

EMPLOYEE & RETIREE FRINGE BENEFITS (1950) BUDGET

DEPT: Fringe Benefits

UNIT NO. 1950
FUND: General - 0001

Budget Summary

Category	2017 Actual	2018 Actual	2019 Budget	2020 Budget	2019/20120 Variance
Expenditures					
Direct Fringe Benefits	\$197,326,765	\$212,295,426	\$220,077,398	\$222,882,677	\$2,805,279
Operation Costs	\$3,495,862	\$3,256,870	\$2,170,124	\$2,169,000	(\$1,124)
Debt & Depreciation	\$0	\$0	\$0	\$0	\$0
Capital Outlay	\$0	\$0	\$0	\$0	\$0
Centralized Fringe Costs	\$0	\$114,764,286	\$98,426,807	\$0	(\$98,426,807)
Interdept. Charges	\$657,390	\$793,752	\$812,447	\$423,506	(\$388,941)
Total Expenditures	\$201,480,017	\$323,155,940	\$321,486,776	\$225,475,183	(\$96,011,593)
Revenues					
Direct Revenue	\$21,216,057	\$22,645,766	\$22,820,340	\$22,528,608	(\$291,732)
Intergov Revenue	\$0	\$0	\$0	\$0	\$0
Indirect Revenue	\$173,356,491	\$185,745,888	\$200,239,629	\$100,786,485	(\$99,453,144)
Total Revenues	\$194,572,548	\$208,391,654	\$223,059,969	\$123,315,093	(\$99,744,876)
Tax Levy	\$6,907,469	\$6,907,469	\$98,426,807	\$102,160,090	\$3,733,283

Department Mission: This non-departmental unit includes expenditures for employee and retiree (legacy) fringe benefit costs, and revenues from premium contributions for those benefits.

Department Description: Appropriations for employee and legacy fringe benefits in this non-departmental unit include: health and dental insurance, contributions to various pension plans, life insurance, Medicare premium contributions, employee bus passes, fees required by the Affordable Care Act, and health insurance actuarial services.

The cost of these benefits, net of employee and retiree premium contributions (which are shown as direct revenues in the table above), are allocated out to revenue generating departments based on their share of countywide staffing levels. This enables the County to be reimbursed for its total personnel costs to provide services.

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Employee & Retiree Fringe Benefits Summary

2019-2020 Fringe Benefit Budget Comparisons

ITEM	2019 BUDGET	2020 BUDGET	2019-2020 Change
Gross Health & Dental Costs	\$111,709,066	\$109,529,789	(\$2,179,277)
	+	+	
Gross Pension Costs	\$107,073,478	\$111,811,512	\$4,738,034
	+	+	
Gross Costs - Other Benefits	\$4,277,425	\$4,133,882	(\$143,543)
	=	=	
TOTAL Gross Benefit Costs	\$223,059,969	\$225,475,183	\$2,145,214
	-	-	
Less Employee & Retiree Premiums	(\$8,701,304)	(\$8,434,613)	(\$266,691)
	-	-	
Less Employee & State Contributions	(\$12,789,036)	(\$12,730,638)	(\$58,398)
	-	-	
Less Other Benefit Revenues	(\$1,330,000)	(\$1,363,357)	\$33,357
	=	=	
TOTAL Net Benefit Costs - Allocated to Revenue Departments	\$200,239,629	\$202,946,575	\$2,706,946
	-	-	
Estimated Revenue Offset at 14.5%	(\$29,034,746)	(\$29,427,253)	\$392,507
	=	=	
Approximate Direct Tax Levy Cost, Employee & Retiree Fringe Benefits:	\$171,204,883	\$173,519,322	\$2,314,439

The table above shows that the 2020 budget includes \$225 million in gross fringe benefit costs. Revenues directly related to fringe benefits, such as employee and retiree health insurance premiums, employee pension contributions required by State Statute, and other revenues offset approximately \$22.5 million of this total. The remainder, \$202.9 million, is allocated to revenue-generating departments. This is done for two primary reasons. One is to show the “true cost” of providing each service, as personnel costs including fringe benefits comprise a large share of the County’s operating cost. The second reason for this allocation is that many departments receive outside revenue reimbursement for these costs, reducing the County’s tax levy requirements. For instance, all personnel costs allocated to the Airport Division of the Department of Transportation are reimbursed by various fees and charges at the County’s airports. In the Department of Child Support Services, approximately two-thirds of the cost is reimbursed by federal revenues. The remainder, approximately \$173.5 million in 2020, represents tax levy. Countywide, approximately 14.5 percent of fringe benefit costs that are allocated out are reimbursed by outside revenue sources.

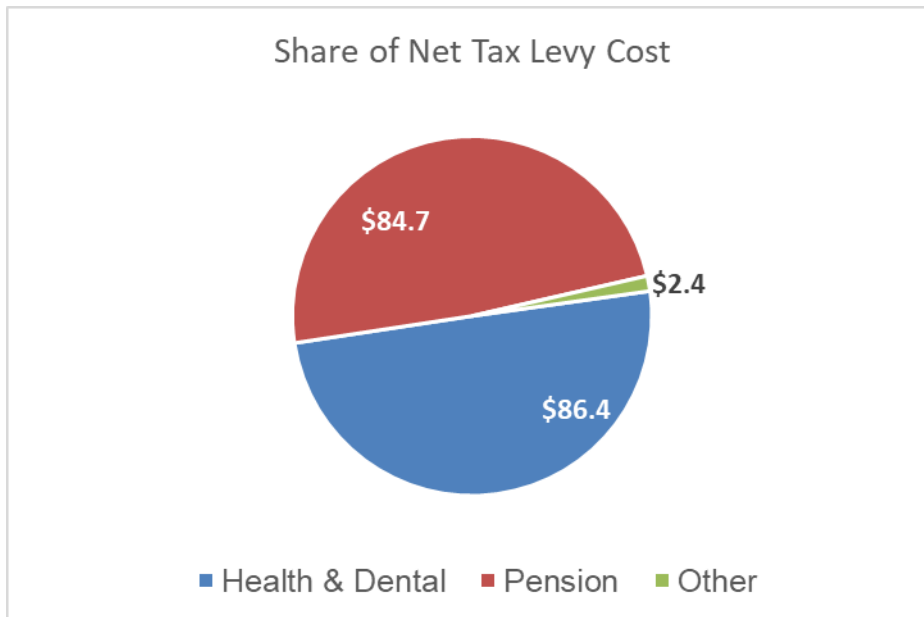
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In 2020, only departments and portions of departments with substantial outside revenue reimbursement are directly charged for fringe benefit costs. The fringe benefit rate for the 2020 Budget is \$15,767 per benefit eligible FTE for active health care and 12.52% of salary for active pension. In early 2020, the Office of the Comptroller will update these rates for departmental use during the year.

Of the total tax levy cost (after reimbursement from outside revenue sources) for employee and retiree fringe benefits, health and dental costs make up the largest share at approximately \$86.4 million or 50 percent of the total. Pension benefits represent approximately \$84.7 million or 49 percent, and other benefits such as life insurance and the employee bus pass program require \$2.4 million in levy or 1 percent of the total.



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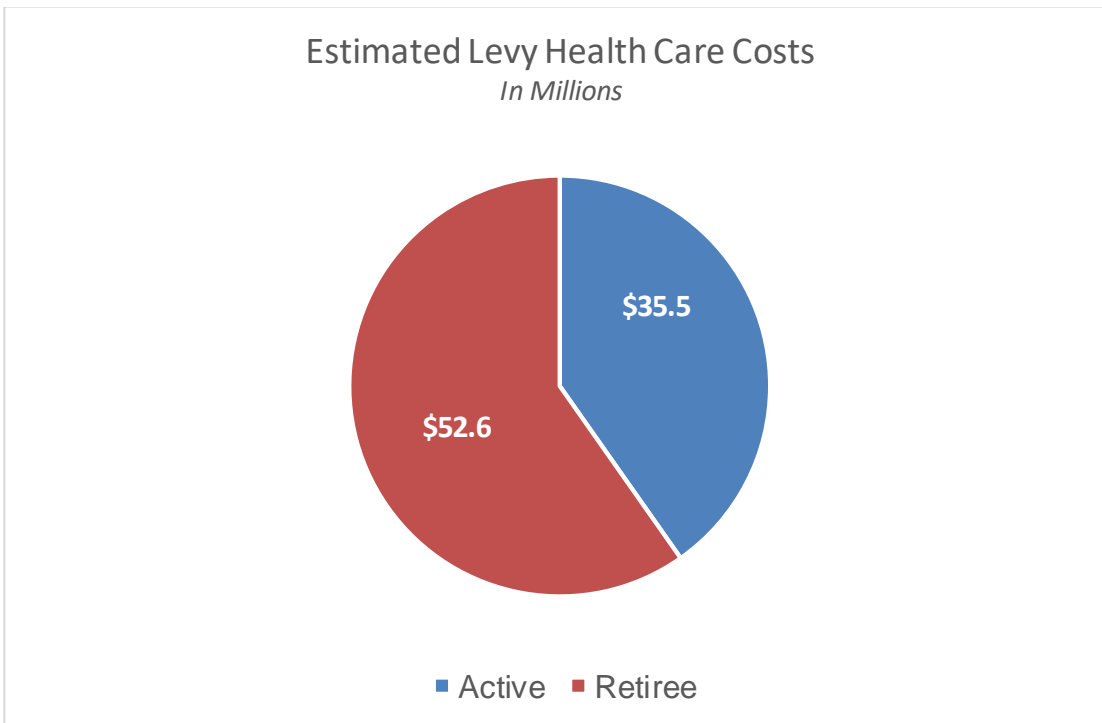
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Health & Dental Benefits Overview

The County allocates its benefit costs to active employees and retirees based on estimates provided by various sources, including the health care actuary and the Office of the Comptroller. In some cases, benefits are solely categorized to either active employees (dental insurance) or to retirees (Medicare Part B premium reimbursements).

For health care expenditures, which include medical claims and Medicare Part B premium reimbursements, retirees account for an estimated 60 percent of tax levy funded benefits, while active employees represent 40 percent.



The health care budget is approximately \$8 million below estimates prepared earlier this year which were included in the 2020 gap projection of \$28.0m. The variance in health care estimates can generally be attributable to timing issues. PSB prepares initial budget gap estimates early in the year and issues instructions and budget targets to departments in April, due to budget requests being statutorily due in July. Meanwhile, the health care budget for the upcoming fiscal year is not finalized until August (after budget requests are due). The timing of the health care budget is due to the ongoing consideration of the most recent spending trends, given that health care industry expenses have been subject to volatility (i.e. a six-month spending trends analysis from Jan to Jun 2019 influences the 2020 budget amount). In addition to forecasting, certain cost items become known in or around the month of July, such as the amount of Medicare advantage premiums which are established by UHC, and prescription drug rebates amounts which are negotiated.

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Specific items which influenced the revised and improved health care forecast for 2020 are below:

- **Medicare Advantage premium projected savings of \$2.4 million compared to prior estimates.** The County's health care provider reduced the premium for Medicare advantage to \$0. Companies that manage advantage programs are receiving subsidies from Medicare which are covering their costs. As a result, UHC determined that a premium is not needed. The Medicare advantage premium amount is determined in June or July, well after budget estimates and instructions are prepared and distributed in April. The reduction to \$0 could not have been predicted. Recent expenses for Medicare advantage premiums include a total of \$4.8 million in 2018 and a projected cost of \$2.4 million in 2019.
- **Increase in estimated prescription Rebates projected savings of \$2.2 million.** This is the result of negotiations that take place between compensation/Willis and providers, which were only recently finalized in July. Prescription drug rebates have been steady at about \$2.5 million in both 2018 and 2019. As a result of negotiations which recently occurred, rebates are expected to increase to over \$4.0 million in 2020, which is \$1.6m higher than recent actuals and earlier projections for 2020.
- **Updated six-month trend analysis projected savings of \$3.4 million.** This reflects the balance of savings. Recent health care expenses have trended below prior estimates. As a result, a surplus is anticipated for 2019. This results in a lower base for 2020 projections, and the updated projection is \$2.4 million lower than previous estimates on medical and prescription drugs combined.

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The Flexible Spending Account (FSA) Employer contribution for 2020 is a maximum of \$1,000. Employees eligible for an FSA must provide \$1,000 (a 1 dollar to 1 dollar match) to receive the maximum County contribution. The employee FSA is unchanged in 2020.

Expenditures in Org. 1950 – Employee Fringe Benefits include:

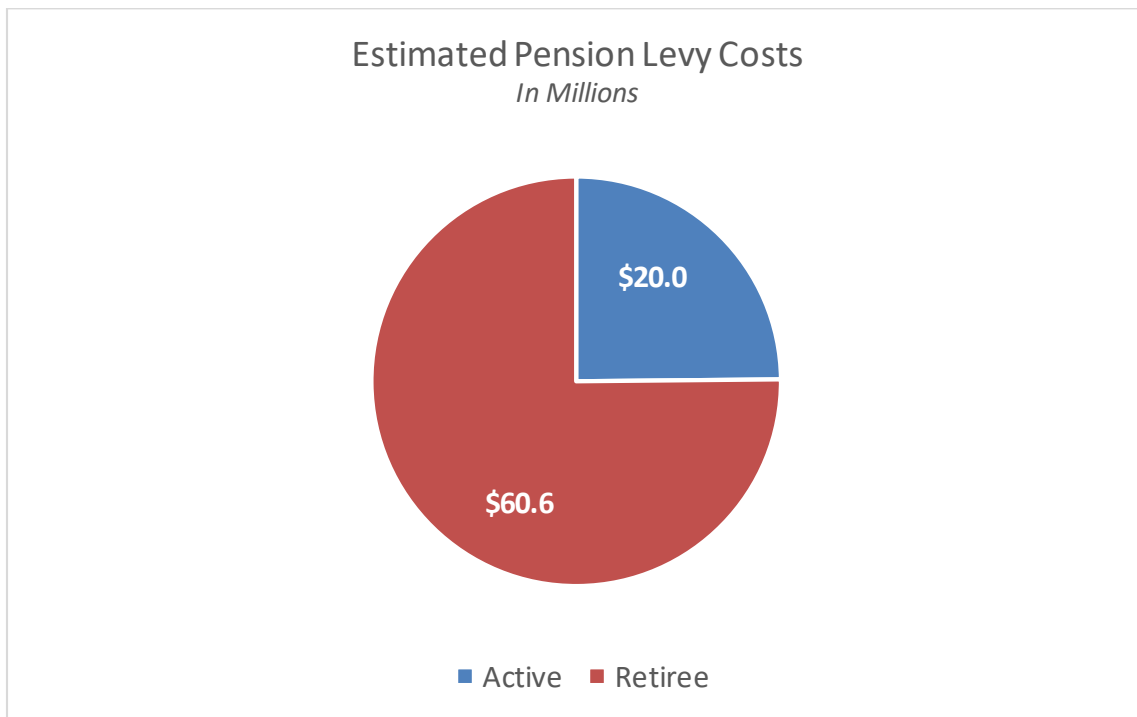
- Health and dental insurance benefits
- Third-party administrative costs for health insurance, prescription drugs, dental insurance, and wellness
- Stop loss insurance
- Fees required by the Affordable Care Act

In addition to the health plan design above, appropriations of \$10,450,000 are provided for:

- Medicare Part B premium reimbursements for retirees (\$10,000,000)
- Actuarial and consulting costs (\$200,000)
- Opt-out payments to employees who decline health insurance benefits (\$180,000)
- Employee flu shots (\$70,000)

Pension Benefits Overview

Milwaukee County offers a pension benefit to vested employees through the Milwaukee County Employee Retirement System (ERS). ERS is one of the three public pension systems in the state of Wisconsin. As with health care and dental benefits, the County allocates pension-related costs between active employees and retirees. For 2020, the projected tax levy cost of pension benefits is approximately \$80.6 million. Of this total, approximately \$60.6 million or 75 percent is allocated to retiree costs and \$20.0 million or 25 percent is allocated to active employees.



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The 2020 budget provides total appropriations for pension benefits of \$111,811,512. This amount represents an increase over the 2019 Adopted Budget of \$4,738,034. Pension costs increase mostly due to a change in assumptions. The Employee Retirement System Pension Board voted to amend the assumed rate of return on investments in the pension fund from 7.75% to 7.5%. As a result, the total unfunded liability increased, and the County’s required contribution also increased.

Item	2019 Budget	2020 Budget	2019/20 Change
OBRA Retirement System Contrib.	\$311,000	\$373,000	\$62,000
ERS Normal Cost	\$19,619,000	\$18,700,000	(\$919,000)
ERS Unfunded Actuarial Liability	\$52,826,000	\$58,364,000	\$5,538,000
Pension Obligation Bonds	\$33,257,478	\$33,430,512	\$173,034
Doyne Pension	\$1,060,000	\$944,000	(\$116,000)
TOTAL Pension Costs	\$107,073,488	\$111,811,512	\$4,738,034

The Employees Retirement System (ERS) and 1990 Retirement System of the County of Milwaukee (“OBRA”) contributions represent amounts recommended by the County’s pension actuary.

Revenues

Revenues of \$12.8 million are budgeted in 2020. For 2020, general employees shall contribute 6.2 percent of salary to the pension plan (down from 6.5 percent in 2019). Public safety employee contributions are subject to collective bargaining.