

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

OPERATING AUTHORITY & PURPOSE

Pursuant to the provisions of Section 59.51(2) of the Wisconsin Statutes, the County Board may represent the County and have management of the

business and concerns in all cases where no other provision is made.

BUDGET SUMMARY				
	2007 Actual	2008 Budget	2009 Budget	2008/2009 Change
▪ Health Benefits-Hospital, Professional, Major Medical & Dental	\$ 122,400,058	\$ 139,130,847	\$ 130,565,355	\$ (8,565,492)
▪ Employee Group Life Insurance	2,309,861	1,693,000	2,421,918	728,918
▪ Annuity – County Mandatory Contribution	20,223	31,500	31,500	0
▪ Retirement System Contribution- OBRA	529,000	522,000	548,100	26,100
▪ Retirement System Contribution	49,265,000	39,327,788	48,359,730	9,031,942
▪ Medicare Reimbursement to Retired Employees	5,601,425	5,962,000	6,293,761	331,761
▪ Health Benefits and Retirement- Consultant Fees	180,301	1,244,285	1,349,834	105,549
▪ Local Transportation (Transit Pass Program)	515,329	542,700	588,150	45,450
▪ Other Contributions	1,137,000	1,000,000	500,000	(500,000)
Total Expenditures	\$ 181,958,197	\$ 189,454,120	\$ 190,658,348	\$ 1,204,228
Abatements	(174,125,070)	(183,106,421)	(184,262,292)	(1,155,871)
Total Direct Revenue	\$ 7,829,861	\$ 6,347,699	\$ 6,396,056	\$ 48,357
Direct Total Tax Levy	\$ 3,266	\$ 0	\$ 0	\$ 0

BUDGET HIGHLIGHTS

County Board and Department of Audit staff, in consultation with the Controller and Director, Department of Administrative Services, conducted a study of alternative options to allocate fringe costs to departmental budgets. A report was submitted to the Committees on Finance and Audit and Personnel for consideration in March 2007, and the following methodology was adopted by both Committees and the County Board:

2009 Budget Per Eligible FTE Fringe Benefit Cost Detail

	Health Care	Health Care as % of Salary*	Pension % of Salary	Total
Active Employee	\$13,842	27.59%	14.54%	42.13%
Legacy Cost	\$14,263	28.57%	6.28%	34.85%
TOTAL:	\$28,105	56.16%	20.82%	76.98%

*Percent of Salary shown for presentation purposes

In the 2009 Budget, Employee Fringe Benefits are segregated into two components, health care and pension. The health care portion is budgeted as a fixed cost per eligible FTE reflecting the way the costs are incurred. The

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

health care portion includes all health benefits and other non-pension related benefits. The pension component is calculated as a percent of salary and includes all of the retirement system contributions.

In 2009, the Fringe Benefit workgroup will reconvene to examine how fringe benefits are allocated.

5403 - Health Benefits - Hospital, Professional, Major Medical and Dental Expense

Decrease \$8,565,492, from \$139,130,847 to \$130,565,355

Projected changes from the 2008 to the 2009 Employee Health Benefits Budget are as follows:

	2008	2009	2008/2009	Percent
	<u>Budget</u>	<u>Budget</u>	<u>Change</u>	<u>Change</u>
Basic Health Benefits, Including Major Medical	\$ 133,779,932	\$ 124,530,594	\$ (9,249,338)	-6.91%
Wellness Program Savings	(1,059,285)	0	1,059,285	-100.00%
Mental Health/Substance Abuse/EAP Carve-Out	1,377,900	1,290,343	(87,557)	-6.35%
Employee Assistance Program & Health Waiver	227,700	107,271	(120,429)	-52.89%
County Dental Plan	2,245,800	1,827,125	(418,675)	-18.64%
Dental Maintenance Organizations (DMO)	<u>2,558,800</u>	<u>2,810,022</u>	<u>251,222</u>	<u>9.82%</u>
Total Health Benefit Cost	\$ 139,130,847	\$ 130,565,355	\$ (8,565,492)	-6.16%

In 2006, the County entered into a four-year contract with Wisconsin Physician Services (WPS), Inc., to provide health insurance coverage. This contract continued in 2008 on a self-insured basis for both the HMO and PPO plan products with estimated expenditures totaling \$133,779,932. Due to a disruption in the network of physicians under contract available through WPS, a request for proposal for the health plan and prescription drug coverage was issued with the intent to execute a new contract effective January 1, 2009. United Healthcare (UHC) has been selected as the new healthcare provider for Milwaukee County. The contract will begin in 2009 and continue on a self-insured basis for both the HMO and PPO plan products. Estimated expenditures for 2009 total \$130,565,355. The expenditure estimate is based on actual health insurance claims data and actual enrollment data for 2008 at the time of publication. The estimate assumes an inflation/growth factor of 10 percent for the overall cost of providing health insurance, offset by improvements to contracted provider discounts. Fixed costs such as administration and stop-loss insurance fees are also included in the estimate provided above.

The total cost to the County may rise or fall depending on changes in the number of health care contracts, utilization and price/provider rate structure in the overall health care market.

The Wellness and Disease Management Program is detailed below under 6000s – Health Benefits and Retirement Contribution – Consultant Fee/Professional Services. The projected savings associated with this program are shown above as a reduction in Basic Health Benefits.

A five-year comparison of budget and actual experience for all health benefits (including medical, dental, mental health, employee assistance, run outs, etc.) is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2003	\$ 80,601,606	\$ 84,875,417	--
2004	\$ 101,269,028	\$ 99,630,209	17.38%
2005	\$ 112,174,416	\$ 120,243,817	20.69%
2006	\$ 125,166,827	\$ 123,744,481	2.91%
2007	\$ 132,610,570	\$ 122,389,868	(1.09%)
2008*	\$ 139,130,847	--	--
2009	\$ 130,565,355	--	--

* - Data from 2008 Adopted Budget

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

5404 - Employee Group Life Insurance

Increase \$728,918, from \$1,693,000 to \$2,421,918

The group life insurance appropriation is based on the coverage amount, which in turn is based on employees' salaries. From 2006 through 2008, Milwaukee County's contract with MetLife required stability in the premium rates. For 2009, Milwaukee County's current contract has been renewed with no increase to premiums. The difference in budgeted amount is due to a change in reporting from net cost for life insurance to separating cost from operating revenue from employee contributions. The \$728,918 increase in expenditures is offset by a similar increase in operating revenue.

A five-year comparison of budget and actual experience for group life insurance is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2003	\$ 1,500,598	\$ 1,514,694	--
2004	\$ 1,486,866	\$ 1,799,398**	18.80%
2005	\$ 1,421,458	\$ 2,089,718**	16.13%
2006	\$ 1,683,661	\$ 2,258,914**	8.10%
2007	\$ 1,767,800	\$ 2,309,861**	2.26%
2008*	\$ 1,693,000	--	--
2009	\$ 2,421,918	--	--

* - Data from 2008 Adopted Budget

** - Represents gross expenses for Life Insurance, similar to current budgeting method

5405 - Annuity - County Mandatory Contribution

2009 level remains at the 2008 budget level of \$31,500

The budget for the County's mandatory annuity contribution relates to eligible employees who have been members of the pension system prior to January 1, 1971 at the following rates:

- 8 percent of earnings for Deputy Sheriff
- 8 percent of earnings for Elected Officials
- 6 percent of earnings for Other Employees

A five-year comparison of budget and actual experience for the annuity contribution is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2003	\$ 496,375	\$ 349,739	--
2004	\$ 417,000	\$ 233,178	(33.33%)
2005	\$ 313,000	\$ 45,185	(80.62%)
2006	\$ 42,000	\$ 35,154	(22.20%)
2007	\$ 42,000	\$ 20,223	(42.47%)
2008*	\$ 31,500	--	--
2009	\$ 31,500	--	--

* - Data from 2008 Adopted Budget

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

5406 – Retirement System Contribution – OBRA

Increase \$26,100, from \$522,000 to \$548,100

The OBRA pension contribution was established as a separate account in 1992 to differentiate from the Employee Retirement System contribution made for full-time County employees.

A five-year comparison of budget and actual experience for the Retirement System Contribution - OBRA is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2003	\$ 279,727	\$ 279,727	--
2004	\$ 348,000	\$ 348,000	24.41%
2005	\$ 365,000	\$ 365,000	4.89%
2006	\$ 462,000	\$ 462,000	26.58%
2007	\$ 529,000	\$ 529,000	14.50%
2008*	\$ 522,000	--	--
2009	\$ 548,100	--	--

* - Data from 2008 Adopted Budget

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

5409 - Retirement System Contribution

Increase \$9,031,942, from \$39,327,788 to \$48,359,730

The table below, provided by the Department of Audit, provides details on annualized pension payments.

**Retiree and Beneficiary Membership Data (January 2008)
 Number and Average Annual Benefit**

Age Last Birthday	Number	Annual Benefit	Average Annual Benefit
Retired Participants			
Under 60	932	\$25,606,995	\$27,475
60-64	1,183	25,656,004	21,687
65-69	976	19,073,539	19,543
70-74	854	15,966,024	18,696
75-79	835	13,845,811	16,582
Over 79	1,350	16,076,287	11,908
Total	6,130	\$116,224,660	\$18,960
Beneficiary Participants			
Under 60	99	\$1,534,249	\$15,497
60-64	55	834,472	15,172
65-69	63	1,002,348	15,910
70-74	114	1,507,117	13,220
75-79	158	2,013,976	12,747
Over 79	458	4,166,093	9,096
Total	947	\$11,058,255	\$11,677
Disabled Participants			
Under 60	107	\$2,095,320	\$19,582
60-64	37	638,520	17,257
65-69	32	572,968	17,905
70-74	25	405,922	16,237
75-79	24	388,023	16,168
Over 79	19	227,583	11,978
Total	244	\$4,328,336	\$17,739
Grand Total Average Annual Benefit	7,321	\$131,611,251	\$17,977

Note: A total of \$133.15 million in backDROP lump sum payments was issued to 1,041 individuals upon retirement as of January 1, 2008. Exercising the lump sum payment option reduced subsequent annual pension payments for those individuals.

Source: Milwaukee County Employees' Retirement System

Pension Contribution

The 2009 budget provides \$48,359,730 for the County's contribution to the Milwaukee County Employees Retirement System (ERS) and any debt costs associated with the issuance of Pension Obligation Bonds (POBs),

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

The County's contribution to ERS includes normal costs of \$21,748,000 and payment on an unfunded actuarial accrued liability (UAAL) cost of \$1,646,647. The 2008 budget proposed the issuance of pension obligation bonds to reduce the liabilities of the ERS, therefore the remaining 2009 costs include interest only POB debt service costs of \$22,965,083, and a stabilization fund contribution of \$2,000,000. In 2010, the full POB debt service expense is expected to be approximately \$31.4 million.

The estimated POB debt service costs are included both in the Debt Service Fund and Fringe Benefits. Fringe Benefits includes the costs, in order to accurately reflect all fringe benefit related costs. While the Debt Service Fund reflects the full debt service cost of the POBs, the appropriation is offset by an abatement to the Fringe Benefit costs in this department.

Pension Obligation Bond Proposal

The 2009 Budget reflects the issuance of pension obligation bonds (POBs) in 2008 to partially fund the County's Employee Retirement System. The POB Workgroup that was established in 2007 and continued in 2008 submitted a proposal to the Finance and Audit Committee in September of 2008 for the issuance of POBs. The proposal included a statutorily required Strategic and Financial Plan Ordinance that provides a plan for funding for future annual pension liabilities on a current basis and contains quantifiable benchmarks to measure compliance with the plan, resolution for the creation of a stabilization fund trust and initial authorizing resolution and debt structure for the issuance of the bonds.

Strategic and Financial Plan

The Wisconsin State Legislature enacted 2007 Wisconsin Act 115 on March 19, 2008, authorizing the issuance of POBs by the County to prepay part or all of its UAAL. The Act contains certain requirements that the County must comply with if it chooses to issue POBs. These requirements include:

- Enactment of an ordinance that establishes a five-year strategic and financial plan related to the payment of all or any part of the County's UAAL and quantifiable benchmarks to measure compliance with the plan.
- At a minimum, funding the lesser of the normal cost or actuarially required contribution (which may be more or less than the normal cost) on a current basis. If this requirement is not met, the consequence will be reduced state shared revenue by an amount equal to the unfunded portion of the contribution.
- Submission of an annual report to the State on matters relating to the County's status under the financial plan, the status of a stabilization fund if utilized, current UAAL, normal cost data and County's annual required contribution.

Stabilization Fund Trust

The stabilization fund was created as a reserve that would assist with the mitigation of unplanned increases in pension contribution requests. The increases in contributions could be due to actuarial assumption changes or market value changes. If cost increases do not materialize, then the stabilization fund can be used to pay down debt associated with the POBs issued by the County. In accordance with State law, the stabilization fund deposits are only to be used for paying principal or interest on the POBs; redemption or repurchase of the POBs; payments under any agreement or ancillary arrangement entered into under Section 59.86 Wis. Stats., with respect to the POBs; or paying annual pension costs other than normal costs.

Initial Authorizing Resolution and Debt Structure

The POB proposal that was submitted to the Finance and Audit Committee for the September 18, 2008 meeting included an initial authorizing resolution for the issuance of a not-to-exceed \$400 million in POBs. This level of issuance is expected to achieve a ratio of Pension Fund assets to liabilities or funding ratio of approximately 95%.

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

The current ratio of pension fund assets to liabilities is approximately 80%. Estimated POB issuance has increased in the past year from \$267 million to \$400 million due to market losses experienced by the ERS pension fund in 2009.

The debt structure for the bond issuance is based on the structure that was included in the proposal in the 2008 Adopted Budget. The debt would be amortized over 30 years to produce level debt service payments. The debt structure includes an estimated \$264 million in fixed rate, general obligation promissory notes and \$133 million in variable rate bonds. Over the life of the bonds, a total of \$106,665,744 is expected to accumulate in stabilization reserve funds through a combination of budgeted allocations and reinvested earnings.

Estimation of Bond Issuance based on Unfunded Liabilities of ERS

The reported UAAL as of January 1, 2007 was \$405 million. It was assumed that the January 1, 2008 UAAL would decrease based on market conditions so in preparation of the 2008 Adopted Budget, the County's actuary updated the UAAL to \$329 million. The 2008 Adopted Budget assumed the issuance of POBs in the amount of \$267 million and realization of market gains of \$62 million that would be amortized over a five-year period. This would have resulted in the full payment of the County's UAAL of \$329 million.

Due to poor market returns across all financial markets, the POB Workgroup requested an updated estimate of the current assets of the pension fund. Market losses during 2008 have decreased the assets of the ERS, such that the unfunded liability is estimated to be \$398 million as of January 1, 2009. This estimated unfunded liability does not include deferred market losses that will increase the unfunded liability to \$496 million in the next five years.

The POB Workgroup is recommending the County fund 95 percent of the County's liability, which would result in a deposit into the pension fund of \$393,800,000 from proceeds of the POB issuance. The POB Workgroup agreed on the 95 percent funding as a reasonable level that has a balance between risk and rewards, takes into consideration concerns with overfunding the pension fund and provides budget stability. The calculation for the bond amount is outlined below.

<u>Updated UAAL as of July 1, 2008</u>	
Total Liability	\$2,044,000,000
Total Assets	<u>\$1,548,000,000</u>
Total UAAL	\$496,000,000

<u>Calculation of Estimated Bond Amount</u>	
Total Liability	\$2,044,000,000
95 Percent of Liability	<u>\$1,941,800,000</u>
Total Assets	<u>\$1,548,000,000</u>
Estimated Pension Funding ^A	\$393,800,000

The estimated principal amount of the bonds is \$397,220,000, which is slightly less than the \$400 million not-to-exceed amount. The difference between the two amounts is the cost to issue the bonds, which consists of the underwriter's discount, interest rate cap, bond rating, bond counsel services, financial advisory services, remarketing agent for the variable rate debt, and county staff time. The deposit to the ERS pension fund is \$393,800,000. (See table above for details on the calculation of the pension fund deposit amount).

Total estimated debt service costs are \$776,660,630 over the 30-year life of the bonds. With the deposit of \$393,800,000 in the pension fund, the remaining UAAL would be \$102,200,000 as of July 1, 2008. Over a 30-

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

year period, if the County were to issue pension obligation bonds, total debt service payments are estimated to be \$776,660,630 compared to an estimated UAAL amortization payments of \$1,095,664,569, which results in an expected savings of \$319,003,939. Achieving this level of savings is based on earning an annual 8 percent rate of return on the invested assets over the life of the bonds. The estimated savings of \$319,003,939 does not include the \$102,200,000, which amortizes to \$512,082,094 over a 30-year period, because the County would pay this amount regardless of the POB financing.

5416 - Medicare Reimbursement to Retired Employees

Increase \$331,761, from \$5,962,000 to \$6,293,761

This account provides for County payment 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. The actual cost of the premium is not yet finalized by Congress.

A five-year comparison of budget and actual experience for Medicare reimbursement to retired employees is as follows:

Year	Modified Budget	Actual	% Change of Actual from prior year
2003	\$ 3,714,216	\$ 3,805,265	--
2004	\$ 4,028,728	\$ 4,007,933	5.33%
2005	\$ 4,610,081	\$ 4,662,442	16.33%
2006	\$ 5,329,377	\$ 5,370,131	15.18%
2007	\$ 5,560,000	\$ 5,601,425	4.31%
2008*	\$ 5,962,000	--	--
2009	\$ 6,293,761	--	--

* - Data from 2008 Adopted Budget

Under the Medicare Prescription Drug Improvement and Modernization Act of 2003 and implementing regulations at 42 C.F.R. subpart R (Medicare Part D), the County estimates revenue of approximately \$3.6 million in 2009. This revenue will be deposited into a non-departmental account (Org. Unit 1969—Medicare Part D Revenue).

6000s - Health Benefits and Retirement Contribution- Consultant Fees/Professional Services

Increase \$105,549, from \$1,244,285 to \$1,349,834

An appropriation of \$237,585 is included to retain outside consultants to assist the Department of Administrative Services – Employee Benefits (Org. Unit 1180) staff in actuarial analysis, ad hoc reporting, Request for Proposals and contract/rate negotiations, and other areas where an additional expertise in health care advisory services may be needed. This amount includes \$50,000 intended for investigating the viability of alternative health plan designs for consideration for 2010.

The 2009 Budget includes an appropriation of \$1,059,285 for the Wellness and Disease Management program that was established in the 2008 Adopted Budget for all active employees and their spouses. The estimated cost of this new program is based on calculations prepared by Cambridge Advisory Group, assuming 50% participation in the Health Risk Appraisal and \$100 incentive payments to all participants. The actual cost will be based on the actual rate of participation from employees and eligible spouses. It is anticipated that savings will grow as the program gains greater acceptance and participation and as the wellness and disease management strategies have more time to produce results.

6804 - Local Transportation (Transit Pass Program)

Five-year comparisons of budget and actual experience are based on adjusted budget figures.

COUNTY EXECUTIVE'S 2009 BUDGET

DEPT: EMPLOYEE FRINGE BENEFITS

UNIT NO. 1950
FUND: General - 0001

Increase \$45,450, from \$542,700 to \$588,150

An appropriation of \$588,150 is included to cover the continuation of the County's corporate transit pass program based on approximately 800 enrollees. The County (as the employer) purchases quarterly passes for \$183.00 each, an increase of \$6.00 from 2008. For 2009, the employee continues to reimburse the County \$30.00 per quarter/\$10.00 per month through a payroll deduction.

8299 – Other Contributions

Decrease \$500,000, from \$1,000,000 to \$500,000

Costs associated with the County's obligation to United Regional Medical Services in the amount of \$500,000 for pension-related expenses from the closure of John L. Doyne Hospital are included in this budget for 2009.

Total Direct Revenue

Increase \$48,357, from \$6,347,699 to \$6,396,056

Year	Modified Budget	Actual	% Change of Actual from prior year
2003	\$ 7,526,764	\$ 7,216,382	--
2004	\$ 7,072,826	\$ 8,158,201	13.05%
2005	\$ 7,307,013	\$ 8,055,820	(1.25%)
2006	\$ 8,134,045	\$ 8,154,698	1.23%
2007	\$ 7,297,634	\$ 7,829,861	(3.98%)
2008*	\$ 6,347,699	--	--
2009	\$ 6,396,056	--	--

* - Data from 2008 Adopted Budget

Total direct revenue is an offset to employee fringe benefit expenditures. This revenue projection includes the following items: employee health insurance contributions (active and certain retirees), employee transit pass contributions and Doyne healthcare offsets.

Five-year comparisons of budget and actual experience are based on adjusted budget figures.