

DEPT. OF EMPLOYEE RELATIONS

RESEARCH AND ANALYSIS SECTION - LEGISLATIVE REFERENCE BUREAU

EXECUTIVE SUMMARY: 2011 PROPOSED BUDGET

HEARING DATE: OCTOBER 8, 2010

1. **Wellness Program:** Kickoff for the City's Wellness Program is scheduled for 2011 with a budget of \$1,200,000. The program is an attempt to get a handle on healthcare costs in the future by promoting health and a healthy lifestyle among enrollees in the City's healthcare programs. Employees and spouses (CHILDREN ARE EXEMPTED) – roughly 10,000 individuals – must take an ANNUAL Health Risk Assessment – including a 30-minute meeting (not on City time) with a health advisor to address health issues and promote good health. This assessment CANNOT be completed by the enrollee's regular doctor. Premium co-pays for employees or spouses who do not take the Health Risk Assessment will increase \$360 to \$720 a year.
2. **Employee Healthcare Benefits:** Employee Healthcare Benefits costs are up roughly \$25,000,000, or 21.03%, for 2011 - primarily driven by a 17.3% increase in HMO premiums and a 14.9% increase in Basic Plan (City-insured) premiums.
3. **Police & Fire Personnel Recruitment:** The Department of Employee Relations ("DER") will transfer the task of recruiting police and fire personnel to the Fire & Police Commission in 2011 along with a \$299,853 budget for this recruitment.
4. **Workers' Compensation:** The City's OSHA Accident Incidence Rate - the number of recordable accidents per work-year per 100 fulltime employees - is down nearly 2 points Citywide in 2010, while 2010 Workers' Compensation-costs are expected to be \$13,900,000 - \$483,000 less than budgeted. DER attributes the decline in incidence rate to heightened awareness and improved management practices as DER has been working with departments to identify and address accident hazards in the workplace.
5. **Unemployment Compensation:** DER contests roughly 23% of all unemployment compensation claims filed, and approximately 70% of these contested claims are denied, but DER does not routinely contest all claims filed because the City must have specific legal grounds to contest claims. In addition, the City's standards for due process and progressive discipline differ from state standards, so the state may sustain an unemployment compensation claim even when the City follows all its procedures and views the discharge as per cause.

Department Operations Budget

The 2011 Proposed Budget for operations is down \$151,854, or 3.27% from the 2010 Adopted Budget. Changes are summarized in the following chart:

2011 Budget Changes	
Prior Year Budgets	
2009 Actual Budget	\$5,121,857
2010 Adopted Budget	\$4,647,890
Transferred - Fire & Police Commission	
Wages	(115,182)
Fringe Benefits	(55,287)
Professional Services	(61,747)
Drug Testing	(3,000)
Pre-placement Exams	(64,619)
Total Transferred	(299,835)
Other Wages & Fringe Benefits	
Misc. Wage & Staffing Changes	28,809
Personnel Cost Adj.	(28,530)
Reimbursements	(29,691)
Fringe Benefits	183,989
TL Other Wages & Fringes	154,577
Other Operating Services	
	(27,500)
Purchase Computers	20,904
Total 2011 Budget Changes	(151,854)
2011 Proposed Budget	\$4,496,036

The DER will transfer the task of recruiting key police and fire personnel to the Fire & Police

Commission in 2011 along with 2 staff personnel and a \$299,853 budget to fund the wages and pre-placement exams, drug testing and professional services expenses associated with this recruitment. This is another step in separating the Fire & Police Commission from the DER and making it a fully independent department.

Fringe benefits are up substantially, mainly the result of the City's increased healthcare costs, and the PCA ("Personnel Cost Adjustment") deduction – savings expected from staff turnover – is up somewhat to reflect the Budget Office's PCA rate increase from 2% to 3%. The increased reimbursements deduction is for the services of Employee Assistance Coordinator which are reimbursable by participating City departments.

2011 projected costs of operations are reduced by revenues of \$481,092 DER receives from the Milwaukee Water Works for human resources services rendered and third-party reimbursements received on workers' compensation claims. 2011 revenue projections are up \$48,092 over 2010 projections.

Employee Healthcare Benefits

Employee Healthcare Benefits - Special Purpose Accounts Comparison					
	'07 Actual	'08 Actual	'09 Actual	'10 Adopted	'11 Requested
Basic Plan	\$31,077,469	\$26,035,603	\$19,893,058	\$22,000,000	\$22,000,000
<i>change</i>	<i>-10.58%</i>	<i>-16.22%</i>	<i>-23.59%</i>	<i>10.59%</i>	<i>0.00%</i>
HMO	\$65,687,198	\$77,112,376	\$86,539,589	\$91,461,000	\$115,400,000
<i>change</i>	<i>23.98%</i>	<i>17.39%</i>	<i>12.23%</i>	<i>5.69%</i>	<i>26.17%</i>
Dental Insurance	\$2,147,900	\$1,997,141	\$2,105,015	\$2,200,000	\$2,200,000
<i>change</i>	<i>-1.20%</i>	<i>-7.02%</i>	<i>5.40%</i>	<i>4.51%</i>	<i>0.00%</i>
Administrative	\$3,165,892	\$3,317,299	\$3,683,956	\$3,981,500	\$5,200,000
<i>change</i>	<i>60.37%</i>	<i>4.78%</i>	<i>11.05%</i>	<i>8.08%</i>	<i>30.60%</i>
Total	\$102,078,458	\$108,462,419	\$112,221,617	\$119,642,500	\$144,800,000
<i>change</i>	<i>11.09%</i>	<i>6.25%</i>	<i>3.47%</i>	<i>6.61%</i>	<i>21.03%</i>

Employee Healthcare Benefits costs are expected to be up roughly \$25,000,000, or 21%, in 2011, which follows on the heels of a 6.61% increase for 2010.

Health Maintenance Organization (“HMO”) premiums for 2011 are up in the aggregate 17.3%, but the rate was “balanced” by insured group to more accurately reflect experience. Premium rates for active employees will be up 11.6%, rates for retirees under 65 will be up 54.93% and retirees over 65 will see rates increase 15.6%. HMO costs are budgeted up 26.2% rather than 17.3% because the HMO may be more attractive to employees and retirees after the rate increases in the Basic Plan, and DER expects some migration by Basic Plan participants to the HMO program.

The HMO budget line item also includes prescription drug coverage costs, self-insured by the City, for both the Basic Plan and the HMO, and administrative fees for the prescription drug claims administrator. Prescription drug coverage

costs have been historically 20% of total healthcare premiums.

The Benefits Review Team considered switching from the City’s insured HMO to a self-insured program but opted to stay with the insured program based on better economies. The City will be free to switch to a self-insured HMO for 2012 if the economies dictate.

2011 premium rates for the Basic Plan, the City-insured healthcare program, are up 14.9% across-the-board based an analysis of claims. However, the 2011 Proposed Budget for the Basic Plan is unchanged because DER expects some Basic Plan participants will migrate to the economically more attractive HMO.

Wellness Program

Although budgeted for only \$1,200,000 in 2011, the kickoff of the City’s Wellness Program may hold promise for reducing healthcare benefits costs in the future.

All active employees enrolled in City healthcare programs and spouses (CHILDREN ARE EXEMPTED) - approximately 10,000 individuals - must take a Health Risk Assessment, or their premium co-pays will increase \$720 a year for the family plan or \$360 for single coverage. Premium co-pays for those who smoke or otherwise use tobacco will increase \$240 or \$120 per year (family or single coverage) even if they take the Health Risk Assessment, unless they complete either a 90-minute tobacco cessation program online, or attend 4 one-hour tobacco cessation workshops.

The Health Risk Assessment – which CANNOT be completed by the enrollee’s regular doctor - includes:

- Form completion – online if preferred.
- 30-minute (not on City time) visit with a health advisor to draw blood, collect biometric information like blood pressure, and discuss possible health issues and concerns. The health advisor will also explain and discuss programs to address the participant’s health issues and encourage participants to enroll in appropriate health programs, at no cost to the participant.

The Health Risk Assessment results are strictly confidential – subject to HIPAA Privacy regulations – and will not be shared with the City.

Employees and spouses will be required to take a Health Risk Assessment, including the 30-minute visit with a health advisor, EVERY YEAR they are enrolled in City healthcare programs.

The City will pay Workforce Health, the program provider, \$6.25/month for each participant completing a Health Risk Assessment and an additional \$15/month for each health program in which participants enroll.

The City optimistically hopes for 80% participation. If 8,000 complete the Health Risk Assessment and 2,800 enroll in health programs, the cost to the City would be approximately \$1,100,000.

Workers’ Compensation

Workers' Compensation Special Purpose Account			
	'09 Actual	'10 Adopted	'11 Requested
Workers' Compensation	\$11,575,195	\$14,383,000	\$13,234,000
<i>year-to-year change</i>	<i>-15.61%</i>	<i>24.26%</i>	<i>-7.99%</i>

Although the City has made some headway in reducing accidents and workers’ compensation

costs, 2010 expenses are expected to be \$13,900,000 and the 2011 Proposed Budget of

\$13,234,000 is aggressive based on historic cost trends. DER expects some carry-forward from 2010, plus roughly \$500,000 carry-forward from prior years to supplement any Workers' Compensation shortfall in 2011, and hopes to have a little leftover to supplement 2011 Employee Healthcare Benefit costs if need be.

The City's OSHA Incidence Rate - the number of recordable accidents per work-year per 100 fulltime employees - is down nearly 2 points Citywide, down over 2 points in the Fire Department and down nearly 5 points in the Department of Public Works. Approximately 95% of all City accidents occur in the Fire and Police Departments, and the Department of Public Works.

DER attributes the declining incidence rates to heightened awareness and improved management practices as DER has been

working with departments to identify and address accident hazards in the workplace, though the department is budgeting in 2011 for a slower decline in workers' compensation costs.

OSHA Recordable Accidents			
	2007	2008	2009
Milwaukee Fire Department			
Recordable Cases	364	294	270
Incidence Rate	29.83	24.55	22.49
Milwaukee Police Department			
Recordable Cases	280	251	244
Incidence Rate	12.00	10.69	10.78
Department of Public Works			
Recordable Cases	509	474	374
Incidence Rate	28.74	26.01	21.25
Other City Departments			
Recordable Cases	68	54	39
Incidence Rate	n/a	n/a	n/a
Citywide			
Recordable Cases	1,221	1,073	927
Incidence Rate	18.31	16.01	14.22

Unemployment Compensation

Unemployment Compensation - Special Purpose Account			
	'09 Actual	'10 Adopted	'11 Proposed
Unemployment Compensation	\$996,914	\$1,015,000	\$1,065,000
<i>year-to-year change</i>	-7.22%	1.81%	4.93%

Unemployment compensation has been trending up for the last few years, apparently the result of the flagging economy. Former employees who might otherwise land new jobs within 2-3 months of separating from the City may now draw unemployment for the full 6 months of the City's liability. 2009 unemployment costs were over-budget, and 2010 is expected to also be \$140,000 over-budget. Trends show recent signs of leveling off, so DER is cautiously

optimistic its \$50,000 budget increase for 2011 will adequately cover costs.

DER contests roughly 23% of unemployment compensation claims filed, but approximately 70% of contested claims are denied. DER does not routinely contest all claims filed because the City must have legal grounds for contesting claims. Efforts are made to contest all "discipline discharges" and "resign in lieu of discharge"

claims. Ever then, the City's standards for due process and progressive discipline differ from state standards, so the state may sustain an unemployment compensation claim ever when the City follows all its procedures and views the discharge as per cause.

The following are 3 highlights from DER's recent audit Unemployment Compensation claims:

- DER will help the Election Commission, the Treasurer's Office, the Department of City Development and the City Clerk's Office develop seasonal staffing models that minimize unemployment compensation liabilities. There were 169 of these seasonal unemployment compensation claims in 2009 costing the City approximately \$600,000.
- DER is working with unemployment claims administrator, TALX, to ensure the City's separation codes match TALX's codes so claims can be fully analyzed.
- TALX will now notify DER when a department fails to contest claims when the claimant was discharged for cause, resigned in lieu of discharge or quit voluntarily.

Issues to Consider

- The City's Fringe Benefit rate is now 48%, much of the increase fueled by rising healthcare costs. Spiraling healthcare costs continue to be a factor in major budget increases year-to-year.
- The City may be forced to switch over from its insured HMO to a self-insured HMO in the near future, either because no provider will bid to provide the insured HMO or premium rates may be too high to sustain the insured program.
- The jury is still out on the impact of recent changes in workers' compensation procedures and upward pressure on workers' compensation costs continues.
- Some City policies and procedures, including seasonal hires, may be contributing to higher unemployment compensation costs.
- As the City continues to operate at minimal staffing levels, the City's hiring practices may need modifying to ensure the City always hires the "best and the brightest" candidates.