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City of Duluth Communications Office

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SUBJECT: City Retiree Healthcare Unfunded Liability Reduced by \$72 million

BY: Pakou Ly

City Retiree Health Care Unfunded Liability Reduced by \$72 Million

The City of Duluth has seen a significant reduction in its unfunded healthcare liability since 2005 based on a recently released actuarial study completed by CBIZ Benefits and Insurance Services. The City was faced with a \$280 million unfunded liability in 2005. In the most recent actuary study just completed by CBIZ, this amount has been reduced to \$208 million, a reduction of \$72 million.

The 2005 actuary report projected that the \$280 million unfunded liability would grow to \$351 million by 2010. Because of actions taken by the City, instead of growing by \$72 million in that time span, the liability has been reduced by \$72 million.

This is a significant savings and was based on the work of a citizen taskforce developed in 2005 by then City Councilor Don Ness. Based on that effort the city has taken aggressive steps to reduce the unfunded liability burden on city tax payers.

“When we took on this issue in 2005, it threatened to bankrupt the city unless fundamental changes were made. While the City still provides a very generous health plan to retirees, we have been able to significantly reduce the cost to provide that benefit by \$72 million. No accomplishment has been more critical to the long term sustainability of city finances,” says Mayor Don Ness.

The City achieved important cost savings when it moved active employees to plan 3 and recently moved retirees to the same plan on January 1, 2010 pursuant to the District Court's order. The Retirees appealed the District Court's decision. Both parties are awaiting an oral argument date to be set. Once the appeal is argued, the Court of Appeals should issue a decision in 3 to 6 months.

The City has put over \$16 million aside into an irrevocable trust fund to help pay for the future unfunded liability. In addition to the pay-as-you-go cost of providing the benefit, the city is also putting aside \$3.4 million a year for future liability.

“We have not yet solved this issue, there is still more work to be done to ensure the long-term sustainability of this benefit. But it’s important to recognize and celebrate the accomplishment that this actuarial study reflects. We have saved the taxpayers of Duluth \$72 million by our efforts in the past 5 years,” said Mayor Ness.

To access a copy of the 2009 actuary report, please

visit <http://www.duluthmn.gov/finance/2009%20Duluth%20OPEB%20Actuarial%20Valuation%20Report.pdf>