

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: April 5, 2011

TO: Supervisor Lee Holloway, Chairman, County Board

FROM: Employee Benefits Work Group

SUBJECT: Implementation of 2010 Wage and Benefit Modifications

Issue

Upon legal adoption of 2011 Wisconsin Act 10, also known as the Budget Repair Bill, the County will be able to apply the wage and benefit concessions included in the 2010 and 2011 Adopted Budgets to members of the American Federation of State, County and Municipal Employees, District Council 48. In addition, the County is required to immediately impose a 6% pension contribution as opposed to the 4% contribution that was intended to be phased in over the course of 2011. The pension contribution will apply to members of DC 48 and non-represented employees upon adoption of the Budget Repair Bill. It will apply to all other employees represented by non-public safety bargaining units effective January 2012. Implementing these changes will allow the County to rescind the remaining furlough days and, depending on when the changes become effective, partially offset reductions included in the state budget in 2011 and 2012. To reiterate, however, none of these changes can be implemented until 2011 Wisconsin Act 10 is effective.

Background

Adopted Wage and Benefit Modifications

The 2010 Budget included savings associated with changes to the healthcare plan and overtime policies. The healthcare changes are presented in Attachment 1.

Overtime changes are all in accordance with the Fair Labor Standards Act (FLSA) and include:

- Overtime pay will begin after 40 hours is worked in a week as opposed to 8 hours being worked in a single day. For example, previously an employee who worked 10 hours in a single day was paid overtime even if they did not work more than 40 hours for that week. With this change, they would not earn overtime for any week in which they worked 40 hours or less regardless of the number of hours worked on any single day of that week.
- Overtime will be based on hours worked, as opposed to hours credited. Previously an employee who utilized 8 hours of vacation and worked 40 hours would receive overtime. With this change, they would not earn overtime for that week.
- FLSA exempt non-salaried employees will earn overtime only as compensatory time-off unless otherwise approved by the Human Resources Director.

The 2010 Budget also reduced the pension multiplier factor used in calculating an employee's pension from 2.0 to 1.6 and increased the retirement age from age 60 to 64. However, as adoption of these two pension-related changes requires an actuarial report and review by the Pension Study Commission, they will be presented in a separate report, in a later cycle.

Corresponding pension ordinance changes are not included with this report and the fiscal impact is not included in the fiscal note.

While the 2010 changes were applied to non-represented employees and partially applied to members of five bargaining units with settled contracts (see Table 1), unrealized savings from all of these changes were carried forward into the 2011 Budget.

The 2011 Budget also included additional wage and benefit modifications. These included the continuation of a freeze on pay range step advancements and the phased in implementation of a 4% employee pension contribution. In addition, the Medicare Part B reimbursement was eliminated for non-represented employees who retired after March 31, 2011. Medicare Part B for AFSCME employees is not addressed in this report or in the proposed ordinance changes. Represented staff will continue to receive this benefit.

The 2010 modifications were offset in 2011 by 26 furlough days while the 2011 changes were to be offset by unspecified corrective action. Currently, approximately 1200 employees are taking one furlough day per pay period but no other additional corrective actions have been taken.

Milwaukee County's bargaining units have agreed to some but not all of these proposed changes as shown in table 1. As will be discussed below, 2011 Wisconsin Act 10, once effective, will allow Milwaukee County to make these changes for all non-public safety bargaining units upon the expiration of their current contract.

Table 1 – Status of 2010 and 2011 Wage and Benefit Modifications by Union

	2010 HC Changes	2010 OT Changes	2010 Multiplier and Ret. Age	2011 Step Freeze	Pension Contribution	When impacted by Act 10
Attorneys	Yes	NA	Yes	No	No	2012
Building Trades	Partial	No	No	No	No	2012
DC48	No	No	No	No	No	Upon Adoption
Deputy Sheriffs	No	No	No	No	No	NA
Firefighters	No	No	No	No	No	NA
Machinists	Yes	No	Yes	No	No	2012
Non-rep	Yes	Yes	Yes	Yes	Yes	Upon Adoption
Nurses	Partial	No	No	No	No	2012
TEAMCO	Yes	NA	Yes	No	No	2012

** It is assumed the Budget Repair Bill will become effective during 2011; otherwise the unions with contracts expiring in 2012 would not be impacted until the Repair Bill becomes effective.*

Budget Repair Bill

Wisconsin Act 10, also referred to as the Budget Repair Bill, was passed by the Wisconsin Senate in early March but is currently the subject of a temporary restraining order. If and when this legislation becomes effective, Milwaukee County will have the ability to change the non-base pay compensation and benefits of employees represented by non-public safety bargaining units when their contracts expire. Currently, this only includes the American Federation of State, County and Municipal Employees District Council 48. However, as of January 1, 2012 it will also include employees represented by District No. 10 of the International Association of Machinists and Aerospace Workers; the Technicians, Engineers and Architects of Milwaukee County; the Federation of Nurses and Health Professionals; the Building Trades and Attorneys of Milwaukee County

The Repair Bill also mandated that all Milwaukee County employees contribute half of the actuarially determined pension contribution. This has been calculated in consultation with the County's actuary to be 6.0% for 2011. A few important points regarding this calculation:

- This figure will change each year based on how the retirement system performs as compared to actuarial assumptions. It is likely to increase over the next 2 years as the 2008 market losses continue to be smoothed in over a 5-year period.
- The pension system's normal cost is approximately 8.4% of salary. The required pension contribution is greater than half of the normal cost because prior service cost, or the unfunded liability, must also be considered. Because the Budget Repair bill established fixed rates for the state and the City of Milwaukee and a fluctuating rate for the County, the County's contribution rate will differ from both other systems.
- Going forward, it is likely that this contribution rate will be established as part of the annual budgeting process for the subsequent year based on the actuary's estimated required contribution.
- As is the case with the existing pension contribution, this deduction to salary will be taken pre-tax in order to reduce the impact on employees. It is anticipated that the state-mandated contributions will be handled in the same manner as the existing county adopted contributions. Thus, if an employee leaves the County before vesting, their contributions will be returned at a 5% interest rate.

As a result, the 2% pension contribution that was to have increased to 4% by the end of the year that was adopted as part of the 2011 Budget will immediately be superseded by the state law and will increase to 6% when the law becomes effective. This will immediately apply to non-represented employees, elected officials and to employees represented by DC48. It will apply to all other employees represented by non-public safety bargaining units in January 2012 (assuming adoption during 2011 of the Repair Bill). Depending on when this change becomes effective, savings could exceed those budgeted for the originally contemplated phased-in 4% contribution in 2011. These savings could then be used to help offset state budget reductions in 2011 and 2012. While this change also requires an actuarial report and Pension Study Commission review, the Department of Administrative Services must implement the change as soon as the law becomes effective since it represents state statute. For that reason, the fiscal effect of the change is being considered in this report even though the ordinance changes will likely be considered in a later cycle.

Recommendation

The policies discussed above have been adopted by the County in the 2011 Budget. As dictated by the adopted budget and in order to maximize savings to keep the 2011 Budget balanced and partially offset potential state budget reductions in 2011 and 2012, the Employee Benefits Workgroup recommends implementing the 2010 Healthcare plan design changes, overtime modifications and step freeze for employees represented by District Council 48, to be effective once the Budget Repair Bill becomes law. In addition, as required by Wisconsin Act 10, the Workgroup acknowledges that the County must implement a 6% pension contribution when the Repair Bill becomes legally effective for non-represented employees and employees represented by DC48. The pension contribution shall be applied to all other employees represented by non-public safety bargaining units effective the first pay period January 2012, assuming Wisconsin Act 10 is effective before that date.

The Employee Benefits Work Group will recommend implementing the 1.6 multiplier, age 64 retirement and Medicare Part B changes for employees represented by DC 48 at a later date.

Given the amount of confusion surrounding this issue, it is important to note the following:

- These recommendations represent policies adopted in the 2010 and 2011 Adopted Budget.
- Approving the ordinance changes included in this report will only immediately affect DC48 represented employees once Wisconsin Act 10 is effective. Non-represented staff and DC48 employees will also be subject to a 6% pension contribution as required by state statute.
- Changes in the pension multiplier and retirement age are not included in these ordinance changes but will likely be brought forth in the near future after an actuarial report and Pension Study Commission review is completed.
- Medicare Part B premium reimbursements for represented employees are NOT affected by any of the attached changes. All represented staff regardless of their retirement date will continue to receive this benefit.
- Eligibility for county-paid (i.e., premium free) retiree healthcare is NOT affected. Employees eligible for retiree health care will continue to receive this benefit based on the non-represented employee plan design regardless of their retirement date.
- Eligibility for a pension and back-drop is NOT affected. Employees will continue to earn pension service credit and preserve their back-drop if they currently are eligible for one.
- Eligibility and the calculation of accrued sick-time payouts is NOT affected.
- Additional information on the impacts of the Budget Repair Bill are available in a "Frequently Asked Questions" document that is available on the County's intranet. In addition, questions can be emailed to ***RepairBill_QandA@milwcnty.com***.

Furthermore, as depicted in the fiscal note, since the savings from these actions will completely offset the expected savings from furlough days, the Employee Benefits Work Group, recommends that furlough days be eliminated once the Repair Bill becomes effective and these changes can be implemented. The elimination of furlough days is subject to any action by the new County Executive. It is important to also note the following:

- It is anticipated that furlough days for all employees will only be rescinded when the Repair Bill becomes legally effective. Until that time, affected employees MUST continue to take furlough days.

- When a cut-off date for furlough days is decided upon, an expected pro rata furlough total will be determined. Employees, who have not met that minimum amount, will continue to have a furlough balance that they are expected to fulfill. For example, if the Repair Bill becomes effective mid-year, furlough balances will be reduced to 13 days. If an employee has only taken 10 furlough days, they will still be expected to take 3 additional days. More information on this procedure will be provided.

Assuming a mid-year implementation in 2011, these actions will result in savings of \$2,096,247. It is estimated these actions will result in \$10,514,928 of savings in 2012. Of this 2012 amount, \$3.9 million is not already budgeted. These figures do not include revenue offsets so the actual levy impact will be less.

Cc: Marvin Pratt, County Executive
E. Marie Broussard, Deputy Chief of Staff, County Executive
Terry Cooley, Chief of Staff, County Board
Carol Mueller, County Board Clerk
Jody Mapp, County Board Clerk
Employee Benefit Work Group members

Summary of Plan Changes Required by the 2011 Adopted Budget

Actively Employed Members of AFSCME DC 48

Medical Plan Changes:

	HMO Comparable	PPO Comparable
Deductible	None <i>(no change)</i>	Network: \$250 per person to a family maximum of \$750 Out-of-Network: \$500 per person to a family maximum of \$1,500 <i>(increase of \$100 per person)</i>
Outpatient Services	100% of eligible expenses after any copays and deductibles <i>(no change)</i>	Network: 90% of eligible expenses after any copays and deductibles Out-of-Network: 70% of eligible expenses after any copays and deductibles <i>(Out-of-network previously covered at 80%)</i>
Inpatient Services	100% of eligible expenses after any copays and deductibles <i>(no change)</i>	Network: 90% of eligible expenses after any copays and deductibles Out-of-Network: 70% of eligible expenses after any copays and deductibles <i>(Out-of-network previously covered at 80%)</i>
Emergency Room	\$100 Copay <i>(increase of \$50 per visit)</i>	\$100 Copay <i>(increase of \$50 per visit)</i>

Out-of-Pocket Maximums	Not Applicable <i>(no change)</i>	Network: \$2,000 per person to a family maximum of \$3,500 Out-of-Network: \$4,000 per person to a family maximum of \$6,000 <i>(increase of \$500 per person)</i>
Mental Health /Substance Abuse – Outpatient Services	\$10 Copay <i>(coverage levels required by the Mental Health Parity Act now apply)</i>	Network: \$20 Copay Out-of-Network: \$40 Copay <i>(coverage levels required by the Mental Health Parity Act now apply)</i>
Mental Health / Substance Abuse – Inpatient Services	100% <i>(applies Mental Health Parity Act)</i>	Network: 90% Out-of-Network: 70% <i>(applies Mental Health Parity Act)</i>

Note: The tables above are intended as a summary of changes only. For specific coverage terms, provisions, conditions, limitations, or exclusions please refer to your summary plan description.