ELMBROOK SCHOOLS
School District of Elmbrook

OPEB/Post-Employment Benefit Program Recommendation

February 24, 2015

"Planning for the Future, While Honoring the Past"

Contents

Background

Why is the School District of Elmbrook looking to change post-employment benefits?

Early retirement benefits for employee groups that were/are represented began through the collectively bargained agreements between the Board of Education and the specific represented unit. The number of years provided, and the percentages paid by the Board of Education have changed over time, but the benefit tied to year(s) of health insurance has been the constant. The last collective bargaining agreement that expired at the end of the 2011 contract year, provided for 74 months of health insurance coverage at 100% paid by the Board of Education for the teacher group. This benefit was changed to 5 years of health insurance with the district paying for 75% of the premium over that period of time if an employee reaches age 58 and has 17 years of service to the School District of Elmbrook beginning in 2011.

The two most recent required actuarial valuation studies conducted by external, independent organizations have identified a significant financial liability for the School District of Elmbrook. The study completed prior to the 2011 school year identified a liability for the district in excess of $50 million to provide for outlined benefits. The most recent study completed prior to the end of the 2014 contract year showed a current liability of $27 million to provide the current level of benefits to eligible staff. Annually to support the payments for these benefits, the district is required to set aside between $2 and $4 million from our annual operating budget.

The reality for the School District of Elmbrook is the current alignment of benefits to health insurance is unsustainable due to the continuous increase to health insurance. Through a study of ten district benchmarks and select market competitors in the area (Attachment A), Elmbrook is one of a few districts that currently provide specific years of health insurance to employees upon retirement. Additionally, Elmbrook is the only district that does not differentiate by employee or job category.

Why do we offer post-employment benefits?

The historic strategy and thinking behind providing these benefits to staff was to allow higher-salaried staff the opportunity to retire and, therefore, create cost savings by replacing them with lower-salaried staff. When post-employment benefits were originally provided, the cost of health insurance was much lower when compared with today's costs. A study completed by the Kaiser Family Foundation[1] identified an increase of 131% for health insurance from 1999 to 2009, compared to a 28% inflation rate over that same period of time. The increase in health insurance premiums far outpaces any salary savings.

The change in cost structure has created a need to re-align post-employment benefits with focused Human Resources strategies to attract and retain high-quality staff to the Elmbrook School District. According to a study published in Towers Watson[2], a global talent management consulting firm, from 2009 to 2011 the percentage of workers younger than age 40 that cited their employers' retirement package as an important factor in accepting their current job increased from 28% to 63%. Retirement

---

[1] See Steve Nyce, "Attraction and Retention: What Employees Value Most," *Tower Watson: Insider,* March 2012

[2] See Brad Tuttle, "Health Insurance premiums up 131% in Last Ten Years," *Time Magazine: Personal Finance,* Sept 16, 2009

packages are becoming a much more important factor for prospective employees that Elmbrook is attempting to recruit as we focus on the total package/total rewards offered by Elmbrook.

The same article from Towers Watson further cites the fact that over 75% of employees surveyed in 2011 that were part of a company providing a retirement plan stated the retirement plan provided a compelling reason to stay with their current organization. As staff enter the School District of Elmbrook and transition into their respective roles, providing defined-contribution benefits that are individually based are proven to provide incentive toward retention long term.

What are the critical success factors for our work?

1. Build a financially sustainable retirement benefit that includes a defined-contribution approach.
2. Reduce and eliminate the unfunded retirement benefit known as OPEB within 15 years.
3. Through the benefit redesign, create a strategy to recruit, attract and retain that differentiates Elmbrook from market competitors.
4. Honor employee loyalty in the redesign.
5. Reduce annual expenditures on retirement benefits from an average of $3 million to under $1 million annually.
6. Differentiate by employee groups.

These critical success factors allow administration to provide transparency into the process and the development of our recommendations for redesigning what we offer for post-employment benefits to all employee groups. As much as possible, we believe our recommendation meets these stated items but also understand that, in some instances, it is difficult to meet all factors in each individual case.

Who is working on this project?

The following staff members were invited to be a part of the planning and review process of potential options for post-employment benefits:

Administration:	**Teachers:**
Erik Kass, Asst. Supt for Finance, Ops, and HR	Amy Digman, Swanson Elementary School
Dan Pavletich, Director of HR	David Schimpf, Tonawanda Elementary School
Benefits Staff:	Janet Holt, Wisconsin Hills Middle School
Karen Gonzalez, Benefits Specialist	Laura Carlos, Burleigh Elementary School
Lori Golomski, Benefits Specialist	Leanne Wied, Brookfield East High School
Board of Education:	Lisa Camponeschi, Pilgrim Park Middle School
Meg Wartman, Chair of Personnel Committee	Michael Brock, Brookfield Elementary School
Custodial:	Pete Mejac, Brookfield Central High School
DeeDee Olivarez	Chris Mcgill, Dixon Elementary School
Assistants:	Sue Kanies, Wisconsin Hills Middle School
Susan Thoms	Tricia Gallmann, Fairview South
Special Category:	**Consultants:**
Lisa Panos	Al Jaeger, Associated Financial Group
	Scott Fuller, Associated Financial Group
	Ken Zastrow, National Insurance Services

What was the process?

The committee outlined above was formed to create representation across Elmbrook to focus on long-term strategies that were aimed at honoring the past, while focusing on creating a sustainable pathway for post-retirement benefits. This committee met three different times including:

- November 20, 2014
- December 11, 2014
- January 15, 2015

Members of the Administrative Cabinet also hosted an open forum at Brookfield East for staff from across Elmbrook on December 10, 2014. This forum was focused on education for the first 30 to 45 minutes about why Elmbrook was looking to redesign these benefits and transitioned into small group feedback opportunities. This information was then used by the benefit committee the following day to focus on opportunities as we completed our work.

Four informational meetings were held to focus on the recommendations for Teachers and Support Staff. These meetings were at East High School from 4:30 to 6:30 on February 10, 2015 and Brookfield Central High School from 4:30 to 6:30 on February 11, 2015. In total there were approximately 100 to 150 staff that attended to learn about our recommended approach to retiree benefits.

What options were researched?

The marketplace for post-employment benefits is broken down into defined-benefit and defined-contribution options. Defined-benefit plans provide employees meeting specific criteria (typically age and years of service requirements) a certain number of years of health insurance at many times a pro-rated cost. Defined-contribution plans provide employees a sum of money that may be provided over time or all at once, dependent on some of the same criteria as outlined for the defined-benefit plan.

	OPTION 1 *	**OPTION 2**	**OPTION 3**
Program	Insurance Continuation (Health)	HRA – Health Reimbursement Account Post Employment	Deferred Compensation – Elective 403(b) Plan
Type	Defined-Benefit	Defined-Contribution	Defined-Contribution
Employees Eligible	Potential discrimination issues if differentiated	*See Attachment B*	*See Attachment B*
Eligibility	Age 58 / 17 years	*See Attachment B*	*See Attachment B*
Benefit Level	Health insurance continuation for 5 years paid at 75% of the lowest-cost premium annually until age 65	*See Attachment B*	*See Attachment B*

Affordability	Unsustainable and variable due to medical inflation	*See Attachment B*	*See Attachment B*
Administrative Feasibility	Moderate. This program requires moderate administration through our current health TPA. A trust is established for this program and valuations are being completed every two years.	*See Attachment B*	*See Attachment B*
Flexibility	Restrictive. This program has no flexibility as nondiscrimination rules for health plans apply.	*See Attachment B*	*See Attachment B*
Human Capital Strategy	Moderate. This program has a significant retention and satisfaction impact when employees approach eligibility.	*See Attachment B*	*See Attachment B*

Administration and a group of staff representatives reviewed two defined-contribution options to determine which would better meet our needs long term. The two options reviewed were a premium-only Health Reimbursement Arrangement (HRA) and a Tax-Sheltered Annuity (403(b)). As outlined in Attachment B, there were ten distinct criteria that the group focused on to understand the distinct differences between the two options. The 403(b) option provided the maximum amount of flexibility for staff long term. However, it was determined by the planning committee, led by administration's philosophy on honoring the past purpose of post-retirement benefits, that this option was misaligned to the purpose of providing post-employment benefits. The HRA conversely carried many of the same advantages of the 403(b) option with the exception that employee access prior to age 59 ½ is allowable under the HRA and the HRA as researched may only be used for allowable premiums. Due primarily to the idea that post-employment benefits since their inception in Elmbrook were intended to bridge the gap between retirement and Medicare eligibility, the administration and, ultimately, the committee felt very strongly that this alignment to health insurance premiums was very important and subsequently focused on the HRA option only.

Administrative Recommendation:

The recommendation from the administration, as informed by the post-retirement benefit committee, feedback received on December 10, 2014, and feedback sessions in February is to shift toward a defined-contribution plan, backed by a Health Reimbursement Arrangement (HRA) beginning on July 1, 2015 that honors actual years of service by recognizing prorated years during each individual's career. The core aspects and details of this recommendation will follow; but this recommendation is aligned best to the critical success factors outlined in this report and, most importantly, continues alignment to the core purpose of post-employment benefits (providing health care funding upon retirement).

Effective Date

The intended implementation date of this recommendation is July 1, 2015, with initial contributions occurring in September of 2015. If the effective date is adjusted through the process, certain dollar projections and deposit parameters will need to be adjusted accordingly.

Investment Option

The recommendation of an HRA provides flexibility in how assets are invested for each individual account. The options include a guaranteed-rate fixed account through AUL or a lineup of variable annuity options through AUL. The recommendation is to start with the fixed account for all staff in 2015-16 and more closely research options for providing different investment options and, possibly, individual employee direction of these funds in future years.

Benefit Structure

The benefit structure recommendation is broken down into a category to cover Teachers, Administrators, Special Category, and Other Staff (clerical, assistants, food service, and custodians). All employee groups receive the same level of benefit once they reach age 58 and 17 years of service since changes that were made in 2011. The following recommendation shifts back to a differentiated benefit opportunity by employee group similar to the structures that were in place prior to 2011.

Teachers

For the teacher group there will be three tiers that will inform the level of benefits offered to each individual employee. These tiers will allow Elmbrook to transition 83% of teachers onto the defined-contribution plan, while grandfathering the remaining 17% of teachers into an opportunity to retire under the current benefit.

Tier 1

This tier is referred to as the seven-year grandfathering tier. Teaching staff that qualify for this tier will meet an age eligibility requirement of greater than 52 and having greater than or equal to 10 years of service to the School District of Elmbrook as of August 31, 2015. Staff determined to be eligible for this tier will be allowed to retire from Elmbrook once they reach age 58 and 17 years of service to Elmbrook with the equivalent of five years of health insurance paid at 75% of the lowest-cost premium until age 65. To provide added flexibility for staff in this tier, administration is recommending that the equivalent dollar amount each year be placed into an individual HRA account to allow the retiree to find coverage outside of the district or to allow the retiree to stay on the Elmbrook-sponsored plan. At the date of retirement, individuals in this tier will be required to select which option they would like and will not be allowed to change in future years.

Further recommended parameters and specifics for this tier include:

1. This window and benefit will be guaranteed for all staff within this tier for five years. After five years, the standard will be 59 years of age with 17 years of service.
    a. After the five years, all staff in this tier that are 59 years of age or older will have to choose to retire with the 5 years of district health insurance or receive a payment of $12,000 into a HRA for up to five years or age 65 to a maximum of $60,000.
    b. For those staff that will not be 59 year of age or older after five years, at the end of the year that a qualifying staff member turns 59 and has 17 years of service, they must

    choose to retire with the 5 years of district health insurance or receive a payment of $12,000 into a HRA for up to five years or age 65 to a maximum of $60,000.
  c. If an individual chooses to shift into the HRA, they will be eligible for annual contributions of $1,000 per successful full time year of service in good standing.
2. Annual contributions into an HRA if selected will stop at such time as an employee becomes Medicare eligible.
    a. For example if individuals qualifying for this tier retire at age 61 (meaning they are within the first five years of this guarantee) they would receive four years of deposits equal to 75% of the lowest-cost premium and not be eligible for the fifth year due to Medicare eligibility.

Tier 2

Teaching staff that qualify for this tier are those staff who have 15 years or less remaining until turning age 60.

Individual staff members who qualify for this tier will receive a lump-sum deposit In September of 2015 that is equal to $1,500 for each year of service to the School District of Elmbrook. This payment is intended to be a credit for those years of service they have provided to the School District of Elmbrook prior to and including the 2014-15 school year.

For those years of service starting with the 2015-16 school year, the administration is recommending providing an annual amount of $1,000 to be deposited on June 30 of each year following the completion of a full time year of service to the School District of Elmbrook while in good standing.

Further recommended parameters and specifics for this tier include:

1. Provide for each individual teacher to vest into 50% of their individual account after the 15th year of service to the School District of Elmbrook. Staff qualifying for this opportunity will have between 0 and 14 years of service to the School District of Elmbrook as of August 31, 2015.
2. Provide for individual teachers to vest into the remaining 50% of their accumulated account upon retirement and reaching Wisconsin Retirement System (WRS) eligibility.Annual deposits into individual accounts for years of service will stop for active employees the year following reaching age 65.

Tier 3

Teaching staff qualifying for this tier are those staff who have more than 15 years until reaching age 60.

Individual staff members who qualify for this tier will receive a lump-sum deposit In September of 2015 that is equal to $1,000 for each year of service to the School District of Elmbrook. This payment is intended to be a credit for those years of service they have provided to the School District of Elmbrook prior to and including the 2014-15 school year.

For those years of service starting with the 2015-16 school year, the administration is recommending providing an annual amount of $1,000 to be deposited on June 30 of each year following the completion of a full time year of service to the School District of Elmbrook while in good standing.

Further recommended parameters and specifics for this tier include:

1. Provide for each individual teacher to vest into 50% of their individual account after the 15th year of service to the School District of Elmbrook. Staff qualifying for this opportunity will have between 0 and 14 years of service to the School District of Elmbrook as of August 31, 2015.
2. Provide for individual teachers to vest into the remaining 50% of their accumulated account upon retirement and reaching Wisconsin Retirement System (WRS) eligibility.
3. Annual deposits into individual accounts for years of service will stop for active employees the year following reaching age 65.

Note: No annual payment for individuals in tier 2 and tier 3 will be made following a year that the staff member was part of a plan of improvement and/or has received an unsatisfactory evaluation.

Costs

Annual costs for this recommendation after all staff have been transitioned from the current five-year health insurance benefit are projected to be $530,000 annually.

The initial deposit amount for prior years of service is projected to be $5,303,855.

A more specific projection for the full recommendation can be found in Attachment C.

Administrators

For the administrator group, there will be two tiers that will inform the level of benefits offered to each individual employee. These tiers will allow Elmbrook to transition 97.5% of administrators onto the defined-contribution plan with grandfathering offered to one staff currently falling within the seven-year criteria outlined above in the Teacher section.

Tier 1

This tier is referred to as the seven-year grandfathering tier. Administrator(s) that qualify for this tier will meet an age eligibility requirement of greater than 52 and having greater than or equal to 10 years of service to the School District of Elmbrook as of June 30, 2015. Staff determined to be eligible for this tier will be allowed to retire from Elmbrook once they reach age 58 and 17 years of service to Elmbrook with the equivalent of five years of health insurance paid at 75% of the lowest-cost premium until age 65. To provide added flexibility for staff in this tier, administration is recommending that the equivalent dollar amount each year be placed into an individual HRA account to allow the retiree to find coverage outside of the district or to allow the retiree to stay on the Elmbrook-sponsored plan. At the date of retirement, individuals in this tier will be required to select which option they would like and will not be allowed to change in future years.

Further recommended parameters and specifics for this tier include:

1. This window and benefit will be guaranteed for all staff within this tier for five years. After five years, the standard will be 59 years of age with 17 years of service.
    a. After the five years, all staff in this tier that are 59 years of age or older will have to choose to retire with the 5 years of district health insurance or receive a payment of $12,000 into a HRA for up to five years or age 65 to a maximum of $60,000.
    b. For those staff that will not be 59 year of age or older after five years, at the end of the year that a qualifying staff member turns 59 and has 17 years of service, they must choose to retire with the 5 years of district health insurance or receive a payment of $12,000 into a HRA for up to five years or age 65 to a maximum of $60,000.

    c. If an individual chooses to shift into the HRA, they will be eligible for annual contributions of $1,000 per successful full time year of service in good standing.
2. Annual contributions into an HRA if selected will stop at such time as an employee becomes Medicare eligible.

For example if individuals qualifying for this tier retire at age 61 (meaning they are within the first five years of this guarantee) they would receive four years of deposits equal to 75% of the lowest-cost premium and not be eligible for the fifth year due to Medicare eligibility.Tier 2

All active administrators not planning to retire at the end of the 2014-15 and not eligible for Tier 1 are eligible for this recommended benefit.

Individual staff members on this tier will receive a lump-sum deposit in September of 2015 that is equal to $2,000 for each year of service to the School District of Elmbrook. This payment is intended to be a credit for those years of service they have provided to the School District of Elmbrook prior to and including the 2014-15 school year.

For those years of service starting with the 2015-16 school year, the administration is recommending providing an annual amount of $2,000 to be deposited on June 30 of each year following the completion of a full time year of service to the School District of Elmbrook while in good standing.

Further recommended parameters and specifics for this tier include:

1. Provide for individual administrators to vest into 50% of their individual account after the 10th year of service to Elmbrook. Staff members qualifying for this opportunity will have 0 to 9 years of service to the School District of Elmbrook as of June 30, 2015.
2. Provide for individual administrators to vest into the remaining 50% of their accumulated accounts upon retirement and reaching Wisconsin Retirement System (WRS) eligibility.
3. Annual deposits into individual accounts for years of service will stop for active employees the year following reaching age 65.

Note: No annual payment for individual administrators will be made following a year that the administrator was part of a plan of improvement and/or has received an unsatisfactory evaluation.

Costs

Annual costs for this recommendation after all staff have been transitioned from the current five-year health insurance benefit are projected to be $62,000 annually.

The initial deposit amount for prior years of service is projected to be $382,010 and includes the Psychologist and Social Worker staff for prior years of service that qualified. These staff will be shifted into the special category group beginning with the 2015-16 school year.

A more specific projection for the full recommendation can be found in Attachment C.

Special Category

For the Special Category group we are recommending creating two groups called leadership and confidential. The criteria to qualify for the leadership group are:

1. Supervision and Evaluation Responsibilities OR
2. Required DPI Licensure

The recommendation is to align the leadership group to the teacher benefits and the confidential group to the support staff benefits with a few exceptions.The exceptions we are recommending are as follows:

1. For Tier 1 eligibility and benefits, all staff within the special category group would align to the teacher eligibility minimums of age 52 and 10 years of service or more as of June 30, 2015.
2. We are not recommending elimination of retirement benefits for any new hires to the Special Category group as outlined in the support staff recommendation below at this time

Note: No annual payment for individuals in tier 2 and tier 3 will be made following a year that the staff member was part of a plan of improvement or has received an unsatisfactory evaluation.

Cost

Annual costs for this recommendation after all staff have been transitioned from the current five-year health insurance benefit are projected to be $34,000 annually.

The initial deposit amount for prior years of service is projected to be $176,915.

A more specific projection for the full recommendation can be found in Attachment C.

Support Staff

This group encompasses Custodians, Assistants, Clerical, and Food Service for this recommendation. For this group, there will be three tiers that will inform the level of benefits offered to each individual employee. These tiers will allow Elmbrook to transition 72% of these staff members onto the defined-contribution plan, while grandfathering the remaining 28% of staff into an opportunity to retire under the current benefit.

Tier 1

This tier is referred to as the five-year grandfathering tier. Support staff members who qualify for this tier will meet an age eligibility requirement of greater than 53 and having greater than or equal to 12 years of service to the School District of Elmbrook as of June 30, 2015. Staff determined to be eligible for this tier will be allowed to retire from the School District of Elmbrook once they reach age 58 and 17 years of service to Elmbrook with the equivalent of five years of health insurance paid at 75% of the lowest-cost premium until age 65. To provide added flexibility for staff in this tier, administration is recommending that the equivalent dollar amount each year be placed into an individual HRA account to allow the retiree to find coverage outside of Elmbrook or to allow the retiree to stay on the Elmbrook-sponsored plan. At the date of retirement, individuals in this tier will be required to select which option they would like and will not be allowed to change in future years.

Further recommended parameters and specifics for this tier include:

1. This window and benefit will be guaranteed for all staff qualifying for three years (2015-16, 2016-17, & 2017-18). After three years, the standard will be 59 years of age with 17 years of service to the School District of Elmbrook.
    a. After the three years, all staff in this tier that are 59 years of age or older with 17 years of service will have to choose to retire with the 5 years of district health insurance or

receive a payment of $12,000 into a HRA for up to five years or age 65 to a maximum of $60,000.

   b. For those staff that will not be 59 years of age or have 17 years of service, at the end of the year a qualifying staff member turns 59 and has 17 years of service, they must choose to retire with the 5 years of district health insurance or receive a payment of $12,000 into a HRA for up to five years or age 65 to a maximum of $60,000.
   c. If an individual chooses to shift into the HRA, they will be eligible for annual contributions of $500 per successful full time year of service in good standing.
2. Annual contributions into an HRA as recommended will stop at such time as an employee becomes Medicare eligible.
   a. For example if individuals qualifying for this tier retires at age 61 (meaning they are within the first five years of this guarantee) they would receive four years of deposits equal 75% of the lowest cost premium and not be eligible for the fifth year due to Medicare eligibility.

Tier 2

Support staff that qualify for this tier are those staff that have 15 years or less remaining until turning age 60.

Individual staff members who qualify for this tier will receive a lump sum deposit In September of 2015 that is equal to $750 for each year of service to the School District of Elmbrook. This payment is intended to be a credit for those years of service they have provided to the School District of Elmbrook prior to and including the 2014-15 school year.

For those years of service starting with the 2015-16 school year, the administration is recommending providing an annual amount of $500 to be deposited on June 30 of each year following the completion of a year of service to the School District of Elmbrook.

Further recommended parameters and specifics for this tier include:

1. Annual deposits into individual accounts for years of service will stop for active employees the year following reaching age 65.

Tier 3

Support staff qualifying for this tier are those staff who have more than 15 years until reaching age 60.

Individual staff member who qualify for this tier will receive a lump-sum deposit In September of 2015 that is equal to $500 for each year of service to the School District of Elmbrook. This payment is intended to be a credit for those years of service they have provided to the School District of Elmbrook prior to and including the 2014-15 school year.

For those years of service starting with the 2015-16 school year, the administration is recommending providing an annual amount of $500 to be deposited on June 30 of each year following the completion of a year of service to the School District of Elmbrook.

Further recommended parameters and specifics for this tier include:

1. Annual deposits into individual accounts for years of service will stop for active employees the year following reaching age 65.

Note: No annual payment for individuals in tier 2 and tier 3 will be made following a year that the staff member was part of a plan of improvement or has received an unsatisfactory evaluation.

Costs

Annual costs for this recommendation after all staff have been transitioned from the current five-year health insurance benefit are projected to be $71,000 annually with future reductions as staff retire and are replaced with individuals that aren't eligible to receive post-employment benefits.

The initial deposit amount for prior years of service is projected to be $864,116.

A more specific projection for the full recommendation can be found in Attachment C.

Other Recommendations:

Administration is recommending that, for all new hires within the groups identified as part of Support Staff and starting on July 1, 2015 no post-employment benefits be provided. This recommendation is aligned to data provided within Attachment A.

Conclusion

The School District through this recommendation is planning for the future, while honoring the past. Planning for the future is defined by alignment to the critical success factors, by driving down future costs and creating a competitive post-employment benefit package when compared to our ten benchmark districts. Honoring our past is defined by alignment to the critical success factors, honoring a grandfathering band of staff, and recognizing the value in years of service to the School District of Elmbrook.

This recommendation outlines a need to deposit a projected $6,726,926 on September 1, 2015 for prior years of service. Currently the Fund 73 OPEB Trust has assets of approximately $4.6 million, creating a difference of approximately $2.1 million necessary to make these initial deposits. The recommendation is to utilize fund balance that has increased over the previous 3 years due in large part to health insurance savings. Administration through the final design of this recommendation did look at options to decrease the initial deposit(s) necessary, but we found the most effective way was to extend the grandfathering bands beyond 7 years. When we looked at extending one year from 7 to 8 years, we were able to shift approximately 30 staff from the initial deposit to 5 years of health insurance at 75% of premium. This shift created approximately $625,000 of immediate relief on the target for the initial deposit, but the district would then assume a conservative estimate of $2.4 million in future health insurance premiums for these individuals.

The approach taken by administration was intended to balance the short- and long-term financial needs of the district. By increasing the initial investment in the defined benefit plan, we are able to accelerate the elimination of our OPEB liability and to eliminate future costs for health care premiums for 80% of our employees.

From a present value analysis, the proposed recommendation breaks even in year 13 taking into consideration the initial deposits and annual payments as recommended (Attachment D). This analysis assumes:

1. An equal number of individuals will retire over the next seven years that are within the grandfathered tier.

2. A medical trend increase of 6% over the next 25 years.
3. A discount rate on funds of 5.5% (equal to our assumed interest rate for individual accounts).
4. An equal number of current retirees will exit our health insurance plan over the next five years.

From a budgetary standpoint, as outlined in Attachment C, the district will fall below our five-year average cost of $2.3 million during the ninth year. This amount is projected to stabilize at approximately $697,000 beginning in year 12, creating approximately $1.5 million of budgetary savings ongoing.

Funding the Plan

The recommended shift in approach to retirement benefits is focused on planning for the future, while honoring the past. The funding proposal for this recommendation is broken down into the one time net deposit amount to provide eligible employees a payment for prior years of service and then the ongoing annual contributions for future years of service.

Net Deposit

The total projected initial deposit is $6,732,671 to provide for the different levels of payment across the employee groups and the accumulated years of service for all employees. This figure is presented as a projected amount, as we intend to provide staff the opportunity to verify the data we have on file for their years of service.

To provide for the funding necessary for the initial deposits, the following is the breakdown:

1. Provide funding from Federal Grants associated with those staff currently funded from those grants. This will provide approximately $100,000 in initial funding
2. Utilize Fund Balance that has been built up from health insurance budget(s) coming in under budget for the balance of $1,500,000
3. Continue the annual contribution of $500,000 to the Fund 73 Trust Fund in 2015-16 to provide for the remaining $500,000 contribution for the initial deposits.

The recommendation would be to shift the $1.5 million from Fund Balance to the Fund 73 Trust Fund prior to the end of the 2014-15 fiscal year to take advantage of categorical aid reimbursements in the 2015-16 school year. This amount is projected to be $200,000 and is recommended to use these funds for the 2015-16 annual deposits.

Annual Contributions

For a period of time, the district will be required to assume a projected cost greater than the current expenditure for retiree benefits as we transition from the defined benefit plan into the defined contribution plan. This cost differential is projected to be a maximum of $697,000, although due to the grandfathering tier that will be approximately 175 staff that will not receive annual contributions into an HRA. The short term projected annual payments for prospective years of service is $560,000.

The recommendation for payment of these annual contributions is:

1. Use of the Categorical Aid payment from the initial deposit of $200,000 in 2015-16.
2. Reduce the total budget for Health Insurance in the 2015-16 school year by $360,000 in line with our continued trend of being under budget annually in health insurance. This aligns with

the strategy of setting aside over $3 million in fund balance to cover any years of health insurance coming in over budget.

3. In 2016-17 and beyond, administration recommends using the annual budget amount of $500,000 historically set aside to fund the OPEB liability for these annual payments, with the remaining $60,000 coming from within the districts total budget and incremental categorical aids received for annual payments.

As the annual contribution shifts to larger amounts in future years, the efficiencies gained from having less retiree’s on the current level of benefit will be able to cover the additional $137,000 projected maximum increase over time.

OPEB Benchmarks(28jan2015)
Benchmarks

ATTACHMENT A

Teachers

	Arrowhead	Cedarburg	Hamilton	Kettle Moraine	Mequon	Mukwonago	Pewaukee	Shorewood	Whitefish Bay	Middleton-Cross Plains	Elmbrook (current)	Elmbrook (proposed) Tier 1	Elmbrook (proposed) Tier 2	Elmbrook (proposed) Tier 3
Age		55yrs			58 yrs	57 yrs					58 yrs	58	WRS Eligibility	
Yrs Service		15 yrs			20 yrs	20 yrs					17 yrs	17yrs		
Health	**NONE**	D.B. 6 yrs new-NONE	Buyout and $4,296/yr (family), $1,935 (single)	Buyout in 2012 for >11yrs Others: **NONE**	District pays same % as year retired for 7 years (currently under review)	3 tiers new - up to $500/yr	$1,500/yr of service, divided by 5	catchup, tiered: $500 or $1,000 per yr of service	$1,000/yr	N/A	75% for 5 yrs	5 yrs at 75% of premium	$1500 for each yr of service plus $1000/yr prospectively	$1000 for each yr of service plus $1000/yr prospectively
Average Salary	$ 64,666	$ 55,173	$ 63,023	$ 57,161	$ 61,037	$ 56,408	$ 54,034	$ 61,256	$ 55,690	49856	$ 63,023			

Admin

	Arrowhead	Cedarburg	Hamilton	Kettle Moraine	Mequon	Mukwonago	Pewaukee	Shorewood	Whitefish Bay	Middleton-Cross Plains	Elmbrook (current)	Elmbrook (proposed) Tier 1	Elmbrook (proposed) Tier 2	Elmbrook (proposed) Tier 3
Age		55 yrs			55 yrs	55 yrs					58 yrs	58yrs	WRS Eligibility	
Yrs Service		7 yrs			10 yrs	10 yrs					17 yrs	17yrs		
Health	**NONE**	87.4% until retirement	Buyout and $4,296/yr (family), $1,935 (single)	Buyout in 2012 for >11yrs Others: **NONE**	89% of premium	93% up to 5 yrs	N/A	catchup, tiered: $500 or $1,000 per yr of service	$1.000/yr	N/A	75% for 5 yrs	5 yrs at 75% of premium	$2000 for each yr of service plus $2000/yr prospectively	NA

Others

	Arrowhead	Cedarburg	Hamilton	Kettle Moraine	Mequon	Mukwonago	Pewaukee	Shorewood	Whitefish Bay	Middleton-Cross Plains	Elmbrook (current)	Elmbrook (proposed) Tier 1	Elmbrook (proposed) Tier 2	Elmbrook (proposed) Tier 3
Age						57 yrs					58 yrs	58yrs	WRS Eligibility	
Yrs Service						15 yrs					17 yrs	17yrs		
Health	**NONE**	**NONE**	$725/yr (family), $265 (single)	Buyout in 2012 for >11yrs Others: **NONE**	**None**	Over 50 yrs old get 5 yrs @93% of premium, all others - **Nothing**	N/A	catchup, tiered: $500 or $1,000 per yr of service	**NONE**	N/A	75% for 5 yrs	5 yrs at 75% of premium	$750 for each yr of service plus $500/yr prospectively	$500 for each yr of service plus $500/yr prospectively

ATTACHMENT B

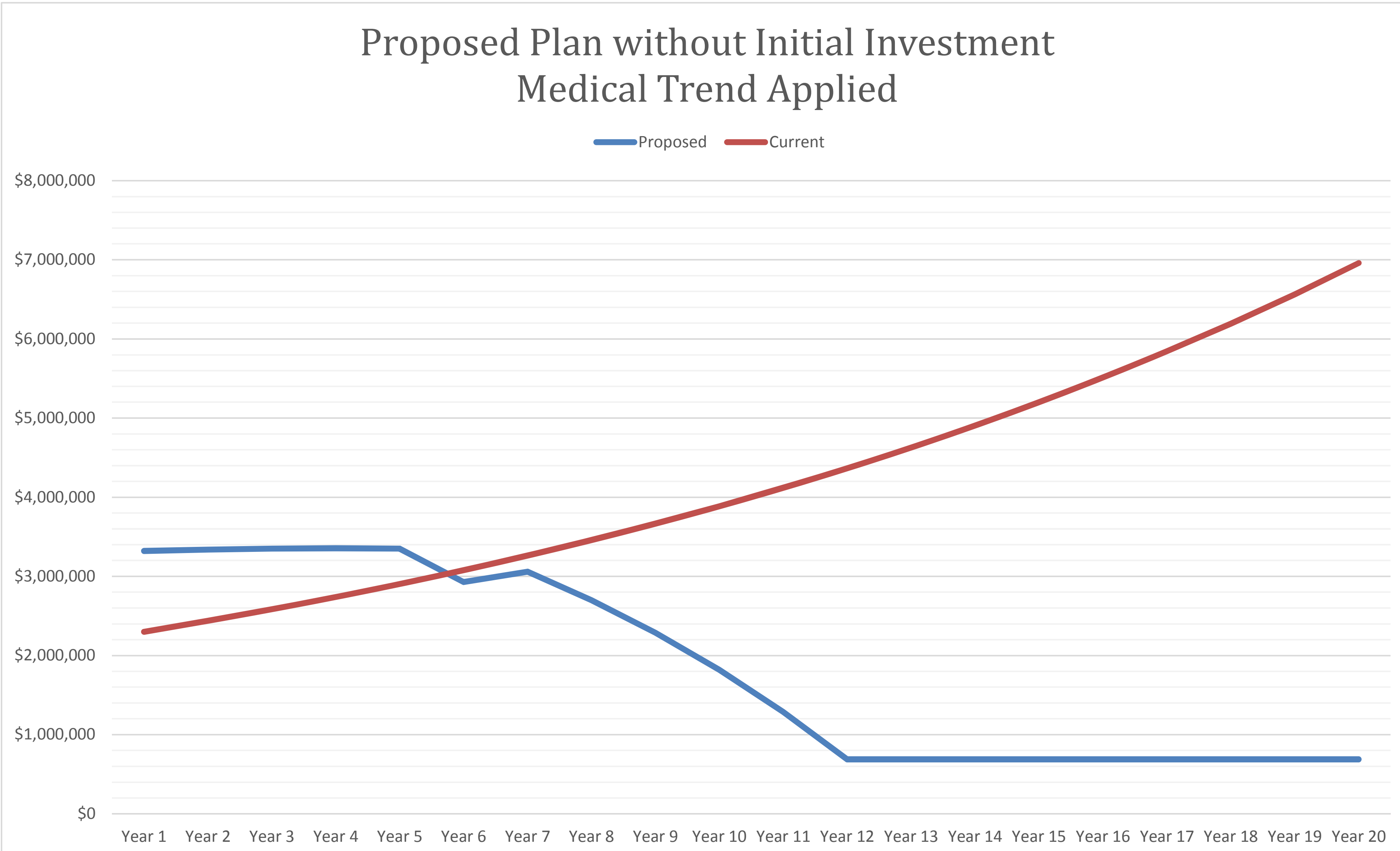
	Retiree Only Premium Only HRA	**Employer Sponsored 403(b)**
Taxation	Tax-free	Tax deferred; Federal and state income tax at the time of distribution
Use	Can only be used for qualified premium expenses; Health, Dental, Vision, LTC, and Medicare	Can be used for anything
Investment	Interest bearing; Fixed and variable accounts; Can be employer or employee directed	Interest bearing; Fixed and variable accounts; Can be employer or employee directed
Contributions	Contributions can be made while active; No limit on post employment contribution years	Contributions can be made while active; Post employment contributions can only be made for the first 5 full calendar years following retirement
Beneficiary	Only a surviving spouse and eligible dependents can continue using the HRA	Named beneficiary; Funds are never forfeited
Tax credit/Subsidy	Does not allow for additional premium tax credit	Included in household income and could effect premium tax credit calculation
Distributions	No age restrictions on distributions following retirement	Must be 59 1/2 to take distribution without 10% penalty or 55 at the time of retirement and truly separated from service
Rehired Employees	Access must be suspended if rehired and eliglbe for benefits	Access prior to 59 1/2 must be supended if rehired and working more than 20% of pre-retirement hours
Non Discrimination	Does not apply	Does not apply
Vesting	Any vesting schedule can apply	Any vesting schedule can apply

PROJECTED BUDGET IMPACT

	Proposed	Current
Year 1	$3,320,283	$2,300,000
Year 2	$3,339,480	$2,300,000
Year 3	$3,351,504	$2,300,000
Year 4	$3,355,426	$2,300,000
Year 5	$3,350,229	$2,300,000
Year 6	$2,926,109	$2,300,000
Year 7	$3,060,395	$2,300,000
Year 8	$2,699,791	$2,300,000
Year 9	$2,287,374	$2,300,000
Year 10	$1,818,224	$2,300,000
Year 11	$1,287,019	$2,300,000
Year 12	$688,000	$2,300,000
Year 13	$688,000	$2,300,000
Year 14	$688,000	$2,300,000
Year 15	$688,000	$2,300,000
Year 16	$688,000	$2,300,000
Year 17	$688,000	$2,300,000
Year 18	$688,000	$2,300,000
Year 19	$688,000	$2,300,000
Year 20	$688,000	$2,300,000

ATTACHMENT C


Proposed Plan with Initial Investment
Proposed
Current
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
Year 1
Year 2
Year 3
Year 4
Year 5
Year 6
Year 7
Year 8
Year 9
Year 10
Year 11
Year 12
Year 13
Year 14
Year 15
Year 16
Year 17
Year 18
Year 19
Year 20



Proposed Plan without Initial Investment
Medical Trend Applied
Proposed
Current
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$0
Year 1
Year 2
Year 3
Year 4
Year 5
Year 6
Year 7
Year 8
Year 9
Year 10
Year 11
Year 12
Year 13
Year 14
Year 15
Year 16
Year 17
Year 18
Year 19
Year 20

Present Value Factor	**5.50%**
Medical Trend	**6.00%**

Initial Investment	$6,490,500
Annual Cost	$688,000

	Current			**Proposed**		
	Cashflow	Present Value	Cumulative PV	Cashflow	Present Value	Cumulative PV
1	$2,300,000.00	$2,180,094.79	$2,180,094.79	$9,478,500.00	$8,984,360.19	$8,984,360.19
2	$2,438,000.00	$2,190,426.99	$4,370,521.78	$3,339,480.00	$3,000,363.87	$11,984,724.06
3	$2,584,280.00	$2,200,808.16	$6,571,329.94	$3,351,504.00	$2,854,186.60	$14,838,910.66
4	$2,739,336.80	$2,211,238.53	$8,782,568.47	$3,355,426.00	$2,708,556.05	$17,547,466.71
5	$2,903,697.01	$2,221,718.33	$11,004,286.80	$3,350,229.00	$2,563,375.30	$20,110,842.01
6	$3,077,918.83	$2,232,247.80	$13,236,534.61	$2,926,109.00	$2,122,148.36	$22,232,990.37
7	$3,262,593.96	$2,242,827.18	$15,479,361.78	$3,060,395.00	$2,103,828.17	$24,336,818.54
8	$3,458,349.60	$2,253,456.69	$17,732,818.47	$2,699,791.00	$1,759,180.77	$26,095,999.31
9	$3,665,850.57	$2,264,136.58	$19,996,955.06	$2,287,374.00	$1,412,749.11	$27,508,748.43
10	$3,885,801.61	$2,274,867.09	$22,271,822.14	$1,818,224.00	$1,064,443.93	$28,573,192.36
11	$4,118,949.70	$2,285,648.45	$24,557,470.59	$1,287,019.00	$714,180.36	$29,287,372.71
12	$4,366,086.68	$2,296,480.90	$26,853,951.49	$688,000.00	$361,875.28	$29,649,248.00
13	**$4,628,051.89**	**$2,307,364.70**	**$29,161,316.19**	**$688,000.00**	**$343,009.75**	**$29,992,257.75**
14	$4,905,735.00	$2,318,300.08	$31,479,616.27	$688,000.00	$325,127.72	$30,317,385.47
15	$5,200,079.10	$2,329,287.28	$33,808,903.55	$688,000.00	$308,177.94	$30,625,563.41
16	$5,512,083.84	$2,340,326.56	$36,149,230.10	$688,000.00	$292,111.79	$30,917,675.20
17	$5,842,808.87	$2,351,418.15	$38,500,648.26	$688,000.00	$276,883.21	$31,194,558.41
18	$6,193,377.41	$2,362,562.31	$40,863,210.57	$688,000.00	$262,448.54	$31,457,006.95
19	$6,564,980.05	$2,373,759.29	$43,236,969.86	$688,000.00	$248,766.39	$31,705,773.34
20	$6,958,878.85	$2,385,009.34	$45,621,979.20	$688,000.00	$235,797.53	$31,941,570.87
21	$7,376,411.59	$2,396,312.70	$48,018,291.90	$688,000.00	$223,504.76	$32,165,075.63
22	$7,818,996.28	$2,407,669.63	$50,425,961.53	$688,000.00	$211,852.86	$32,376,928.49
23	$8,288,136.06	$2,419,080.39	$52,845,041.91	$688,000.00	$200,808.40	$32,577,736.89
24	$8,785,424.22	$2,430,545.22	$55,275,587.13	$688,000.00	$190,339.71	$32,768,076.60
25	$9,312,549.67	$2,442,064.39	$57,717,651.53	$688,000.00	$180,416.79	$32,948,493.39

Input Variables