



Legislative Fiscal Bureau

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TO: Representative Robin Vos
Room 217 West, State Capitol

FROM: Rachel Janke, Supervising Analyst

SUBJECT: Public Employer Pension Contributions and Health Care Expenditures

At your request, this memorandum provides information about public employer expenditures for pension contributions and health insurance coverage for employees from 2011 to 2019. Specifically, you requested the annual and cumulative changes in amounts expended for pension contributions and health insurance premiums and an estimate of what expenditures would have been under other conditions, assuming 2011 Acts 10 and 32 had not been enacted. The modifications under these acts affected most public employees with respect to: (a) collective bargaining; (b) municipal labor dispute resolutions; (c) public employee retirement requirements; and (d) required health insurance contributions (for state and certain municipal employees).

Background

Prior to the 2011 legislative session, a collective bargaining process existed for various groups of represented public employees at both the local and state levels. Labor organizations representing employee collective bargaining units were authorized to negotiate a wide range of economic issues and working conditions on behalf of members. Under 2011 Act 10, represented public employees were bifurcated into two classifications for the purposes of collective bargaining: public safety employees and general employees. For public safety employees, collective bargaining rights, the scope of bargaining, and the statutory supports for collective bargaining units and labor organizations remained largely unchanged. For general employees, the scope of collective bargaining was significantly reduced and certain statutory supports for collective bargaining units and labor organizations were removed. In addition, 2011 Act 32 provided that an employee determined by the Employment Relations Commission to be a transit employee remains under the prior law collective bargaining provisions. A municipal employee is a "transit" employee if the Commission determines that the municipal employer would lose federal transit funding if the municipal employee is not so defined.

For the purposes of this memorandum, modifications under Acts 10 and 32 relating to pension contributions and health insurance contributions in particular are addressed. These and other modifications are described in additional detail in 2019 Legislative Fiscal Bureau Informational Paper #94, State and Local Government Employment Relations Law.

Pension Contributions

The Wisconsin Retirement System (WRS) provides retirement benefits to employees of the State of Wisconsin, school districts, and participating local governments. In 2019, the number of WRS employers totaled 1,516 as follows: (a) state agencies, UW System, and public authorities, 56; (b) cities, 188; (c) counties, 71; (d) villages, 274; (e) towns, 272; (f) school districts, 421; (g) cooperative educational service agencies, 12; (h) technical college districts, 16; and (i) special districts, 206. Note that Milwaukee County and the City of Milwaukee maintain pension plans that are managed separately from the WRS.

WRS Employers. Under current law, WRS contributions are comprised of employee contributions and employer contributions. The contribution rates for each are expressed as a percentage of earnings and vary by the participant's employment classification. These classifications are: (a) general employees (currently combined with elected officials and state executives for rate-setting purposes); (b) protective occupation employees who receive Social Security coverage; and (c) protective occupation employees without Social Security, which includes only fire fighters employed by local governments. Prior to 2011 Act 10, a separate employee-required contribution, the benefit adjustment contribution (BAC), also applied to general employees. The BAC was instituted under 1983 Wisconsin Act 141 to fund increases in retirement benefits of that act, and was repealed under Act 10. While the BAC is no longer designated as a separate component of contributions, the costs to fund the benefit increases under Act 141 are included in the overall WRS contribution rate.

Under prior law, the statutes authorized, but did not require, WRS employers to pay all or a part of any employee-required contributions on behalf of the employee. Over time, state and local public employee groups had negotiated, or were provided, an employer "pickup" of some or all of the employee-required contributions. However, there were circumstances under which employees paid for a portion of retirement contributions. As noted above, contribution pickups were not mandatory. Therefore, contribution pickups could vary by employer. Further, under the state's compensation plan for nonrepresented employees and the pickup provisions under collective bargaining agreements with represented state employees in particular, employers did not cover the entire employee-required contribution rate for state protective occupation employees, nor did employers cover the entire BAC rate that applied to general employees. In these cases, employees paid a portion of contribution amounts (0.8% of earnings for state protective occupation employees and 0.2% of earnings for general employees in 2011).

Under Acts 10 and 32, the prior-law authority for WRS employers (both the state and local employers) to pay all or part of the contributions required of participating employees was repealed, except that contribution pickups by the employer may still be made if required in a collective bargaining agreement with public safety employees or municipal transit employees, and only if the individual is initially employed before July 1, 2011.

Act 10 also provided that: (a) a WRS general participant and an elected official or state executive participant are required to make an employee contribution to the WRS in an amount equal to one-half of all actuarially-required contributions, as approved by the Employee Trust Funds (ETF) Board; and (b) WRS participants who are protective occupation employees are required to contribute the same percentage of earnings paid by general participants. [However, as noted above, if the protective occupation participant is defined as a public safety employee and the individual is initially employed before July 1, 2011, an employer pickup of some or all of the employee-required contribution may be negotiated and authorized in a collective bargaining agreement.]

Milwaukee Pension Plans. Acts 10 and 32 additionally provided that, in the retirement systems operated by the City of Milwaukee and Milwaukee County, the City and County are not allowed to pay, on behalf of an employee, any of the employee's share of the actuarially required contributions, except as otherwise provided in a collective bargaining agreement entered into with represented local public safety employees for employees who were initially employed before July 1, 2011. Also, the participants in these systems are required to pay one-half of all actuarially required contributions for funding benefits under these retirement systems. [With respect to the City, this contribution is termed "all employee required" contributions to utilize terminology more consistent with the provisions of the City of Milwaukee retirement system.]

Employer Retirement Expenditures. Table 1 provides the following information for calendar years 2010 to 2019: (a) WRS contributions paid by employers, including employee contribution amounts picked up by employers; (b) WRS contributions paid by employees; and (c) the percentage share of each.

TABLE 1

Actual Payee of Required WRS Contributions -- In Thousands

<u>Year</u>	<u>Employer (Incl. BAC)</u>	<u>Employee</u>	<u>Total</u>	<u>Employer %</u>	<u>Employee %</u>
2010	\$1,507,472	\$11,705	\$1,519,177	99.2%	0.8%
2011	1,347,211	217,219	1,564,430	86.1	13.9
2012	961,167	611,654	1,572,821	61.1	38.9
2013	1,010,132	761,010	1,771,142	57.0	43.0
2014	1,023,760	891,849	1,915,609	53.4	46.6
2015	984,781	921,063	1,905,844	51.7	48.3
2016	963,473	896,388	1,859,861	51.8	48.2
2017	1,023,394	940,801	1,964,195	52.1	47.9
2018	1,035,308	951,453	1,986,761	52.1	47.9
2019	1,051,314	965,580	2,016,894	52.1	47.9

As shown in Table 1, in 2010, WRS employers paid for approximately 99.2% of pension contributions. If WRS employers had continued to pay 99.2% of contributions, based on total actual contributions from 2011 to 2019, it is estimated that employers would have expended approximately \$7.0 billion more for pension contributions over the nine year period.

Due to differences in funding policies as well as limitations of publicly available information for the Milwaukee pension plans, estimates of what Milwaukee County and City of Milwaukee employer contributions for retirement could have been if 2011 Acts 10 and 32 had not been enacted cannot be provided.

Health Insurance Contributions

As noted previously, under prior law, represented employees were able to collectively bargain over a wide range of economic issues and working conditions. In addition, statutes required state employers to contribute a minimum percentage towards health insurance premiums for most employees. Act 10 and 32 made the following changes affecting health insurance: (a) repealed most collective bargaining rights for employees other than public safety employees; (b) prohibited collective bargaining for municipal public safety employees over health care plan design and selection as well as the impact of the design and selection of health care coverage plans on the wages, hours, and conditions of employment for the employees; and (c) modified state employer health insurance contribution requirements.

State employees and employees of public authorities created by the state receive health care coverage under plans offered by the Group Insurance Board (GIB). The state also administers a local group health insurance program to allow participation by local governments in plans offered by the GIB. While a local government may choose to provide its employees health insurance coverage through the program administered by the state, local employer participation is not mandatory. The offered plans are assigned to one of three tiers depending on the cost efficiency of the plan, and employee contributions are scaled to encourage use of the most cost efficient plans (Tier 1 plans).

Prior to Act 10, statute provided that the state must pay for health insurance for its employees in an amount not less than 80% of the average premium costs of Tier 1 coverage plans for employees working more than 1,565 hours per year and 50% of this amount for employees working less than 1,566 hours per year, unless a different amount was specified by the state employee compensation plan for nonrepresented employees. In practice, the state paid approximately 94% of the premium costs. At the time, the compensation plan specified a threshold of 1,044 hours for providing a full employer contribution rather than 1,566 hours. In addition, for employees appointed to work fewer than 1,044 hours, the compensation plan provided that employees would pay 50% of the total monthly premium. Statute did not specify similar requirements for local governmental units.

In addition, prior to Act 10, some state employees paid health insurance contributions at different rates. Required rates for university teaching and graduate assistants were 50% of the rates paid by nonrepresented employees working at least 1,044 hours. Further, some represented state employees under certain collective bargaining agreements were paying somewhat lower contribution rates, pending the expiration of the agreements.

Due to modifications enacted by Acts 10 and 32, under current law state employers must pay: (a) for eligible employees who work at least 1,040 hours and are not university teaching and graduate assistants, an amount not more than 88% of the average premium cost as established annually by the Administrator of the Division of Personnel Management (DPM); (b) for insured part-time employees

working less than 1,040 hours (other than university teaching and graduate assistants), an amount determined annually by the DPM Administrator; and (c) for university teaching and graduate assistants, an amount determined annually by the DPM Administrator. [In practice, state employee premiums have been set at approximately 12% of the average premium cost of Tier 1 plans. To date, university teaching and graduate assistants continue to pay 50% of rates applicable to full-time state employees, while employees working less than 1,040 hours pay 50% of total premium rates.]

For local government employers that participate in a health insurance plan offered by the GIB, Act 10 provides that beginning on January 1, 2012, except as otherwise provided in a collective bargaining agreement with public safety employees, an employer may not offer the GIB health care coverage plan to its employees if the employer pays more than 88% of the average premium cost of Tier 1 plans. With respect to health insurance premium contributions, the changes enacted under Acts 10 and 32 are limited to state employees and employees of local governmental units participating in a health insurance plan offered by the GIB.

Local government employers that do not participate in the GIB program have great flexibility relating to health plan offerings and employee-required premium contributions applicable to non-public safety employees (because these issues may no longer be collectively bargained). Act 32 provided similar flexibility to municipal employers of public safety employees in the area of health insurance plan design and selection. However, the provision did not affect the ability of public safety employees to negotiate the employee premium contribution for the costs of health insurance coverage.

Employer Health Insurance Expenditures. Table 2 provides the following information from calendar years 2010 to 2019 for state and local employers with employees covered under a health plan offered by the GIB: (a) total health insurance contributions (employer and employee contributions were not reported separately after 2009); and (b) number of active employee contracts. In 2019, a total of 370 local employers participated in the program.

TABLE 2

**Employee Trust Funds State and Local Group Health Insurance Programs
Premium Contributions (\$ in Thousands) and Active Employee Contracts**

Year	State Program		Local Program	
	Contributions	Contracts	Contributions	Contracts
2010	\$1,067,164	72,313	\$189,480	12,700
2011	1,112,382	70,656	205,211	12,826
2012	1,034,066	69,650	198,476	12,679
2013	1,082,211	69,772	206,812	12,749
2014	1,128,667	70,219	219,413	12,890
2015	1,173,419	68,964	222,514	12,957
2016	1,113,654	68,463	222,052	12,812
2017	1,130,698	68,864	195,553	11,640
2018	1,119,360	68,468	195,610	11,351
2019	1,119,004	69,045	173,085	10,281

As noted previously, prior to Act 10, the state paid approximately 94% of health insurance premiums for its employees. Local employers that participated in the group health program

administered by the state paid a similar percentage. While the state currently pays approximately 88% of health insurance premiums for its employees, local employers that participate in a GIB plan may provide a contribution of less than 88%. However, for the purpose of estimating employer health insurance contributions, it is assumed that local employers in the group health program also pay 88% of health insurance contributions. If state and local employers offering health insurance coverage through a GIB plan had paid 94% of health insurance premiums, rather than 91% in 2011 (averaging 94% and 88% to account for a change in premiums for some employees mid-year) and 88% beginning in 2012, based on total health insurance contributions from 2011 to 2019, it is estimated that employers would have expended approximately \$671.6 million more for health insurance over the nine year period.

Due to variations in health plan designs of other local employers, as well as limitations of publicly available information for such employers, estimates of what other local government expenditures for health insurance premiums might have been if 2011 Acts 10 and 32 had not been enacted are not provided.

Other Considerations

The estimates above are generalized approximations of potential expenditure reductions associated with pension and health insurance contributions of state employers and certain local employers from 2011 to 2019.

There are over 2,000 units of local or municipal government, including school districts and employers that do not participate in the WRS, that were in some way affected by the provisions of 2011 Acts 10 and 32. In order to perform a thorough analysis of the acts' effects, at least the following information would be necessary from each unit of local or municipal government: (a) the costs the employer incurred to provide pension benefits for various groups of employees immediately prior to the passage of the acts (various unionized and non-unionized employee groups); (b) the costs incurred to provide health care benefits for various groups of employees immediately prior to the passage of the acts; (c) when and in what amount the pension costs for the unit of government changed after the passage of the acts for its various groups of employees; (d) when and in what amount the health care benefit costs for the unit of government changed after the passage of the acts for its various groups of employees; (e) in the intervening years, each time and in what amount the pension costs for the unit of government changed after the passage of these acts for its various groups of employees; (f) in the intervening years, each time and in what amount the health care benefit costs for the unit of government changed after the passage of the acts for its various groups of employees; and (g) offsetting compensation increases provided to retain and recruit employees of the unit of government since the passage of the acts. However, the state does not collect and audit for consistency detailed local data that would permit a complete analysis of estimated expenditure reductions to be completed.

Additional issues that could also affect expenditure reduction estimates for a unit of government include: (a) to what degree might pension benefit costs have changed even in the absence of the acts; (b) to what degree might health care benefit costs have changed even in the absence of the acts; and (c) what level of increased or decreased compensation, including across-the-

board wage adjustments, would have been provided to unionized and non-unionized employees in the absence of the acts. After analyzing available data and considering the issues identified above, in order to estimate the impact of the acts on all local and municipal governments, it would be necessary to assure consistency in the data between units of government and then consolidate the data.

RJ/ml