WASB
WISCONSIN ASSOCIATION OF SCHOOL BOARDS

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TO: Members, Senate Committee on Elections and Local Government
FROM: Dan Rossmiller, Government Relations Director
RE: Senate Bill 213, relating to funding post-retirement health care benefits of local government employees
DATE: September 23, 2015

Good morning Chairman LeMahieu and members of the committee. Thank you for the opportunity to provide written testimony on Senate Bill 213.

The Wisconsin Association of School Boards (WASB) has a number of concerns about this bill, which, if enacted, would require school boards (and other local governmental employers) to pre-fund post-retirement health benefits (also known as "other post-employment benefits" or "OPEB") offered to certain new employees.

Act 10 provided school districts with a number of tools for managing personnel costs and freed school boards from having to collectively bargain over a wide range of topics, including employee health insurance. In the post-Act 10 environment many school boards across the state find that the ability to offer post-employment health benefits can be a useful tool that helps them to attract and retain quality administrators and address teacher shortages.

In the post-Act 10 world, these benefits do not have to be bargained and do not become part of a collective bargaining agreement. In the past many boards and districts found themselves saddled with post-retirement health care provisions that became entrenched in those contracts. Today, however, school boards are not bound by the pre-Act 10 rules and if they have financial issues, they are most likely the result of "legacy costs" dating to the pre-Act 10 period.

If school boards are offering such benefits today, they are almost certainly providing them through the use of defined contribution plans such as 403 (b) plans, Health Reimbursement Arrangements (HRAs) or the like. These financial tools are far less likely to place school districts in the sort of fiscal difficulties they might have encountered in the past.

We have concerns that because this bill would require school districts to pre-fund and segregate the entire cost of the post-retirement health benefits offered to new employees, it would prohibit the use of any sort of "pay-as-you-go" funding approach. This could greatly restrict the use of financially sound options currently available to schools that are struggling to attract and retain top quality administrator and cope with shortages of teachers in certain areas.

Because school districts statewide are facing tight budgets, with no increase in revenue limits for the next two years, and because fully pre-funding these benefits would impose additional up-front costs and/or create cash-flow problems for districts, the likely impact of this bill would be to curtail the offering of such benefits, taking away a tool from school boards that many have found useful.

We note that the Government Accounting Standards Board (GASB), the recognized authority with regard to sound financial accounting, does not require that the OPEB liability of a local government unit be fully funded the way this bill would. Rather it requires that frequent actuarial studies of such benefit plans be conducted and that all liabilities associated with providing such benefits be fully disclosed.

In addition to the actuarial studies required under GASB standards, this bill would require school districts and other local government units that offer such benefits to conduct a separate actuarial study of OPEB benefits for any employees hired after Jan. 1, 2016 at least every four years, which would impose additional costs on districts and further deter the use of such benefits.

This bill further provides that, if a local government dissolves a segregated account established for the purpose of providing such health care benefits, the local government must provide for the equitable distribution of the proceeds among the beneficiaries. The WASB has strong concerns that these provisions, as drafted, could actually have the unintended consequence of creating a right of survivorship in these benefits, and could create potential income tax and discrimination issues for districts and their employees.

While the WASB advises our members that any retirement or post-retirement benefits they provide should be adequately funded so as not to impose a potential undue financial burden on future taxpayers, the WASB also supports giving locally elected school boards flexibility and discretion to fashion benefit packages funding mechanisms that best fit their needs. For the reasons indicated we do not support Senate Bill 213 as currently drafted.

We thank you for the opportunity to bring these concerns to your attention.