School District of Whitefish Bay (OPEB) Study Committee

Other Post-Employment Benefits (OPEB)

Other Post-employment Benefits (OPEB)

- Terms and Concepts
  - What are OPEB benefits?
    - “Other” retirement benefits beyond the Wisconsin Retirement System (WRS) pension.
    - Typically includes health insurance for a number of years.
    - May also include life, dental, and long-term care benefits.
    - May also include a 403(b) tax-sheltered annuity stipend. Technically, a “pension” beyond the WRS pension not a “benefit.”
  - How are OPEB benefits funded?
    - For governments, most OPEB benefits were funded on a pay-as-you-go basis.
    - In the last decade or so, promulgations from the the Governmental Accounting Standards Board (GASB) required actuarially determining the value of the future benefits.
    - The Department of Public Instruction (DPI) has created a fund for the funding of the benefits via a Trust Fund (Fund 73).
    - School Districts can choose to utilize a pay-as-you-go method, the trust fund method, or a combination of both.

Other Post-employment Benefits (OPEB)

- Terms and Concepts
  - What are WFB’s OPEB benefits?
    - Varies by employee unit. Typically, administrators, teachers, and support personnel have a greater OPEB benefit value than the other staff positions.
    - For health insurance, the benefit varies between 6 to 10 years. All benefits cease with death (no survivor benefit) or they cease with Medicare eligibility.
    - A severance payment is also provided to administrators, teachers, and support personnel.
    - “Other staff” only have a payout of unused sick days. This benefit is not part of the benefits for the other employee units.

Other Post-employment Benefits (OPEB)

- Terms and Concepts
  - How are WFB’s OPEB benefits funded?
    - WFB’s OPEB benefits are funded primarily through the pay-as-you go method, but some money has been set aside in a Fund 73 Trust Fund.
    - WFB’s severance is funded on a pay-as-you-go method as the amount is more predictable. Only eight eligible employees can retire per year.

Other Post-employment Benefits (OPEB)

- Terms and Concepts
  - What is the Annual Required Contribution (ARC) and how is it calculated?
    - The ARC is an actuary's calculation of how much needs to be set aside annually to pay off the OPEB Benefit over a number of years. The goal is to have the amount set aside at a fairly equal dollar level over time.
    - WFB's initial study used 30 years. With each succeeding actuarial study, the number of funding years has been reduced to represent paying off the liability rather than just refinancing the liability for another 30 years.
    - Actuary studies are required every two to three years depending on the size of the staff currently receiving or eligible in the future to receive the OPEB benefit.
    - Actuary studies anticipate factors like employee turnover, survivor rates, insurance rate increases, interest income from trust fund investments, etc.

Other Post-employment Benefits (OPEB)

What is the current Annual Required Contribution (ARC)?

The Annual Required Contribution for our current benefit level is $3,133,510 per year.

How much of the ARC is being funded each year?

WFB’s current yearly budget funds approximately $970,000 per year through the pay-as-you go method.

What are the implications of the gap between the current ARC and the amount funded through the pay-as-you go amount?

The district will not have enough money to fund the benefits when the come due or the district would be required to reduce employees salaries or staffing levels to pay for the benefits.

Other Post-employment Benefits (OPEB)

- Policy Question
  - Should the OPEB benefits change?

  Yes, they will have to be modified!

    - How much is both a policy and a politics question.
    - Policy – set of rules
    - Politics – private sector vs public sector
    - Depends on the hat you are wearing
      - Financial hat – greater changes
      - Attract and retain hat – lesser changes
      - Integrity/Moral – Can you continue the previous benefit levels?

Other Post-employment Benefits (OPEB)

Why didn't the District already address this liability?

The District provided these benefits through collective bargaining agreements that were negotiated decades ago. Health insurance was much cheaper and was not increasing at the pace it has in the last 15 years. Post employment benefits were a very common benefit provided in the "public sector".

Since 2000 reduction of these benefits has been the primary bargaining goal in the District's labor union negotiations. While minor adjustments have been negotiated…..they have not been dramatic enough to reduce the liability…..and with the rise in health care costs the liability has increased.

- Financially it is difficult to address because of implications related to the revenue limit legislation, aid, taxes, etc..
- With the passage of 2011 Wisconsin Acts 10 and 32. Wisconsin School Boards have been handed, the biggest opportunity to change employee compensation policies in over 40 years. From a financial perspective, you have unbridled control over 75% to 85% of your budget made up of salaries and benefits.

Other Post-employment Benefits (OPEB)

- Our Direction
  - Development of a Study Committee
    - The Board needs to make a decision as to what should be changed.
    - Questions that the Board needs to address:
      - We need to understand comparability of benefits for our employee groups.
      - What salaries and benefits do we need to attract and retain the best talent possible?
      - What does it mean to be good financial stewards for the taxpayers we represent?
      - Can we get to the point where these benefits are current funded?
    - This is an important decision which will impact the district and its employees for years into the future.

Other Post-employment Benefits (OPEB)

- Our Sub-Committee Process
  - Obtain comparability data for school districts in the area.
  - Discussions with actuary, school business officials, consultants regarding retirement plan designs (September through January)
  - Submit updated census and preliminary plan designs to actuary for valuation to get a fiscal impact of the options (January)
  - Discussion with school board sub-committee regarding preliminary plan designs (January)
  - Survey of employees to learn what is important to them in retirement plan design (February 1)
  - Return to school board sub-committee with actuary valuations, teacher survey results, and fiscal forecast (March 6)

Other Post-employment Benefits (OPEB)

- Plan Options being considered:
  - Elimination of the post retirement health benefit for new hires.
  - Capping the District's contributions at their current dollar value.
  - Freezing benefits earned…. based on years of service to date…or some other variation.
  - Modifications to the eligibility requirements (age/years of service).
  - Current funding options such as 403(B)'s, HRA's, HSA's, or increasing direct compensation.
  - Review implications of federal laws on non-discrimination.

Other Post-employment Benefits (OPEB)

- Next Steps:

Modify language in handbooks so that the study can be completed in a thoughtful manner.

Have the sub-committee clearly define and cost various options with the assistance of the actuary.

Begin to engage/education employees (with both information and opportunities for questions/explanations).

Schedule a sub-committee report back to the full Board with its recommended options.

By sometime in June……the Board should make its decision.