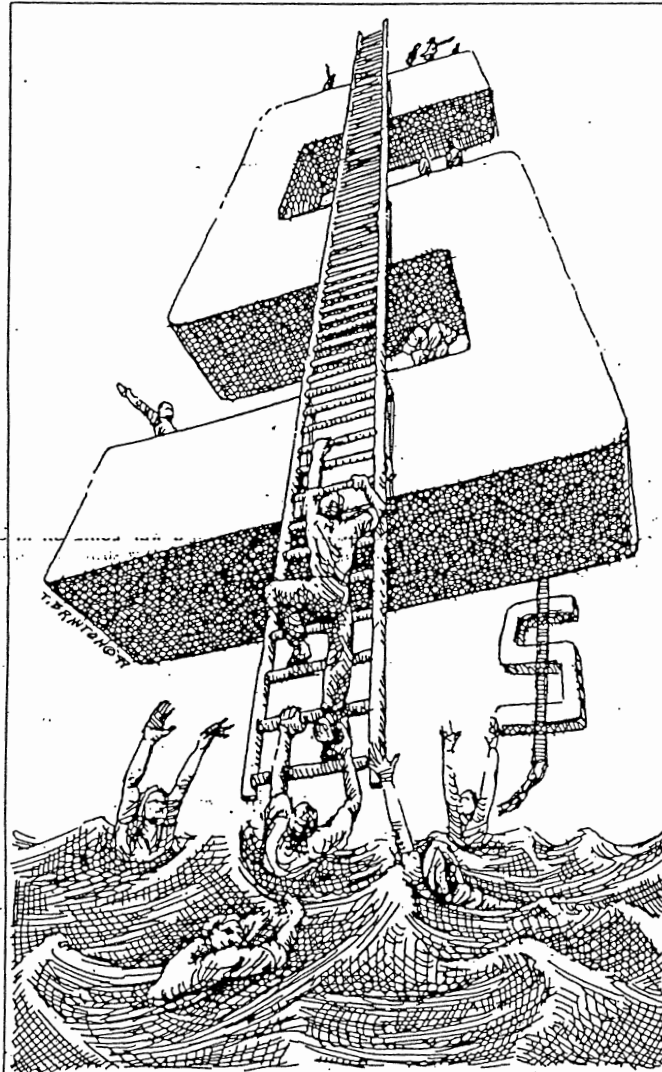
The articles correctly pointed out that the overfunding in the city's pension fund - so often bragged about by the unions and the Ann Arbor Pension Board - is pretty much gone.

The changes in staffing and the elimination of pension-plan abuses by the current administration are clearly overdue steps in the right direction and clearly will help the city balance future budgets.

However, these changes still are not sufficient to save the city from financial gridlock, at a minimum, and financial collapse, at the maximum.

The main problem is the magnificently-generous medical benefits for the city's retirees. Possibly a little math will help to understand the magnitude of this problem. The city's pension situation is summarized here:

As mentioned in an Ann Arbor News



TIM BRINTON, SPECIAL TO THE NEWS

article on Sept. 20, 2002, the City Pension Board correctly stated that the early retirement pensions - adding \$6.7 million in annual pension payments - will strain the city pension fund.

Now for the real - somewhat-below-the-radar - bombshell. The city also provides lifetime medical benefits for

523 retirees that presently cost \$4.6 million per year (\$733 per month per retiree). This \$4.6 million per year is equal to 23 percent of the annual pension payments to retirees. As mentioned above, the city's pension board has stated that \$19.7 million per year in pension payments strains the pension fund with \$337 million in assets -

yet here's \$4.6 million a year in retiree medical insurance payments that also must be paid, but has no fund to draw upon.

These medical benefits are just like pension benefits since they are for former employees who have completed their working lives (at least for the city) - and, like pensions, once promised, cannot be negotiated away. However, while pensions are limited to cost-of-living increases, medical insurance costs are increasing at a much higher rate, and, over time, these costs may well rival pension costs.

If the City of Ann Arbor were fiscally responsible, these medical benefits would be paid from a fully-funded retiree medical fund. Instead, these costs are paid out of current tax revenue or, if current tax revenue cannot pay the bill, these costs are paid from the pension fund - which will further deepen the pension crisis. Medical insurance costs for an ever larger number of retirees will escalate until they are budget busters - along with additional funding needed to pay for the city's generous pension plans.

To fund the medical benefits for just the current 523 retirees, the city would have to set aside at least \$152 million. To fund retiree medical benefits for current city retirees and vested city employees, it would require a fund in excess of \$200 million. This is what the city should do in the name of fiscal responsibility - it should set aside \$200 million (or more) and commence annual payments to the fund to maintain a fully-funded retiree medical insurance plan. If this obligation were booked as a liability, as it should be, the City of Ann Arbor's books would have to reflect the fact the city is bankrupt.

The only way the city can avoid financial ruin is to significantly raise taxes, significantly reduce payroll and services, or significantly reduce entitlements for retirees and employees - or some combination of the three. Significantly is the key word here.

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