DEPT: EMPLOYEE FRINGE BENEFITS **UNIT NO.** 1950

FUND: General - 0001

BUDGET SUMMARY				
	2009 Actual	2010 Budget	2011 Budget	2010/2011 Change
Health Benefit Expenditures	$ 123,683,648	$ 139,603,435	$ 134,209,562	$ (5,393,873)
Pension Related Expenditures	78,829,829	66,284,376	66,872,988	588,612
Other Employee Benefit Expenditures	3,114,857	4,211,942	4,258,356	46,414
Total Expenditures	$ 205,628,334	$ 210,099,753	$ 205,340,906	$ (4,758,847)
Total Abatements	(170,477,102)	(203,922,053)	(198,020,314)	5,901,739
Total Direct Revenue	$ 35,068,736	$ 6,177,700	$ 7,320,592	$ 1,142,892
Total Tax Levy	$ 82,496	$ 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 2011:

Fringe Benefit Costs Per Eligible FTE - 2011 Budget

	Health Care	Pension % of Salary
Active Employee	$17,555	23.40%
Legacy Cost	$14,660	8.15%
TOTAL:	**$32,215**	**31.55%**

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. Legacy costs are allocated based on a 3-year average of FTE by department.

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.

Healthcare Expenditures

Total net budgeted health benefits expenditures decrease $6,544,873 in 2011 to $128,168,162. Projected changes from 2010 to 2011 for health benefits are as follows:

	2010 Budget	2011 Budget	2009/2010 Change	Percent Change
Basic Health Benefits, Including Major Medical	$ 127,629,102	$ 122,720,422	$ (4,908,680)	-3.85%
Dental Maintenance Organizations (DMO)	2,914,300	1,382,260	(1,532,040)	-52.57%
County Dental Plan	1,640,600	3,065,080	1,424,480	86.83%
FCW Ortho Grandfathering	25,000	0	(25,000)	0.00%
Mental Health/Substance Abuse	610,000	640,500	30,500	5.00%
Employee Assistance Program & Health Waiver	80,000	118,000	38,000	47.50%
Wellness and Disease Management Program	798,300	300,000	(498,300)	-62.42%
Medicare Part B Reimbursement (Retirees)	5,906,133	5,983,300	77,167	1.31%
Total Health Benefit Expenditures	$ 139,603,435	$ 134,209,562	$ (5,393,873)	-3.86%
Employee Health Contributions	4,075,000	5,003,200	928,200	22.78%
Retiree Health Contributions	815,400	1,038,200	222,800	27.32%
Total Health Benefit Revenue	$ 4,890,400	$ 6,041,400	$ 1,151,000	23.54%
Total Health Benefit Cost	**$ 134,713,035**	**$ 128,168,162**	**$ (6,544,873)**	**-4.86%**

United Healthcare (“UHC”) became the new healthcare provider for Milwaukee County as of January 1, 2009. The UHC contract continues in 2011 on a self-insured basis; however, a new plan is developed for non-represented staff and retirees that is described below.

Budgeted expenditures for basic health benefits are $122,720,422, a decrease of $4,908,680 from 2010. This includes healthcare claims of $80,713,905 factoring in expected stop-loss reimbursements, pharmaceutical claims of $41,250,000 offset by rebates of $4,469,850, and administrative costs of $5,226,367. This expenditure estimate is based on a projection of the 2010 healthcare budget utilizing actual health insurance claims data and actual enrollment data for 2010 at the time of publication. The 2010 projection includes savings associated with the plan design changes approved in the 2010 Adopted Budget as part of Org. 1972 for non-represented employees, retirees, and all represented staff except for members of DC-48, the Firefighters and Deputy Sheriff bargaining units as they have not yet agreed to these changes. The savings associated with these 3 bargaining units are budgeted in Org. 1972.

In order to estimate 2011 costs, a year-over-year inflationary factor of nine percent for healthcare claims and ten percent for pharmaceutical claims was assumed. These assumptions are consistent with the County’s historical experience. The County’s health care actuary, Cambridge Advisory Group advised the County, based on its enrollment demographics to expect an increase of 12%. In the event healthcare claims exceed the budgetary assumptions, an additional 3% percent of net claims, or $2,900,000 is set aside in the Appropriation for Contingencies. Actual healthcare expenditure may vary depending on changes in the number of health care contracts, utilization and price/provider rate structure in the overall health care market.

Employee Health Care Cost Containment Initiatives

Background: Increasing costs for employee and retiree health care is largest driver of expenditures contributing to the County’s structural deficit. Health care expenses increased from approximately $75 million in 2001 to approximately $125 million in 2009. These costs are projected to increase to over $200 million by 2015. A recent study of County health care expenditures by the Cambridge Advisory Group included the following findings:

- The County has a higher than average number of large cases that contribute to high overall costs.
- Costs related to retirees and their families are the fastest growing component of County health care expenditures. The County’s OPEB liability stands at over $1.5 billion.
- Overall utilization of health care is by County employees and retirees significantly higher than average.

- Drug costs are higher than average due to lower than average use of generics and mail order service as well as higher than average use of high cost specialty drugs.
- Employee's pay for 5% to 7% of health care expenses compared to a contribution rate of 15% for Federal government employees and 20% to 25% for private sector employees.

New Plan Design: The 2011 Budget assumes implementation of a new employee health care plan for non-represented employees and retirees. Cambridge Advisory Group assisted in the development of a new plan design that was developed to better manage costs related to large claims, encourage utilization of appropriate health care resources and share health care costs in a manner more consistent with the Federal government and private sector employees.

Plan Design Comparison

	Current HMO	Current PPO	New Plan Design
Monthly Premium Contribution	$50 single/$100 family	$90 single/$180 family	$90 single/$180 family
In Network Deductible	$0	$250	$500
Out of Network Deductible	NA	$500	$1,000
Emergency Room Co-Pay	$100	$100	$150
Office Visit Co-Pay	$10	$20	$25 – primary care $40 – specialist
In-Network Coinsurance	100%	90%	80%
Out-of-Network Coinsurance	NA	70%	60%
Out-of-Pocket Maximum	NA	$2,000 Single $3,500 Family	$4,500 Single $9,000 Family
Prescription Co-Pays			
Generic	$5	$5	$5
Preferred Brand	$20	$20	$30
Non-Preferred	$40	$40	$50
Preventative Care	100%	100%	100%

Estimated Savings

The 2011 Budget assumes that the new plan design is applied to non-represented active employees and all retirees, Cambridge Advisory Group estimates the annual savings from these plan design changes will be approximately $12.8 million per year (tax levy savings of $10.0 million).

Impact on OPEB Liability

The County's current OPEB liability is over $1.5 billion. As a result of the significant savings the new plan design is able to achieve for health care claims associated with current and future retirees the County's OPEB liability will decrease by approximately $149.4 million. Combined with plan design changes already implemented by the County during 2009 and 2010, and the proposed 2011 design changes, Cambridge estimates that the County's total OPEB liability will be reduced by a $293.3 million or 19.0%.

Pharmaceuticals Management Initiative

Cambridge Advisory Group has also completed an extensive analysis of the County's pharmaceuticals utilization patterns. As a result of this analysis, the 2011 budget recommends implementation of a pharmaceuticals management initiative that focuses preventing over-prescription of certain medications, adverse impacts due to the prescription of multiple medications by multiple physicians and prescription of medications that may cause specific known health risks in individuals with certain medical conditions. The net savings in reduced prescription and medical claims from these initiatives is $1.9 million per year (tax levy savings of $1.5 million).

Wellness Initiative
In 2011, the current wellness program is discontinued and the County will contract with United Health Care for an amount not to exceed $300,000 for a disease management program that focuses wellness efforts on individuals suffering from specific chronic health issues. During 2011, the Employee Benefits Workgroup is directed to design an improved wellness program that focuses on adherence as opposed to participation. The Workgroup will develop an RFP to identify a vendor to begin to deliver the re-designed wellness program in 2012.

Dental and Other Healthcare Expenditures and Revenues
The Care Plus DMO and the Humana PPO continue to be offered at the same levels as 2010 for a budgeted cost of $4,447,340.

Budgeted contributions from employee and retirees for health and dental premiums increase $1,151,000 in 2011 to $6,041,400. This increase is largely due to higher employee healthcare contributions enacted as part of the 2010 budget for non-represented staff and agreed to by all bargaining units except DC-48, the Firefighters and Deputy Sheriffs. In addition, as the recommended plan design changes maintain monthly contributions equivalent with the PPO (which are higher than the HMO), affected active employees previously enrolled in the HMO will pay a higher monthly contribution. This shift in enrollment is reflected in the increased revenue amounts.

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 $640,500, an increase of $30,500 from 2010. (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”).

In addition to the benefits described above, the County has historically provided 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. $5,983,300 is budgeted for this expense based on rates established by the Federal Government and published by the Centers for Medicare and Medicaid Services. This represents an increase of $77,167 from 2010. However, the County will cease providing this reimbursement for employees who retire after December 31, 2010. Given that Medicare Part B premiums are income-adjusted and eligible County employees are also provided a pension and free County healthcare to supplement the Medicare program, resources previously allocated to this expense will be redirected to maintaining core services. Savings are projected to be $100,000 in 2011. However the cost of providing this benefit to all of the estimated 2,542 active employees and spouses previously eligible when they retire would be over $3 million annually.

Pension-Related Expenditures
Total net budgeted pension-related expenditures increase $468,220 in 2011 to $66,541,396. Projected changes from 2010 to 2011 for pension benefits are as follows:

		2010 Budget		2011 Budget		2010/2011 Change
Mandatory Annuity Contribution	$	31,500	$	23,600	$	(7,900)
OBRA Contribution		786,000		772,000		(14,000)
Employees' Retirement System Normal Cost		22,144,383		21,348,990		(795,393)
Amortization of the Unfunded Actuarial Accrued Liability		9,140,380		10,139,000		998,620
Stabilization Fund Contribution		0		0		0
Debt Service on Pension Notes Issued 3/2009		33,182,113		33,250,398		68,285
Miscellaneous Pension-Related Expenditures (Doyne)		1,000,000		1,339,000		339,000
Total Pension-Related Expenditures	$	66,284,376	$	66,872,988	$	588,612
Total Pension-Related Revenue (Doyne)	$	211,200	$	331,592	$	120,392
Total Pension-Related Cost	$	**66,073,176**	$	**66,541,396**	$	**468,220**

The 2011 budget fully funds the County's required contributions to the pension fund and the debt service related to the Pension Obligation Bonds. The 2011 budgeted amount of $64,738,388 for the County's contribution to the Employees' Retirement System of Milwaukee County (the "ERS") includes normal costs of $21,348,889, an unfunded actuarial accrued liability cost of $10,139,000 and debt service costs of $33,250,398 based on the 2010 actuarial valuation. The unfunded liability is reduced by the 5-year amortization of the 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 are amortized over a five-year period beginning in 2010. In addition, increases in the unfunded liability resulting from 2008 market losses are mitigated by 2010 investment returns. The normal cost assumes a 1.6 multiplier, as adopted in the 2010 budget, for non-represented employees and members of the Attorneys, Machinists and TEAMCO bargaining units.

In March of 2009 the County issued $400,000,000 in pension notes to fund a portion of the unfunded actuarial accrued liability ("UAAL"). With the contribution from the pension note proceeds, the most recent valuation of the ERS dated January 1, 2010 indicates a 93.3 percent funded status. This funded ratio is based on an actuarial value of assets of $1,956,443,729 and an accrued liability of $2,097,332,110. 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). This will be mitigated by investment gains in 2009 of $190,363,140 which is reflected in the improvement in the funded status on market basis from 77.6% in 2008 to 86.9%.

In order to ensure a dedicated funding source for the County's contribution to the Stabilization Fund, the following language will be inserted into Chapter 32 of the Milwaukee County Code of General Ordinances:

> ***32.11 Stabilization Fund Contributions***
> *Following the close of each fiscal year, a contribution to the Stabilization Fund shall be made in an amount equal to the difference between the amount budgeted for the County's pension contribution and the actuarially required contribution provided the budgeted amount is greater and provided the County does not end the year with an overall budget deficit. The County may make additional contributions to the Stabilization with the approval of the County Board and County Executive.*

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

[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.

participants enrolled prior to January 1, 1971. The total budgeted contribution for the 2011 mandatory annuity contribution is $23,600.

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, 2010, the 2011 contribution to OBRA is budgeted at $772,000.

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. The 2011 budget includes $1,339,000 in expenditures for these pension-related expenses, which is offset by an estimated $331,592 in revenue based on 2010 actuals

Other Employee Benefits Expenditures
The group life insurance appropriation is based on the amount of coverage that is determined by an employee's salary. $2,666,400, the same level of funding as 2010 is budgeted for the cost of group life insurance. Revenues from employee and retiree contributions increase $32,600 in 2011 to $848,000 based on 2010 actuals.

An expenditure of $600,000 is budgeted for the County's corporate transit pass program based the 2010 current year projection. The County purchases quarterly passes for enrolled employees for $183.00 each. For 2011, 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 $350,000 is included to retain outside consultants, actuaries, and other professional services to assist staff in actuarial analysis, ad hoc reporting, request for proposals preparation, contract and rate negotiations, annual enrollment processing and other areas where additional expertise in health care advisory services may be needed, including for the Employee Benefits Work Group.

Also included in 2011 is an appropriation of $641,956 for the Department of Administrative Services - Employee Benefits Division portion of the 2011 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

	2007 - Actual	2008 - Actual	2009 - Actual[1]	2010 - Budget	2011 Recommende
Health Benefit Expenditures	127,991,293	138,116,213	123,683,647	139,603,435	134,209,562
Pension Related Expenditures	50,951,223	40,862,255	49,829,829	66,284,376	66,872,988
Employee Group Life Insurance	2,309,861	2,465,158	2,541,033	2,666,400	2,666,400
Other Employee Benefits Expenditures	705,821	1,242,824	573,824	1,545,542	1,591,956
Total Fringe Benefit Expenditures	**181,958,198**	**182,686,450**	**176,628,333**	**210,099,753**	**205,340,906**
Revenues (All Sources)	7,829,861	7,201,446	6,068,736	6,177,700	7,320,592
Total Revenues (All Sources)	**7,829,861**	**7,201,446**	**6,068,736**	**6,177,700**	**7,320,592**

[1] In the 2009 actuals, the Mercer Settlement was accounted for as a revenue and an expenditure (as an increased pension contribution). For comparison purposes, these offsetting entries have been removed from the figures above.