Jeremy Thiesfeldt
STATE REPRESENTATIVE • 52nd ASSEMBLY DISTRICT

Testimony on AB23/SB48
March 12, 2013
Rep. Jeremy Thiesfeldt

I am here today to urge your support for AB23/SB48 , The Responsible Retirement Budgeting Bill.

This bill deals with one aspect of a category of benefits titled "Other Post-Employment Benefits" (OPEB), that have been offered to the employees of local units of government. Benefits of this type can be as many and varied as the number of communities in the state that offer them. They are offered to employees who are retiring prior to reaching medicare/social security age, and sometimes are even extended beyond.

The specific OPEB that is covered by this bill would be any that deal with healthcare, most often sick leave conversion credits.

Pensions are not touched in any way by this bill.

At issue is the method of funding OPEB. The Wisconsin Statutes allow them to be funded in two ways, 1) actuarial, or 2) pay-as you go. The latter method is the near unanimous choice of local units of government statewide. Using pay-as-you-go, the local unit of government annually must examine the number of potential retirees and then find a way to fund the promise.

Stated simply, this bill would no longer allow the local units of government to fund healthcare-related OPEB on a pay-as-you-go basis. Actuarial funding would be required. This bill does not remove any benefit offered to employees—it merely makes sure that the funding is provided up front in a protected account.

So, how would this work? Under this bill the long-term security of OPEB for employees of local governments would be assured by requiring the benefit to be funded on an actuarial basis for all new employees. By funding on an actuarial basis, the money for healthcare OPEB would slowly accumulate in a bank account. Local units of government would have to annually set aside money as it is accrued by new employees. If an employee in the program left for another job prior to receiving any of the benefit, the money accrued remains in the account. This would create a positive account balance to further ensure the viability of the program.

Serving the City of Fond du Lac and the Communities of North Fond du Lac, Eldorado, Taycheedah and Friendship

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With this change, local officials would not be able to push these costs onto future budgets, thereby handcuffing future elected bodies. Elected officials who grant OPEB for future retirees will be accountable for funding it now.

Additionally, it would also assure that should a single budget cycle bring a large number of retirements, it would not cause a sudden increase in local property taxes or drastic service reductions to fund the spike in benefit claims. This is especially evident in the current environment of revenue limits.

I was unable to uncover any clearinghouse for data on the number of local units of government that offer a post-retirement healthcare benefit. The Fiscal Bureau is unaware of any state agency that has compiled such data since they are not required to be reported, and vary significantly. A small random sampling suggests that many communities do not offer any OPEB at all.

Almost entirely unfunded liabilities exist in the Comprehensive Annual Financial Reports (CAFR) of local units of government that offer OPEB and fund them "pay-as-you-go."

My home community, the City of Fond du Lac, also uses the pay-as-you-go method. The city's Comprehensive Annual Financial Report (CAFR) for 2011 shows a growing unfunded net obligation for its "sick time conversion benefit" of nearly \$2.18 million in liabilities. This liability has doubled since 2009. The following are the Unfunded Actuarial Accrued Liability listed in the CAFR of several Wisconsin communities:

Beaver Dam	\$1.4 million	Sun Prairie	\$624,000
Oshkosh	\$10.9 million	Menomonee Falls	\$5.3 million

Valid concerns have been raised by some local units of government that this bill would initially be a huge financial burden. Therefore, as stated earlier, AB23/SB48 would only apply to new employees. This will create minimal expense up front and allow a smooth transition until the entire workforce falls under the actuarial model.

Since the drafting of this bill, based on suggestions from others a few changes are being considered to strengthen it:

1. Exemption of municipalities based on quantity of employees
2. If segregated fund is dissolved, money is protected for beneficiaries
3. An actuarial study required only once in four years
4. Enactment date delayed one year to 1/1/15

In conclusion, this bill is quite simply "good government." To be fiscally prudent with taxpayer resources we need to require municipalities, school districts, counties and technical college districts to prefund promised healthcare benefits. This is a bill that will be beneficial to employer, employee and the taxpayer.

LEAH VUKMIR
STATE SENATOR

Assembly Bill 23
Assembly Committee on Urban and Local Affairs
March 12, 2013

Thank you, committee members, for joining me today for this public hearing on Assembly Bill 23. This legislation simply requires local governments to fully fund their commitments to post-retirement health insurance for anyone hired after January 1st, 2014.

With the downturn in the economy, everyone ranging from citizens to the press has become aware of budget deficits hitting the federal, state, and local governments. Added attention has also been placed on the solvency of our retirement fund. We have been lucky to have a fully funded pension system that is the envy of our neighbors. However, not enough attention has been paid to the massive deficits that have been created by local governments offering to pay some or all of an employee's post-retirement health care.

In Milwaukee, the problem is especially alarming. For Milwaukee County, there is a net deficit of over $250 million, with it growing anywhere from $40 to $60 million a year. For the City of Milwaukee, the net deficit is $213 million with annual deficits over $40 million. Milwaukee Public Schools are facing an even more difficult situation. While they have taken steps to limit last year's deficit, our state's largest school district has an ongoing deficit of nearly $523 million. Residents of Milwaukee are staring at a future tax increase of over $980 million that will come due as more and more government employees decide to retire early. In the year and a half since we first introduced this legislation, that number has grown by over $200 million.

What we are asking for is not out of line. We simply want local governments that provide post-retirement health care benefits to pay for them. Right now, a city council can approve these benefits to buy labor peace today, knowing they may never have to find a funding source to pay for them. It is time to require those that approve the benefits to pay for those benefits.

Thank you for your time, and I urge you to support AB 23.

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March 12, 2013
Assembly Committee on Urban and Local Affairs

Testimony regarding Assembly Bill 23:
Relating to funding postretirement health care benefits of local government employees.

Presented on behalf of Mark Nicolini, Budget & Management Director

Thank you Chair Brooks and committee members for the opportunity to testify today. Allow me to begin by saying that the City of Milwaukee supports responsible funding of public employee retirement benefits.

- Multiple 3rd party analyses reveal that the Milwaukee's Employees' Retirement System (ERS) has one of the strongest funded positions among U.S. public employee retirement systems (PERS). As of January 1, 2012, ERS had a funded ratio of 96%, compared to an average of approximately 75% for the largest public retirement systems. ERS is funded on an actuarial basis. The City made $49 and $60 million employer contributions in the 2010 and 2013 City Budgets, respectively by, among other actions, cutting operating spending by more than $43 million—unlike many other systems that neglected to make their actuarially-required contributions.

- In 2012, the Common Council and Mayor agreed on significant changes to the City's health care benefits that will affect both active employees and those who retire as of January 1, 2012:
  - General city retirees will pay 12% of the applicable premium and be subject to annual deductibles of $500 for single plans and $1,000 for family plans. Retirees will be subject to future plan design changes.
  - Protective service retirees will be subject to the same deductible and co-pay provisions as general city employees. (However, the Police portion is currently under litigation.)
  - In addition, it has been a longstanding City policy to support only 25% of Medicare-eligible retirees' supplemental insurance premiums.

These recent changes have improved the City's OPEB liability significantly. In two years, our OPEB liability has decreased by 13%. Further changes are pending that will further improve this figure.

The City is concerned about the implications of this legislation. Our concerns are as follows:

1. Similar to the State, the City currently funds these benefits on a pay as you go basis. Assuming an annual average of 100 combined police and fire new recruits, and 100 new general city employees, the actuarial funding requirement is estimated to be $1.2 million on a fully-annualized basis, and would grow annually. This would add to the $13 million reduction in state aids the City has received since 2011.

2. The City could eliminate the benefit for new general city hires, but our current bargaining contracts with our protective service unions include this benefit for all new hires. The only way to remedy this problem is to amend Wis. Stat. 111.70(4)(mc) to add a seventh paragraph. That paragraph would make postretirement healthcare benefits a prohibited subject of collective bargaining. Without this change, the City is in no position to eliminate the benefit unilaterally from newly-hired police officers and firefighters.

   This requirement would impose substantial new funding requirements without any means to eliminate the benefit for the employee categories that generate the great majority of the City's OPEB liability. Sworn police and firefighters make up more than 60% of the City's operating salaries and close to 70% of OPEB liability. Their portion of the OPEB liability is higher because of a generous retirement provision that allows them to retire after 25 years of service, regardless of age.

3. The City is operating under levy limits and significant declines to its state aids, and cannot adjust its budget to accommodate an actuarial funding requirement. If the legislation is not modified to exempt additional costs related to this requirement from levy limits, we will be required to reduce services even further.

The City of Milwaukee is making meaningful <u>local</u> progress on reducing OPEB liability via the recent changes to health benefit premiums and employee cost-sharing that will affect new retirees. We balance our budget annually and have funded our pension and OPEB obligations without resorting to borrowing.

Attached you will find the Executive Summary of our most recent OPEB valuation report.

Thank you for your consideration.

EXECUTIVE SUMMARY

This report presents the results of our actuarial valuation as of January 1, 2009, for the Retiree Healthcare and Life Insurance Programs sponsored by the City of Milwaukee. The valuation was performed to satisfy the reporting requirements of GASB Statement Nos. 43 and 45. Our valuation was based on a discount rate assumption of 4.5 percent and an ultimate healthcare trend assumption of 4.5 percent, as approved by the City of Milwaukee. The discount rate reflects the employer's pay-as-you-go funding policy. The key valuation results using the Projected Unit Credit cost method are summarized below:

Retiree Healthcare and Life Insurance Programs 4.5% Discount Rate and 4.5% Ultimate Trend $ in Thousands				
	General	**Police**	**Fire**	**Total**
Actuarial Liability as of January 1, 2009	$328,555.5	$408,153.1	$222,853.4	$959,562.0
Normal Cost for FY 2009	$11,965.8	$20,008.5	$8,236.6	$40,210.9
Annual Required Contribution FY 2009	$24,512.7	$35,595.0	$16,746.9	$76,854.6
(% of Payroll)	11.6%	28.7%	29.2%	19.6%
GASB No. 45 FY 2009 Expense	$24,651.5	$35,854.6	$16,882.6	$77,388.7
(% of Payroll)	11.6%	28.7%	29.2%	19.6%
FY 2009 Employer Pay-go Contribution	$14,942.0	$13,972.1	$7,465.8	$36,379.9
(% of Payroll)	7.1%	11.3%	13.0%	9.3%
Payroll	$210,867.9	$124,142.5	$57,360.9	$392,371.3
Number of Active Members	4,425	1,957	869	7,251
Number of Retirees and Surviving Spouses	2,118	1,354	764	4,236

The details of the preceding valuation results by employee group are included in Section B of the report. The valuation was performed for City of Milwaukee employees eligible for retiree healthcare and life insurance benefits, which generally includes participants in the City of Milwaukee Employees' Retirement System except for Milwaukee Public Schools employees. The valuation excludes Redevelopment Authority of the City of Milwaukee (RACM) and Housing Authority of the City of Milwaukee (HACM) employees, as they are reported separately.

Our calculations are based on adoption at January 1, 2007, and an opening transition liability of zero at that date. The Net OPEB Obligation or balance sheet liability represents the cumulative differences between Annual OPEB Costs and actual employer contributions.

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To: Assembly Committee on Urban and Local Affairs
From: Curt Witynski, Assistant Director, League of Wisconsin Municipalities
Date: March 12, 2013
Re: AB 23, Requiring Communities to Fund Post-Retirement Health Benefits on an Actuarial Basis

The Board of Directors of the League of Wisconsin Municipalities has not yet had an opportunity to determine its position on AB 23, prohibiting local governments from providing post-retirement health care benefits to any employee hired after the bill's effective date unless the benefit is fully funded on an actuarial basis. I'm offering this testimony for information purposes only. Last session, the League opposed a similar bill due to cost concerns. We have the same concerns with this bill.

While we don't know the exact number, probably dozens of municipalities over 10,000 in population provide post-retirement health benefits to at least some of their employees, particularly police and fire. We recently surveyed our 45 Urban Alliance members (communities exceeding 10,000 in population) on this issue. We received responses from 20 communities. Of those 20, eleven provide post-retirement health benefits to at least some newly hired employees. Nine do not. The level of benefit provided covers a broad range. See the attached document for more details. All eleven communities fund the cost of post-retirement health insurance benefits on a pay-as-you-go basis. For cities like Eau Claire and Beloit that cost is approximately $2.2 million annually.

AB 23 requires municipalities to permanently set aside sufficient funds in a trust account to cover the future costs of post-employment health insurance premiums for individuals hired by the municipalities after the effective date of the bill. Some municipalities are concerned that the cost of complying with AB 23, given strict levy limits, will be burdensome and may necessitate eliminating the benefit or reducing other services. The City of South Milwaukee has received estimates from its actuary that helps illustrate the fiscal impact of this bill on municipalities. South Milwaukee estimates that the annual cost of funding OPEB benefits on an actuarial basis for new 25 year old employee will range from $3,862 to $8,026, depending on whether the employee is general, elected, or protective. The cost for protective employees is the most expensive, while the cost for an elected is the least. The attached table shows the estimated costs for new hires based on the age of the employee at the time of hiring.

It should be pointed out that even if a municipality wanted to drop post-retirement health coverage for new employees, it could not unilaterally do so for police and fire employees since these employees retain full collective bargaining rights. The municipality would need to bargain the issue with represented public safety employees. At the very least, the committee should consider delaying the effective date of the bill to January 1, 2015, to allow communities time to bargain the issue with their police and fire employees.

Thanks for considering our comments.

City of South Milwaukee
Annual costs of OPEB benefits for new hires

BC (1)	Sex	Age at hire	Annual cost (2)
1	M	25	5,170
3	M	25	8,026
5	M	25	3,862
1	M	30	6,441
3	M	30	8,538
5	M	30	4,869
1	M	35	7,940
3	M	35	9,422
5	M	35	6,295
1	M	40	9,907
3	M	40	11,052
5	M	40	8,455
1	M	45	12,951
3	M	45	13,970
5	M	45	11,752
1	F	25	4,547
3	F	25	8,875
5	F	25	4,275
1	F	30	5,836
3	F	30	9,447
5	F	30	5,392
1	F	35	7,376
3	F	35	10,306
5	F	35	6,893
1	F	40	9,417
3	F	40	11,924
5	F	40	9,130
1	F	45	12,577
3	F	45	14,899
5	F	45	12,546

Note 1 - The following are the BC codes:
1=General
3=Protective
5=Elected

Note 2 - Based on the same actuarial assumptions as the 1/1/11 GASB 45 valuation with the following exceptions:
a. All employees are assumed to retire at age 60.
b. The healthcare costs do not include the implied subsidy.

The funding method is individual level premium.

Urban Alliance Members 2013
Survey on PRHB

Type	Municipality	Employer Offers PRHB for New Employees		Description of benefits offered	Yes, PRHB Funded on a Pay As You Go Basis	Estimated Cost of Funding on an Actuarial Basis
		Yes	No			
City of	Appleton					
City of	Ashland					
City of	Baraboo					
City of	Beaver Dam					
Village of	Bellevue					
City of	Beloit					
City of	Brookfield	Yes		City pays $475 a month for retired Police and AFSCME represented employees.	Yes	$850,000 annually for all employees currently receiving the benefit.
City of	Burlington					
City of	Eau Claire	Yes		City pays a portion of retired employee premiums until Medicare coverage begins.	Yes.	To fully fund post-employment health insurance benefit for each new firefighter or police officer the City would have to set aside $195,000. To fully fund a non-protective service employee, the city would have to set aside $40,000 to $45,000.
City of	Fond du Lac		no			
City of	Fort Atkinson					
City of	Green Bay					
City of	Greenfield					
City of	Janesville					

Urban Alliance Members 2013
Survey on PRHB

Type	Municipality	Employer Offers PRHB for New Employees	Description of benefits offered	Yes, PRHB Funded on a Pay As You Go Basis	Estimated Cost of Funding on an Actuarial Basis
City of	Kaukauna	Yes	For Police and Fire employees the City pays 75% of health insurance premium from retirement till age 65. For Non-Represented employees the City pays 50% of health insurance premium from retirement till age 65. The City's contribution rate for all non-represented employees hired prior to January 1, 2009 is 75%. For Public Works employees the City pays 50% of health insurance premium from retirement till age 65, The City's contribution rate for all public works employees hired prior to January 1, 2006 is 75%.	Yes	
City of	La Crosse	Yes	Same health insurance benefits as active employees upd to medicare. City pays between 84 and 88 percent, depending on the employee group. (Looking at ending for new hires.)	Yes	

Urban Alliance Members 2013
Survey on PRHB

Type	Municipality	Employer Offers PRHB for New Employees		Description of benefits offered	Yes, PRHB Funded on a Pay As You Go Basis	Estimated Cost of Funding on an Actuarial Basis
City of	Madison	Yes		All employees are eligible for participation in the city's sick leave conversion program. Police and fire protective service employees are eligible for continuation of health benefits at retirement until age 55. Transit (Teamsters) employees are eligible for continuation of health insurance at retirement until eligible for Medicare. The city also makes contributions to VEBA's for laborers and Teamsters.	Yes, except for VEBA	
City of	Manitowoc		no			
City of	Marinette					
City of	Marshfield		no			
City of	Menasha					
City of	Merrill	Yes		Employees can convert up to 1,300 hours of sick leave to transfer to police/fire union PEHP with non-union eligible for lump sum payout or continue on City health insurance	Yes, Budget average of $95,000 - which is average of past 5-7 year payouts/health ins continuation	

Urban Alliance Members 2013
Survey on PRHB

Type	Municipality	Employer Offers PRHB for New Employees		Description of benefits offered	Yes, PRHB Funded on a Pay As You Go Basis	Estimated Cost of Funding on an Actuarial Basis
City of	Milwaukee	Yes		City pays 88% of premium and 25% of Medicare-elligible retirees' supplemental insurance premiums.	Yes	$1.2 million, assuming 200 new employees annually.
City of	Neenah					
City of	New Berlin					
City of	Oak Creek	Yes		Same health insurance benefits as active employees up to medicare.	Yes	Total unfunded post emplolyement health benefit for existing employees is $57 million annually.
City of	Oshkosh		no			
City of	Platteville		no			
Village of	Pleasant Prairie		no			
City of	Racine	Yes		Provide health care and prescription coverage for new hires from WRS retirement age (50, or 55) to Medicare eligible age. All full time city employees eligible.	Yes	Retirees from the age of 50-65 cost the City approximately $5.6 million a year. The majority of those retiree's carry family coverage which costs approximately $18,000 per year per retiree. So for a new hire it would cost approximately $18,000 each year for between 10 and 15 years depending on retirement age.
City of	Sheboygan					

Urban Alliance Members 2013
Survey on PRHB

Type	Municipality	Employer Offers PRHB for New Employees		Description of benefits offered	Yes, PRHB Funded on a Pay As You Go Basis	Estimated Cost of Funding on an Actuarial Basis
City of	South Milwaukee	Yes		City provides post-retirement health care benefits to all employees, covering fifty percent (50%) of the premium amount for persons hired after 2012.	Yes.	
City of	Stevens Point	Yes		May convert up to 130 days of sick leave to cash to pay for health ins. premiums	Yes, $200,000 annually	
City of	Sun Prairie					
City of	Superior					
City of	Two Rivers					
City of	Watertown					
City of	Waukesha					
City of	Waupun		no			
City of	Wausau					
City of	Wauwatosa					
City of	West Allis					
City of	West Bend		no			
City of	Whitewater		no			
City of	Wisconsin Rapids					

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MEMORANDUM

TO: Honorable Members of the Assembly Committee on Urban and Local Affairs

FROM: Kyle Christianson, Legislative & Research Associate KC

DATE: March 12, 2013

SUBJECT: Assembly Bill 23 – Postretirement Health Benefits

Under current law, local governments have the option of funding postretirement health care benefits on a pay-as-you-go schedule. Assembly Bill 23 requires local governments to fully fund these benefits—for new employees—on an actuarial basis or according to generally accepted accounting principles.

While the Wisconsin Counties Association (WCA) recognizes the "best practice" intent of the legislation, we ask the committee to consider the potential impact this legislation may have on counties and other units of local government. County governments have long prioritized and maintained their commitments to retirees by funding postretirement obligations in locally determined ways that are efficient and financially responsible for each individual county's unique circumstances. The state's current law has worked well for counties, who have discretion in determining how to fund these benefits, and retirees who receive these benefits.

According to county finance directors, changes in local discretion with regard to these benefits may result in additional bookkeeping, administrative, and actuarial costs. These costs will be difficult for counties to absorb with declining state aids and unprecedented restrictions on property taxes.

WCA has not taken a position in support or opposition of Assembly Bill 23 but encourages the Committee in its review of this legislation to consider its impact on local finances and local control.

Thank you for considering our comments. Please feel free to contact WCA for further information.