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City of Duluth Communications Office

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SUBJECT: 2012 City Retiree Health Care Unfunded Liability Reduced by 49.2% from the 2005 projections

BY: Pakou Ly, Public Information Coordinator

2012 City Retiree Health Care Unfunded Liability Reduced by 49.2% from the 2005 projections

[Duluth, MN] - Every two years, the City is required to conduct a new actuarial study on unfunded liabilities related to retiree health care. The latest report, issued today, shows the City of Duluth's unfunded liability to be \$192 million. Two years ago, the unfunded liability stood at \$208 million.

A more striking picture is drawn when you compare the updated report to the 2005 study. That study projected that the City's unfunded liability would be \$378.1 million by January 2012 unless changes were made.

The 2005 study predicted that the city would have to spend \$12.4 million to pay for retiree health care in 2012. Now, the City projects spending just over \$8 million for retiree care next year.

Because of the retiree health care reforms made in the past four years, the city will spend \$4.4 million LESS in 2012, the equivalent of approximately 60 firefighters. Those reforms have reduced the overall unfunded liability by over \$186 million over the next 30 years – that's a 49.2% reduction in the city's liability.

"Duluth remains one of the few cities in the country to address their retiree health care issue in a significant and comprehensive manner," said Mayor Don Ness. "This has been the defining issue for the City of Duluth in a generation and with nearly a 50% reduction in our projected liability, it has been an historic success for our community."

The City achieved important cost savings when it moved active employees to Plan 3 eliminated the defined benefit for new employees and moved retirees to the same plan on January 1, 2010 pursuant to the District Court's order. This decision was appealed by the retirees with the Minnesota Court of Appeals reaffirming the lower court's ruling. The case was appealed again to the Minnesota Supreme Court. On May 2, 2011, the Minnesota Supreme Court heard oral arguments on the appeal and a decision is expected soon.

Despite the success in reducing the liability, a significant challenge remains. An unfunded liability of \$192 million over the next 30 years will be a challenge. The annual costs are expected to peak in 2034, before the annual costs will start to decline. Over the next 23 years, these costs will continue to put

more pressure on the city's budget.

The full study is available at http://www.duluthmn.gov/finance/2012_retiree_insurance_liability.pdf

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