



## PRESS RELEASE

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***NEW study reveals that pensions are not the only glaring example of fiscal mismanagement in California.***

***Do unfunded retiree health benefits need be reformed to avoid more municipal bankruptcies?***

***Are OPEB costs crowding out other essential services in California towns?***

***Are there any examples of sound policy to guide California's struggling localities?***

## THE NEGLECTED FISCAL MENACE: How to Fix California's Retiree Health-Care Problem

**October 29, 2012:** California state and local governments collectively face an unfunded retiree health-care liability of at least \$130 billion. Unlike pension obligations, which are often set in stone, many important retiree health-care decisions have not yet been made. These include choices regarding benefit structures, cost-sharing and funding arrangements, and the legal status of benefits. A new report from the [Manhattan Institute](#) finds that by reforming retiree health-care benefit structures (often called OPEB, or Other Post-Employment Benefits), California localities have an opportunity to correct years of fiscal mismanagement.

Although the pension crisis has dominated the headlines for months, some California governments have begun to acknowledge their severe OPEB spending problems and attempted to address them. They have done this through bargaining (San Diego), ballot initiative (San Francisco), bankruptcy (Stockton, San Bernardino, and Vallejo), and legislation (Orange County). Cities such as Fresno, which never allowed its OPEB programs to become overly generous, have manageable long-term liabilities and provide a standard for other municipalities to aspire to.

On Monday, October 29, 2012, the Manhattan Institute's Center for State and Local Leadership released a new report, [\*\*Reform Before Revenue: How to Fix California's Retiree Health-Care Problem\*\*](#), by senior fellow [\*\*Stephen Eide\*\*](#). It has been popular this political season to promote increased taxes on higher incomes (as both Propositions 30 and 38 would do). But volatile high-earner income is a uniquely poor source of revenue to support mounting OPEB costs. This report offers a path to reform before turning to revenue:

1. California state and local governments should **reassess the need to offer OPEB**.
2. **Think hybrid.** California cities should consider a hybrid model for OPEB, similar to the hybrid pension models recently adopted in Rhode Island, Utah, and the city of San Jose.
3. Raise revenues **and** begin prefunding.
4. State government should provide local governments greater bargaining leverage for OPEB.

In unprecedented detail, Eide offers a breakdown of the actual value and mechanics of [current OPEB packages and eligibility standards for state government and the five biggest cities in California](#) [Table 1].

The report notes the repercussions to Californians if OPEB structures are not reformed: governments will be pressured to maintain current benefits by raising taxes and cutting services vital to constituents including police, infrastructure projects, education, and maintenance of public parks. OPEB systems need reform before revenue. What those reforms entail is quite clear—and applicable beyond California, to the whole nation.

Eide notes in the report that, "The time is ripe for OPEB reform not only because fiscal crises breed administrative opportunities but because OPEB programs remain relatively undeveloped, much more so than pension systems."

Full report available here: [http://www.manhattan-institute.org/html/cr\\_73.htm](http://www.manhattan-institute.org/html/cr_73.htm)



#### **REPORT GRAPHS/TABLES OF NOTE:**

- [Unfunded Pension and OPEB Liabilities among 50 of the Biggest Cities in California](#)
- [Stockton's Past and Projected Pay-as-You-Go OPEB Costs, Prior to Bankruptcy](#)
- [Workforce Reduction vs. Per Capita Income in 50 of California's Biggest Cities](#)

**Stephen Eide** is a senior fellow at the Manhattan Institute's Center for State and Local Leadership. He was previously a senior research associate at the Worcester Regional Research Bureau. He is a regular contributor to [PublicSectorInc.org](#), a project of the Manhattan Institute. His work focuses on public administration, public finance, political theory, and urban policy. His work has been published in the *New York Post*, *Boston Herald*, *Worcester Telegram and Gazette*, *Worcester Business Journal*, *Commonwealth Magazine*, *Interpretation: A Journal of Political Philosophy*, and *Academic Questions*.

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