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## Politics

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### State faces budget hole for retirees

Start putting aside \$1 billion a year now, adviser urges.

**By Clea Benson -- Bee Capitol Bureau**  
*Published 2:15 am PST Saturday, February 18, 2006*  
*Story appeared on Page A1 of The Bee*

It will cost about \$5 billion more than the state is currently spending each year to cover the price of health care for future and current retired state workers over the next three decades, the legislative analyst said in a report released Friday.

Local governments and school districts also could face billions of dollars in future health care costs, which could end up being shifted to the state, the report said.

The Legislature's nonpartisan budget adviser urged lawmakers to start setting aside at least \$1 billion more annually to soften the future impact on the budget, and to figure out additional ways to come up with the rest of the money in later years.

"The longer that there's no action on this issue, the problem continues to get bigger," said Michael Cohen of the Legislative Analyst's Office, "which is one of the reasons we think the Legislature should start

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developing a plan now."

Unlike the pension system, in which the state sets aside money each year to pay the future retirement benefits of current employees, California and most other states have been covering retiree health care premiums as they incur the costs each year.

The state now pays only about \$1 billion a year - enough to cover the premiums for current retirees but not enough to pay the projected costs of providing retirement benefits of current state workers in the future.

But new national accounting standards that will take effect next year require local and state governments to calculate and disclose exactly how much those future health care costs will be. Meanwhile, the projected costs have been rising rapidly because of the dramatic inflation in health care and lengthening retiree life spans.

The legislative analyst's report estimates that the state has a potential liability of between \$40 billion and \$70 billion over the next 30 years that it will not meet at the current rate of payment.

The report urges lawmakers to hire actuaries to conduct a more concrete assessment of the potential costs.

Lawmakers should consider ramping up payments to about \$1 billion more a year after that assessment is complete, the Legislative Analyst's Office recommended.

In addition, the state could consider cutting retirement health benefits for future employees, the report said.

Lawmakers said they were concerned by the report, but they disagreed about its significance.

Assemblyman Keith Richman, R-Northridge, called it a "bombshell for state and local finance."

The new disclosure could affect the debate over other long-term costs - such as infrastructure, Richman said.

"It's very important that if we're going to be able to invest for the future of California in roads and highways and other infrastructure needs, we have to acknowledge this debt and take care of it now," Richman said.

But Senate President Pro Tem Don Perata, D-Oakland, cautioned that the report should not be used as a basis for weakening the benefits of state employees.

"(Anyone) who seeks to use this report to abandon the teachers, cops and firefighters who have worked their lives for the people of this state will be disappointed," Perata said in a statement.

Vince Sollitto, a spokesman for Gov. Arnold Schwarzenegger, said the report did

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not reveal anything that state officials didn't know.

"This is not unexpected or unknown," he said. "It further highlights the need for the state to continue to get its fiscal house in order."

Sollitto said the costs of paying for retiree health care, though large, should not compete with the costs of investing in infrastructure.

Schwarzenegger has proposed issuing \$68 billion in bonds over the next decade to pay for roads, ports and water systems.

"If we fail to invest wisely in our infrastructure and continue strong economic growth, the state will not have the revenues it will need to pay for future liabilities such as those identified today," he said.

Though the new accounting rules do not require governments to set aside money for their health care liabilities, the state will have to take some action on the problem to protect its bond rating, Cohen said.

"Most governments in the country are dealing with this issue, so we're not expecting a quick change in governments' bond ratings because of these liabilities," Cohen said.

"But clearly it's going to be similar to our state structural budget problems, where bond raters are going to be much more comfortable if they see the state has a plan to deal with the problem."

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