

MEMORANDUM

To: Ald. Michael Murphy, Chair Finance and Personnel Committee

From: Mark A. Ramion, Fiscal Review Analyst-Sr.

Re: Retiree Health Benefits for Sworn Fire and Police Management Employees

April 14, 2005

The following information is in response to your request for further analysis of Council File # 041592, a substitute resolution relating to health benefits at time of retirement for certain sworn fire and police management employees.

This resolution will amend the previous resolution related to health care benefits for retired management employees, File # 020479. I am attaching the fiscal review for this file for your reference.

File # 020479 approved a health insurance rate structure for eligible management employees less than 65 years of age selecting retirement after January 1, 2003 that would be identical to active management employees.

This resolution authorizes the establishment of a new monthly rate structure for City of Milwaukee management employees, *including police and fire management employees*, who take retirement on, or after, January 1, 2003 and are under 65 years of age. The change in the rate structure would make the retiree rates the same as the rates for active management employees until the retiree reaches age 65 years.

Council **File # 041592** will allow all new sworn fire and police management employees hired after January 1, 2004 to pay for retiree health insurance based on their sick leave balances, using a formula related to the number of hours of sick leave accrued at the time of retirement. The retiree share of the monthly health care premium is calculated as a percentage. Currently, Local 215, MPA and MPSO members pay for retiree health care premiums ranging from 35% to 0% per month. Please note that the accrued sick leave as such does not disappear as a payment for the health premium. Rather, the accrued sick leave provides the benchmark for the calculation of the city share and the retiree share until the fire or police retiree reaches age 65. Additionally, to demonstrate the complicated and specified nature of determining the health premium share for the retired police and fire member, the share is calculated in 1% increments ranging from 70 accrued sick days (65% city share) to 400 accrued sick days (100% city share). Retired union member shares also are based upon the Basic Plan rates rather than the low-cost HMO as other city management employees upon retirement.

The policy effect of File # 041592 will carve out police and fire management employees and return their health care benefit status to the time prior to the adoption of

File # 020479. Adoption of File # 041592 will also assuage concerns, especially in the fire department ranks, that the benefit of accrued sick leave for retirement health care benefit premium offset will disappear upon promotion to the management ranks.

The city, per union contract, will continue to pay, at a minimum, 65% of the cost of the monthly premium of the retiree Basic Plan rate toward the health insurance provider that the retiree chooses.

The fiscal effect of File # 041592 is difficult to determine with any degree of certitude given the continuing change in the cost of health care from year to year. The figures provided by the budget office and DER Employee Benefits are based upon year 2005 premiums. These figures and the ensuing cost to, in this case, retirees will change from year to year. This resolution is retroactive to January 1, 2004.

The following illustration is provided using 2005 rates as a way to compare what the fire or police manager who retires under the age of 65 may pay for a family rate (no Medicare) per month under the current rules and under the adoption of the proposed resolution.

Aurora Family Plan	CompcareBlue	Basic Plan
Current – No Cost	Current - \$233.00	Current – \$290.00
Proposed - \$0 to \$427	Proposed - \$78 to \$578	Proposed - \$0 to \$500

The city share of the premium for retirees under age 65 in the police and fire services in 2005, at 65% of the monthly Basic Plan rate for retirees is \$523.00 for single coverage and \$929.00 for family coverage. Please note that the basis for the city contribution is 65% and may exceed this percentage as shown below.

As illustrated above, the amount paid per month under the proposed resolution may actually cost the retiree more than the current premium payments in effect. Given the unpredictability of health care premiums from year to year, passage of this resolution will most likely provide an incentive for the police and fire manager to bank as much sick leave as possible, especially if this manager retires under the age of 65, before eligibility for Medicare is achieved.

In cases where accrued sick leave provides the basis for an increased city contribution, the following examples, based on 2005 rates are provided. I will use the example of a firefighter whose normal hours of work exceed 40 hours per week, as this plan is the most generous to the retiree. One sick day is equal to 8 hours:

- 102-105 accrued sick days – 74% city contribution or \$596.00/month single and \$1,058/month family

- 151-153 accrued sick days – 88% city contribution or \$708.00/month single and \$1,258.00/month family
- 184-186 accrued sick days – 99% city contribution or \$797/month single and \$1415.00 family

Firefighters who work more than 40 hours per week currently earn/accrue 21 days of sick leave per year.

MPD can accrue up to 400 sick days and need 394 days to get to the 99% city contribution level.

Given the various contingencies related to future health care costs, agreements with the various bargaining units and the varying amounts of accrued sick leave, the primary effect of this resolution will be principally related to a policy decision to carve out the police and fire managers from other city managers related to retiree health care premium payments.

Please do not hesitate to contact me (x8680) if you require further information.

Attachment

Copy: Barry J. Zalben, Manager, Legislative Reference Bureau
Marianne C. Walsh, LRB Fiscal Review Manager
Terry MacDonald, Staff Assistant Finance and Personnel Committee