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Early Retirement Analysis

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Overview

At the request of the Board's Committee on Accountability, Finance and Personnel (AFP), the Administration presented the following information at the February 16, 2017 AFP meeting:

- **Benchmark benefits for surrounding school districts with regards to retirement age and other requirements.**

(for example, Green Bay, Kenosha, Madison and Racine)

- **Scenarios with financial and staffing impact for each of the following with requirement of 90% of eligible sick leave** (i.e., 1,044 hours for 10-month employees and 1,080 hours for 12-month employees):
 - Age 55 with 20 years of service, with two-year window at 25%, 50%, 75% or 100% of eligible employees participating.
 - Modification of the retirement age requirement from 60 years to 57 years with current benefits intact, effective July 1, 2017.
 - Modification of the retirement age requirement from 60 years to 57 years with curtailment of benefits at age 65 years (current Medicare eligibility age), effective July 1, 2017.

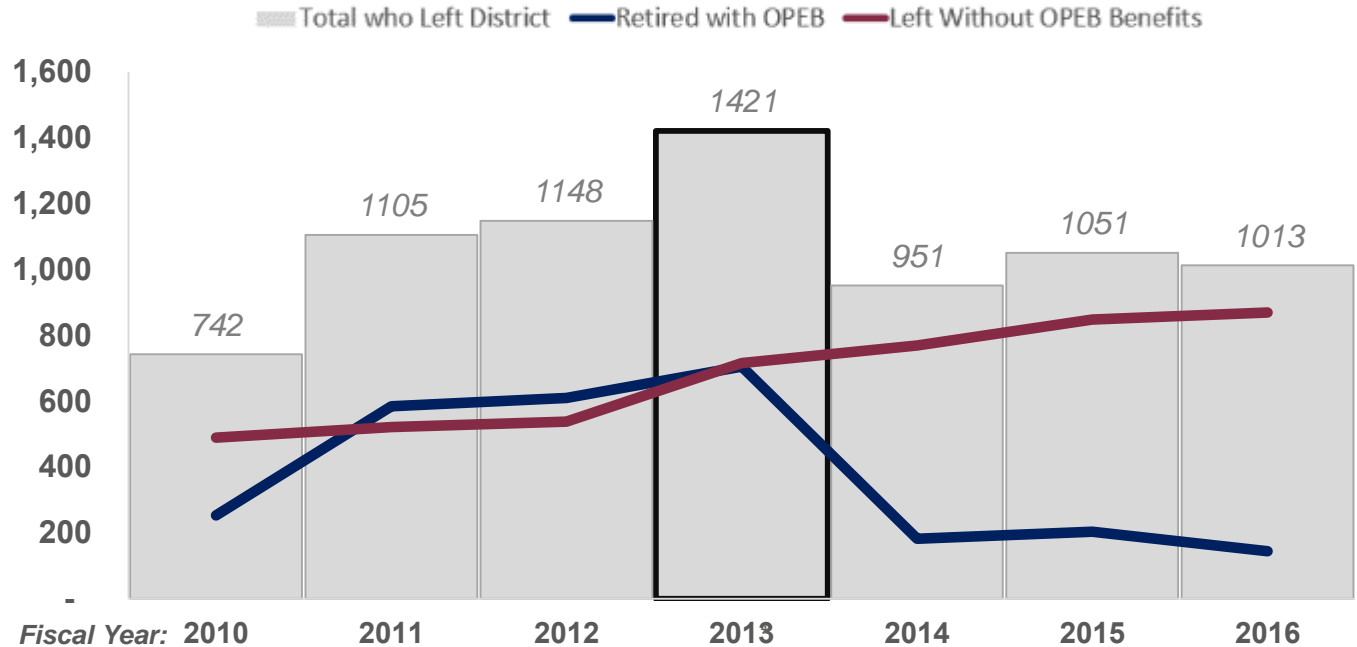


Overview

Based on the AFP Committee's direction at the February 16, 2017 meeting, the district requested Gabriel Roeder Smith & Company (GRS) to provide costs for additional options of retiring at age 55 years with:

- Retirement during a two-year **window** (July 1, 2017 – June 30, 2019) with 20 years of service and 70% eligible sick leave (i.e., 812 hours for 10-month employees and 840 hours for 12-month employees).
- Retirement during a three-year **window** (July 1, 2017 – June 30, 2020) with 20 years of service and 90% eligible sick leave (i.e., 1,044 hours for 10-month employees and 1,080 hours for 12-month employees).

Employees who left MPS by Year



*Note: OPEB eligibility provisions changed effective 07/01/2013

Survey Responses

School District Name	Open/Closed	Close date	Grandfather age	Grandfather Service
Cedarburg	Closed	10/1/2011	55	15
Franklin Public Schools	Open		55	20
Grafton	Open		55	15
Green Bay	Closed	6/30/2011	55	
Greendale	Closed	6/30/2011	none	15
Greenfield	Closed	7/1/2010	Eliminated benefit	
Kenosha	Open		At age 55 - Single and 62 family	15
Kettle Moraine	Closed	7/1/2012	Eliminated benefit	
Kewaskum	Open		57	15
Madison	Open		55	Formula: age + service = 75
Menomonee Falls	Closed	6/30/2013	57	20
Mequon-Thiensville	Open		58	20
Merton Community	Closed	6/30/2016	Eliminated benefit	
Milwaukee Public Schools	Closed	6/30/2013	60	20
Mukwonago	Tiered based on age and service years			
New Berlin	Open		57	20
Oak Creek-Franklin	HRA funded upon retirement		55	none
Oconomowoc	Closed		55 for administrators; 57 for teachers; 58 for support staff	15
Pewaukee	Open		Pre 2006 - 55; 2006 and later - 60	Pre 2006 - 15; 2006 and later - 20
Port Saukville	Closed	6/1/2011	57	20
Racine	Open		55	15
Shorewood	Open		57	none
South Milwaukee	Open-Tiered plan		55	20
St. Francis School District	Closed	6/30/2012	55	20
Waukesha	Open		55	20
Wauwatosa	Open		Pre-07/01/2010 - 55 or 07/01/2010 and later - 57	20
West Allis-West Milwaukee	Open		Varies with employment start date and years of service	15-20 years
West Bend	Open		57	17
Whitefish Bay	Closed	7/1/2011	57	10-20 years

Summary of Survey Results

Age Requirement for Retirement Benefits Eligibility (per Administration's survey)			
Current/Grandfathered Age Requirement (years)	Number of School Districts		Total
	Plan Open	Plan Closed	
55	10	3	13
57	5	3	8
58	1		1
60		1	1
Eliminated		3	3
Tiered/Other	3		3
Total	19	10	29

Analysis of Early Retirement Window (ERW) Scenarios

Steps taken to prepare the analysis:

- Review costs
- Evaluate attrition savings and costs
- Consider the staffing impact

Early Retirement Window (ERW) Scenarios

- The proposed ERW changes the retirement eligibility requirement for retiree healthcare benefits from age 60 with 20 years of service to age 55 with 20 years of service.
- Two early retirement window periods were considered:
 - Two-year window from July 1, 2017, to June 30, 2019
 - Three-year window from July 1, 2017, to June 30, 2020
- The ERW study also considered the impact of reducing the eligibility requirement for Board-paid subsidies from 90% to 70% of the maximum allowable sick leave balance at retirement.
- School-based employees are required to retire at the end of the school year.
- ERW eligible members are expected to accelerate retirement.
- ERW also impacts Supplement Pension Plans, because retirement behavior is expected to change.

Early Retirement Window (ERW) Scenarios

- Three ERW scenarios with the following eligibility requirements were valued:
 - Scenario 1: Age 55, 20 years of service, 90% of maximum sick leave balance, and two-year window period from July 1, 2017 to June 30, 2019
 - Scenario 2: Age 55, 20 years of service, 70% of maximum sick leave balance, and two-year window period from July 1, 2017 to June 30, 2019
 - Scenario 3: Age 55, 20 years of service, 90% of maximum sick leave balance, and three-year window period from July 1, 2017 to June 30, 2020
- The cost impact assumes 100% participation in the ERW; however, we expect that the program will experience lower participation, for example 50% of the ERW eligible members will select to participate in the program. If 50% of eligible members participate, costs are expected to decrease proportionally.

Increase in Costs (\$ Millions)

Scenario 1 - Age 55 with 20 Years of Service, 90% Maximum Sick Leave, 2-year Early Retirement Window

Increase in Costs (\$ in Millions)	Retiree Healthcare Program	Supplemental Pension Plans	Total Costs
Actuarial Liability as of July 1, 2016 ^a	\$ 52.48	\$ 5.93	\$ 58.41
Employer Contributions for Plan Year End ^b			
2018	\$ 1.01	\$ 1.06	\$ 2.07
2019	7.91	0.90	8.81
2020	10.87	0.79	11.66
2021	10.02	0.72	10.74
2022	8.59	0.65	9.24
2023	7.14	0.60	7.74
2024	5.39	0.56	5.95

^a Actuarial Liability measured as of July 1, 2016, based on data as of June 30, 2016.

^b Additional ERW retiree health care costs for School-based Employees are first paid during the plan year ending June 30, 2019.
 Additional ERW retiree health care costs for other employees are first paid during the plan year ending June 30, 2018.
 Additional Supplemental Pension Plan contributions are first paid on July 1, 2018.

Increase in Costs (\$ Millions)

Scenario 2 - Age 55 with 20 Years of Service, 70% Maximum Sick Leave, 2-year Early Retirement Window

Increase in Costs (\$ in Millions)	Retiree Healthcare Program	Supplemental Pension Plans	Total Costs
Actuarial Liability as of July 1, 2016 ^a	\$ 61.58	\$ 6.52	\$ 68.10
Employer Contributions for Plan Year End ^b			
2018	\$ 1.38	\$ 1.15	\$ 2.53
2019	9.82	0.98	10.80
2020	12.74	0.86	13.60
2021	11.72	0.78	12.50
2022	10.01	0.71	10.72
2023	8.33	0.66	8.99
2024	6.29	0.61	6.90

^a Actuarial Liability measured as of July 1, 2016, based on data as of June 30, 2016.

^b Additional ERW retiree health care costs for School-based Employees are first paid during the plan year ending June 30, 2019.
 Additional ERW retiree health care costs for other employees are first paid during the plan year ending June 30, 2018.
 Additional Supplemental Pension Plan contributions are first paid on July 1, 2018.

Increase in Costs (\$ Millions)

Scenario 3 - Age 55 with 20 Years of Service, 90% Maximum Sick Leave, 3-year Early Retirement Window

Increase in Costs (\$ in Millions)	Retiree Healthcare Program	Supplemental Pension Plans	Total Costs
Actuarial Liability as of July 1, 2016 ^a	\$ 69.68	\$ 7.20	\$ 76.88
Employer Contributions for Plan Year End ^b			
2018	\$ 1.15	\$ 1.27	\$ 2.42
2019	8.05	1.08	9.13
2020	12.11	0.95	13.06
2021	13.18	0.86	14.04
2022	11.65	0.78	12.43
2023	10.18	0.73	10.91
2024	8.34	0.68	9.02

^a Actuarial Liability measured as of July 1, 2016, based on data as of June 30, 2016.

^b Additional ERW retiree health care costs for School-based Employees are first paid during the plan year ending June 30, 2019.
 Additional ERW retiree health care costs for other employees are first paid during the plan year ending June 30, 2018.
 Additional Supplemental Pension Plan contributions are first paid on July 1, 2018.

Cost Impact of Different Early Retirement Window Scenarios – Assuming 100% of All Eligible Members Elect Early Retirement Window

Scenario	1	2	3
Early Retirement Window	2-year	2-year	3-year
Retiree Age (years)	55	55	55
Service (years)	20	20	20
Sick Leave	90%	70%	90%
-for 10-month employees	1,044 hours	812 hours	1,044 hours
-for 12-month employees	1,080 hours	840 hours	1,080 hours
Period	07/01/2017-06/30/2019	07/01/2017-06/30/2019	07/01/2017-06/30/2020
Impact on	OPEB and Pensions	OPEB and Pensions	OPEB and Pensions
Actuarial Liability (\$ in millions)	58.41	68.10	76.88
Employer Contributions (\$ in millions)			
2017-18	2.07	2.53	2.42
2018-19	8.81	10.80	9.13
2019-20	11.66	13.60	13.06
2020-21	10.74	12.50	14.04
2021-22	9.24	10.72	12.43
2022-23	7.74	8.99	10.91
2023-24	5.95	6.90	9.02
Number of Eligible ERW Members			
OPEB	707	831	889
Pension	480	547	602

Next Steps

Planning Ahead for Implementing an Early Retirement Window.

- Opportunity to develop a long-term recruitment & retention plan.
- Reinvest savings in recruitment, advertisement, training & induction.
- Opportunity to develop fresh talent.
- Identify and implement creative approaches to recruitment.
- Identify creative systems to support a smooth transition in the replacement process.
- Identify and implement creative approaches to further enhance the substitute teacher pool.
- Examine severance pay and induction costs.
- Review estimated financial impact.

Compensation and Benefit Impact

The compensation impact has been estimated based on the following assumptions:

- All vacancies due to the Early Retirement Window will be filled.
- Employees hired/transferred into the vacant positions shall be compensated as follows:
 - Principals and assistant principals at average of salary grade of the respective position.
 - Teachers at \$47,000 (FY 2015-16 year average was \$46,800).
 - Building service helpers, children's health assistants, and food service workers at starting salary range.
 - All other employees at top of first quartile of salary range.
 - Compensation savings are calculated up to employee's age of 60 years.

Increase in OPEB Employer contributions

The Increase in OPEB Employer contributions estimated based on the following assumptions:

- All Potential District Support Employees retired as soon as all eligibilities are met and start OPEB following the month of retirement.
- All Potential School Based Employees retired on the following June 30 after their eligible retirement date and start OPEB the following September 1.
- Increase in OPEB Employer contributions is calculated up to the end of the month in which retiree reaches age 60 years.
- For OPEB Employer Contribution calculations, 2017 Board Paid Subsidy amounts are used.
- Annual salary and Employee Health Insurance type as of 7/1/2016 was used to determine the Board Paid Subsidy Amount.



Age 55 with Two-Year ERW at 100% Service 20 Years @ 90% Sick Leave

Estimated Financial Impact (\$ in millions)

	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024
Compensation Attrition Savings ¹	\$0.91	\$9.50	\$10.62	\$8.55	\$5.93	\$3.60	\$1.30
Employer Share of Pension and FICA and Medicare taxes estimated at 14.45%	0.13	1.37	1.53	1.24	0.86	0.52	0.19
Total Savings	1.04	10.87	12.15	9.79	6.79	4.12	1.49
Increase in OPEB Employer contributions ^{1 2}	0.81	5.72	7.23	6.06	4.20	2.56	0.98
Increase in Pension Employer contributions	1.06	0.90	0.79	0.72	0.65	0.60	0.56
Net Savings/ (Costs)	(0.83)	4.25	4.13	3.01	1.94	0.96	(0.05)

¹ Compensation Attrition Savings and Increase in OPEB Employer contributions are estimated up to age of 60 by MPS and Increase in Pension Employer contributions are estimated by GRS

² Increase in OPEB Employer contributions use 2017 Board Paid Subsidy amount



If this scenario was implemented and if 100% eligible employees retired, Net Savings over a seven-year period are estimated at \$13.41 million based on retirement date to employee's age 60.

If 50% eligible employees retired the Savings and Costs are estimated at 50% of the 100% eligible employees amount i.e. \$6.71 million, provided 50% employee salaries are proportionate to the 100% eligible employees.

Age 55 with Two-Year ERW at 100% Service 20 Years @ 70% Sick Leave

Estimated Financial Impact (\$ in millions)

	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024
Compensation Attrition Savings¹	\$1.09	\$10.79	\$12.04	\$9.76	\$6.88	\$4.19	\$1.58
Employer Share of Pension and FICA and Medicare taxes estimated at 14.45%	0.16	1.56	1.74	1.41	0.99	0.61	0.23
Total Savings	1.25	12.35	13.78	11.17	7.87	4.80	1.81
Increase in OPEB Employer contributions^{1,2}	1.14	6.64	8.43	7.11	5.02	3.10	1.21
Increase in Pension Employer contributions	1.15	0.98	0.86	0.78	0.71	0.66	0.61
Net Savings/ (Costs)	(1.04)	4.73	4.49	3.28	2.14	1.04	(0.01)

¹ Compensation Attrition Savings and Increase in OPEB Employer contributions are estimated up to age of 60 by MPS and Increase in Pension Employer contributions are estimated by GRS

² Increase in OPEB Employer contributions use 2017 Board Paid Subsidy amount



If this scenario was implemented and if 100% eligible employees retired, Net Savings over a seven-year period are estimated at \$14.63 million based on retirement date to employee's age 60.

If 50% eligible employees retired the Savings and Costs are estimated at 50% of the 100% eligible employees amount i.e. \$7.32 million, provided 50% employee salaries are proportionate to the 100% eligible employees.

Age 55 with Three-Year ERW at 100% Service 20 Years @ 90% Sick Leave

Estimated Financial Impact (\$ in millions)

	FY 2017-2018	FY 2018-2019	FY 2019-2020	FY 2020-2021	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
Compensation Attrition Savings ¹	\$0.98	\$9.55	\$10.75	\$11.68	\$8.89	\$6.37	\$3.88	\$1.21
Employer Share of Pension and FICA and Medicare taxes estimated at 14.45%	0.14	1.38	1.55	1.69	1.28	0.92	0.56	0.17
Total Savings	1.12	10.93	12.30	13.37	10.17	7.29	4.44	1.38
Increase in OPEB Employer contributions ^{1,2}	1.03	6.05	7.75	8.45	6.69	4.79	2.94	0.97
Increase in Pension Employer contributions	1.27	1.08	0.95	0.86	0.78	0.73	0.68	0.68
Net Savings/ (Costs)	(1.18)	3.80	3.60	4.06	2.70	1.77	0.82	(0.27)

¹ Compensation Attrition Savings and Increase in OPEB Employer contributions are estimated up to age of 60 by MPS and Increase in Pension Employer contributions are estimated by GRS

² Increase in OPEB Employer contributions use 2017 Board Paid Subsidy amount



If this scenario was implemented and if 100% eligible employees retired, Net Savings over a eight-year period are estimated at \$15.3 million based on retirement date to employee's age 60.

If 50% eligible employees retired the Savings and Costs are estimated at 50% of the 100% eligible employees amount i.e. \$7.65 million, provided 50% employee salaries are proportionate to the 100% eligible employees.

Financial Impact Summary of Different Early Retirement Window Scenarios at 100% participation

Estimated Financial Impact (\$ in millions)

	Age 55 Service 20 Years @ 90% Sick Leave with Two-Year ERW	Age 55 Service 20 Years @ 70% Sick Leave with Two-Year ERW	Age 55 Service 20 Years @ 90% Sick Leave with Three-Year ERW
Compensation Attrition Savings ¹	\$40.41	\$46.33	\$53.31
Employer Share of Pension and FICA and Medicare taxes estimated at 14.45%	5.84	6.70	7.69
Total Savings	46.25	53.03	61.00
Increase in OPEB Employer contributions ^{1,2}	27.56	32.65	38.67
Increase in Pension Employer contributions	5.28	5.75	7.03
Net Savings/ (Costs)	13.41 (Over 7 years)	14.63 (Over 7 years)	15.30 (Over 8 years)

¹ Compensation Attrition Savings and Increase in OPEB Employer contributions are estimated up to age of 60 by MPS and Increase in Pension Employer contributions are estimated by GRS

² Increase in OPEB Employer contributions use 2017 Board Paid Subsidy amount

Staffing Impact of Changing to Age 55 Service 20 Years @ 90% Sick Leave with two-year window at 100% eligible employees participating

Retirements in FY	2017-2018	2017-2018	2018-2019	
Impact in FY	2017-2018	2018-2019	2019-2020	Grand Total
Accountants			1	1
Administrators		32	8	40
Clericals		22	7	29
Educational Asst.		38	15	53
Food Service		38	14	52
Local 1616		3		3
PAMPS		9	3	12
Teachers		295	101	396
School based total		437	149	586
Retirements in FY				
Impact in FY	2017-2018	2018-2019	2019-2020	Grand Total
Administrators	46	15		61
Clericals	4	2		6
Engineers	6	11	7	24
Building Service Helpers	13	3		16
Local 1616	2	2		4
Skill Trades	7	3		10
District support	78	36	7	121

Staffing Impact of Changing to Age 55 Service 20 Years @ 70% Sick Leave with two-year window at 100% eligible employees participating

Retirements in FY	2017-2018	2017-2018	2018-2019	
Impact in FY	2017-2018	2018-2019	2019-2020	Grand Total
Accountants			1	1
Administrators		36	10	46
Clericals		23	12	35
Educational Asst.		52	19	71
Food Service		46	20	66
Local 1616		3	2	5
PAMPS		9	3	12
Teachers		338	115	453
School based total		507	182	689
Retirements in FY				
Impact in FY	2017-2018	2018-2019	2019-2020	Grand Total
Administrators	53	13		66
Clericals	5	2		7
Engineers	26	8		34
Building Service Helpers	19	2		21
Local 1616	2	2		4
Skill Trades	7	3		10
District support	112	30		142

Staffing Impact of Changing to Age 55 Service 20 Years @ 90% Sick Leave with three-year window at 100% eligible employees participating

Retirements in FY	2017-2018	2017-2018	2018-2019	2019-2020	
Impact in FY	2017-2018	2018-2019	2019-2020	2020-2021	Grand Total
Accountants			1		1
Administrators		32	9	15	56
Clericals		22	7	5	34
Educational Asst.		38	15	18	71
Food Service		38	14	10	62
Local 1616		3			3
PAMPS		9	3	1	13
Teachers		295	102	100	497
School based total		437	151	149	737
Retirements in FY					
Impact in FY	2017-2018	2018-2019	2019-2020	2019-2020	Grand Total
Administrators	46	16	4		66
Clericals	4	2	1		7
Engineers	22	7	7		36
Building Service Helpers	13	3	4		20
Local 1616	2	2	2		6
Skill Trades	7	3	7		17
District support	94	33	25		152

Recommendation

Based on the analysis provided, the Administration recommends an Early Retirement Window be offered for eligible employees to retire within a three-year period (July 1, 2017 to June 30, 2020) if they meet all of the following requirements:

- age 55 years
- 20 years of service
- 90% of the sick leave (i.e., 1,044 hours for 10-month employees and 1,080 hours for 12-month employees)

At 100% participation in the ERW, net savings over eight-year period is estimated at \$15.30 million.

Early Retirement Analysis

Milwaukee Board of School Directors

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