Jeremy Thiesfeldt
STATE REPRESENTATIVE • 52nd ASSEMBLY DISTRICT

Testimony on AB 269
September 8, 2015
Rep. Jeremy Thiesfeldt

Good morning Chairman Brooks, members of the committee. I am here today to urge your support for AB 269/SB 213, 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 would employees 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.

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

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 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 w/interest). 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)

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.

LEAH VUKMIR
STATE SENATOR

Testimony on Assembly Bill 269
Assembly Committee on Urban and Local Affairs
September 8th, 2015

Thank you, Chairman Brooks and committee members, for holding this public hearing on Assembly Bill 269, 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 Assembly Bill 269.

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

LEAGUE OF WISCONSIN MUNICIPALITIES

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: Assembly Committee on Urban and Local Affairs
From: Curt Witynski, Assistant Director, League of Wisconsin Municipalities
Date: September 8, 2015
Re: AB 269, Requiring Municipalities to Pre-fund Post-Retirement Health Benefits

The League of Wisconsin Municipalities opposes AB 269, 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 AB 269, 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 police and fire since these employees retain full collective bargaining rights. Municipalities would need to bargain the issue with represented public safety 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. AB 269 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 AB 269. Thanks for considering our comments.

WISCONSIN
COUNTIES
ASSOCIATION

22 EAST MIFFLIN STREET, SUITE 900
MADISON, WI 53703
TOLL FREE: 1.866.404.2700
PHONE: 608.663.7188
FAX: 608.663.7189
WWW.WICOUNTIES.ORG

MEMORANDUM

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

FROM: Kyle Christianson, Director of Government Affairs KC

DATE: September 8, 2015

SUBJECT: Assembly Bill 269 – Postretirement Health Benefits

Under current law, local governments have the ability to fund postretirement health care benefits on a pay-as-you-go schedule according to annual budget procedures. Assembly Bill 269 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. In addition, this bill will lead to higher costs for local governments. While many local governments may decide to stop providing these benefits to general employees, counties will not have that option for public safety employees due to collective bargaining restraints. In the case of public safety employees, counties will be required to continue offering postretirement benefits, but it will be at a greater cost to local taxpayers.

WCA 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.

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

Office of the Mayor
Paul R. Soglin, Mayor
City-County Building, Room 403
210 Martin Luther King, Jr. Boulevard
Madison, Wisconsin 53703
Phone: (608) 266-4611
Fax: (608) 267-8671
mayor@cityofmadison.com
www.cityofmadison.com

September 8, 2015

To: Assembly Urban and Local Affairs
From: Nick Zavos, Mayor's Office
Re: Opposition to Assembly Bill 269

The City of Madison opposes this legislation based on its fiscal impact.

The goal of Assembly Bill 269 is laudable. If the city were building a compensation system from scratch, the bill's actuarial method would be a good and responsible idea. However, for communities like Madison that have an existing and fiscally-sound pay-as-you go system, the bill will be huge financial burden. AB 269 would require the city to front-load the payments for new employees at the same time that it maintains payments for the existing employees.

Under the city's current pay-as-you-go system, the amount the city pays each year can fluctuate based, among other things, on the number of retirements. AB 269 will not affect the city's responsibility to continue making those payments. However, for the employees that the city hires to replace those retirees, AB 269 would require the city to set aside funds in a separate account each year. Our estimated cost for starting new employees on an actuarial basis is $215,800 each year, every year. Thus, in year two it would be $431,600; in year three it would be $647,400, and so on. As this amount increases, the city will continue to be responsible for payments for the retiring employees who are under the pay-as-you-go system. In essence, for each retiree the city will start paying double. Maintaining these two payments streams simultaneously could quickly become financially untenable.

This legislation does not raise only the question of whether accrual or pay-as-you-go is the more responsible accounting method. AB 269 will require communities to transition from one system to the other. That transition will be very financially challenging.

WASB
WISCONSIN
ASSOCIATION OF
SCHOOL BOARDS

122 W. Washington Avenue, Madison, WI 53703
Phone: 608-257-2622·Fax: 608-257-8386

John H. Ashley, Executive Director

TO:	Members, Assembly Committee on Urban and Local Affairs
FROM:	Dan Rossmiller, Government Relations Director
RE:	Assembly Bill 269, relating to funding post-retirement health care benefits of local government employees
DATE:	September 8, 2015

Good morning Chairman Brooks and members of the committee. Thank you for the opportunity to provide written testimony on Assembly Bill 269.

The Wisconsin Association of School Boards (WASB) has a number of concerns about this bill, which, if enacted, would require school boards (and other local governmental employers) to pre-fund post-retirement health benefits (also known as "other post-employment benefits" or "OPEB") offered to certain new employees.

Act 10 provided school districts with a number of tools for managing personnel costs and freed school boards from having to collectively bargain over a wide range of topics, including employee health insurance. In the post-Act 10 environment many school boards across the state find that the ability to offer post-employment health benefits can be a useful tool that helps them to attract and retain quality administrators and address teacher shortages.

In the post-Act 10 world, these benefits do not have to be bargained and do not become part of a collective bargaining agreement. In the past many boards and districts found themselves saddled with post-retirement health care provisions that became entrenched in those contracts. Today, however, school boards are not bound by the pre-Act 10 rules and if they have financial issues, they are most likely the result of "legacy costs" dating to the pre-Act 10 period.

If school boards are offering such benefits today, they are almost certainly providing them through the use of defined contribution plans such as 403 (b) plans, Health Reimbursement Arrangements (HRAs) or the like. These financial tools are far less likely to place school districts in the sort of fiscal difficulties they might have encountered in the past.

We have concerns that because this bill would require school districts to pre-fund and segregate the entire cost of the post-retirement health benefits offered to new employees, it would prohibit the use of any sort of "pay-as-you-go" funding approach. This could greatly restrict the use of financially sound options currently available to schools that are struggling to attract and retain top quality administrator and cope with shortages of teachers in certain areas.

Because school districts statewide are facing tight budgets, with no increase in revenue limits for the next two years, and because fully pre-funding these benefits would impose additional up-front costs and/or create cash-flow problems for districts, the likely impact of this bill would be to curtail the offering of such benefits, taking away a tool from school boards that many have found useful.

We note that the Government Accounting Standards Board (GASB), the recognized authority with regard to sound financial accounting, does not require that the OPEB liability of a local government unit be fully funded the way this bill would. Rather it requires that frequent actuarial studies of such benefit plans be conducted and that all liabilities associated with providing such benefits be fully disclosed.

In addition to the actuarial studies required under GASB standards, this bill would require school districts and other local government units that offer such benefits to conduct a separate actuarial study of OPEB benefits for any employees hired after Jan. 1, 2016 at least every four years, which would impose additional costs on districts and further deter the use of such benefits.

This bill further provides that, if a local government dissolves a segregated account established for the purpose of providing such health care benefits, the local government must provide for the equitable distribution of the proceeds among the beneficiaries. The WASB has strong concerns that these provisions, as drafted, could actually have the unintended consequence of creating a right of survivorship in these benefits, and could create potential income tax and discrimination issues for districts and their employees.

While the WASB advises our members that any retirement or post-retirement benefits they provide should be adequately funded so as not to impose a potential undue financial burden on future taxpayers, the WASB also supports giving locally elected school boards flexibility and discretion to fashion benefit packages funding mechanisms that best fit their needs. For the reasons indicated we do not support Assembly Bill 269 as currently drafted.

We thank you for the opportunity to bring these concerns to your attention.

SHEBOYGAN COUNTY RESOLUTION NO. 13 (2013/14)

Re: **Modifying Health Coverage Options for Retired County Employees**

WHEREAS, as part of Ordinance No. 14 (1993/94) enacted on September 14, 1993, the County Board created a formalized process wherein the County Human Resources Committee was to evaluate the actual cost of health insurance of various groups of County employees and retirees and make a report as to its findings to the Board to establish the premium rates to be paid by the individuals within those groups, and

WHEREAS, over the past 20 years, the reports adopted by the County Board have served as the basis for continuing to provide an opportunity for retired employees to purchase continuing health coverage through Sheboygan County, and

WHEREAS, in some circumstances, the opportunity to continue to purchase health coverage has been of great benefit to our retirees, particularly to those with pre-existing conditions that might otherwise have had limited alternatives to the County coverage, and

WHEREAS, over time, as the expense attributable to this benefit has risen, and as that expense has been, in part, passed on to the retirees in the form of higher premium payments, fewer retirees are electing to continue to participate in health coverage through Sheboygan County, and

WHEREAS it is estimated that if the County were to eliminate retiree coverage, the County could save as much as $410,000.00 in expenses, and

WHEREAS, it appears that with the upcoming implementation of the provisions of the Affordable Care Act, County retired employees will be able to obtain comparable or even more tailored coverage at affordable premiums regardless of pre-existing conditions or age;

NOW, THEREFORE, BE IT RESOLVED that effective January 1, 2014, Sheboygan County will no longer offer health coverage to its retired employees except as may be required by law.

Respectfully submitted this 17th day of September, 2013.

HUMAN RESOURCES COMMITTEE

Devin LeMahieu
Devin LeMahieu, Chairperson

Fran Damp, Vice-Chairperson

Edward J. Procek, Secretary

Keith Abler
Keith Abler

Fay Uraynar
Fay Uraynar

Opposed to Introduction:

Edward J Procek

ADOPTED 10.22.2013