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MEMORANDUM

TO: Common Council

FROM: Peggy Steeno, Finance Director

DATE: May 29, 2019

SUBJECT: Submittal of the 2018/19 GASB 74 and 75 Report
(OPEB - Other Post-Employment Benefits) – OPEB Liability Reduced Due to Recent Benefit Changes

This communication is to transmit and discuss the City's 2018/19 GASB 74 and 75 Report, a required report which details the City's post-employment obligation related to the City's retiree medical plan.

As you know, the amount of the City's obligation has been an ongoing concern from a financial perspective, due to the substantial size of the obligation and its impact on the City's overall financial status. With that in mind, staff has been working diligently over the past couple years to find ways to mitigate this large obligation while maintaining a fair and equitable insurance package for employees and retirees. I am pleased to report that we are seeing the benefit of recent changes in the current report as noted below:

Obligation as of Fiscal Year End 2017

The obligation as of the previous reporting period, January 1, 2017, was \$146,933,656.

Obligation of as Fiscal Year End 2018

The obligation as of our most recent year-end, December 31, 2018, is \$118,712,722, a decrease of \$28,220,934, or 18.5%, which is extremely favorable to the City's financial status.

The details of how and why the obligation changed so drastically are detailed below.

In 2017, staff began researching alternative options in regard to retiree insurance as well as benefits in general, which led to the Common Council approving the following changes in 2018:

- ***Transferring Medicare-Eligible Retirees Off the City's Self-Insured Plan to a Medicare Advantage Plan***

July 1, 2018 – Council approved removing all Post-Medicare eligible retirees from the City's self-insured plan, placing them in a Medicare Advantage Plan – City is no longer obligated to pay claims which were always greater than premiums collected. Since then, the City is only responsible for 50% of premium per retiree, which is currently costing the City \$240 per month per member. This was a 'win-win' for retirees and the City as the



Medicare Advantage Plan is the standard for retirees, protecting them for things Medicare does not cover, and saving substantial premium dollars.

This change accounts for the large portion of the decrease in liability as of January 1, 2018.

- November 1, 2018 – Council approved a change in retiree insurance benefits as follows:
 - ***Increasing the Years of Service Required for Employees to be Eligible for Retiree Insurance*** - Require an employee to be employed for 20 years of continuous service prior to becoming eligible for retiree insurance rather than the 10 or 15 years, depending on start date, which was previously in place. As employee trends continue to change, this will likely reduce the number of members on the City's plan, yet also reward those employees that make a long term commitment to the City.
 - ***Reducing the Term a Retiree Can Remain in the City's Retiree Insurance Program*** - Once the required years of service are met, retirees are eligible for up to 10 years of retiree insurance or until Medicare age, whichever comes first, rather than them having retiree insurance either 'for life' or until Medicare eligibility, which was previously in place.
 - ***Increasing the Premium Share Paid by Retirees in the City's Retiree Insurance Program*** - Increased the premium share of retirees under the retiree plan to 20%, if Medicare eligibility is given up; to 35% for those who were only eligible up to Medicare eligibility; and, to 50% for all new employees starting after November 1, 2018. The previously approved range for these categories of employees/retirees was a range from 5% to 40% of premium share.

These changes account for a smaller portion of the decrease in liability as of January 1, 2018. However, the positive affect of these changes will be realized in future years.

- The 'Pay As You Go' Method is being used to fund the liability, which is satisfactory under the law. ***The annual budgetary impact of these benefits is approximately \$3.5 Million, which the City is currently covering through its annual budget process.*** However, the City does have a reserve in the General Fund, Fund Balance, for this purpose in case it is needed in the future to bridge any budgetary gaps. In previous years, the reserve was \$8,850,000; however, I recommended and Council approved an increase to \$9,500,000 as of December 31, 2018, at the May 7, 2019 Council Meeting.

After making the changes noted above, ***the City's obligation as of January 1, 2018, the current reporting period, is \$118,712,722***, a decrease of 18.5%, which is extremely favorable for the City's financial position.

Please let me know if you have any questions or need further information on this matter in advance of our discussion at the June 10, 2019 Administration & Finance Meeting; otherwise, I, along with Jack Chmielewski from Milliman, look forward to discussing it with you then.