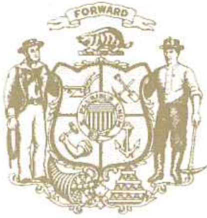

LEAH VUKMIR

STATE SENATOR

Senate Committee on Elections and Local Government
Testimony on Senate Bill 213
September 23, 2015

Thank you, Chairman Lemahieu and committee members, for holding this public hearing on Senate Bill 213, the Responsible Retirement Budgeting Bill. This legislation simply requires local governments fully fund the commitments to post-retirement health insurance benefits for anyone hired after January 1, 2016.

With the slow recovery following the economic downturn, everyone has become more fiscally conscious regarding federal, state, and local government budgets. Added attention has also been placed on the solvency of our retirement fund. Wisconsin has been lucky to have a fully funded pension system that is the envy of our neighbors. While I'm proud that Wisconsin has been financially responsible with retirement budgeting, we have not paid enough attention 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.

While offering health insurance post-retirement is certainly a nice perk for former employees, continued health care is an incredibly expensive benefit. Unfortunately, the vast majority of these benefits are funded on a pay-as-you-go basis. This irresponsible funding method promises retirees a future benefit, but proves problematic as it lacks the ability to be sustainable. Employees who depend upon these benefits should support such a reform before the fiscal concerns become too burdensome, placing their benefits at risk of elimination.

For instance, Milwaukee's post-retirement benefit liability has grown to $325.4 million in recent years. With interest, the residents of Milwaukee are facing costs of over $928.4 million that will come due as more and more government employees decide to retire. Should the pattern continue, Milwaukee would soon be approaching 25% of the total liabilities of the city's budget.

What we are asking for is not out of line. Those in opposition assert that converting to an actuarial basis would be costly, but this piece of legislation only applies to new employees, thereby gradually phasing out the pay-as-you-go method. We simply want local governments that provide post-retirement healthcare benefits to pay for them. As of right now, a city council can approve these benefits, knowing they may never have to find a funding source to pay for them. It is time we require those who approve the benefits pay for those benefits and abandon the financial planning method of "we'll pay for it later."

Thank you for your time, and I urge you to support Senate Bill 213.

STATE CAPITOL
P.O. BOX 7882 • MADISON, WISCONSIN 53707-7882
(608) 266-2512 • FAX: (608) 267-0367

STATE REPRESENTATIVE • 52nd ASSEMBLY DISTRICT

Testimony on SB 213
September 23, 2015

Good afternoon Chairman LeMahieu, members of the committee. I am here today to urge your support for SB 213/AB 269, The Responsible Retirement Budgeting Bill.

This is the 3rd consecutive session I have introduced this bill. This may lead one to question why I keep introducing it. Last session this bill passed both the Senate and Assembly Committees but did not reach the floor for a vote. The simple answer is that the reason for the necessity of reform in the area of post employment benefits continues to grow.

What is different this time? ObamaCare. An unintended consequence of ObamaCare is that it provides to municipal and county governments an off-ramp of their unfunded liabilities for post-retirement health plans.

This benefit is distributed to employees after retirement to provide access to the county or municipal health plan up to Medicare age. This benefit is classified as an "Other Post Employment Benefit," or OPEB. While there may be many types of OPEBs offered to employees, healthcare is by far the most expensive. It should be noted that OPEBs do not include pensions.

As we all know, the cost of healthcare plans has skyrocketed in the last 20 years. As a result of offering this perk to employees, steep unfunded liabilities have accumulated on the books of many communities. A trend is developing to dispense of the liability by simply cutting the program. Therefore, since it is likely that no money has been set aside to fund the future of the healthcare OPEBs, the employees would simply lose the benefit.

In an age of tight budgets where municipalities and counties are looking to trim wherever possible, OPEBs are an easy target. Why wouldn't municipalities move to off-load this liability, in the name of protecting the taxpayers, when ObamaCare Exchanges are now available? The municipalities and counties have the comfort of knowing that no one will be denied enrollment in ObamaCare, and because it is federally subsidized they feel no need to provide any subsidy. In Wisconsin, this step has already happened in Sheboygan County. Nationally, Chicago and Detroit, known for their generous post-employment packages have eliminated post employment healthcare as well.

The reason this funding issue has occurred is the methods of funding OPEBs provided in state statute. The Wisconsin Statutes allow them to be funded in two ways, 1) actuarial, or 2) pay-as

Capitol Office: Post Office Box 8953 • Madison, Wisconsin 53708-8953
(608) 266-3156 • Toll-Free: (888) 529-0052 • Fax: (608) 282-3652 • Rep.Thiesfeldt@legis.wi.gov

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 in its budget.

Stated simply, this bill would no longer allow the local units of government to fund healthcare-related OPEBs on a pay-as-you-go basis. Instead, actuarial funding would be required. This means that each year a small amount of money would be set aside in a segregated account to be saved for each employee's eventual retirement healthcare. The bill also allows a transition to the new system by only requiring it to be applied to new employees.

By funding on an actuarial basis, the money for healthcare OPEBs would slowly accumulate in an interest-bearing account. If an employee in the program left for another job prior to receiving any of the benefit, the money accrued remains in the account and supplements the other beneficiaries. This contrasts with the current system which could require cuts in the general services the community provides and may require borrowing to cover the annual cost.

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.

To learn for yourself how extensive a problem this is, a simple search of the Comprehensive Annual Financial Reports (CAFR) of local units of government will provide clear evidence.

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 2014 shows a growing unfunded net obligation for its "sick time conversion benefit" of nearly $2 million in liabilities ($4.2m Unfunded Actuarial Accrued Liability (UAAL)). This liability has doubled since 2009. The following are the "Net OPEB Obligations" end of year totals for 2014 of several Wisconsin communities:

Oshkosh	$4.9 million ($5.3m)	Menomonee Falls	$1.38 million ($2.5m)
Milwaukee	$325.5 million ($928.4m)	Appleton	$582,000 ($3m)
Brookfield	$3.79 million ($8.2m)	Green Bay	$1.8 million
Madison	$25.5 million ($56.7m)	Beaver Dam	$868,000 (2013 financial)
Sheboygan	$1.22 million ($4.88m)	Pleasant Prairie	$2.9 million ($5.02m)

This bill also includes protections of the fund so that it is not raided by the elected officials and relieves the burden of having an actuarial study done yearly. An official study will only need to occur once every four years to ensure adequate funding.

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.

STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
http://etf.wi.gov

September 2, 2015

THE HONORABLE JEREMY THIESFELDT
STATE REPRESENTATIVE
52nd ASSEMBLY DISTRICT
PO BOX 8953
MADISON WI 53708-8953

Dear Representative Thiesfeldt:

Thank you for your inquiry regarding the funding status of post-employment benefits for state employees. The state provides four post-employment benefits in addition to retirement benefits under the Wisconsin Retirement System:

1) Retiree Health Insurance;
2) Retiree Life Insurance;
3) Protective Occupation Duty Disability Insurance;
4) Accumulated Sick Leave Conversion Credits.

The first three of these programs (retiree health insurance, retiree life insurance, and protective occupation duty disability insurance) are classified as Other Post-Employment Benefits (OPEBs) under the rules established by the Governmental Accounting Standards Board (GASB). The fourth, (Accumulated Sick Leave Conversion Credit) is not technically an OPEB, but could still be considered a post-employment benefit. In each of these post-employment benefit programs, premiums and contributions are actuarially determined. This has resulted in plans that are fully funded or on track to become fully funded.

Retiree Health Insurance
Retiree health insurance is somewhat of a misnomer in that the state does not provide post-retirement health insurance coverage outside of the sick leave conversion credit program. However, the state does allow pre-Medicare retirees to purchase health insurance at their own cost via the active state employee health insurance program.

- Implicit Rate Subsidy Liability: Because retirees as a group have higher health costs but are allowed to purchase health insurance at the same premium as state employees, GASB standards require that an "implicit rate subsidy" be imputed and recognized as a liability by the state. As of January 1, 2013, the implicit rate subsidy was $893 million. The implicit rate subsidy is a measure of how expanding the risk pool to include retirees affects overall health premiums; the actual benefits are paid for by the retirees themselves. This liability is being

funded on a pay-as-you-go basis by combined employer and employee health insurance premiums. I believe that prefunding these benefits provides no advantage over the current uniform premium process. The next valuation will be January 1, 2015.

- Federal Medicare Part D Subsidy: The retiree health insurance plan previously recognized a liability of $563 million related to the federal subsidy for the Medicare Part D plan. Accounting standards do not permit the plan to recognize future subsidy payments from the federal government, resulting in a net plan liability. Plan design changes[1] that went into effect on January 1, 2012 have eliminated this liability.

Retiree Life Insurance
The retiree life insurance program is administered under contract by the Minnesota Life Insurance Company (MLIC). Staff actuaries from MLIC conduct an annual actuarial valuation of the plan and make premium recommendations to the Group Insurance Board. In addition, the board's consulting actuary conducts an independent biennial OPEB valuation of retiree life insurance using standardized methods and assumptions defined by GASB. Based on the January 1, 2014 OPEB valuation, the life insurance plan is 69.1% funded. The unfunded liability of $163.7 million as of that date is amortized over twenty-two years. The next valuation will be January 1, 2016.

Protective Occupation Duty Disability Insurance
As of January 1, 2015, the Duty Disability program was 132% funded and had an unfunded liability of $(145) million. The Duty Disability program surplus is being amortized over thirty years.

Accumulated Sick Leave Conversion Credit Program
As of the December 31, 2014, actuarial valuation, the Accumulated Sick Leave Conversion Credit program was 99.4% funded, with full funding expected within 11 years. The majority of the unfunded liability of $13.8 million is attributable to the University of Wisconsin Hospitals and Clinics, who have since fully paid their obligation. Comparatively small amounts are owed by the Wisconsin Health and Education Authority and Wiscraft. There is no unfunded liability attributed to any other state agency or to the University of Wisconsin System.

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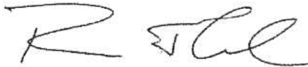
[1] Effective January 1, 2012, prescription drug coverage for Medicare eligible retirees enrolled in the State group health insurance program is provided through a self-funded, Medicare Part D Employer Group Waiver Plan (EGWP). A Medicare "Wrap" product is also included to provide full coverage to members upon reaching the Medicare Part D coverage gap, also known as the "donut hole". As a result of the EGWP + Wrap, the State no longer receives the federal Retiree Drug Subsidy. Therefore, there is no longer a federal drug subsidy liability for the State associated with their Medicare retirees.

Conclusion
We share your interest in assuring that benefits promised to our retirees are appropriately funded. Our statutes establish the role of our independent actuary in setting responsible funding requirements and contribution levels for the benefit plans we administer. The legislature has a long tradition of fully funding the contributions set by the actuary. This funding discipline has resulted in Wisconsin being recognized as a national leader in its funding of retirement benefits.

I hope this discussion is helpful to you. I would be happy to address any other questions you may have.

Sincerely,



Robert J. Conlin
Secretary

131 W. Wilson St., Suite 505
Madison, Wisconsin 53703
phone (608) 267-2380; (800) 991-5502
fax: (608) 267-0645
league@lwm-info.org; www.lwm-info.org

To: Senate Committee on Elections and Local Government
From: Curt Witynski, Assistant Director, League of Wisconsin Municipalities
Date: September 23, 2015
Re: SB 213, Requiring Municipalities to Pre-fund Post-Retirement Health Benefits

The League of Wisconsin Municipalities opposes SB 213, which requires local governments providing post-retirement health care benefits to any employees hired after January 1, 2016, to fully fund the cost of those benefits in a segregated account on an actuarial basis.

While we acknowledge that pre-funding the cost of post-retirement health benefits is a best practice and an ideal goal for municipalities. The truth is that most, if not all, communities that continue to offer post-retirement health benefits to their employees pay for that benefit on a pay as you go basis as part of the annual budget process. The cost of complying with SB 213, which includes the cost of an actuarial study every four years, would be burdensome given strict levy limits. If the bill were enacted, municipalities would be forced to try to eliminate the benefit or reduce other services to cover the costs of compliance. However, even if a municipality wanted to drop post-retirement health coverage for new employees, it could not unilaterally do so for public safety and transit since these employees retain full collective bargaining rights. Municipalities would need to bargain the issue with represented public safety and transit employees.

In addition, there is no evidence that any Wisconsin municipality funding such benefits on a pay as you go basis has failed to pay for the benefits promised to its retired employees. SB 213 is trying to solve a problem that doesn't exist.

In 2013, we surveyed 45 of our members with populations exceeding 10,000 about post-retirement health benefits. We received responses from 22 communities. Of those 22, thirteen provided post-retirement health benefits to at least some new employees. Nine did not. All thirteen communities funded the cost of post-retirement benefits on a pay as you go basis. The level of the benefit these communities provided covered a broad range.

In 2013 the City of South Milwaukee shared with us cost estimates they received from the city's actuary, which helps illustrate the fiscal impact of this bill on certain municipalities. South Milwaukee estimated that the annual cost of funding post-retirement health benefits on an actuarial basis for each new 25 year old employee hired in 2014 would range from $3,862 to $8,026, depending on whether the employee was general, elected, or protective. Those costs would escalate over time.

The League urges you to vote against recommending passage of S 213. Thanks for considering our comments.