



**QUESTIONS AND ANSWERS REGARDING CHANGES TO
MPS HEALTH AND LIFE INSURANCE BENEFITS AND WAGES/FURLOUGHS**

1. What benefit changes were approved at the November 17, 2011 Board meeting and when will they take effect?

ITEMS THAT AFFECT EMPLOYEES/FUTURE RETIREES:	EFFECTIVE DATE OR CHANGE:
1. Retiree health and life insurance eligibility changes	Dates of retirement on/after 7/1/13 for ALL employees
2. Banked sick leave payout change	Upon expiration of contract (see dates below)
3. Change in Board subsidy method for retiree health	Dates of retirement on/after 7/1/13 for ALL employees
4. Increased employee premium contribution for health	Upon expiration of contract (see dates below)
ITEMS THAT AFFECT ALL EMPLOYEES AND ALL RETIREES:	EFFECTIVE DATE OR CHANGE:
5. Health plan design changes	Upon expiration of contract (see dates below)
EFFECTIVE DATE BY GROUP FOR ITEMS 2, 4, AND 5	EFFECTIVE DATE BY GROUP FOR ITEMS 2, 4, and 5
July 1, 2012 for the following groups: Local 150 Food Service Local 150 Building Service Helpers Local 950 Local 1053 Local 1616 Building Trades MTEA-Bookkeepers MTEA-Educational Assistants MTEA-Substitute Teachers	July 1, 2013 for the following groups: ASC ASC Exempt Board Members Cabinet Level Local 1053 Exempt Management Staff Board Governance MTEA-Teachers PAMPS

2. What changes were approved regarding furloughs and step and salary increases?

Four (4) unpaid furlough days district-wide were approved for fiscal years 2013, 2014, and 2015*. In addition, step pay increases and general wage increases are frozen for fiscal years 2013, 2014, and 2015*. (*Any such changes would be subject to collective bargaining agreement provisions and any collective bargaining obligations.)

3. Is it true that pension changes are also being made?

No. The benefit plan changes pertain to health and life insurance benefits.

4. Is “severance pay” (MPS Accumulated Leave Plan) being eliminated?

No. The payout of accumulated sick leave is reduced from 40 days to 10 days for employees who retire on/after the expiration of their contract. You will not “lose” the 30 days because the days will be “used” to meet your eligibility for the Board-paid subsidy for retiree health care.

5. Is it true that currently in order to retire with Board-paid retiree health insurance I just need to be age 55 or older and have the sufficient number of sick days?

No. There are three criteria that need to be met: (1) age, (2) years of service, and (3) accumulated sick time. These are still the criteria that need to be met under the changes. However, the required amount for each of the criteria is changed to age 60 with 20 or more years of service and 90% of the maximum accumulated sick time. Currently you must be age 55 or older with 15 or more years of service as defined in your contract and the sufficient amount of sick time (812 hours for 10-month employees and 840 hours for 12-month employees). The new accumulated sick leave requirement is 1044 hours for 10-month employees and 1080 hours for 12 month employees.

6. Is it true that current retirees will also be required to pay the proposed increases in employee premium contributions and will the proposed design changes also apply to current retirees?

Existing retirees will not be required to pay the increased employee premium contribution. As in the past, retirees have the same health plan design as active employees. In fact, existing retirees will benefit from the premium reduction associated with the design changes because premiums are estimated to decrease because of the changes. The premium reduction is passed on to retirees.

7. I heard that in order to receive retiree health insurance, you may not retire before age 60 if you have 20-29 years with MPS or at age 55 with 30+ years with MPS. Is this true?

The change to current eligibility requirements for retiree health (self-paid and Board-paid) is changing from 55 years of age/15 years of service to 60 years of age/20 years of service effective with dates of retirement on/after July 1, 2013. Until the sunset date of July 1, 2015, you may retire at 55 years of age or older with 30 or more years of service. The definition of years of service does not change and will be either MPS service or MPS/City Service as currently defined.

NOTE: It is important to clarify that for dates of retirement prior to July 1, 2013 the eligibility provisions for retiree health insurance remain the same. If you retire prior to July 1, 2013 you can still retiree with Board-paid retiree health insurance before age 60 provided you have the required 15 years of service and you have the required 70% sick leave requirement. Please note that the changes to retiree health eligibility including the sick leave requirement take effect with dates of retirement **ON OR AFTER** July 1, 2013 and subject to the sunset provision for those ages 55 or older with 30 or more years of service. (See chart on the following page.)

Can I retire with Board-paid retiree health if I have the following age and years of service as of July 1, 2013 <u>AND</u> assuming I have the required full-pay sick leave hours as of my date of retirement? Examples:				
Age	Years of Service	Additional Service Years Needed	You Can Retire as Early as:	Do I Meet Sunset Provision
50	28	None	You will need to work to age 60	No
53	23	7	You will need to work to age 60	No
53	28	2	Yes, if age 55 or older and you retire before 7/1/15; <u>OR</u> you will need to work to age 60	Yes
53	30	None	Yes, if age 55 or older and you retire before 7/1/15; <u>OR</u> you will need to work to age 60	Yes
53	14	6	You need to work to age 60	No
57	13	7	You need to work to age 64	No
57	17	3	You need to work to age 60	No
60	14	6	You need to work to age 66	No

Why? The majority of the cost to provide retiree health benefits are still paid by MPS under the change. Retiree health coverage from ages 55 to 65 are the most expensive years of retiree health coverage because Medicare has not yet “kicked in.” When Medicare “kicks-in,” Medicare is primary and MPS coverage is secondary. Under the current method, an employee could retire at age 55 after 15 years of service and the district covers the employee and his/her enrolled family’s medical costs for 29 years (from 55 to the actuarial age of 84), which in this example is for a longer period than the employee worked. The change provides a more sustainable balance in years of service and age required for future retirees with dates of retirement on/after July 1, 2013.

8. Can retirees expect deductible increases and reductions in coinsurance limits?

Yes. The plan design changes affect all employees and retirees (current and future). However, the Board-paid subsidy (i.e., the amount of the Board-paid subsidy the employee “retired with”) does NOT change for current retirees. The plan design changes will **lower the premium rates** and the monthly premium payments made by retirees will go down upon implementation of the health plan changes **in comparison to the continuation of the current plan design.**

9. There have been comments that the MPS plan will become a catastrophic health plan with 60% of employees not receiving any benefit from the insurance because the out-of-pocket costs are born by them and not the insurance. How can I evaluate this comment?

The plan changes approved by the Board reduced the amount of deductibles and coinsurance originally proposed. However, there is still a greater amount of cost sharing by employees and retirees under the new plan design. Throughout the process of determining what design changes would be made, it was with the objective that MPS plans continue to be comprehensive and sustainable in the long run. Preventive care services are still covered 100% by the plan and prescription drug coverage is still designed to emphasize the use of inexpensive generics with an \$8 co-pay for a 30-day supply and a \$16 co-pay for a 90-day supply. The new plan designs also encourage primary care office visits and the use of urgent care centers and are intended to steer persons away from misuse of emergency rooms for routine visits.

10. There have been comments regarding the proposed 90% of maximum sick leave to qualify for health insurance in retirement and how it may discriminate against women who use all of their sick leave for maternity and then use some of it to stay home with their sick children. How can I evaluate this comment?

The increase from 70% to 90% in the amount of sick leave needed to qualify for the Board-paid subsidy for retiree health benefits over a 20-year period is attainable. However, with the district facing the high cost of covering an individual with a longer lifespan, the bar is set higher due to the need to manage sick leave and the high cost of retiree healthcare. This higher 90% limit can present more challenges than the current 70% limit. However, please consider the following facts for a ten-month employee over a 20- year period:

- The ten-month employee can earn 2,000 hours of full pay sick leave hours (100 hours per year maximum).
- The maximum number of full pay hours that can be accrued is 1,160 and the balance of 840 hours is credited to the ½ pay sick leave accrual.
- The ½ pay hours can be converted to full-pay hours for purposes of meeting the 90% limit.
- The 90% of maximum sick leave hours needed to qualify is 1,044.
- Over a 20-year period, one can use 956 hours in sick leave depending on the timing of the usage and still qualify for the Board-paid subsidy.

In addition, the Federal Medical Leave Act (FMLA) provides for continuation of health care benefits whether or not in paid status of up to 12 weeks per year.

11. Wouldn't the district save money by hiring a replacement worker at half the salary of the retiring worker?

The salary savings were built into the five-year budget forecast. The concern is that the district (budget) cannot afford the legacy cost of covering one retiree for every active employee. For example, this amounts to paying the equivalent of two family premiums of \$24,420 per year (or \$48,840) for every active employee.

12. Will the benefits for a new employee be the same as the benefits for the rest of us who have been employed for years by the district, and has the district looked at varying the benefits for new hires?

The change does not differentiate the health plan design by date of hire.

13. Isn't the fact that when Medicare retirees retire the MPS plan is a supplement to Medicare and the Board has a fixed contribution to the plans when the Board amount is set at retirement – don't these facts help keep costs down?

These factors have been included in our forecast. However, the Board subsidy (Board contribution) for current retirees was based on the Board's share of the active PPO premium rate that was in effect at the time of retirement, and the Board's subsidy for current retirees is NOT reduced when the retiree becomes covered under Medicare. Therefore, the Board does not benefit from the Medicare savings, but the retiree does benefit.

14. Do we have a formula or “rule of 85” for retiree health coverage?

No, we do not have a rule of 85 and there is no proposal to have one. (Rule of 85 means that a combination of age and service can equal 85 and meet eligibility for retiree health benefits.)

15. What happens if I turn 55 on July 1, 2013?

With any change there is always a line or a requirement that is drawn and not all individuals will meet the new requirement. In this case, one would need to continue to work to age 60 if they did not have the 30 years of service to qualify under the sunset provision that ends July 1, 2015.

16. With these changes, what do you see to be the savings per retiree?

We have not broken out the savings to that detail. It is estimated that the total savings are \$170 million over five years and will reduce the district’s projected budget deficits.

17. What is the 70% of sick leave balance you currently need to qualify for Board paid retiree benefits and what would that number be at the new 90% requirement?

Required Percent of Sick Leave Hours for Health Benefit	10-Month Employee	12-Month Employee
Current 70%	812	840
New 90%	1,044	1,080

Remember, half-pay sick leave hours convert to full-pay sick leave hours for purposes of meeting retiree health insurance eligibility.

18. What happens to the half-pay hours of sick leave accumulated?

They can be used to meet the 90% of sick leave accumulation needed for Board-paid retiree health benefits; so half days do have value. Note: Half-day hours still DO NOT qualify for “severance pay.”

19. It appears that MPS’ proposal is more costly to the employee than the City’s 2012 benefits?

A few factors come into play - MPS received deeper reductions in State aid, MPS has a different ratio of retirees to active than the City, and MPS has a “richer” benefit design to cover Medicare retirees. For example, the City only covers 25% of the premium for Medicare retirees. The City’s OPEB liability is less than \$1 billion and MPS’ current (before design/eligibility changes) OPEB liability is \$2.2 billion.

20. What is the wellness incentive, and who is eligible to earn the incentive?

The Board also approved an increase in the wellness incentive from \$350 to \$450 that employees can earn by participating in the district’s wellness program. The \$450 incentive can be used to help defray the cost of employee deductibles and co-pays. All employee units (except substitute teachers) are eligible to participate in a wellness or disease/case management program and earn this financial incentive offered by the district’s wellness program. If you are an active employee, you must be the subscriber of the health plan in order to be eligible for the incentive. This change becomes effective upon expiration of union contract as noted in Question 1.

21. How was the current amount of the \$350 wellness incentive amount determined?

This was determined by several facts including the suggested incentive amounts by our third party administrator that focused on what would be enough to motivate enrollment and healthy behavior, without being too much and what could be afforded by the district.

22. Will there be increases to the wellness program and incentives; for example, offering discounts for recreation classes?

Discounts for recreation classes are not an option due to the resident and non-resident pricing requirements we must comply with. However, the district remains committed to providing an effective, sound and comprehensive wellness program and is seeking input to upgrade its wellness program. Recently the district changed vendors for its wellness program with a “go-live” date of January 1, 2012 and continues to encourage use of the wellness program.

23. What are the preventive services covered at 100% by both the PPO and EPO health plans?

The following are just some of the preventive services that are covered at 100% by either health plan: Office visits for immunizations, annual physical, preventive lab tests, mammogram, OB/GYN annual exam, and office visits specifically for preventive, age/gender screenings and age appropriate immunizations. Treatment of an illness is treatment, not preventive. You can find additional information from UnitedHealthcare at www.uhcpreventivecare.com.

24. Paraprofessionals and Educational Assistants are lower wage earners; how can they afford the increased employee contributions?

To address the lower wage earners, the original proposal was modified. The following employee premium contributions were approved:

ANNUAL BASE SALARY	PLAN	Monthly Premium Contributions	
		EPO	PPO
Under \$25,000	Single	5%	11%
	Family	5%	11%
\$25,001 - \$50,000	Single	8%	12%
	Family	8%	12%
\$50,001-\$75,000	Single	10%	13%
	Family	10%	13%
\$75,001 and Above	Single	12%	14%
	Family	12%	14%

25. Regarding the proposed EPO premium contribution by salary range/band, what number of employees are making over \$77,000, and why doesn't the change include employees making over \$100,000 to contribute more, for example 20% premium contribution?

There are 585 employees with an annual salary over \$76,900. With the premium grading per salary bands, the goal was to attempt to meet a blend of rates that approach an overall premium contribution of 12%, keeping in mind that the majority of MPS employees are under \$75,000.

26. Looks like you are punishing the employee who takes the lower cost EPO plan?

PPO premium rates are developed separately from the EPO currently, and at retirement the Board subsidy (Board contribution) will be a blended rate so that every retiree with dates of retirement on/after July 1, 2013 will have this as the method used to develop the “Board-paid subsidy” so that it reflects a blend of the Board’s share of active PPO and EPO rate at retirement.

27. Looks like the family plan is more expensive than two single plans; can we choose two singles for coverage for a family of two?

Currently, an employee cannot choose two single plans when the family is made up of two individuals where only one works at MPS in a benefit eligible position. Remember that the plan you have as an active employee does affect your Board-paid amount at retirement - a single plan as an active employee translates to a single Board-subsidy amount. (Note: If both individuals work at MPS in benefit eligible positions, they can select two single plans.)

28. Feels like we are getting a “double whammy” – employee deductible and co-pays are increasing as well as premium contributions, not to mention what we are paying for pension contributions.

The changes include the impact of these contributions as well as the pension contributions. The lower wage earners were taken into consideration with the lower employee premium contributions and plan design changes that were approved by the Board on November 19.

29. Any changes to the dental plans?

No. There are no changes to the dental plans at this time.

30. Is the issue insurance costs or healthcare costs?

The district is self-funded for healthcare costs that include the prescription drug benefit. The district pays administration fees of less than 3% and pays all claims (i.e. to healthcare systems such as Aurora, Columbia St. Mary’s, etc.). So in a nutshell, MPS healthcare costs are based on the price of healthcare services and prescription medications, a small administration cost, and how many services are used. There are no profits or margins included in the monthly premium rates calculated by the district’s actuary. In essence, MPS is acting as the “insurance company.”

31. What percentage of employees do you assume will be retiring by July 1, 2013?

The proposal assumes the following retirements, which was laid out in the Board item as follows:

MOST LIKELY FORECAST Increased Retirements	FY12	FY13	FY14	FY15	FY16	FY17
STATUS QUO FORECAST Number of New Retirements Used in Status Quo Forecast		236	475	72	73	74
INCREASED RETIREMENTS Most Likely Forecast Potential Number of New Retirements Used in Most Likely Forecast		286	997	132	79	80

32. Is the rumor true that the number of sick days that can be earned per year will decrease to 10 days/year for a 12-month employee?

No. This rumor may have come out of the sick leave payout being reduced from 40 days to 10 days.

33. Absenteeism is currently a problem. Has there been any proposal to grandfather the sick leave accumulation so that further abuse of sick leave does not occur; i.e., employees using up accumulated sick leave since they will not have enough to qualify for Board-paid retiree health.

We cannot fully comment on this; however, we remind employees that the intention of the sick leave bank is intended as a benefit that is used for sickness/illness, and remember that the new sick leave amount is set at 90% and not 70% to qualify for the Board-paid retiree health benefit.

34. Can we anticipate salary structure changes in 2015?

We cannot comment on this at this time. However, this is on the list of things to review to see what can be included in the budget.

35. Can you consider grandfathering; for example, allowing employees to still retire at 55 but fully self-pay the premium for health coverage until turning age 60?

This is part of the difficulty that adds to the “perfect storm” scenario. When explored, it was determined that this would still involve the district subsidizing the premiums and not many employees or the district would be in a position to “afford” a grandfathered scenario.

36. PART 1: What about the proposal approved by the Board that will group (pool) the under 65 retirees into a separate group to determine their retiree health premium rates – how will this be advantageous?

Medicare retirees (age 65 or over) have always been grouped and rated separately. We also need to group and develop premium rates separately for under age 65 retirees. One reason is that in accordance with the new federal health care reform a “Cadillac tax” (40% excise tax) will be mandated in 2018 and applied to high cost plans such as the MPS health plan. We are keeping an eye on this so that we can mitigate this potential unfunded, costly mandate and will report back to the Board on this situation.

PART 2: Will the new method of grouping (pooling) pre-65 retirees into a separate group to determine their retiree premium rates be used for retirees with dates of retirement before July 1, 2013?

No. The pre-65 retiree pooling proposal approved by the Board applies to retirees with dates of retirement on or after July 1, 2013.

37. How does the out-of-pocket maximum work as it relates to, for example, a \$1 million claim?

An employee would only pay the annual out-of-pocket maximum for an individual. For example, under the PPO plan for an in-network provider the annual out-of-pocket limit is \$2,500 after the individual annual deductible of \$750 has been met – that would be the most the employee would have to pay for a \$1 million claim – the district still pays the balance (the majority) of the \$1 million claim.

38. Are any changes being made to the Opt-Out Plan; for example, increasing the amount of money the district pays the employee to opt out because he/she is covered under another non-MPS employer group plan?

No changes are being proposed to the Opt-Out Plan at this time. We need to first see what changes occur in our enrollments with the new plan design changes. Currently, one of the main reasons people do not opt out of the MPS plan is because it offers much better benefit levels than other employer plans and thus can be considered a “magnet” plan.

39. Will lab work still be covered?

Yes. If lab work is ordered and received in-network for preventive care it will be paid at 100%; if not preventive, it will be covered by the plan with the applicable coinsurance amount, after the deductible has been met.

40. Under the new plan design changes, how does the annual deductible and out-of-pocket limit work when your family unit is only made up of two individuals?

The two individual deductibles and two individual coinsurance amounts will be applied. For example, under the proposed EPO, a family of two will need to satisfy two \$350 deductibles or \$700, and the out-of-pocket maximum that needs to be met is two \$1,000 out-of-pocket expenses or a total of \$2,000.

41. What changes affect retirements on/after July 1, 2013 and what can we expect for retiree health premium increases?

For contracts that expire July 1, 2012 or on July 1, 2013, the new health plan design changes become effective July 1, 2012 or July 1, 2013 respectively for such employees and all retirees. The changes to eligibility for retiree health and life insurance for ALL employees will take effect with dates of retirement on/after July 1, 2013.

The health plan design changes will result in reduced premiums when compared to continuing the health plan design “as-is.” So, current retirees can expect to see a decrease in the amount they are paying (i.e. the amount in excess of their Board-paid rate (“subsidy”) at their respective retirement date). For example, if you are a current retiree and your Board-paid rate (“subsidy”) is \$1,000 and due to the proposed design changes the premium cost of the plan you are enrolled in decreases to \$800 per month, you pay nothing per month for your coverage until the premium rate increases above your \$1,000 monthly Board-paid subsidy.

42. Is the district asking for higher employee premium contributions this year, only to ask us next year for 28% or the next for 30% - will it stabilize?

The district is trying to offer a sustainable benefit package with more than a one-year shelf-life. The objective was to develop a five-year plan, but as it was developed, it was determined that it could only stabilize its costs through 2015 – there are some factors beyond the district’s control that may or can limit the shelf-life of the current changes. As recommended to the Board, we will annually monitor and report to the Board, the public, and all constituents the annual status of benefit costs and forecast on a rolling five-year basis. This will give all parties the time to adjust and not be caught off-guard with the need to make corrections in its course.

43. I have heard the comment that disaggregation of retirees into a separate plan will destroy the retiree plan because the plan will only have the sick and old. Insurance is predicated on being sustainable by having a pool of both healthy and young with sick and old. How can I evaluate this comment?

This is a very complicated matter when we consider the fact that MPS is “the insurance company” because it is self-funded. Our actuary is responsible for developing premium rates and there is a need to develop premium rates to address the pre-65 retiree group. The changes do not deviate from best practices for sustainable benefits and is consistent with how the MPS Medicare group has been rated as a separate Medicare group for over 20 years. (See Question 36 - Part 2)

44. I have heard the comment that the MPS plan is an outlier to surrounding districts. How can I evaluate this comment?

There is no question that the rising cost of health is becoming more difficult for everyone to afford and some districts like MPS have had incurred greater financial challenges than others and have had to make deeper cuts with layoffs, reduced services, and benefit reductions. The plan design changes when compared to other districts may not be as good as other districts but in some cases other aspects of the total benefit package offered by MPS are better. However, the changes are essential to stabilize costs through FY15 and prevent the district from having to use layoffs as a means to balance its budget.

MPS is in a unique situation with its **unfunded** OPEB liability for retiree health and life insurance benefits of approximately **\$2.2 billion**. This is **twice** our annual \$1.1 billion operating budget. In addition, MPS has been downsizing for years due to loss of market share (student enrollment) that has resulted in the following:

- By next fiscal year MPS will have 1,165 employees eligible for Board-paid retiree health growing to 1,900 by 2015.
- MPS projects that over the next five years, we will support one retiree for each working employee.
- Currently 41% of all MPS employees are 50 years and older while the national average is 26%.
- MPS has a large unfunded legacy cost that puts **all future benefits and the entire district at risk**.

45. Isn't the contribution percentage too high for many of the district's low wage earners?

The final employee premium contribution structure approved by the Board addresses low wage earners. Please see Question 24.

46. This is outrageous! Once again more money is being taken away from the worker! The worker is making less today than he/she was yesterday. Why?

Understandable. The changes are designed to stabilize cost increases that are beyond the district's control and **to avoid relying mainly on layoffs** to balance the district's budget. The biggest challenge and concern is if these changes are not made, it will put future benefits and the district itself at further risk.

All employees have the option to select the EPO, which would reduce their employee premium contribution and out-of-pocket claim expenses when they use the health plan. Note: The employee premium contribution for both the PPO and EPO plans benefit from being before-tax. In addition, the premiums will decrease under the new plan designs.

47. How could the changes possibly be in everyone's best interest? Why are these problems only being addressed now?

The district's unfunded retiree health and life insurance costs ("OPEB") for current and future retirees continues to be calculated and reported annually in accordance with Government Accounting Standards Board (GASB). The Board has established a trust to fund its OPEB obligation. Due to budget constraints, recent legislation and the compounded effect with declining enrollment due to Choice Schools, this trust has received only the minimum amount of funding.

The design changes give the district the best chance to provide sustainable benefits and attempt to address the larger issue of declining enrollment. As previously explained, declining enrollment is the second largest negative driver facing the district and it is essential that the district have a plan to gain back market share.

48. What about employees who have 30 years of service to the district but who do not meet age eligibility? This is unfair to move the retiree age on employees with 30 years of service who have been planning to retire but just missed the cutoff!

Due to this concern a sunset provision was added to the changes that extends the age requirement of 55 with 30 years of service with dates of retirement to the sunset date of July 1, 2015.

49. It is better for me to retire now?

This is a very personal decision for which you need to weigh the facts and apply them to your individual situation. We intend to have informational sessions in the upcoming weeks for employees to attend. Please note that changes will NOT commence until after the expiration of your contract.

50. Are you planning to hold informational meetings after work to provide an opportunity for employees to learn more about the benefit changes and ask questions? When will you start holding these meetings?

Yes. We plan to start holding the meetings in January and the schedule will soon be posted on our website at <http://mpsportal.milwaukee.k12.wi.us> – click on the Employee Benefit News button on the left side of the homepage.

Note: This document is intended to provide highlights in general terms only of the changes to MPS health and life insurance benefits based on questions received to date. It is not intended to be a complete description of coverage and may not reflect all plan terms and conditions as approved by the Board and implemented by MPS.

Date: December 6, 2011

CMT:som