**DEPT:** EMPLOYEE FRINGE BENEFITS **UNIT NO.** 1950
**FUND:** General - 0001

| BUDGET SUMMARY | 2010 Actual | 2011 Budget | 2012 Budget | 2011/2012 Change |
|---|---|---|---|---|
| Health Benefit Expenditures | $ 132,619,138 | $ 138,642,087 | $ 120,566,786 | $ (18,075,301) |
| Pension Related Expenditures | 67,972,949 | 66,872,988 | 63,716,138 | (3,156,850) |
| Other Employee Benefit Expenditures | 3,887,069 | 4,258,356 | 5,188,388 | 930,032 |
| **Total Expenditures** | $ 204,770,856 | $ 209,773,431 | $ 189,471,312 | $ (20,302,119) |
| **Total Abatements** | (196,689,876) | (202,701,389) | (170,038,748) | 32,662,641 |
| **Total Direct Revenue** | $ 6,210,982 | $ 7,072,042 | $ 19,432,564 | $ 12,360,522 |
| **Total Tax Levy** | $ 1,869,998 | $ 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 2012:

**Fringe Benefit Costs Per Eligible FTE - 2012 Budget**

| | Health Care | Pension % of Salary |
|---|---|---|
| Active Employee | $15,441 | 15.92% |

Fringe benefit costs are segregated into healthcare and pension components. Active healthcare costs are budgeted as a fixed cost per eligible FTE. Healthcare costs include all health benefits and other non-pension related benefits. Active 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. Generally, legacy costs are allocated based on a 3-year average of FTE by department. Because of the allocation method for legacy costs, each department has a different rate for legacy healthcare and legacy pension costs.

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 healthcare benefits costs decrease $17,411,575 in 2012 to $111,554,587. Projected changes from 2011 to 2012 for healthcare benefits are as follows:

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

**FUND:** General - 0001

| | 2011 Budget | 2012 Budget | 2011/2012 Change | Percent Change |
|---|---|---|---|---|
| Basic Health Benefits, Including Major Medical | 126,354,947 | 105,463,618 | -20,891,329 | -16.53% |
| Dental Maintenance Organizations (DMO) | 1,382,260 | 1,423,728 | 41,468 | 3.00% |
| County Dental Plan | 3,065,080 | 3,218,334 | 153,254 | 5.00% |
| Mental Health/Substance Abuse | 640,500 | 0 | -640,500 | -100.00% |
| Employee Assistance Program & Health Waiver | 118,000 | 0 | -118,000 | -100.00% |
| Wellness and Disease Management Program | 300,000 | 700,000 | 400,000 | 133.33% |
| FSA Contributions | 798,000 | 3,426,525 | 2,628,525 | 329.39% |
| Medicare Part B Reimbursement (Retirees) | 5,983,300 | 6,334,581 | 351,281 | 5.87% |
| Total Health Benefit Expenditures | 138,642,087 | 120,566,786 | -18,075,301 | -13.04% |
| Employee Health Contributions | 5,003,200 | 8,197,260 | 3,194,060 | 63.84% |
| Retiree Health Contributions | 1,038,200 | 814,939 | -223,261 | -21.50% |
| Total Health Benefit Revenue | 6,041,400 | 9,012,199 | 2,970,799 | 49.17% |
| **Total Health Benefit Cost** | **132,600,687** | **111,554,587** | **-17,411,575** | **-13.13%** |

United Healthcare (“UHC”) became the new healthcare provider for Milwaukee County as of January 1, 2009. The UHC contract is anticipated to continue in 2012 on a self-insured basis; however, a single plan design is implemented for all employees and retirees and is described below.

Budgeted expenditures for basic healthcare benefits are $120,566,786, a decrease of $18,075,301 from 2011. This expenditure estimate is based on a projection of the 2011 healthcare budget utilizing actual health insurance claims data and actual enrollment data for 2011 available. Additionally, the 2012 projection includes savings associated with the plan design changes recommended for adoption.

In order to estimate 2012 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 healthcare actuary, Cambridge Advisory Group advised the County, based on its enrollment demographics to expect an increase of 12 percent. Actual healthcare expenditure may vary depending on changes in the number of healthcare contracts, utilization and price/provider rate structure in the overall healthcare market.

**Plan Design Changes.** Increasing costs for employee and retiree health care is the largest driver of expenditures contributing to the County’s structural deficit. Based on previous plan designs, these costs could increase to over $200 million by 2015. A recent study of County healthcare 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 healthcare expenditures. The County’s OPEB liability stands at over $1.5 billion.
- Overall utilization of healthcare by County employees and retirees is 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.
- Employees pay 5 percent to 7 percent of healthcare expenses compared to a contribution rate of 15 percent for Federal government employees and 20 percent to 25 percent for private sector employees.

In order to reduce the overall expenditure increases in healthcare, the 2012 Recommended Budget assumes implementation of a new employee healthcare plan for all employees and retirees. The intent of implementing a new plan design is to better manage costs related to large claims, encourage utilization of appropriate healthcare resources and share healthcare costs in a manner more consistent with the Federal government and private sector employees. The new plan design will result in estimated annual savings of $18.0 million per year (tax levy savings of approximately $14.9 million). These savings include providing eligible active employees with an automatic contribution to their flexible spending account (FSAs) of $500 for single and $1,500 for family plans. To be eligible for the FSA contribution, an employee must contribute the recommended monthly healthcare contribution of $85/$250 and also contribute 4.7 percent to the Employee Retirement System.

| | **Choice Plus Plan** | | |
|---|---|---|---|
| **Benefit** | **(PPO Comparable)** | | |
| Monthly Contribution | Single | $85 | |
| | Family | $250 | |
| Lifetime Maximum Benefit | Unlimited | | |
| | | **Preferred Providers:** | **All other providers:** |
| Annual Deductible | Single | $500 | $1,000 |
| | Family | $1,500 | $3,000 |
| Annual Out-Of-Pocket Limit | Single | $3,000 | $6,000 |
| (Includes deductible and coinsurance) | Family | $6,000 | $12,000 |
| | **Preferred Providers:** | | **All other providers:** |
| Coinsurance | 80.0% | | 70.0% |
| Emergency Room(3) | 100% after $200 copay | | 100% after $200 copay |
| Office Visits | 100% after $40 copay | | 100% after $60 copay |
| Prescription Drugs | **Generic:** | | $10 |
| | **Preferred Brand:** | | $30 |
| | **Non-Preferred Brand:** | | $50 |
| | **Diabetic covered Supplies**: | | $20 |
| | Limited to 30-day supply at retail pharmacy | | |
| | *Mandatory Mail, 2x Retail copay* | | |

**Plan Design Savings.** For 2012, various savings are achieved through the implementation of the new plan design. In total, the new plan design will apply to all employees and retirees and is estimated to result in savings of $22,238,414.

**Domestic Partner Benefits.** The Employee Fringe Benefits budget includes $700,000 within the basic healthcare budgeted expenditures for the provision of domestic partner benefits. It is estimated that this initiative, approved by the County Board and County Executive, will increase healthcare expenditures anywhere from 0.5 percent to 2.0 percent. Because the County has no actual experience to accurately estimate the impact of this cost, the 2012 Recommended Budget assumes an increase of approximately 0.5 percent of the base healthcare costs.

**Reduction in Expenditures Due to Transfer of County Employees.** As of January 1, 2012, it is anticipated that all County positions in the State in the Milwaukee Enrollment Services (MiLES) unit and in Milwaukee Early Care Administration (MECA) unit will be abolished. The Employee Fringe Benefit budget assumes a savings of $2,900,000 in basic healthcare expenditures related to a reduction of 266 employees due to the transfer.

**Employee Healthcare Contributions.** Budgeted contributions from employees and retirees for health and dental premiums increase $3,378,949 in 2012 to $9,012,199. This increase is largely due to an increase in employee-paid healthcare contributions recommended as part of the 2012 budget. These contributions are budgeted at $85 per month for a single employee and $250 per month for a family. Because the County has not reached agreements with the Milwaukee Deputy Sheriffs Association or the Milwaukee County Fire Fighters Association, the recommended budget assumes that members of these unions will contribute $75 for a single employee and $150 for a family (this is the amount paid by these members for the Choice Plus Plan in 2011).

**Medicare Coordination Method Change.** The County previously utilized a "Come Out Whole" method which is the most expensive coordination method. Under this method, any expenditures not covered by Medicare would be paid in full by the County's healthcare plan. For 2012, the County will implement a "Non Duplication" method. Under this method, when Medicare is the primary health coverage, benefits will be provided in accordance with the benefits of the County healthcare plan less any amount paid by Medicare. This change results in a basic healthcare expenditure savings of $5,709,841.

**Medicare Part B Reimbursement.** Medicare Part B reimbursement continues for all employees eligible to receive the reimbursement. The 2012 anticipated reimbursement is budgeted based off of three percent trend of the current year estimate, for a total budgeted amount of $6,334,581.

**Impact on Other Post-Employment Benefits (OPEB) Liability.** The County's current OPEB liability is over $1.5 billion. Based on the plan design changes implemented in 2011, Cambridge estimated a potential reduction in the OPEB liability of $231 million to $275 million. To refine these estimates further, a new OPEB study will be conducted in 2012.

**Wellness Initiative.** The 2011 Adopted Budget included a provision to contract with United Health Care for a disease management program that focuses wellness efforts on individuals suffering from specific chronic health issues. For 2012, $700,000 is budgeted for this initiative. 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 late 2012.

**Dental and Other Healthcare Expenditures and Revenues.** The Care Plus DMO and the Humana PPO continue to be offered at the same service levels as 2011 for a budgeted cost of $4,642,062.

**Mental Health and Substance Abuse Program**. In 2011, the County provided a separate expenditure authority for mental health and substance abuse program for employees and dependents that are enrolled in the PPO plan for a total expenditure of $640,500 and for the County-provided employee assistance program ("EAP") for a total expenditure of $122,130. In 2012, these amounts are budgeted within the basic healthcare expenditures account.

**Pension-Related Expenditures**

Total net budgeted pension-related expenditures decrease $12,279,390 in 2012 to $54,262,006. Projected changes from 2011 to 2012 for pension benefits are as follows:

| | | 2011 Budget | | 2012 Budget | | 2010/2011 Change | Percent Change |
|---|---|---|---|---|---|---|---|
| Mandatory Annuity Contribution | $ | 23,600 | $ | 17,700 | $ | (5,900) | -25.00% |
| OBRA Contribution | | 772,000 | | 880,000 | | 108,000 | 13.99% |
| Employees' Retirement System Normal Cost | | 21,348,990 | | 17,171,519 | | (4,177,471) | -19.57% |
| Amortization of the Unfunded Actuarial Accrued Liability | | 10,139,000 | | 10,236,000 | | 97,000 | 0.96% |
| Stabilization Fund Contribution | | 0 | | 0 | | 0 | 0.00% |
| Debt Service on Pension Notes Issued 3/2009 | | 33,250,398 | | 33,304,919 | | 54,521 | 0.16% |
| Miscellaneous Pension-Related Expenditures (Doyne) | | 1,339,000 | | 2,106,000 | | 767,000 | 57.28% |
| Total Pension-Related Expenditures | $ | 66,872,988 | $ | 63,716,138 | $ | (3,156,850) | -4.72% |
| Pension-Related Revenue (Doyne) | $ | 331,592 | $ | 223,545 | $ | (108,047) | -32.58% |
| Pension-Related Revenue (Employee Contributions)* | | 0 | | 9,053,000 | | 9,053,000 | 100.00% |
| Pension Related Revenue (State Employees) | | 0 | | 177,587 | | 177,587 | 100.00% |
| Total Pension-Related Revenues | $ | 331,592 | $ | 9,454,132 | $ | 9,122,540 | 2751.13% |
| **Total Pension-Related Cost** | $ | **66,541,396** | $ | **54,262,006** | $ | **(12,279,390)** | **-18.45%** |

The 2012 budget fully funds the County's required contributions to the pension fund and the debt service related to the pension obligation bonds. The 2012 budgeted amount of $60,712,438 for the County's contribution to the Employees' Retirement System of Milwaukee County (the "ERS") includes normal costs of $17,171,519, an unfunded actuarial accrued liability cost of $10,236,000 and debt service costs of $33,304,919 based on the 2011 actuarial valuation.

The most recent valuation of the ERS dated January 1, 2011 indicates a 92.2 percent funded status. This funded ratio is based on an actuarial value of assets of $1,929,427,864 and an accrued liability of $2,091,926,651. However, the ERS incurred market losses of $486,133,267 during 2008. The County expects to increase the contribution rate over a five year period 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 and 2010 of $190,363,140 and $64,351,281, respectively, which is reflected in the improvement in the funded status on a market basis from 77.6 percent in 2008 to 90.6 percent in 2011 and 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.

**Pension Obligation Bonds**. 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 25 years on the notes and also committed to providing annual funding of $2,000,000 for the Stabilization Fund. For 2012, the contribution is suspended, but may be restored if the actual contribution to the ERS, which is presented by the actuary to the County in Spring 2012, is less than the amount budgeted in this account.

**Employee Pension Contribution**. The State of Wisconsin adopted State Statute section 59.875 as part of 2011 Wisconsin Act 10, mandating that Milwaukee County collect from employees one-half of the actuarially required contribution of the Employee Retirement System. Pursuant to File No. ORD 11-8 adopted on July 28, 2011, the employee pension contribution for 2012 will be 4.7 percent. This amount is budgeted as a revenue of $9,053,000.

**Membership Accounts**. 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

[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.

of most employee participants enrolled prior to January 1, 1971. The total budgeted contribution for the 2012 mandatory annuity contribution is $17,700.

**OBRA.** 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, 2011, the 2012 contribution to OBRA is budgeted at $880,000.

For 2012, the Employee Benefits Workgroup is directed to review the terms of the OBRA plan to determine if the County is responsible for collecting a pension contribution equal to one-half of the actuarially required contribution of the plan. In addition, the Employee Benefits Workgroup will take necessary actions to determine what the cost-effective method: maintaining the plan with a pension contribution or closing the plan. The Employee Benefits Workgroup will provide an update to the County Board by April 2012, with a recommendation no later than July, 2012.

**Doyne Employees**. 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 2012 budget includes $2,106,000 in expenditures for these pension-related expenses, which is offset by an estimated $223,545 in revenue based on 2010 actuals.

**Former County Employees Transferred to the State for Income Maintenance and Child Care.** As of January 1, 2012, 315 FTE (of these only 266 are filled) will transfer from County employment to State employment. Of these employees, 67 current employees (employees managed under the Wisconsin Department of Children and Families Management) will be allowed to either stay in the ERS or transfer to the Wisconsin Retirement System (WRS). Within the remaining 199 employees (employees managed under the Wisconsin Department of Health Services) all will transfer immediately to the WRS with the exception of those not yet vested in the ERS. There are approximately 58 employees not yet vested. Therefore, the Employee Fringe Benefits budget assumes a reimbursement from the State in the amount of $177,587 for those employees remaining in the system. This is approximately 10 percent of the anticipated salary costs for those employees.

**<u>Other Employee Benefits Expenditures</u>**

**Group Life Insurance**. The group life insurance appropriation is based on the amount of coverage that is determined by an employee's salary. For 2012, $3,199,680 is budgeted for the cost of group life insurance. Revenues from employee and retiree contributions increase $25,028 in 2012 to $873,028 based on a four percent trend.

**Corporate Transit Pass Program.** An expenditure of $669,280 is budgeted for the County's corporate transit pass program based the 2011 current year projection. The County purchases quarterly passes for enrolled employees for $183.00 each. For 2012, 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 $93,205.

**<u>Miscellaneous Expenditures</u>**

**Professional Services.** An expenditure appropriation of $600,000 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 healthcare advisory services may be needed, including for the Employee Benefits Work Group. For 2012, $300,000 is specifically designated for the OPEB study discussed earlier.

**Cost Allocation Plan Expenditure**. Also included in 2012 is an appropriation of $719,428 for the Department of Administrative Services - Employee Benefits Division portion of the 2012 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

| | 2008 - Actual | 2009 - Actual[1] | 2010 - Actual | 2011 Adopted | 2012 - Rec |
|---|---|---|---|---|---|
| Health Benefit Expenditures | 138,116,213 | 123,683,647 | 132,619,138 | 138,642,087 | 120,566,786 |
| Pension Related Expenditures | 40,862,255 | 49,829,829 | 66,384,489 | 66,872,988 | 63,716,138 |
| Employee Group Life Insurance | 2,465,158 | 2,541,033 | 2,460,489 | 2,666,400 | 3,199,680 |
| Other Employee Benefits Expenditures | 1,242,824 | 573,824 | 1,355,543 | 1,591,956 | 1,988,708 |
| **Total Fringe Benefit Expenditures** | **182,686,450** | **176,628,333** | **202,819,659** | **209,773,431** | **189,471,312** |
| Revenues (All Sources) | 7,201,446 | 6,068,736 | 6,210,982 | 7,072,042 | 19,432,564 |
| **Total Revenues (All Sources)** | **7,201,446** | **6,068,736** | **6,210,982** | **7,072,042** | **19,432,564** |

[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.