COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: November 22, 2011

TO: Supervisor Johnny Thomas, Chair, Finance & Audit Committee

FROM: Mark A. Grady, Deputy Corporation Counsel MAG
Chair, Employee Benefits Workgroup

SUBJECT: ORD 11-20; Sick allowance accrual cap and benefit at retirement

The Committee considered the above matter at its meeting on October 27, 2011. The Committee requested additional information on the recommendations.

Since the consideration of this item, another ordinance amendment has been identified that is recommended, if the Committee is inclined to adopt the pending resolution and ordinance. The suggested amendment is attached. I encourage adoption of the attached amendment as part of the consideration of the pending, main resolution.

Accrual cap

As mentioned at the Committee meeting, the Workgroup reviewed policies from other public employers in Wisconsin. That information is attached. As seen in that information, a limit on accrual of sick allowance is common, but is not universal. The Workgroup's conclusion from a review of the attached information is that a limit on accruals of 960 hours is the most common among the other public employers surveyed.

In addition, the Workgroup felt that a limit of 960 hours (approximately six months of time) is consistent with other Milwaukee County human resource policies. For example, the agreement with FNHP contains provisions in section 2.14 that address leaves of absence of six months. As noted, a limit of 960 hours allows for up to six months of paid leave of absence. Civil service rules allow for the possibility of additional unpaid leaves of absence. In the Workgroup's experience, this combination of paid leave and unpaid leave is sufficient to cover the vast majority of health situations.

Retirement benefit

With respect to the benefit at retirement, the Workgroup's recommendation is based, in part, on policy direction that it believed it had received at prior Finance and Personnel Committee meetings and from the County Executive. The Workgroup understood its directive to be to recommend an appropriate level of sick allowance for employees to use during employment and to recommend changes to reduce or to eliminate the cost to the County of the benefit at retirement.

The payment at retirement is a function of the number of unused hours remaining and the dollar rate at which they are paid. The County has already adopted a recommendation from the County Executive to use the employee's final average salary rate that is calculated for pension purposes as the dollar rate that is used for the sick allowance calculation. That change will normally operate to reduce the County's total financial liability for this benefit, by reducing the hourly rate at which unused sick allowance is paid at retirement. In addition, if adopted, a cap on accruals will also reduce the financial liability to the County of this payment for unused sick allowance, by reducing the number of hours that can be paid at retirement. The County would thereby have reduced both factors used in the calculation of the benefit. Consequently, the only remaining question is whether policymakers wish to go further than these changes which *reduce* the County's financial liability for this benefit and adopt a change which *eliminates* this liability entirely, by eliminating any payment or credit at retirement of unused sick allowance. The Workgroup recommends that the County do so.

The primary policy justification identified by the Workgroup for preserving some retirement payment for unused sick allowance is to encourage employees not to use (or abuse) sick allowance during employment. The Workgroup discussed the incentives and disincentives that may be created by the elimination of any retirement benefit for unused sick allowance. It is the Workgroup's best judgment that, overall, this proposed change will not cause increased costs to the County, but will eliminate a financial liability for the County. The Workgroup believes that the proper method to address any potential abuses of sick allowance that might occur from this change in policy is through appropriate management and discipline of those selective abuses rather than continuing the financial cost of this benefit for every retiring employee.

Supervisors have also indicated that the use of sick allowance as a credit towards retirement health insurance, for those employees who are not eligible for any payment, is no less a cost to the county than the cash payment for unused sick allowance and that such a credit is also an unnecessarily expensive benefit. However, the primary cost of providing this credit is not necessarily the value of the sick allowance converted to premium for health plan coverage, but is the cost of the health plan expenses that are covered during that period that otherwise would not be covered. Stated differently, an employee that uses that credit to cover 100% of the premium, but who never submits any health care expenses during that extended coverage, has not cost the County anything. The ultimate health plan cost will depend on any given employee's health status during that additional period of coverage.

Moreover, from a purely pragmatic perspective, if a cap on accruals of 960 hours is adopted, the credit value of that accrued sick allowance at retirement, depending on the employee's hourly rate, will likely cover no more than several months of premium for family health plan coverage. Even under the current, unlimited system, Employee Benefits reports that very few retirees cover more than several months of premium with the credit. In other words, with a cap on accruals, the unused sick allowance does not provide a meaningful credit. Therefore, there is no compelling reason to continue it.

Last, as the County has moved its policy towards normal retirement at age 64, the need for retirement health coverage is diminished, as the normal retirement age more closely approximates eligibility for Medicare.

The attached graphic illustrates the three bucket system created by the changes in the benefit that have occurred and that are proposed, in the context of the legal protections provided for sick allowance that accrued prior to each change. The graphic is simplified and illustrative only; each union has different dates and some have different formulas for payout at retirement.

The Workgroup will continue to study alternative policies to address the need for employees to be absent for medical and other reasons. For example, the Workgroup has had general discussions over the past several years, and will evaluate in more detail, a total paid time off (PTO) policy that could be enacted in conjunction with short term and long term disability benefits. Such a change could very well encompass all of the provisions for employee leave at the County, including sick allowance, FMLA, personal time, vacation leave and holiday pay, and thus would be a major change in County policies in these areas. It would also need to be evaluated in the context of total employee compensation, as reflected in a recent audit report.

cc: Supervisor Joe Sanfelippo
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