



# MEMORANDUM

## LEGISLATIVE REFERENCE BUREAU

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**To:** Ald. Milele A. Coggs  
**From:** Aaron Cadle – Legislative Fiscal Analyst  
**Date:** November 22, 2011  
**Subject:** Impact on Future Buying Power of an Aldermanic Salary Freeze through 2016

Per your request, the chart and accompanying graph at the end of this memo demonstrate the impact on future buying power of an aldermanic salary freeze through 2016, given healthcare premium contributions and inflation.

### Conclusions & Analysis

- Combined salary and buying power declines by 2016 erode buying power 8% - the equivalent of 21 furlough days in addition to the 4 furlough days included in the base salary freeze.
- The combined salary and buying power declines in years 2013-2016 are almost exclusively the result of inflation. Healthcare premium contribution increases play almost no role in the overall erosion of buying power.
- Inflation's dominate role in the overall decline in buying power confirms the generally understood economic axiom that inflation robs all fixed income consumers of buying power over time.
- Seventy-two percent of the decline in buying power in 2012 comes from the significant jump in employee healthcare premium contributions from \$40 to 12% of total premiums.

### Assumptions

- Inflation is estimated at 1.3% for 2012 and 1.7% for years 2013-2016 based on U.S. Congressional Budget Office forecasts.
- Healthcare premium contributions rise at 5.8% based on healthcare cost projections by the U.S. Office of the Actuary in the Centers for Medicare and Medicaid Services, and is within the range (3-7%) estimated by the Department of Employee Relations.
- The aldermanic salary used is set at \$73,223 (the salary of all Council members save the Council president) net of furlough days. This salary was netted against 3 furlough days in 2012 and 4 furlough days in 2013-2016.

- The employee healthcare premium contribution is set in 2012 at \$2,455 – the premium for a married employee with children – and is estimated to increase 5.8% annually from 2013-2016.

<b>Impart of Healthcare Premium Contributions &amp; Inflation on Buying Power</b>					
	2012	2013	2014	2015	2016
Salary (net of furloughs)	\$ 72,378	\$ 72,096	\$ 72,096	\$ 72,096	\$ 72,096
Ins. Premium Contrib.	\$(2,455)	\$(2,598)	\$(2,749)	\$(2,908)	\$(3,077)
Net Salary	\$ 69,923	\$ 69,499	\$ 69,348	\$ 69,189	\$ 69,020
Net Salary Decline	\$(2,455)	\$ (424)	\$ (151)	\$ (159)	\$ (169)
% net salary decline	3.39%	0.59%	0.21%	0.22%	0.23%
Net Salary Buying Power	\$ 69,025	\$ 67,195	\$ 65,928	\$ 64,677	\$ 63,441
Buying Power Decline	\$ (897)	\$(2,304)	\$(3,420)	\$(4,511)	\$(5,579)
% buying power decline	1.28%	3.32%	4.93%	6.52%	8.08%
Combined Decline	\$(3,353)	\$(2,728)	\$(3,570)	\$(4,671)	\$(5,748)
% combined decline	4.63%	3.78%	4.95%	6.48%	7.97%

