SICTA Alert

Sea Isle City Reports $40 Million Liability for Unfunded Retiree Health Benefits

As required by the State of New Jersey, in its Comprehensive Annual Report for the year ended December 31, 2008, Sea Isle City reported a $40,177,400 liability for unfunded retiree health benefits. While the existence of this liability is not a surprise, the size of it is shocking. To put this in perspective, this liability dwarfs the City's long term debt obligations of approximately $31 million. From another viewpoint, this liability is seven times the City's covered payroll, while neighboring Ocean City similar liability is only two times its covered payroll.

The reason for this large unrecorded liability is the various generous health care benefits provided to employees and retirees. Under the proposed health care reform act, the City's plan would be considered a "Cadillac" plan and could be a taxable benefit to employees and retirees.

The accompanying Exhibit shows the City would save about $1,271,000 a year if it was paying for health benefits under one of the four state plans for local governments. This savings comprises 36% of health care costs of $3,552,000 that SICTA estimates for 2010.

The "pay-as-you-go" method that the City uses to pay retiree health benefits could play havoc on future years' budgets and real estate taxes. For this reason, SICTA believes that the City should put money aside to fund future health benefit payments for future and current retirees as it does for working employees' pension benefits. SICTA calculates that the savings from the State plan would cover 96% of the funding costs.

The actuaries suggested 8.25% as a long term investment rate for the monies funded. Changing to a **less expensive** plan and **putting money away** at a **long term investment rate** is the most cost effective way to reduce and fund the unfunded liability of over $40,177,400.