City of Milwaukee

Department of Administration
Budget and Management Division

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July 25, 2003

Ref: 03013(43)

MEMORANDUM

TO: Alderman Michael Murphy
Common Council-City Clerk

FROM: Dennis A. Yaccarino
City Economist

SUBJECT: Retiree Health Care Benefits

Management in the police and fire departments can currently reduce health care costs by the amount of their sick leave balance. Because of this provision, managers in these departments have accumulated many hours of unused sick leave. In comparison, general city management receives free health insurance assuming they retire with 15 years of experience.

In 2002, the city adopted resolution 020479 that would charge 2004 management retirees for health care under the same plan as active management. Included in this group were police and fire management.

Common Council resolution 030405 amended resolution 020479 to allow the police and fire management to use the cash value of their sick leave balance to reduce costs for more expensive health plans until they reach the age of 65. This will impact 41 management positions of which 34 are in the fire department and 7 are in the police department.

Resolution 030405 also states that individuals hired in these positions after December 31, 2003 will not be eligible to use their sick leave balance to reduce the cost of more expensive health care coverage.

Any fiscal impact of resolutions 020479 and 030405 does not begin until 2004. Together, these two resolutions will lower the city funding for retiree health insurance. Savings may be anywhere from $50,000 to $100,000 annually upon retirement of all management positions.

Unfortunately resolution 030405 may reduce some of the savings from Police and Fire management that was provided in resolution 020479. The impact of this resolution will be determined by the choices made by the retiree. If all 41 employees chose the low cost HMO, then there would be no difference between the two resolutions. In this scenario, costs and savings are

equal under both resolutions. As the retirees chose the more costly plans, the savings to the city under resolution 030405 are reduced. For example, if all retirement eligible employees retired in 2004 and chose plans in manner done by current retirees, then 60% would chose the basic plan and 40% would chose a HMO. Based on 2004 health care rates, the impact to the city in the first year would be $50,000. Over time, the retirees would begin to deplete their cash value of sick leave.

Since it is unlikely that all or even a majority of these employees will retire in 2004, there will be almost no impact of the legislation over the next few years. In fact, a large number of employees in this group will not be eligible for retirement for several years. Also, many of them are well above the minimum retirement age suggesting that retirement decisions may not be made solely on health care costs. City health care costs for those working beyond minimum retirement age will reduce overall city health care costs since as active employees they are under the same plan as management employees.

The health care market will dictate how valuable sick leave cash value will be. It is certain that over time the value of the sick leave to the retiree will diminish.

It is with this information that I estimate 2004 reduced savings of $0. I will prepare an appropriate fiscal note stating such. Future costs may be minimal. I believe them to be in the range of $10,000 to $20,000 per year over the next five years.

If you have any questions, please call me at extension 8552.

DY:fcw

cc: Jennifer Meyer, Mayor Office
Mark Ramion, Legislative Reference Bureau
Michael Brady, Dept. of Employee Relations

Spas/healthcare/2003/retirees