A Passion for Excellence

NEENAH
Joint School District

To: Neenah Joint School District Board of Education
From: Dr. Mary B. Pfeiffer, District Administrator
Date: October 2, 2012
RE: Other Post Employment Benefits (OPEB)

Neenah Joint School District Other Post Employment Benefits Presentation

Introduction

There has been significant conversation throughout our District and statewide concerning OPEB. As an introduction to this report, it will be important that several terms are defined and understood.

1. HDHP: High-Deductible Health Plan - Lower premiums and higher deductibles than traditional medical plans
2. HSA: Health Savings Account – Pre-tax medical savings account with a HDHP; portable and owned by the employee.
3. HRA: Health Reimbursement Arrangement – Money set aside by the District to be provided as a post employment benefit to employees upon retirement; owned by the District
4. TSA: Tax Sheltered Account – Money that is owned and invested by the employee, i.e. 403(b)
5. OPEB (Other Post Employment Benefit): Benefit paid by the District in addition to the Wisconsin Retirement System benefit
6. Funded liability – Money that is currently allocated in the District budget or money that has been put aside in a designated account to address a future obligation
7. Unfunded liability – Debt that accumulates and payment is deferred
8. "Bridge amount" – Post employment benefit/dollars that can assist employees with the purchase of health insurance between the time they retire from the District until they reach Medicare eligibility
9. Retirement eligibility – For the sake of this proposal, employees must meet a "77" requirement, or be 57 with 20 years of experience. If employees are 55 or 56, similar to WRS, they could retire with penalty. If retiring at 55, the employee must have at least 22 years of service and would incur a 10% penalty on the unfunded benefit. At 56, the employee must have at least 21 years of service and would incur a 5% penalty on the unfunded benefit. Eligibility for those hired after July 1, 2013 would be 57 and at least 20 years of experience in order to be eligible to purchase District insurance.

Identification of Groups from the April 24, 2012 recommendation:

Group A – Includes All Employees Retiring June 30, 2013 (2012 - 2013 School Year)

1. Each employee will receive one week's pay for each year of service paid into a 403(b) account upon retirement (June 30, 2013).

2. Beginning with this group, there will be a transition amount of $3,700 for each year of service up to 20 years. After that, an amount of $2,500 will be paid for years 21 through 30 years of service. These amounts will be referred to as the "bridge amounts." Since they will be working one year prior to retiring, the appropriate amount will be deposited into an HRA account. Upon retirement, employees will be provided equal payments of their "bridge amount" into an HRA over a 5½ year period.

Group B – All Groups for Employees Hired Prior to July 1, 2004 and Retiring After July 1, 2013

1. There will be no stipend associated with this group.

2. Similar to the transition in Group A above, a $3,700 deposit per year for up to 20 years will be placed into an HRA account with the initial deposit being made at the end of the 2012 – 2013 school year. Each year after 20 years the employee would receive a $2,500 deposit up to 30 years of service. Upon retirement, employees will be provided equal payments of their "bridge amount" into an HRA over a 5½ year period.

Group C – All Employees Hired on or After July 1, 2004

1. There will be no stipend associated with this group.

2. Everyone, in all groups, hired on or after July 1, 2004 would be included in this group.

3. Similar to the current HRA schedule, a $1,000 deposit will be made starting in year one and will increase by $300 each year thereafter until 6 years of service. A deposit of $2,500 per year will be made for years of service 7 - 20. Starting in year 21, $3,700 will be deposited each year until the employee reaches 30 years of service.

4. Employees that are in transition (i.e., someone who is not currently in the HRA, but hired since July 1, 2004) would be converted to the HRA and receive a payment for their past service. This transition amount would be deposited at the beginning of the 2012 - 2013 school year. No interest would be added to this amount.

<u>Historical Perspective</u>

For many years, there have been conversations concerning the post employment benefit package offered to employees in our District. In July of 2011, the Board of Education and administration began to consider more affordable alternatives. Actuarial reports indicated that by the year 2030, the District obligation toward other post employment benefits would rise to an amount in excess of $10 million per year.

At the July meeting, the Board of Education directed administration to prepare a report that would address the financial concerns related to OPEB. On December 13, 2011, administration presented a report that provided benefits to the employees while reaching a fully funded obligation within ten years. After considerable conversation and review, it was determined that although there were benefits, it would have provided the employees with limited compensation compared to the previous plan. The Board requested that the administrative team continue working to find a solution.

The administration decided to engage a different actuarial firm in order to gain additional perspectives. On April 24, 2012, a report was presented to the Board of Education. At that meeting the following points were presented:

- If the District provided no benefit from this year forward, the obligation toward OPEB would be more than $26 million.
- If the District maintained the current OPEB structure, the obligation would be more than $184 million over the next 26 years.
- The District is currently spending almost $5 million every year on our post employment benefit obligation.
- The current economic conditions and limited resources makes our current situation unsustainable.
- Neenah Joint School District's liability is one of the highest in Wisconsin.
- Although our past history shows we have been fiscally responsible in many ways, we have been negligent in our approach to OPEB.

At this meeting, information related to the current plan and recommended changes were presented. The table below provides an overview.

Neenah Joint School District	
2011-12 Retiree (Stipend + Insurance benefit until Medicare eligible)	Support Staff = Under contract until June 30, 2012 - $7,500 + 95% of single health/dental plan Exempt Staff = $103,233 + $167,330 = $270,563 Faculty = $136,624 + $168,150 = $304,774 Administrator = $185,412 + $167,330 = $352,742
2012-13 Retiree (Stipend + HRA)	Support Staff (age 56.9 + 23 exp.) = $9,255 + $77,425 = $86,680 Exempt Staff = No eligible employees Faculty (age 55.7 + 23 exp.) = $28,336 + $73,350 = $101,686 Administrator (age 55.5 + 25 exp) = $43,750 + $77,850 = $121,600
2013 and beyond – HRA and no stipend (57 + 20 years)	Group B = $74,000 (6.8 yrs of HRA insurance at today's cost for family plan) Group C = $45,500 (4.1 yrs of HRA insurance at today's cost for family plan)
2013 and beyond – HRA and no stipend (57 + 30 years)	Group B = $99,000 (9 yrs of HRA insurance at today's cost for family) Group C = $82,800 (7.6 yrs of insurance at today's cost for family)

There were several benefits this plan would provide the District in terms of financial stability. The District's liability decreased from more than $184 million to just over $104 million for the next 29 years. The plan established a provision for a fully funded liability that would benefit the District and employees. There were several concerns expressed related to the scope of the change in benefits to the employees as well as the lack of involvement of staff in the process. At the May

8 Board meeting, the Board of Education supported a request for additional time to be spent over the summer to engage staff and community members. The Board of Education provided several parameters for our work that included:

1. *All employee groups will be represented and we will also have community members on this team. The team will be comprised of approximately 25 members.*
2. *A review of our work from July of 2011 until the present will take place in order that the team members understand and are clear about our work and the actuarial reports.*
3. *A framework of "non-negotiables" will be established for the team to work within:*
    a. *The plan must reflect unifying employee groups.*
    b. *The number 77 will remain in place, similar to the recent proposal – 55 years old and 20 years of experience.*
    c. *It will be important to position ourselves to have a funded liability – possibly within the same timeframe or even faster.*
    d. *The team will consider a survivor benefit in the discussion.*
    e. *A decision must be made and cannot be prolonged.*
4. *Our focus will be on ensuring that the children of our future will be taken care of while continuing to make Neenah a place where we attract and retain high-impact employees.*
5. *The final recommendation will be brought to the Board of Education in the fall.*

On June 6, 2012, the first meeting of the committee was held. Members from all employee groups were represented as well as community members. Team members included:

Vicki Bayer	Bridget Beauchamp	Randy Bonikowske
Jean Maurice Boyer	Andy Braunel	Sheila Brucks
Cindy Cunningham	Judy Erickson	Mary Greene
Jeff Hanes	Paul Hauffe	Jennifer Heidl-Knobloch
Vicky Holt	Cathy Johnson (Wilson)	April Keepers
Shannon McHugh	Jill Meixl	Bruce Moriarty
Steve Prosek	Michelle Robb	Tara Rockweit
Missy Rosiejka	Mark Schott	Marcia Standiford
Mike Tauscher	Reenie Tetzlaff	Linda Walter
Dave Westfahl	Stacie Williams	Brian Wunderlich
Mather Zickler	Mary Pfeiffer (facilitator)	

The team members worked diligently throughout the course of the summer and also at the beginning of this school year to complete our work. They were not only provided an overview of the plan presented on April 24, but they also reviewed previous work the administration had completed. Additionally, the group thought of several new ideas that the actuary cost out for review. At the conclusion of nine meeting dates the team has developed a proposal that is being recommended with full administrative support. This team cannot be recognized enough for their commitment and dedication to the process and our District.

Recommended Plan

The revised structure moves the plan from a defined benefit approach to a defined contribution approach for all employees. The revised plan design has the following basic elements for current active employees:

- All current employees (hired before July 1, 2012 and retiring after the 2012-2013 school year) receive a "bridge amount" as of 7/1/2013 based on their prior years of service. These amounts will be paid out over 5 ½ years at retirement.

- All stipend benefits will be removed.

- Annual contributions will be made to an account for years of service. For currently employed (hired before July 1, 2013) Group 1 and 2 employees, a portion of these amounts will be deposited immediately into a TSA/403(b) account. The remainder will be paid out upon retirement over a period of 5 ½ years.

- All employees hired July 1, 2013 and later will be eligible to receive an annual contribution of $1,000.

- All transition contribution amounts do not accrue interest until the respective retirement year at which point money would be placed in an individual account. Regarding the annual contribution amount, that money will be placed immediately in an individual account where it could be interest bearing.

The four groups in the recommended plan including the proposed benefit include:

A. Current Retirees

1. In the actuarial analysis, the District was provided estimated future costs by year for all employees who are currently retired as of July 1, 2012. The estimated costs include both the stipend and insurance costs.

2. The District is obligated to fulfill their obligation to those who have already retired.

B. All Employees Retiring June 30, 2013 (2012 – 2013 School Year)

1. Full benefits available at age 57 with 20 years of experience in the District. A number of 77 must be met in order for an employee to fulfill retirement criteria.

2. There will be no stipend associated with this group.

3. Beginning with this group, there will be a transition amount of $3,700 for each year of service up to 20 years. After that, an amount of $2,500 will be paid for years 21 through 30 years of service. These amounts will be referred to as the "bridge amounts." Upon retirement, employees will be provided equal payments of their "bridge amount" into an HRA/TSA over a 5½ year period with the first payment taking place on July 1, 2013.

C. Group 1 – All Employees Hired Prior to July 1, 2004 and Retiring After July 1, 2013

1. Full benefits available at age 57 with 20 years of experience in the District. A number of 77 must be met in order for an employee to fulfill retirement criteria.

2. There will be no stipend associated with this group.

3. Prior to the 2012-2013 school year, employees will accumulate a "bridge amount," based on prior years of service, of $3,700 per year for up to 20 years of service and $2,500 for years of service 21-30. Upon retirement, employees will be provided equal payments of these amounts into a HRA/TSA over a 5½ year period.

4. Beginning with the 2012-2013 school year, Group 1 employees will accumulate a retirement contribution in the amount of $2,700 per year for up to 20 years of service and $1,500 for years of service 21-30. Upon retirement, employees will be provided equal payments of these amounts into a HRA/TSA over a 5½ year period.

5. Also beginning with the 2012-2013 school year, Group 1 employees will receive an annual contribution to a TSA/403(b) account of $1,000 at the end of each school year until they retire.

D. Group 2 – All Employees Hired on or After July 1, 2004

1. Full benefits available at age 57 with 20 years of experience in the District. A number of 77 must be met in order for an employee to fulfill retirement criteria.

2. There will be no stipend associated with this group.

3. Prior to the 2012-2013 school year, Group 2 employees will accumulate a "bridge amount," based on prior years of service, of $1,000 for the first year of service, increasing an additional $300 per year until $2,500 is reached in year 6, and continuing at $2,500 per year up to a maximum of 30 years of service. Upon retirement, employees will be provided equal payments of these amounts into a HRA/TSA over a 5½ year period.

4. Beginning with the 2012-2013 school year, current Group 2 employees will accumulate a retirement contribution of $300 beginning in the second year of service, increasing an additional $300 per year until $1,500 is reached in year 6, and continuing at $1,500 per year up to a maximum of 30 years of service. Upon retirement, employees will be provided equal payments of these amounts into a HRA/TSA over a 5½ year period.

5. Also beginning with the 2012-2013 school year, Group 2 employees will receive an annual contribution to a TSA/403(b) account of $1,000 at the end of each school year until age they retire. However, contributions for the first five years of service will be delayed until the completion of the fifth year of service at which point the District will make a contribution of $5,000 to an TSA/403(b) account.

6. Those employees hired after July 1, 2013 will not have a bridge amount and their benefit will be fully funded at $1,000 per year. Contributions for the first five years of service will be delayed until the completion of the fifth year of service at which point the District

will make a contribution of $5,000 to an TSA/403(b) account. There is no unfunded liability for employees hired after July 1, 2013.

Benefit Disbursement

There was significant conversation related to the type of accounts to which the employee would have money placed. After speaking with legal Counsel, The District's current HRA plan will need to be modified to accommodate the changes contained in this recommendation. In this recommendation, the team is suggesting the following:

1. The $1,000 payment made each year will be in the form of a TSA/403(b). We currently have a system in place to do this and employees will have to complete the appropriate paperwork in order for the funds to be deposited.

2. The unfunded liability can be disbursed in a combination of a HRA and a 403(b). In order to accomplish this, classes will be determined by the date of hire. As an example, if someone was hired in 1982, that is the class they would be with. The team felt strongly that there should be input from the employee classes concerning the amount of payment. For example, those closer to retirement might want more in a HRA in order to pay for insurance benefits while those farther away from retirement might want more in a 403(b) contribution or vice-versa. This will not change the cost to the District, but it will provide employees an opportunity to voice their preference.

Additional Recommendations

In addition to the aforementioned plan design, the team recommends the Board of Education support the following:

1. A survivor benefit to be included for all employees. The benefit would be provided to those who have fulfilled the retirement criteria and retired. Once an employee retires, if that person should become deceased within the first 5 ½ years of retirement, the employee's designated beneficiary will receive the outstanding benefit.

2. The date of determining collection of the benefit will be established as July 1. An employee would have to fulfill all retirement criteria by June 30 in order to begin collecting the benefit on July 1. Should an employee fulfill the criteria and retire mid-year (Exempt and Support Staff), the employee would have to wait until July 1 to begin receiving the benefit.

3. Employees must be 57 and have 20 years experience in the Neenah Joint School District in order to receive the full OPEB benefit. If an employee is 55 and has at least 22 of experience, that employee could retire with a 10% penalty on the unfunded portion of the benefit. If an employee is 56 and has at least 21 years of experience, that employee could retire with a 5% penalty on the unfunded portion of the benefit. This would not apply for employees hired after July 1, 2013.

4. As an additional benefit, the retiree will be able to access to the District's health and dental insurance group plan until Medicare eligible. The complete cost of insurance would be assumed by the retiree.

Current Proposal Compared to the April 24, 2012 Proposal

	April 24, 2012	Current Proposal
Survivor Benefit	None identified	Included
Retirement eligibility	57 + 20 with penalty for those who are 55 and 56 meeting the 77 years of service + age.	57 + 20 with penalty for those who are 55 and 56 meeting the 77 years of service + age.
Date to access benefit	None identified	July 1 of the year following retirement
Employee access to District insurance benefit	None identified	Retiree allowed to access District's group plan
Funded liability	"Group C" (hired after 2004) was completely funded with a 100% vestment after 20 years. Groups A and B had only an unfunded liability.	All groups with the exception of those retiring June 30, 2013 will have a portion of funded OPEB. Those hired after July 1, 2013 will be completely funded.
Employee benefit	*Group A (2012-13 retirees):* Stipend equal to one week's pay for every year of service and a HRA maximum amount of $99,000 paid over 5 ½ years *Group B (hired before 2004 and not retiring June 30, 2013):* Maximum benefit amount of $99,000 paid over 5 ½ years *Group C (Hired after 2004):* Maximum benefit amount of $82,500. Vested after 5 years to receive a portion and portable	*2012-13 Retirees:* No stipend, maximum of $99,000 benefit in HRA/TSA paid over 5 ½ years *Employees hired before 2004 and retiring after June 30, 2013:* Maximum benefit of $99,000 after 30 years with yearly $1,000 TSA contribution *Employees hired after 2004:* Maximum benefit of $70,500 after 30 years including a yearly $1,000 TSA contribution *Employees hired after July 1, 2013:* Maximum benefit of $30,000 after 30 years in the form of a yearly $1,000 TSA contribution
Cost of benefit compared to previous plan	Funded and unfunded liability from 2013-2038 decreases from $184,527,000 to $95,264,642 for a savings of 89,262,358	Funded and unfunded liability from 2013-2038 decreases from $184,527,000 to $81,793,933 for a savings of $102,733,092

There are several enhancements the committee proposal includes compared to the April 24 recommendation. Those enhancements include:

- Survivor benefit
- Commitment by District to provide retirees option to purchase insurance until Medicare eligible
- Portability for all employees of the $1,000 per year contribution in a TSA
- Partial funding of benefit for all employees and 100% funding for employees hired after July 1, 2013
- Enhanced plan with plan long term sustainability
- Savings to the District of an additional $13,470,734 (2013-2038)

Actuarial Data Comparing Current, April 24 Recommendation, & Committee Recommendation

Year	Current (negotiated pre-April 24)	April 24 Recommendation	Committee Recommendation
12/13	4,676,088	$7,017,340	$5,752,376
13/14	4,400,404	5,379,463	5,584,181
14/15	4,115,814	5,189,899	5,425,209
15/16	3,786,426	4,991,604	5,428,040
16/17	3,727,278	4,592,210	5,305,873
17/18	3,829,740	4,292,071	4,680,444
18/19	3,789,260	3,864,419	3,914,483
19/20	4,255,767	3,626,193	3,618,984
20/21	4,610,693	3,840,989	3,692,962
21/22	5,027,906	3,480,990	3,072,763
22/23	5,809,117	3,440,163	2,981,545
23/24	6,357,685	3,599,600	3,242,664
24/25	7,340,985	3,638,700	3,123,364
25/26	7,978,655	3,744,927	3,057,773
26/27	8,354,694	3,645,936	2,782,000
27/28	9,240,603	3,572,864	2,385,227
28/29	9,889,865	3,328,109	2,145,955
29/30	10,285,062	3,016,773	1,983,091
30/31	10,443,171	2,840,209	1,709,591
31/32	10,577,170	2,821,800	1,606,864
32/33	10,167,381	2,552,673	1,641,409
33/34	9,744,283	2,551,627	1,569,773
34/35	9,528,349	2,629,009	1,454,364
35/36	9,064,537	2,620,200	1,329,727
36/37	8,854,913	2,548,327	1,343,591
37/38	8,671,179	2,438,545	1,128,227
Total	**$184,527,025**	**$95,264,642**	**$81,793,933**
38/39	N/A	2,379,700	1,103,000
39/40	N/A	2,239,000	986,455
40/41	N/A	2,157,400	880,000
41/42	N/A	2,096,100	859,500
Total	**$184,527,025**	**104,136,842**	**$85,622,888**

Summary

Since the initial recommendation was presented to the Board on April 24, 2012, questions about the OPEB situation in our District have continued. On June 6, 2012, a team comprised of all employee groups as well as community members began to evaluate, assess, discuss, and create. This team of individuals committed themselves to being solution-oriented in their work. Their diligence in creating a plan within the Board-established parameters is noteworthy. We have a great deal to celebrate in the work of this committee.

It is with my full support that I recommend the Board accept the committee's proposal.