

ADOPTED 2010 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

BUDGET SUMMARY				
	2008 Actual	2009 Budget	2010 Budget	2009/2010 Change
Health Benefit Expenditures	\$ 138,116,214	\$ 138,868,095	\$ 139,603,435	\$ 735,340
Pension Related Expenditures	40,862,255	49,439,330	66,284,376	16,845,046
Other Employee Benefit Expenditures	3,707,981	3,247,653	4,211,942	964,289
Total Expenditures	\$ 182,686,450	\$ 191,555,078	\$ 210,099,753	\$ 18,544,675
Total Abatements	(174,592,930)	(185,159,022)	(203,922,053)	(18,763,031)
Total Direct Revenue	\$ 7,201,446	\$ 6,396,056	\$ 6,177,700	\$ (218,356)
Total Tax Levy	\$ 892,074	\$ 0	\$ 0	\$ 0

BUDGET HIGHLIGHTS

In March of 2007 the County Board of Supervisors adopted a methodology for allocating fringe benefit costs to departmental budgets. In accordance with that methodology, the following costs have been applied to eligible FTEs and salary dollars in departmental budgets for 2010:

Fringe Benefit Costs Per Eligible FTE - 2010 Budget

	Health Care	Pension % of Salary
Active Employee	\$15,863	19.82%
Legacy Cost	\$14,798	11.29%
TOTAL:	\$30,661	31.11%

Fringe benefit costs are segregated into health care and pension components. Both active and legacy health care costs are budgeted as a fixed cost per eligible FTE. Health care costs include all health benefits and other non-pension related benefits. Both active and legacy pension costs are calculated as a percent of salary and include all retirement system contributions and debt service on pension notes issued in March of 2009.

For budget presentation purposes, the health and pension costs calculated per FTE remain fixed at these levels throughout the entire budget process. However, to accurately reflect the budgeted expenditures for health and pension costs, each department receives an allocation to either increase or decrease its benefit expenditures as determined by fringe-related expenditures. Actual fringe rates will be determined after the final budget is adopted.

It should be noted that the 2010 Adopted budget includes \$25,837,697 in modifications to salary, healthcare, pension and overtime expenses resulting in a levy savings of \$20,102,254. All of these modifications have been budgeted in departmental budgets and are collectively explained in the Wage and Benefit Modification budget (Org-1972). Even though some of these modifications impact healthcare and pension benefits, they are not included below.

Health, Dental and Other Related Expenditures

Total net budgeted health benefits expenditures increase \$1,086,591 in 2010 to \$134,549,035. Projected changes from 2009 to 2010 for health benefits are as follows:

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	2009 Budget	2010 Budget	2009/2010 Change	Percent Change
Basic Health Benefits, Including Major Medical	\$ 125,427,324	\$ 127,629,102	\$ 2,201,778	1.76%
Dental Maintenance Organizations (DMO)	2,810,022	2,914,300	104,278	3.71%
County Dental Plan	1,827,125	1,640,600	(186,525)	-10.21%
FCW Ortho Grandfathering		25,000	25,000	0.00%
Mental Health/Substance Abuse	1,290,343	610,000	(680,343)	-52.73%
Employee Assistance Program & Health Waiver	107,271	80,000	(27,271)	-25.42%
Wellness and Disease Management Program	1,112,249	798,300	(313,949)	-28.23%
Medicare Part B Reimbursement (Retirees)	6,293,761	5,906,133	(387,628)	-6.16%
Total Health Benefit Expenditures	\$ 138,868,095	\$ 139,603,435	\$ 735,340	0.53%
Employee Health Contributions	4,293,020	4,075,000	(218,020)	-5.08%
Retiree Health Contributions	1,112,631	979,400	(133,231)	-11.97%
Total Health Benefit Revenue	\$ 5,405,651	\$ 5,054,400	\$ (351,251)	-6.50%
Total Health Benefit Cost	\$ 133,462,444	\$ 134,549,035	\$ 1,086,591	0.81%

United Healthcare (“UHC”) became the new healthcare provider for Milwaukee County as of January 1, 2009. The UHC contract continues in 2010 on a self-insured basis for both the HMO and PPO plan products. Budgeted expenditures for basic health benefits including major medical for 2010 are \$127,629,102. The expenditure estimate is based on actual health insurance claims data and actual enrollment data for 2009 at the time of publication. The estimate assumes a year-over-year inflationary factor of eight percent for the overall cost of providing health insurance. Sources such as Aon Consulting Services, Cambridge Advisory Group and PricewaterhouseCoopers’ Health Research Institute suggest regional trends between nine and 11 percent. However, the County has successfully achieved lower than average inflationary factors for the past two years and therefore assumes an eight percent increase in 2010. The actual healthcare expenditure may increase or decrease depending on changes in the number of health care contracts, utilization and price/provider rate structure in the overall health care market.

Included in health care expenditures in 2010 is \$750,000 to fund the provisions of 2009 Wisconsin Act 28. The act requires changes to Milwaukee County’s eligibility requirements effective January 1, 2010. Under the provisions of the act, self-funded employee health plans of a state, county, city, village, town or school district are required to provide coverage to unmarried dependents under age 27, and unmarried dependent full-time students regardless of age. Previously, the County allowed unmarried dependents under age 19, and full-time students under age 25. The act also establishes minimum required benefit levels for intensive and non-intensive treatment of Autism Spectrum Disorder (“ASD”). Previously, the services for the treatment of ASD were not covered under Milwaukee County’s health plans. It is estimated that increased enrollment of dependents and the cost of coverage due to these mandated changes will increase the County’s projected medical plan spending by \$750,000 in 2010.

The Care Plus DMO and Milwaukee County Conventional Dental plan offered in 2009 are continued in 2010 for a budgeted cost of \$4,554,900. First Commonwealth Dental, a fully insured DMO plan, notified Milwaukee County of their decision to eliminate their capitated DMO plans effective January 1, 2010. The First Commonwealth DMO plan provides dental coverage for approximately eight percent of eligible employees. It is anticipated that the employees who are enrolled in the First Commonwealth plan will be evenly distributed between the two remaining plans. In addition, \$25,000 is budgeted for transitioning the existing orthodontia patients from the First Commonwealth plan to one of the remaining dental plans.

Budgeted revenues from employee and retiree health contributions for health and dental premiums decrease \$351,251 in 2010 to \$5,054,400. This decrease is due to a shift in enrollment resulting from the 2009 change in required employee contributions and an anticipated reduction in the pool of eligible employees. Actual revenues

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may exceed budgeted revenues depending on the terms of adopted collective bargaining agreements with the County’s represented employees.

The County continues to provide a separate mental health and substance abuse program for employees and dependents that are enrolled in the PPO plan for a total expenditure of \$610,000. (Employees enrolled in the HMO plan are provided with mental health and substance abuse services through the HMO plan). MHN administers the PPO mental health and substance abuse program as well as the County-provided employee assistance program (“EAP”). Contract renegotiations with MHN resulted in a decrease in premiums of \$510,000 for the mental health and substance abuse program. The remaining \$170,343 reduction in costs is attributed to migration from the PPO comparable health plan to the HMO comparable health plan. The County premiums for EAP services were also reduced by \$27,241 as a result of renegotiations with MHN.

The wellness and disease management program continues in 2010 for all active employees and their spouses. As of December 31, 2008, the program has identified and offered assistance to over 1,775 employees and dependents covered under Milwaukee County’s health plans; additionally, the program distributes approximately 7,500 targeted educational items annually. The estimated cost of this program was initially based on calculations prepared by Cambridge Advisory Group, assuming a 50 percent participation rate in the Health Risk Appraisal, which provides a \$100 incentive payment to all participants. The actual participation for the first two years of the program was 35 percent. While ongoing efforts to improve participation continue, the assumed participation rate for 2010 is lowered to 35 percent. The resulting savings is partially offset by a contractual rate increase for the third year of the program for a total program expenditure of \$798,300.

In addition to the benefits described above, the County provides for reimbursement of the Medicare Part B premium for retired employees, including their eligible beneficiaries over age 65, who retired with 15 or more years of pension-credited service or are on Disability Medicare. The premiums are based upon the rates established by the Federal Government and published by the Centers for Medicare and Medicaid Services. A total expenditure appropriation of \$5,906,133 is budgeted for this reimbursement.

Pension-Related Expenditures

Total net budgeted pension-related expenditures increase \$16,845,031 in 2010 to \$66,073,176. Projected changes from 2009 to 2010 for pension benefits are as follows:

	2009 <u>Budget</u>	2010 <u>Budget</u>	2009/2010 <u>Change</u>	Percent <u>Change</u>
Mandatory Annuity Contribution	\$ 31,500	\$ 31,500	\$ 0	0.00%
OBRA Contribution	548,100	786,000	237,900	43.40%
Employees' Retirement System Normal Cost	21,748,000	22,144,383	396,383	1.82%
Amortization of the Unfunded Actuarial Accrued Liability	1,644,215	16,403,617	14,759,402	897.66%
Amortization of the Mercer Settlement	0	(7,263,237)	(7,263,237)	-
Stabilization Fund Contribution	2,000,000	0	(2,000,000)	-100.00%
Debt Service on Pension Notes Issued 3/2009	22,967,515	33,182,113	10,214,598	44.47%
Miscellaneous Pension-Related Expenditures (Doyme)	500,000	1,000,000	500,000	100.00%
Total Pension-Related Expenditures	\$ 49,439,330	\$ 66,284,376	\$ 16,845,046	34.07%
Total Pension-Related Revenue (Doyme)	\$ 211,185	\$ 211,200	\$ 15	0.01%
Total Pension-Related Cost	\$ 49,228,145	\$ 66,073,176	\$ 16,845,031	34.22%

The 2010 budgeted amount of \$71,730,113 for the County’s contribution to the Employees’ Retirement System of Milwaukee County (the “ERS”) includes normal costs of \$22,144,383, an unfunded actuarial accrued liability cost of \$16,403,617 and debt service costs of \$33,182,113, which are offset by \$7,263,237 from amortization of the

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Mercer lawsuit settlement.¹ The County settled its lawsuit with Mercer in 2009 and received an award of approximately \$30,000,000. In accordance with County ordinances, the proceeds will be amortized over a five-year period.

In March of 2009 the County issued \$400,000,000 in pension notes to fund a portion of the unfunded actuarial accrued liability ("UAAL"). The County structured its issuance to provide level debt service for the next 25 years on the notes and also committed to providing annual funding of \$2,000,000 for the Stabilization Fund. For 2010, the contribution to the Stabilization Fund is suspended, but may be restored if the actual contribution to the ERS, which is presented by the actuary to the County in Spring 2010, is less than the amount budgeted in this account. With the contribution from the pension note proceeds, the most recent valuation of the ERS dated January 1, 2009 indicates a 95.7 percent funded status. This funded ratio is based on an actuarial value of assets of \$1,968,518,479 and an accrued liability of \$2,057,376,988. However, the ERS incurred market losses of \$486,133,267 during 2008. The County expects to increase the contribution rate over the next five years to account for this loss (a five-year period is used to allow for a smoothing in contributions and avoid large contribution increases or decreases as a result of market changes).

While the ERS is substantially non-contributory, participants meeting certain criteria have the option to contribute to membership accounts. The County also contributes to the membership accounts of most employee participants enrolled prior to January 1, 1971. The total budgeted contribution for the 2010 mandatory annuity contribution is \$31,500.

The OBRA 1990 Retirement System of the County of Milwaukee ("OBRA") covers seasonal and certain temporary employees who do not elect to enroll in the ERS. The OBRA system is also non-contributory. OBRA members are immediately vested and earn a benefit equal to two percent of their covered salary for each year of OBRA service. Pursuant to the most recent actuarial valuation dated January 1, 2009, the 2010 contribution to OBRA is budgeted at \$786,000.

In 1989, United Regional Medical Services was formed as a joint venture of Froedtert Hospital and Doyne Hospital for laboratory and radiology services. As part of the joint venture agreement, the County was required to pay the ongoing pension-related expenses for Doyne employees shifted to the United Regional Medical Services. Because of the market losses in 2008, the County anticipates an increase in the contribution in 2010. The 2010 budget includes \$1,000,000 in expenditures for these pension-related expenses, which is offset by an estimated \$211,200 in revenue.

Other Employee Benefits Expenditures

The group life insurance appropriation is based on the amount of coverage that is determined by an employee's salary. Expenditures increase \$26,400 in 2010 to \$2,666,400. Revenues from employee and retiree contributions also increase \$130,025 in 2010 to \$815,400. Both the increase to cost and the increase to revenue are attributed to anticipated increases in salaries; from 2010 through 2012 there are no increases to the 2009 contracted premium rates.

An expenditure of \$650,700 is budgeted for the County's corporate transit pass program based on a five percent increase over 2009 current year projections. The County purchases quarterly passes for enrolled employees for \$183.00 each. For 2010, the employee continues to reimburse the County \$30.00 per quarter/\$10.00 per month through a payroll deduction for an estimated revenue offset of \$96,700.

Miscellaneous Expenditures

An expenditure appropriation of \$242,300 is included to retain outside consultants, actuaries, and other professional services to assist staff in actuarial analysis, ad hoc reporting, request for proposals preparation,

¹ To accurately reflect all debt service costs, the debt service cost for the pension notes is also included in the General Debt Service Fund Budget. To avoid duplication of the debt service costs, the amount is abated in the General Debt Service Budget.

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contract and rate negotiations, annual enrollment processing and other areas where additional expertise in health care advisory services may be needed.

Also included in 2010 is an appropriation of \$652,542 for the Department of Administrative Services - Employee Benefits Division portion of the 2010 Cost Allocation Plan. In past years, this amount had been included in the Central Service Allocation, but is now reflected as an expenditure in the Employee Fringe Benefits budget.

Five-Year History of Expenditures and Revenues

	<u>2006 - Actual</u>	<u>2007 - Actual</u>	<u>2008 - Actual</u>	<u>2009 - Budget</u>	<u>2010 - Budget</u>
Health Benefit Expenditures	\$ 128,254,126	\$ 127,991,293	\$ 138,116,213	\$ 138,868,095	\$ 139,603,435
Pension-Related Expenditures	\$ 29,059,006	\$ 50,951,223	\$ 40,862,255	\$ 49,439,330	\$ 66,284,376
Employee Group Life Insurance	\$ 2,258,914	\$ 2,309,861	\$ 2,465,158	\$ 2,421,918	\$ 2,666,400
Other Employee Benefits Expenditures	\$ 563,891	\$ 705,821	\$ 1,242,824	\$ 825,735	\$ 1,545,542
Total Fringe Benefit Expenditures	\$ 160,135,937	\$ 181,958,198	\$ 182,686,450	\$ 191,555,078	\$ 210,099,753
Revenue (All Sources)	\$ 8,154,698	\$ 7,829,861	\$ 7,201,446	\$ 6,396,056	\$ 6,177,700
Total Revenue (All Sources)	\$ 8,154,698	\$ 7,829,861	\$ 7,201,446	\$ 6,396,056	\$ 6,177,700