Collaboratively Redesigning Retiree Healthcare

A committed collaboration pays dividends for a district and its employees.

By Erik Kass, Mark Hansen, and Ken Zastrow

The School District of Elmbrook is a public school district with five elementary schools, two middle schools, two high schools, and a special education cooperative program, serving the communities of Brookfield, Elm Grove, and part of New Berlin in Wisconsin. The district has approximately 7,000 students and 1,500 employees, and is consistently ranked as one of the top five school districts in Wisconsin.

As an organization, the district has strong core values: visionary leadership, relationships, collaboration, agility, and continuous improvement. Every decision is made through the lens of these values and must fit within the scope of our visionary strategy map, which outlines the district's top priority, which is to be a great place to learn, a great place to work, and a great school district. Part of how we define being a great school district is spending 75% of our budgeted dollars on instruction.

Our district has evolved over time with regard to what we offer qualifying employees for retirement benefits specific to healthcare. Within the past 10 years, we have moved from 100% employer-paid health insurance for 74 months, to 75% employer-paid health insurance for 60 months, to our current defined contribution plan backed by a Health Reimbursement Arrangement (HRA). We have a self-funded health insurance plan, and retirement health insurance costs our school district between $2 million and $4 million annually.

As these shifts have occurred, our district has seen a steady decline in our actuarial valuation, from $50 million in 2011 to $27 million in

2015; we are projected to have a $0 liability within seven to nine years.

Starting the Conversation

We knew that the annual spending and uncontrollable liability would continuously draw money away from the classroom, jeopardizing our strategic vision and our goal of allocating 75% of the budget to instruction. We elevated the conversation within our district and worked to educate our staff and community about the opportunity to think differently about how we approach our retiree healthcare. We wanted to work through a transparent process that brought our staff into the conversation and to create a system that fit together for our employees from the day they are hired until they are no longer part of our organization.

For any project of this magnitude within our system, we develop critical success factors at the outset to define what success will look like. For this project, we developed the following critical success factors:

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 allowed us to bring 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 we also understand that, in some instances, it is difficult to meet all factors in each individual case.

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Collaborating for Success

One of our first points of contact was the district's health insurance consultant. We have an excellent relationship with our health team there, and together we developed a process for the journey that lay ahead. Shortly thereafter, we identified another key partner whose representative guided our work toward long-term, sustainable solutions.

Like many school districts, our historic strategy and thinking behind providing these benefits to staff was to allow higher-salaried employees the opportunity to retire and, in doing so, 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.

We learned early on that staff enter the School District of Elmbrook and transition into their respective roles, providing defined-contribution benefits that are individually based and are proven to provide incentive toward long-term retention.

A committee was formed with representation from all employee groups and was led by district administrators in collaboration with our health insurance consultants. The committee was 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 several times and hosted a districtwide open forum to begin raising awareness for this work.

For the first 30–45 minutes the forum focused on education, and included an overview of why Elmbrook was looking to redesign these benefits. The structure then moved to small group meetings that provided opportunities for feedback. The committee used this information to focus on opportunities and options as we completed our work.

Through our partnerships with the health insurance consultants, we learned that 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. The committee developed a comprehensive table of comparison for these solutions that became a key visual for our staff.

Our committee 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)).

The 403(b) option provided the maximum amount of flexibility for

Table 1. Benefits for Teachers in the School District of Elmbrook

	Eligibility	Benefit	Conditions
Tier 1	Those who are age 52 or older (7 years or less until turning age 60) with 10 or more years of credible service.	Dollar equivalent of 5 years of the lowest premium plan paid at 75%. Option to stay on group health plan but must make decision at time of retirement with no option to change.	This benefit stands for 5 years. After 5 years, eligibility is age 59 with 17 years of service. Upon eligibility, employees choose to retire or remain employed and receive a one-time payment of $60,000 in lieu of this benefit, plus annual payments of $1,000 toward retiree health insurance until age 65.
Tier 2	Those who are over the age of 45, but do not qualify for tier 1.	Lump sum equal to $1,500 for each year of service to honor their years of service; $1,000 annually for each year of service thereafter.	Employee is 50% vested after 15 years of credible service and 100% vested upon retirement at age 58. The annual benefit will stop once an active employee turns 65.
Tier 3	Those who are under the age of 45.	Lump sum equal to $1,000 for each year of service to honor their years of service; $1,000 annually for each of service thereafter.	Employee is 50% vested after 15 years of credible service and 100% vested upon retirement at age 58. The annual benefit will stop once an active employee turns 65.

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staff long term. However, the planning committee, led by administration's philosophy of honoring the past purpose of post-retirement benefits, determined that this option was misaligned to the purpose of providing post-employment benefits. Conversely, the HRA carried many of the same advantages of the 403(b) option with the exception that employee access prior to age 59½ 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 the committee felt strongly that this alignment to health insurance premiums was important and subsequently focused only on the HRA option.

Developing a Solution

Ultimately, our board of education approved a three-tiered HRA plan that was differentiated by employee group. (You can view the final plan at www.boarddocs.com/wi/elmbrook/Board.nsf/goto?open&id=9TUMK55B5DA3.)

The first tier for all employees was a defined period of time the district would honor our commitment to providing five years of health insurance at a 75% employer-contribution rate. The second tier were those employees who met a specific age requirement and years of experience within the district. When we dug into the demographic data, we found that we had to provide some type of catch-up for employees who didn't meet the criteria to receive health insurance. The third tier was for those individuals who fell below a specified age at the end of our 2014–2015 school year (see Table 1).

Our school district's decision to switch from a defined-benefit to a defined-contribution plan is helping us navigate a $26 million liability down to $0 over a period of nine years. We also have put an extra $2 million into our OPEB trust to cover all employees who will be grandfathered on the old plan. By increasing this initial investment in the defined-benefit plan, we are able to accelerate the elimination of OPEB liability and to eliminate future costs for Health Insurance premiums for 80% of our employees.

Each month, our tier 2 and tier 3 employees receive a statement showing deposits and interest earnings. The allocation of these funds have provided an increased level of comfort that a benefit will be available for them when they retire from the School District of Elmbrook.

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