Budgets, Bills & Bonds –
The Story of How We are Fiscally Responsible to Our Community

December 2018 Edition

In our fourth series of fiscal responsibility, we review the method by which we budget for employee benefits. Benefits are another way that companies provide compensation to their employees in addition to salaries. Benefits can either be voluntary on behalf of the employer, or the benefits can be required contributions based contractual agreements or on legislative mandate by the federal or state government.

Examples of legally mandated employer contributions on behalf of Pennsylvania school employees include Social Security, Medicare, Pensions, Unemployment Insurance and Worker's Compensation Insurance. Medical insurance benefits are also required by the school district for any employees who on average work more than 30 hours per week (this is a result of the federal legislation known as the Affordable Care Act).

Examples of benefits provided by the school district voluntarily include dental/vision reimbursement, tuition reimbursement, 403(b) retirement plans, and Flexible Spending Accounts for medical and dependent child care.

Finally, benefits also include paid time off for illness (sick days), personal, emergency, holidays and vacation days.

To calculate the anticipated cost of benefits, we use multiple sources such as the Public School Employee's Retirement System updates, we work with our medical insurance provider to determine the estimated cost of our healthcare in the next year, forecast the amount of dental/vision insurance that will be utilized, and even survey our employees on anticipated college classes that will be taken next year to determine our tuition reimbursement expenses.

When an employee contract, agreement or manual is changed, the benefits associated with that contract often change. Those changes must then be estimated for budgeting purposes over the life of the document.

Annually, we must also update those multi-year cost estimates as more accurate information is obtained. When employees retire or resign, newer employees may utilize benefits more or less. For example, a new teacher will often have a higher need for tuition reimbursement as they pursue a Master's degree. As employee's become older, their utilization of medical services (and ergo costs) will often increase. Finally, the results of inflation will often affect the cost of our benefits.

In January we will look at our Special Education costs and how those costs are estimated annually.

On the next page we provide additional information on benefits for WASD. If you have questions or comments, you can reach me at x1131 or eric_holtzman@wasdpa.org

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What is PSERS?

The Pennsylvania "Public School Employees Retirement System" is a statewide program available for all school employees. PSERS has several different retirement classes, based on when the employee was hired, and what plan was chosen. Employees contribute between 6.25% and 10.3%, again, depending upon their hire date and chosen plan.

I've heard that PSERS has created significant financial costs for school districts. How did this occur and can it be changed?

Through the late 1990's, PSERS had strong investment returns, primarily due to the "dot com" technology bubble. At that time PSERS had an actuarial surplus – meaning it had more money in reserves than liabilities!

However, three legislative actions and two recessions turned the surplus into a significant deficit.

- Act 9 of 2001 increased the pension benefit by 25% retroactively for employees.
- 2001-2002 "dot com" bubble bursts and creates a recession
- Act 38 of 2002 provided ad-hoc cost-of-living adjustments to the current retirees.
- Act 40 of 2003 reset the recognition of increased liabilities, postponing an increase to the employer contribution rates for 10 years.
- 2008-2009 "housing" bubble bursts and creates the "great recession."

BUT WAIT A MINUTE…THERE IS GOOD NEWS!

- Act 120 of 2010 created lower benefit retirement plans for new school employees hired after June 30, 2011. This act also implements fiscal risk to the employee based on market returns of the PSERS investments.
- Act 5 of 2017 created even lower benefit retirement plans for new school employees hired after June 30, 2019, and continues to extend the fiscal risk based on market returns.

NOW WHAT WILL HAPPEN??

- **Most likely, the Legislature will allow the recent changes to the retirement system continue, in order to reduce both the cost of the pension plan and the risk to the employers for the foreseeable future. However, this will take nearly 20 years before its affects are fully realized.**

Bonus Information – Medical Self-Insurance

What does it mean to be medically self-insured?

WASD does not purchase full policies for medical, dental & vision insurance. More commonly, if a company is buying insurance for its employees, it would often obtain rates from several different companies & networks, make a comparison, and then purchase that insurance for the year (or even for multiple years). Regardless of whether that company's medical claims are higher/lower than their premiums, they have a fixed cost that is known for the life of the contract. However, in order to remain profitable, the insurance company has to charge a rate that is higher than the claims (over the long-run for all of its customers).

WASD's medical self-insurance works differently. We pay a company to process our medical claims using the Capital BlueCross network. Those claims are then sent to us for payment. Since we pay only for our claims, when our claims are low, we spend less. Of course, the same applies to years when our claims are higher than anticipated. However, over the long-run, we should remain ahead financially because we've removed a potential vendor cost from our process.

Finally, due to the Affordable Care Act, there is no longer a limit on medical insurance costs for an individual. Due to this potential risk, WASD does purchase annual Stop-Loss insurance with very high limits. Thus, if the medical costs for one employees/dependent reach this very high limit, our Stop-Loss insurance reimburses us for the claims. In essence, it is similar to having catastrophic healthcare for an organization.