

EMPLOYEE & RETIREE FRINGE BENEFITS (1950) BUDGET

DEPT: Fringe Benefits

UNIT NO. 1950
FUND: General - 0001

Budget Summary

| Category | 2018 Actual | 2019 Actual | 2020 Budget | 2021 Budget | 2020/2021 Variance |
|---------------------------|----------------------|----------------------|----------------------|----------------------|--------------------|
| Expenditures | | | | | |
| Direct Fringe Benefits | \$212,295,426 | \$220,077,398 | \$222,882,677 | \$221,755,018 | (\$1,127,659) |
| Operation Costs | \$3,256,870 | \$2,170,124 | \$2,169,000 | \$1,180,000 | (\$989,000) |
| Debt & Depreciation | \$0 | \$0 | \$0 | \$0 | \$0 |
| Capital Outlay | \$0 | \$0 | \$0 | \$0 | \$0 |
| Interdept. Charges | \$793,752 | \$712,447 | \$423,506 | \$2,194,631 | \$1,771,125 |
| Total Expenditures | \$216,346,048 | \$223,059,969 | \$225,475,183 | \$225,129,649 | (\$345,534) |
| Revenues | | | | | |
| Direct Revenue | \$22,645,766 | \$22,820,340 | \$22,528,608 | \$22,074,528 | (\$454,080) |
| Intergov Revenue | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Revenues | \$22,645,766 | \$22,820,340 | \$22,528,608 | \$22,074,528 | (\$454,080) |
| Net Fringe Costs | \$193,700,282 | \$200,239,629 | \$202,946,575 | \$203,055,121 | \$108,546 |

Note: The budget summary table excludes crosscharges to departments to more accurately reflect the total fringe benefits costs.

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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2021 Budget Impact on Employees

In 2021, Milwaukee County maintains an excellent package of fringe benefits for employees. The 2021 Budget does not include any major changes to benefits or employee contribution rates while including a mid-year pay increase for all non-represented employees. Despite facing a structural deficit of \$42 million in 2021, the County has chosen to prioritize employee total compensation.

Employee Total Compensation in 2021:

Pay Increase

Most non-represented employees will receive a mid-year 1% pay increase in 2021. Non-represented employees in pay ranges with a midpoint above \$100,000 will receive a 0.5% pay increase in 2021. The funds for this salary increase are budgeted in Org 1972 – Wage and Benefit Modification Account

Health Insurance Premiums

The County pays about 88% of active health benefit costs, while employees are responsible for about 12%. There are no changes to health insurance premiums in 2021. 2021 rates (after including Wellness credit):

Employee Only: \$97/month

Employee + Child: \$143/month

Employee + Spouse: \$226/month

Employee + Family: \$254/month

Pension Contribution

The general employee pension contribution remains at 6.2% in 2021. Public safety represented employee contributions are subject to collective bargaining.

Flexible Spending Account

The employee Flexible Spending Account is maintained in 2021. The County will match up to \$1,000 in employee on a dollar-for-dollar basis for this tax advantaged account.

The chart below shows the impact of the past two budgets on an example employee with a salary of \$60,000 who opts for the Employee + Family health care plan:

| Salary Item | 2020 | 2021 |
|---------------------------------------|-----------------|-----------------|
| Salary – Start of Year | \$60,000 | \$60,600 |
| Salary Increase | \$600* | \$305 |
| Health Care Premium Contribution | (\$3,048) | (\$3,048) |
| Pension Contribution @ 6.2% | (\$3,720) | (\$3,757) |
| Net Salary after Contributions | \$53,382 | \$54,099 |

*2020 Salary Increase: 1% start of year.

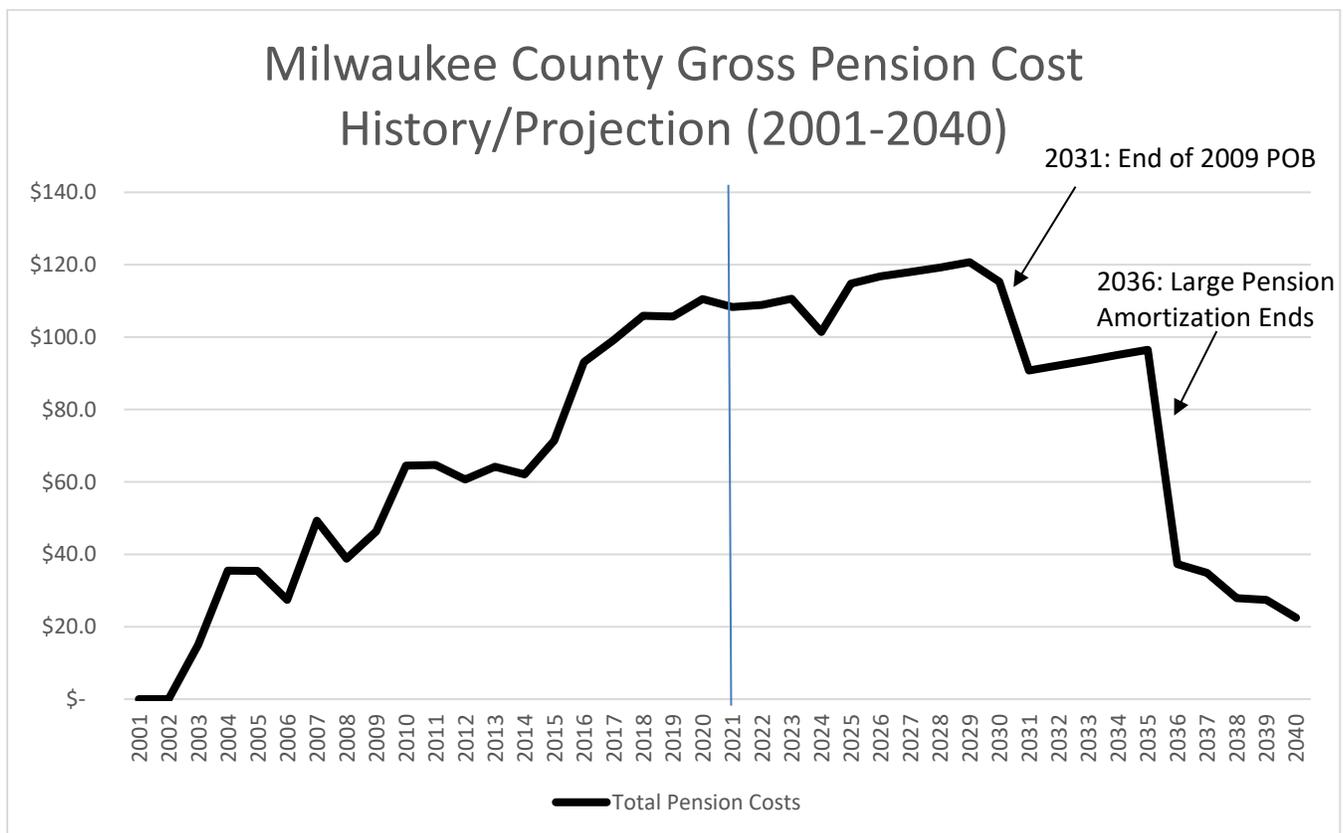
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Long-Term Impact on County Budget

- Only about 1/3 of Fringe Benefit costs are for current employees. The other 2/3 of costs are for promises to past retirees. \$112.6 million, or about 42% of the County's operating property tax levy is allocated to retiree health and pension benefits. This is an amount that is not available for programs and services that are mandated by the State of Wisconsin or program are a part of the County's strategic plan. Health insurance costs are funded on a pay as you go basis - meaning costs are less predictable and can change significantly, year over year.
- Pension costs are based on an amortization schedule supplied by the Pension Board's actuary. The chart below shows the County's actual gross pension cost from 2001 to 2020 and the projected cost from 2021 to 2040. In 2001 and 2002, the County pension system was 100% funded and the actuary recommended no County contributions. In 2021, a total contribution of \$110 million is budgeted for pension expenditures. Costs have increased significantly since 2001 due to three main factors: 1) A significant enhancement in the pension benefit level for most County employees was adopted in 2001. The enhancements were subsequently repealed, but employees who were active at that time remained eligible for the enhanced benefit. 2) The assumed rate of return for the pension fund was as high as 9.0%. This was considered reasonable at the time due to the strong performance of markets in the 1990s. However, for several years in the early 2000s, many investments lost value and fell significantly short of the 9.0% target. When investments do not meet the rate of return assumption, the County is required to increase contributions to make up the shortfall. 3) In the 2000s, the County did not always make the full contribution requested by the pension actuary. By not fully funding the actuary's recommendation, the County was required to make a large amount of contributions in later years to account for lost interest.
- Pension costs are expected to see small annual increases before significant decreases in 2031 and 2037. The decrease in 2031 is the expected end of Pension Obligation Bond (POB) Payments. The County current pays \$33 million annually in debt service costs for these bonds. The decrease in 2036 represents the end of the amortization period for most of the current pension debt. If assumptions on rate of return and demographics are met, Milwaukee County's only pension costs in 2040 will be the normal costs for benefits earned during the year.



Source: Pension Fund Actuary (Segal Consultants), Office of the Comptroller, Milwaukee County Budget Documents

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2021 Employee & Retiree Fringe Benefits Summary

2020-2021 Fringe Benefit Budget Comparisons

| ITEM | 2020 BUDGET | 2021 BUDGET | 2020-2021 Change |
|--|----------------------|----------------------|--------------------|
| Gross Health & Dental Costs | \$109,529,789 | \$109,264,523 | (\$265,266) |
| | + | + | |
| Gross Pension Costs | \$111,811,512 | \$109,853,119 | (\$1,958,393) |
| | + | + | |
| Gross Costs - Other Benefits | \$4,133,882 | \$6,012,007 | \$1,878,125 |
| | = | = | |
| TOTAL Gross Benefit Costs | \$225,475,183 | \$225,129,649 | (\$345,534) |
| | - | - | |
| Less Employee/Retiree Health Premiums | (\$8,434,613) | (\$8,596,465) | (\$161,852) |
| | - | - | |
| Less Employee/State Pension Contributions | (\$12,730,638) | (\$12,000,000) | \$730,638 |
| | - | - | |
| Less Other Benefit Revenues | (\$1,363,357) | (\$1,478,063) | (\$114,706) |
| | = | = | |
| TOTAL Net Benefit Costs - Allocated to Revenue Departments | \$202,946,575 | \$203,055,121 | \$108,546 |
| | - | - | |
| Estimated Revenue Offset at 14.5% | (\$29,427,253) | (\$29,442,993) | (\$15,739) |
| | = | = | |
| Approximate Direct Tax Levy Cost, Employee & Retiree Fringe Benefits: | \$173,519,322 | \$173,612,129 | \$92,807 |

The table above shows that the 2021 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 \$22.1 million of this total. The remainder, \$203.1 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 \$173.6 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.

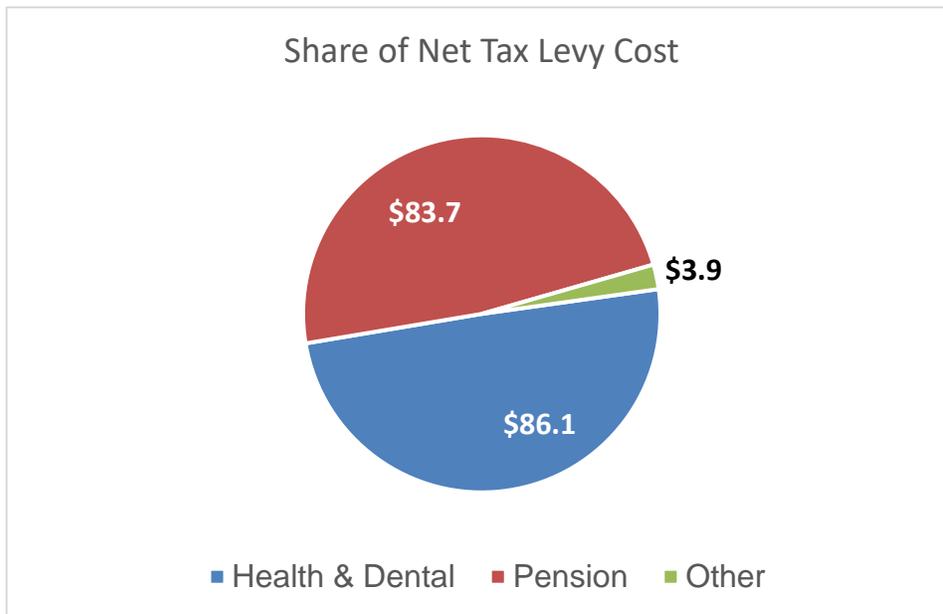
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In 2021, only departments and portions of departments with substantial outside revenue reimbursement are directly charged for fringe benefit costs. The fringe benefit rate for the 2021 Budget is \$16,200 per benefit eligible FTE for active health care and 12.5% of salary for active pension. In early 2021, 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 \$86.1 million or 50 percent of the total. Pension benefits represent approximately \$83.7 million or 48 percent, and other benefits such as life insurance and the employee bus pass program require \$3.9 million in levy or 2 percent of the total.



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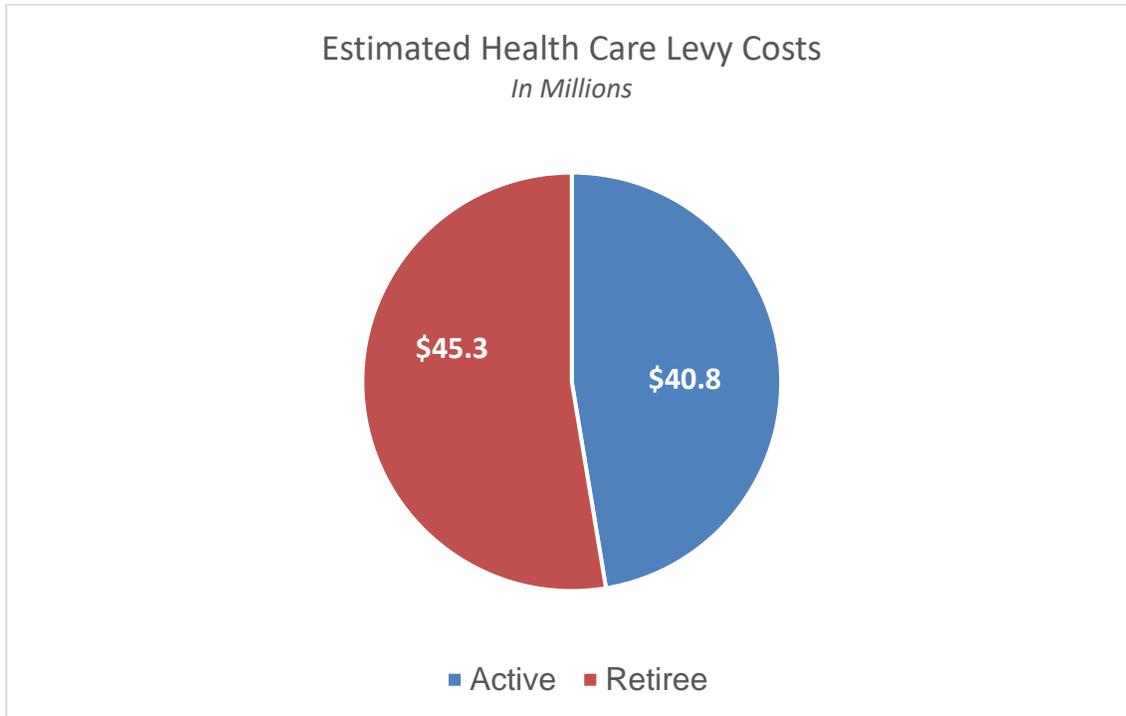
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Health & Dental Benefits Overview

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 53 percent of tax levy funded benefits, while active employees represent 47 percent.



The 2021 Budget includes two minor changes to Health Benefits:

- Employees who terminate County employment will maintain benefits coverage through the end of the termination month, in line with peer organizations.
- All retirees will be automatically enrolled in Medicare Advantage. Retirees will be able to opt into the traditional plan.

The Flexible Spending Account (FSA) Employer contribution for 2021 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 2021.

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
- Employee Flu Shots

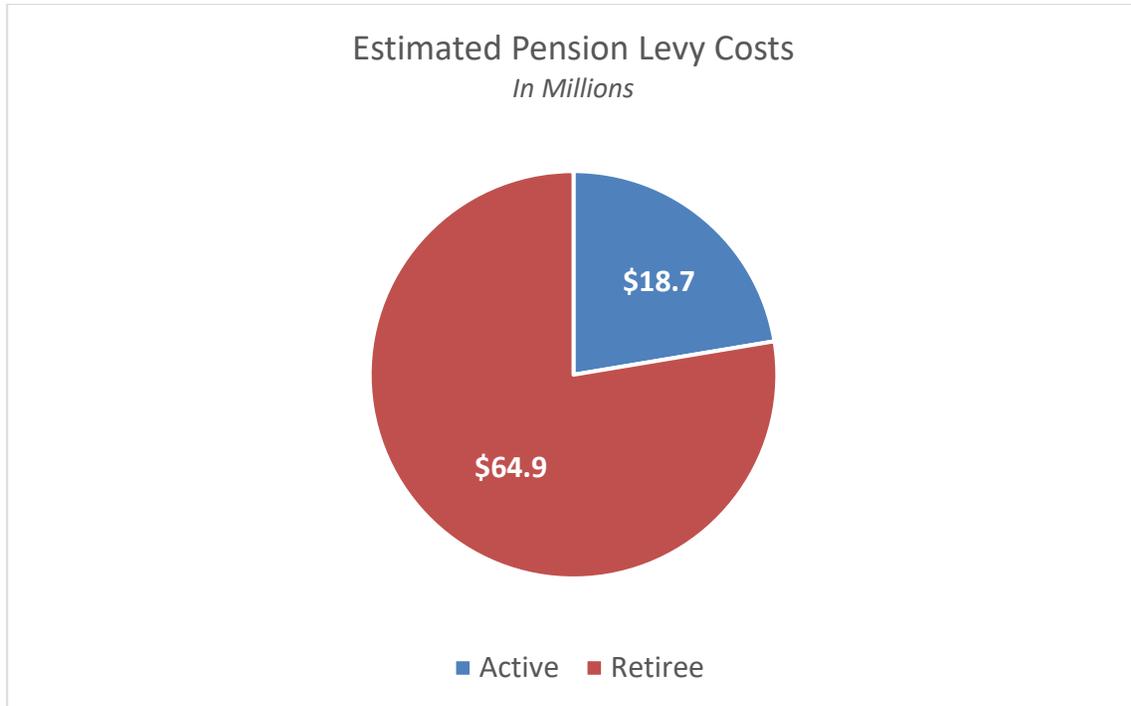
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Pension Benefits Overview

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 2021, the projected tax levy cost of pension benefits is approximately \$83.7 million. Of this total, approximately \$64.9 million or 78 percent is allocated to retiree costs and \$18.7 million or 22 percent is allocated to active employees.



The 2021 budget provides total appropriations for pension benefits of \$109.8 million. This amount represents a decrease of about \$2.0 million due to a decrease in amortization costs and the elimination of Doyme Pension costs based on communications from Froedert financial staff.

| Item | 2020 Budget | 2021 Budget | 2020/21 Change |
|----------------------------------|----------------------|----------------------|----------------------|
| OBRA Retirement System Contrib. | \$373,000 | \$703,000 | \$330,000 |
| ERS Normal Cost | \$18,700,000 | \$19,536,000 | \$836,000 |
| ERS Unfunded Actuarial Liability | \$58,364,000 | \$56,193,000 | (\$2,171,000) |
| Pension Obligation Bonds | \$33,430,512 | \$33,421,119 | (\$9,393) |
| Doyme Pension | \$944,000 | \$0 | (\$944,000) |
| TOTAL Pension Costs | \$111,811,512 | \$109,773,881 | (\$1,958,393) |

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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 \$12.0 million are budgeted in 2021. Revenues decrease due to a higher expected rate of vacancies due to the fiscal pressures of the COVID-19 pandemic. For 2021, general employees shall contribute 6.2 percent of salary to the pension plan (no change from 2020). Public safety employee contributions are subject to collective bargaining.