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MILWAUKEE
PUBLIC SCHOOLS

Retiree Life and Medical Insurance Review

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Audit Services

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BACKGROUND

Milwaukee Public Schools has offered three retiree benefit plans for employees: life insurance, medical insurance and sick leave payout. In addition, there is an option for Social Security Medicare Part B premium reimbursement.

Over time, there have been changes to these benefits depending on the employee start date, retirement date, job role or union group and other requirements approved by the Board of School Directors, including Alternative C, an early retirement option. As of July 1, 2013, all new hires or re-hires are not eligible for these retirement benefits.

BACKGROUND, CONTINUED

Life Insurance:

Employee must have 20 years or more of MPS service on the date of retirement to be eligible.

The employee pays for the life insurance from date of retirement until age 65, at which point MPS pays for the coverage until the death of the employee.

The coverage amount is one times the annual base salary (no overtime or secondary jobs count).

The coverage amount decreases at age 65, 66 and age 67, with a maximum benefit of 25% or \$25,000, whichever is less.

BACKGROUND, CONTINUED

Medical Insurance:

As of January 1, 2024, MPS retiree insurance covered the following number of retirees, surviving spouses and/or dependents:

- EPO plan – 1,306
- PPO plan – 323
- HDHP plan – 11
- MPS Medicare Advantage Plan – 7,450

As of July 1, 2023 actuary data indicates there are 3,638 active employees who may be entitled to medical insurance once they reach retirement.

BACKGROUND, CONTINUED

Sick Leave Payout:

Employee must have 20 years of service and accumulated sick leave hours of 812 for a 10-month employee and 840 hours for a 12-month employee to be eligible.

If the employee has accumulated full sick leave hours in excess of the requirement, the employee will receive up to 80 of the hours in excess of the 812 or 840 hours in a lump sum payment deposited in the 403(b) retirement plan at one of the vendors used by MPS to administer the 403(b) plans.

BACKGROUND, CONTINUED

Social Security Medicare Part B Premium Reimbursement:

This reimbursement is only payable to the retired employee, not the spouse.

Once the retiree is age 65+ they must be enrolled in Medicare Part B offered by the US Government and those premiums are typically paid for by deductions from Social Security income.

If the retiree's Board subsidy is higher than their monthly MPS Retiree Health Insurance premium, the difference between the Board subsidy and the MPS insurance premium is available to the retiree to be used to receive a reimbursement (partial or full) of the payments made to Social Security for Medicare Part B.

In November 2023, MPS paid \$718,241 to 4,743 individuals for their allowable Medicare Part B premium reimbursements.

SCOPE AND OBJECTIVES

Scope:

The scope of the audit focused on retiree benefits of life insurance, medical insurance, sick leave payout and Social Security Medicare Part B premium reimbursement, with a focus on criteria that is currently applicable, typically since July 1, 2013, when the retirement benefits were closed to new hires.

Objectives

- reviewing existing policies and procedures or ensuring Benefits was in process of implementing them,
- ensuring criteria are in place to monitor enrollment, on-going eligibility and benefit distributions,
- ensuring the accuracy of reporting,
- ensuring receipt of premiums from employees and funding from MPS and distributions were accurate,
- ensuring validation of payments to vendors and appropriateness of contracts with them, and,
- reviewing technology related controls, including access and backup/storage of critical data.

What We Did To Address The Audit Objectives

- Audit Services conducted meetings with the Senior Director of Benefits, Pension and Compensation, the Employee Benefits Manager II, and staff as necessary throughout the audit process.
- Discussed and reviewed accounting practices, DPI and GRS actuarial reporting.
- Tested in each retiree benefit area of life insurance, medical insurance, sick leave payout and Social Security Medicare Part B reimbursement.
- Reviewed current practices, worked with Benefits to review their new or updated policies and procedures.

Areas where the Department Excels

Human Resources – Benefits, Pension and Compensation had many internal controls in place and, where updates or new controls were needed, Benefits implemented them during the course of the audit. They should be commended for their work before, during and after the audit.

Findings

Recommendations for Corrective Action

Management Responses

Finding – Communicating Costs

Medical insurance premium cost increases are passed on to retirees through increased premiums each year of retirement up to Medicare eligibility. For example, a single retiree's premiums (not including the Board subsidy) increased over 10 years (age 55-65) from \$586/month to \$1,097/month.

Audit recommended increased communications to prospective retirees to help ensure awareness of potential premium increases.

Management responded by holding additional seminars which included charts of premium changes over the retirement years, updated the retirement course in the district's Learning Management System and will continue offering seminars on a regular basis which include premium change information.

Finding – Board Paid Subsidies vary

Board paid subsidies may be more generous for retirees that retire with a family insurance plan than those with a single plan if the retiree later switches coverage to single coverage due the death of a spouse or dropping a dependent. Subsidies are based on the salary band the retiree was in at the time of retirement and updates to the subsidy are only made when the retiree becomes eligible for Medicare.

Any excess Board subsidy can be paid to retirees as a reimbursement toward their Medicare Part B premiums.

In 2023, MPS reimbursed \$9.8 million to retirees for their Medicare Part B premiums. Further, it is possible that should Medicare Part B premiums increase, the current plans indicate that MPS may incur reimbursement to retirees up to an additional \$3 million per month.

Audit recommended that the Board consider possible steps to address the subsidy benefit differences.

Management responded that the Board would need to decide if they wish to change the Board subsidy formula rules.

Finding – Actuary Reports

The external actuary firm GRS provided reports on covered members for life and health insurance as one total count. However, it is likely that the count is not the same for each life and health coverage.

Audit recommended that actuary provided valuation reports reflect life and health coverage recipients separately.

Management responded that GRS will update their reporting.

Finding – Board Resolution 1920R-007

This resolution specified that Administration and the Office of Accountability and Efficiency (OAE) explore options around a defined contribution retiree plan related to sick leave, related to individuals hired after 7/1/2013, who are not entitled to retiree medical insurance coverage. The resolution indicated recommendations be brought to the Board no later than January 2020, which remains as an open item.

Audit recommended that Benefits consult with the Board on how they wish to proceed.

Management responded they will continue to work with OAE on how to proceed. OAE did meet with MTEA requesting feedback, which remains an open item. Benefits met with GRS, who indicated that the Board would have to consider the financial impact to the district and on-going complexities to administer a new plan and process.



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Questions?