

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: June 5, 2006
To: Supervisor Richard D. Nyklewicz, Jr., Chairman, Committee on Finance and Audit
From: Director of Audits
Subject: Survey of Other Counties' Handling of Government Accounting Standards Board (GASB) Statement 45 Requirements

You requested information concerning the manner in which counties nationwide, similar in size to Milwaukee County, are addressing new GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Of particular interest is the size, based on actuarial estimates, of other counties' unfunded retiree health care liabilities; the manner in which each jurisdiction intends to address its unfunded liability; and the relative share of health insurance premium costs paid by other counties for both employees and retirees. We focused our telephone survey questions on counties in states identified by the National Association of Counties (NACo), based on an informal canvassing of various state contacts, as comprised of counties that offer some level of retiree health care benefit. According to the Director of Research for NACo, feedback from her preliminary queries concerning the potential impact of GASB 45 has indicated the issue of unfunded retiree health care liabilities is not as pervasive as she had anticipated.

The results of our telephone survey are attached. Following is a summary of the information detailed in the attachment.

- Extensive telephone interviews with several county officials resulted in obtaining detailed information from a total of seven counties, ranging in population from 816,000 to 1.2 million.
- The seven counties' annual budgets range from \$644 million to \$4.5 billion (some counties include local school districts in their annual budgets).
- Six of the seven counties surveyed had an actuarial estimate of their unfunded retiree health care liability. Estimates ranged from \$3 million to \$487 million. As a percentage of annual budgets, the unfunded liabilities ranged from 0.1% to 66.8%
- Three of the six respondents with actuarial estimates indicated they would remain on a 'pay as you go' basis. Each of these three counties' unfunded retiree health care liabilities is equivalent to less than 10% of their annual budgets.
- Of the three remaining counties with actuarial estimates of unfunded retiree health care liabilities, ranging between 6% and 66.8% of their annual budgets, two have or plan to establish trust funds to facilitate long-term funding of the liability, while one has not yet determined a course of action.

- One other county, along with Milwaukee County, has no specific course of action implemented. Actuarial estimates of their respective unfunded retiree health care liabilities are pending.
- Milwaukee County's ratio of retirees with health care benefits to active employees (Full Time Equivalent positions) is 1:1, which is much higher than any of the seven counties surveyed. The other seven counties' ratios of covered retirees to active employees ranged from 1:1.8 to 1.55. Among the eight counties in the comparison, Milwaukee County had the second-fewest number of active employees (6,023 FTE) and the second-highest number of retirees with health care benefits (6,041).
- Of the eight counties in the comparison, Milwaukee County had the second-highest annual premium cost for active employees' single coverage (\$9,942). The annual premium cost for single coverage ranged from \$3,105 to \$11,942, with the highest rate (Ventura County, California) skewed upward because it is a composite single/family premium rate. However, Milwaukee County's share of the total annual premium cost for active employees' single coverage (\$9,042) was the highest among the eight counties. Ventura County reduces its share of the total annual premium cost by passing along \$6,448 (46%), to its active employees. In all but one county surveyed, premium rates provided are a blend of both active and retiree rates.
- Similarly, Milwaukee County's total annual premium cost for family coverage (\$16,490) was the highest among the eight counties.
- Oakland County, Michigan was the only county other than Milwaukee County that provided retiree health care benefits at no cost to the retiree (single coverage only). Oakland County had the highest unfunded retiree health care benefit of the six counties that had an actuarial estimate (\$487 million), and it represented the highest figure in relation to its annual budget (67%). All other counties in the survey provided limited or no subsidies to retirees for health care benefits.

During the process of obtaining the information presented in this memo, we were advised that the City of Duluth, Minnesota is currently facing a significant challenge in addressing its unfunded retiree health care liability. Duluth has a population of 86,913. The city has a current workforce of approximately 840 and as of January 1, 2005, Duluth had 1,055 retirees with health care benefits. Thus, Duluth has a retiree/employee ratio of 1:0.8. An actuarial estimate of its unfunded retiree health care liability is \$280 million, or the equivalent of 119% of its 2006 annual budget of \$236 million. Unlike Milwaukee County, Duluth has not eliminated retirement health care benefits for future employees. Milwaukee County discontinued retirement health care benefits for most employees hired after 1993.

A Task Force formed by the Duluth City Council presented several recommendations in a December 2005 report. The report acknowledges that declaratory judgments may be necessary to achieve some of the goals contained in the recommendations, including the following:

- Greater cost sharing by retirees for health care benefits.
- Modification of retiree health care plans to more closely resemble those of active employees.
- Convert all eligible retirees age 65 or more to a fully insured 'cost product' (as opposed to self-insured) to immediately reduce the Actuarial Accrued Liability by up to 23%.
- Increases of 4%-5% in city-provided utility rates, with additional revenues to be placed in a trust fund to help finance the unfunded retiree health care liability.
- Obtain updated actuarial projections every two years.
- Seek more competitive bidding for health care services, improve internal administrative efficiencies, and establish an internal auditor exclusively for the health care program.
- Establish an irrevocable trust fund to receive all health care receipts, make all health care payments, and invest trust fund balances.

This report was prepared by the Department of Audit for informational purposes.

Jerome J. Heer, Director of Audits

JJH/DCJ/cah

Attachment

cc: Supervisor Lee Holloway, Chairman, Milwaukee County Board of Supervisors
Milwaukee County Board of Supervisors
Scott Walker, Milwaukee County Executive
Linda Seemeyer, Director, Department of Administrative Services
Stephen Agostini, Fiscal and Budget Administrator, DAS
Charles McDowell, Director, Division of Human Resources, DAS
Terrance Cooley, Chief of Staff, County Board Staff
Stephen Cady, Fiscal and Budget Administrator, County Board Staff
Delores 'Dee' Hervey, Chief Committee Clerk, County Board Staff

Department of Audit Telephone Survey of County Responses to GASB 45 Requiriements

County/Annual Budget	Population	-----Active Employees-----			-----Retirees w/Health-----			Unfunded Liability	% of Annual Budget	Plan for Addressing Liability	
		No. Emp.	Tot. Cost	Co. Cost	Emp. Cost	No. Ret.	Tot. Cost				Co. Cost
Ventura County, CA 2006 Budget \$1.4 B	815,528	7,400				780			\$56 M	4.0%	Remain 'pay as you go.' Ratio of retirees/employees = 1:9.5
		Single HMO	\$11,942	\$6,448	\$5,494		\$3,105	\$0	\$3,105		
		Family HMO	\$11,942	\$6,448	\$5,494		\$8,476	\$0	\$8,476		
Milwaukee County, WI 2006 Budget \$1.3 B \$1,300,000,000	940,164	6,023				6,041			Unknown	--	Under review. Actuarial estimate pending. Ratio of retirees/employees = 1:1
		Single PPO	\$9,942	\$9,042	\$900		\$9,942	\$9,942	\$0		
		Family PPO	\$16,490	\$14,690	\$1,800		\$16,490	\$16,490	\$0		
Salt Lake County, Utah 2006 Budget \$644 M	955,166	4,005				1,017			Unknown	--	Undecided pending actuarial est. Ratio of retirees/employees = 1:3.9
		PPO Single	\$4,056	\$3,240	\$816		\$5,676	\$3,240	\$2,436		
		PPO Fam	\$12,024	\$9,624	\$2,400		\$16,824	\$3,240	\$13,584		
Fairfax County, Virginia FY 2007 Budget \$3.2 B	969,749	11,500				6,403			\$191 M	6.0%	Establishing a Trust Fund with a beginning balance of \$10.2 M. Ratio of retirees/employees = 1:1.8
		Single PPO	\$4,707	\$814	\$3,893		\$5,426	\$0-\$2,640	\$5,426		
		Family PPO	\$15,683	\$3,921	\$11,762		\$15,683	\$0-\$2,640	\$15,683		
Hennepin County, MN 2006 Budget \$1.9 B	1,116,200	11,098				1,191			\$183 M	9.6%	Pay as you go; establishment of a trust fund would require a change in State law. Anticipate liability going down as Rule of 90 is phased out Ratio of retirees/employees = 1:9.3
		HMO Single	\$5,205	\$5,205	\$0		\$5,205	\$5,205	\$0		
		HMO Family	\$11,308	\$11,014	\$294		\$14,545	\$5,205	\$9,340		
Palm Beach County, FL 2005 Budget \$3.9 B	1,131,184	6,594				120			\$3 M	0.1%	Remain pay as you go through actuarial- determined premiums (self-insured). Ratio of retirees/employees = 1:55
		Single HMO	\$5,088	\$5,088	\$0		\$5,088	\$0	\$5,088		
		Family HMO	\$14,160	\$12,312	\$1,848		\$14,160	\$0	\$14,160		
Oakland County, MI 2005 Budget \$729 M	1,194,156	3,700				1,600			\$487 M	66.8%	Trust fund. Ratio of retirees/employees = 1:2.3
		Single HMO	\$5,316	\$4,978	\$338		\$5,316	\$5,316	\$0		
		Family HMO	\$14,436	\$13,656	\$780		\$11,760	\$5,316	\$6,444		
Sacramento County, CA 2006 Budget \$4.5 B	1,223,499	14,000				4,000			\$321 M	7.1%	Unknown. Ratio of retirees/employees = 1:3.5
		Single HMO	\$4,358	\$4,358	\$0*		\$4,358	\$1464**	\$2,894		
		Family HMO	\$11,146	\$11,146	\$0*		\$11,146	\$1464**	\$9,682		

* County subsidy varies with choice of plan; 100% of low-cost HMO.

** On average; varies with years of service.

Source: Internet research, NACo data and telephone interviews.