Rodney’s Take

April 5, 2021

The “Other” State Bailout

The Biden Administration is taking a victory lap for pushing through the $1.9 trillion American Rescue Plan (ARP). That strikes me the same as a guy whistling in Nebraska to keep the alligators away and then bragging about his success. He achieved his goal, even if he wasn’t particularly effective.

A not-so-hidden provision in the ARP gifts a whopping $350 billion to cities and states, but if your state or town successfully managed the pandemic, then don’t expect a check from Uncle Sam. The bucks flow based on unemployment rates. The more people are out of work in your locale, the more money you get. While helping people who have fallen on hard times makes sense, it sure looks as if we’re rewarding government officials who left draconian economic lockdown measures in place after the main danger had passed.

But Team Biden isn’t done. The ink isn’t yet dry on the latest stimulus checks and they’re already talking about the next financial gift to cities and states, although they aren’t couching it in those terms. They’ve introduced the idea of reducing the age at which people qualify for Medicare from 65 to 60.

This might sound like a helping hand to people in their early 60s who can’t get affordable health care. While that’s true, reducing the qualifying age for Medicare also will allow entities that currently carry coverage for older workers or retirees younger than 65 to move their financial burden to Uncle Sam.

A few companies still have retiree healthcare plans and offer coverage to employees that separate before 65. But the big winners will be public employees, such as city and state workers, who often retire before 65 and cost their previous employers a bundle. The latest survey from *Reason* magazine shows that cities and states owe current and future retirees a whopping $1.2 trillion in other post-employment benefits (OPEBs), which is a fancy way of saying healthcare benefits.

If such retirees move to Medicare five years sooner than expected, then a large chunk of that liability evaporates.

Unfortunately, just like the stimulus dollars, the benefits won't be spread evenly across the nation, as governments owe different levels of debt. Just 15 cities and states account for more than 50% of the $1.2 trillion liability, including New York with $313.9 billion, California with $183.6 billion, New Jersey with $101.5 billion, Texas with $110.8 billion, and Illinois with $73.7 billion. Government officials in each of these states will be thrilled to hand off a chunk of their OPEB liabilities to the federal government.

But what this means, to paraphrase the words of Vanguard Group founder John Bogle, is that the government pays nothing, the citizens pay everything. Moving these liabilities from city and state books to the national ledger actually moves the debt from the limited populations that incurred it to all taxpayers. Citizens in Florida, which scores well on this measure, will be paying for pensions incurred in New York and New Jersey, and the good people of Utah will be paying for pensions in Illinois.

Just as with the ARP, we'll be codifying a perverse logic, where governments that managed their finances the worst will enjoy the biggest benefit at the expense of everyone else.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.