Whitefish Bay Schools

An Exceptional Place to Learn

To: Mary Gavigan/Board of Education
From: Shawn Yde
Re: Post Retirement Benefit Study
Date: May 3, 2012

EXECUTIVE SUMMARY

Recommendation: That the School Board approve changes to employee benefit plans (specifically the Post Retirement Benefits) so that the amount of money spent currently (under the pay-as-you go method) is roughly equivalent to the Annual Required Contribution (ARC).

Background: The School Board requested that the administration develop a post retirement benefit study. As part of this process the administration used the services of an actuary. The work of the committee included the following tasks:

- Review work completed previously with regard to post retirement benefits and the actuarial liability calculations associated with the collective bargaining agreements.
- Review current uses of school district OPEB benefits.
- Evaluate the current condition of school district OPEB liability and its established OPEB trust.
- Study benefit offerings of other public schools with whom we compete to hire quality staff.
- Review possible changes to benefit structure.
- Survey employees to solicit feedback on benefit structures.
- Re-engage the assistance of an actuary to perform costing estimates on various scenarios.

Members of Study Committee: The following people served on the study committee:

Shawn Yde, Director of Business Services
Mary Gavigan, District Administrator (Ex Officio)
Mark Kapocius, Director of Human Resources
Pam Woodard, Board Member (Personnel Chair)
James Phillips, Board Member (Finance Chair)

Proposed Charge to the Study Committee: The following charge was given to the Post Retirement Benefit Study Committee:

- Review school district and employee needs for post retirement.
- Consider implications of the Post Retirement Study recommendations on the long-term financial health of the district and its ability to attract and retain high quality staff members.
- Present a comprehensive benefit plan (or plans, for different employee groups) for use by the district, including considerations of attracting and retaining quality staff, honoring existing commitments (to the extent possible) cost estimates, considerations of sustainability and funding strategies.

Recommended Changes to OPEB Benefits: The escalation of health care costs over the years has led to a situation where the cost of the benefit is restricting the ability of the District to pay competitive current compensation. The post retirement benefit is not a benefit that is received equally by all employees, as many employees leave before they are eligible or retire well after attaining the retirement age that makes them eligible for the benefit. The committee tried to examine the options from a number of perspectives, noting that even those employees who have the potential for a retirement benefit are paying for a benefit they might never receive (in the form of reduced current compensation). In the current environment, the system needs to change to attract and retain the best personnel for the District.

The recommendation of the study committee would be to retain a modified benefit for those employees that were hired before July 1, 2011 and eliminate the benefit for new hires (hired after July 1, 2011). After reviewing a number of options the committee focused on trying cap the future cost of providing post retirement benefits at no more than the amount currently budgeted and expended in the current fiscal year. This was viewed as a balance between attempting to provide a benefit for those who were hired when a benefit existed and attempting to provide current employees (including those hired before July 1, 2011) with more current compensation that would be available if the existing benefits were not modified. Based on our work with the actuary the following changes are being recommended.

1) Elimination of the post retirement health insurance benefit for new hires.
2) Elimination of the severance benefit for new hires.
3) Cap the District's retiree health insurance contribution and the severance benefit at the current dollar amount.
4) Modify the post retirement health insurance and the severance benefit for employees hired prior to July 1, 2011 as outlined below.
5) Provide a current funded tax shelter annuity/403(b) to new hires.
6) Provide employees hired before July 1, 2011 the option to elect out of post retirement health insurance and instead receive a current funded tax shelter annuity/403(b) available to new hires.

The actuarial information associated with these recommendations will be provided at the Board meeting.

Health Insurance:

Health insurance benefits would be retained but modified for employees hired prior to July 1, 2011. The amount of the health insurance premium paid by the District would not exceed the amount paid by the District during the 2011-2012 school year. The retirement age would be adjusted to 57 for instructional staff and administrators and 59 for all others.

Option 1: Pro-rate the maximum benefit based on years of service prior to July 1, 2012 assuming the benefit was earned 1/20th per year of service.

For example, prior contracts for instructional staff provided for a benefit duration of up to 10 years (which was well outside our comparable districts). Using an eligibility age of 57 the benefit provided would be 8 years. (8 years of health benefit divided by 20 years of service equals 0.4 years of post employment insurance per year of full-time service). Administrators would also move to the same eligibility age.

For secretarial, paraprofessional, confidential and custodial, prior contracts provided for a benefit duration of up to 10 years (which was well outside our comparable districts). Using an eligibility age of 59 the benefit provided would be 6 years. (6 years of health benefit divided by 20 years of service equals 0.3 years of post employment insurance per year of full-time service).

Examples (instructional staff):

Employee A: (Hired July 15, 1992) This teacher would have 20 years of full-time service prior to July 1, 2012.

20 years of full-time service X 0.4 Post Employment Health (Ratio) = 8 years of Health Benefit at age 57 (capped at the 2011-2012 District contribution amount).

Employee B: (Hired July 1, 1997) This teacher would have 15 years of full-time service prior to July 1, 2012.

15 years of full-time service X 0.4 Post Employment Health (Ratio) = 6 years of Health Benefit at age 57 (capped at the 2011-2012 District contribution amount).

Option 2: Pro-rate the maximum benefit based on years of service prior to September 1, 2012 assuming the benefit was earned at the number of years of service required under the benefit structure in place at the time of hire (i.e., 10 years, 15 years or 20 years).

This benefit computation would work similar to that stated above except that the years of service variable would be modified for each employee based on the provisions in place at the time of hire.

For example, using an eligibility age of 57 for instructional staff the benefit provided would be 8 years. (8 years of health benefit divided by 10 years of service equals 0.8 years of post employment insurance per year of full-time service for employees hired prior to 1/1/02) (8 years of health benefit divided by 15 years of service equals 0.53 years of post employment insurance per year of full-time service for employees hired between 1/1/02-6/30/06) (8 years of health benefit divided by 20 years of service equals 0.4 years of post employment insurance per year of full-time service for employees hired after 6/30/06).

Examples (instructional staff):

Employee A: (Hired July 15, 1992) This teacher would have 20 years of full-time service prior to July 1, 2012.

20 years of full-time service X 0.8 Post Employment Health (Ratio) = 8 years of Health Benefit at age 57.

Employee B: (Hired July 1, 1997) This teacher would have 15 years of full-time service prior to July 1, 2012.

15 years of full-time service X 0.8 Post Employment Health (Ratio) = 8 years of Health Benefit at age 57.

Employee C: (Hired July 1, 2005) This teacher would have 7 years of full-time service prior to July 1, 2012.

7 years of full-time service X 0.53 Post Employment Health (Ratio) = 3.7 years of Health Benefit at age 57.

Employee D: (Hired July 1, 2007) This teacher would have 5 years of full-time service prior to July 1, 2012.

5 years of full-time service X 0.4 Post Employment Health (Ratio) = 2.0 years of Health Benefit at age 57.

Option 3: **Don't pro-rate the benefit as of July 1, 2012, rather let it continue to accrue.**

This benefit computation would permit the employee to continue to accrue a benefit based on total years of service as of the date of retirement. Thus, they could receive the full benefit, subject to the cap even if they did not have the full number of years of service in by July 1, 2012. The number of years over which the benefit was earned could be: (1) 20 years for all participants, or (2) 10, 15 or 20 years, depending on the number of years of service required under the health insurance benefit at the time of hire.

TSA Option: Employees hired prior to July 1, 2012 can choose between the health insurance option above and a TSA Option. The TSA option would provide $1500 per year of service into a 403B. This benefit would still require a minimum vesting over a set number of years and benefits would be forfeited if the employee leaves prior to full vesting and the minimum retirement date (i.e., age 57 or 59). The deposited dollars plus accumulated interest would be available to the employee at retirement.

There are a number of options for the number of years to vest in the benefit. These include: (1) 20 years for all participants, and (2) 10, 15 or 20 years, depending on the number of years of service required under the health insurance benefit at the time of hire. Credit would be given for total years of service, not just those after the date the plan is implemented.

All new employees hired after July 1, 2012 will be eligible for the TSA option only.

Severance:

Severance benefits for employees hired prior to July 1, 2011 would be frozen at the benefit deemed earned as of July 1, 2012 based on their salary as of that date. The amount deemed earned could be based on years of service prior to July 1, 2012 using the criteria of 20 years to receive the full benefit, or using the number of years of service required to earn the benefit as of the date of hire. Eligibility age would be adjusted to 57 or 59 as set forth above for health insurance benefits.

For example, for instructional staff the previous contract provided for a benefit of 110 days. If we assumed a service requirement of 20 years for this benefit (110 days of pay divided by 20 years of service equals 5.5 days pay per year of full-time service). One proposal would be to compute the severance benefits based on years of service prior to July 1, 2012. Employees would receive a prorated portion of the previous benefit not to exceed 110 days.

Examples (instructional staff, assuming 20 year vesting):

Employee A: (Hired July 15, 1992) This teacher would have 20 years of full-time service prior to July 1, 2012.

20 years of full-time service X 5.5 days of pay (Ratio) = 110 days of severance pay at age 57.

Employee B: (Hired July 15, 2005) This teacher would have 7 years of full-time service prior to July 1, 2012.

7 years of full-time service X 5.5 days of pay (Ratio) = 38.5 days of severance pay at age 57.