

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: July 19, 2010

To: Supervisor Elizabeth Coggs, Chairwoman, Committee on Finance & Audit
Supervisor Patricia Jursik, Chair, Committee on Personnel

From: Jerome J. Heer, Director of Audits

Subject: Supplemental Report-Employee Benefits Workgroup (File No. 09-391)

The July 19, 2010 memos from the Employee Benefits Workgroup provide valuable, relevant information to address two questions raised in the 2010 Adopted budget: 1) Should the County's pension plan be converted from a defined benefit plan to a defined contribution plan? and 2) Should a consumer-driven health plan be implemented? But this information does not address the underlying concern that triggered the questions that were put to the Workgroup. Those concerns are rooted in the high costs of pensions and health care for the County's current and former employees. While many of the more generous elements of the County's benefits program have already been eliminated, some will be more costly than others for years to come. Even with some significant rollbacks, the ongoing costs are significant. As a step toward addressing these issues, we offer the following observations and suggestions:

- 1) Establish a stronger basis for addressing pension and health care costs. We are not aware of any thorough analysis that has been conducted on the value of total compensation for County employees. Nor are we aware of any serious attempts using outside professionals to compare the costs of total compensation to other public or private sector employers in the area. Further, for pensions, we know the total benefit cost and the cost associated with certain provisions but we do not know the component cost of some elements of the benefit.
- 2) Take greater care to acknowledge the role that litigation and labor relations may have on any changes to benefits. Ideally, changes would be targeted that would achieve the greatest financial impact and also have the greatest likelihood of being obtained through labor relations while avoiding costly and protracted litigation. At a minimum, Labor Relations should be involved in assessing the appropriate strategy and the potential need for a quid pro quo. Labor Relations staff would also benefit from information referenced in item 1 when establishing "comparables" for negotiation or arbitration. Corporation Counsel should also be consulted on any new benefits strategy to assess the likelihood of litigation.
- 3) Recognize the differences in benefit levels among County employees. A 2008 matrix of various County employees identifies nine major benefit elements for 12 different groups in the County's workforce. Within this matrix there are dozens of different benefit scenarios that may apply depending on an employee's date of hire and bargaining unit. At its extremes, for example, the benefit package for a pre-1982 hire differs significantly from an employee hired in 2010.
- 4) Consider both the long-term and short-term value of benefit changes. Implementation of Org Unit 1972 in the 2010 Budget has not yet been fully achieved for all employees. However, for those employees that are subject to its provisions, the impact long into the future will be significant. In addition, short term changes such as salary freezes can accommodate economic challenges such as those faced by this government at the beginning and end of this decade.

- 5) Assess the strategic value of reconsidering the level of benefits in areas that have not been the subject of public debate in recent years. Some examples include consideration of a short-term disability plan in exchange for sick leave accumulation, analyzing the cost of vacation and other off time benefits (especially for longer-term employees) and reexamining the manner in which post-65 health benefits are coordinated.
- 6) Build on the considerable success in the past and in recent years in achieving lower benefit costs. Several examples include: initiatives to eliminate or minimize salary increases have had a positive fiscal effect on pension costs because salaries are a key component of our pension formula, the Back DROP has been bargained away for all new hires, health benefits have been redesigned to achieve greater employee and retiree participation in funding these costs and as early as 1994 retirement health care ended for most new hires (and has since been eliminated for all new hires).
- 7) Continue to address benefit cost reductions through aggressive management. Major initiatives like reversing the shift to a fully funded health insurance program and enhancing our ability to negotiate in the health care market have had a multi-million dollar impact on lowering costs and has permanently "reset" the cost curve at a lower level. While we may be at a point where administrative actions have a decreasing impact, there still may be opportunities to address some cost reductions through administrative efforts.

We appreciate the opportunity to participate in the Employee Benefits Workgroup and look forward to discussing the group's report and these additional suggestions during the July cycle.

Jerome J. Heer

JJH/cah

cc: Milwaukee County Board of Supervisors
Employee Benefits Workgroup Members
Scott Walker, Milwaukee County Executive
Terrence Cooley, Chief of Staff, County Board Staff
Carol Mueller, Chief Committee Clerk
Jodi Mapp, Committee Clerk