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Oh, To Be a Teacher in Wisconsin

How can fringe benefits cost nearly as much as a worker's salary? Answer: collective bargaining.

By **ROBERT M. COSTRELL**

The showdown in Wisconsin over fringe benefits for public employees boils down to one number: 74.2. That's how many cents the public pays Milwaukee public-school teachers and other employees for retirement and health benefits for every dollar they receive in salary. The corresponding rate for employees of private firms is 24.3 cents.

Gov. Scott Walker's proposal would bring public-employee benefits closer in line with those of workers in the private sector. And to prevent benefits from reaching sky-high levels in the future, he wants to restrict collective-bargaining rights.

The average Milwaukee public-school teacher salary is \$56,500, but with benefits the total package is \$100,005, according to the manager of financial planning for Milwaukee public schools. When I showed these figures to a friend, she asked me a simple question: "How can fringe benefits be nearly as much as salary?" The answers can be found by unpacking the numbers in the district's budget for this fiscal year:

É*Social Security and Medicare.* The employer cost is 7.65% of wages, the same as in the private sector.

É*State Pension.* Teachers belong to the Wisconsin state pension plan. That plan requires a 6.8% employer contribution and 6.2% from the employee. However, according to the collective-bargaining agreement in place since 1996, the district pays the employees' share as well, for a total of 13%.

É*Teachers' Supplemental Pension.* In addition to the state pension, Milwaukee public-school teachers receive an additional pension under a 1982 collective-bargaining agreement. The district contributes an additional 4.2% of teacher salaries to cover this second pension. Teachers contribute nothing.

É*Classified Pension.* Most other school employees belong to the city's pension system instead of the state plan. The city plan is less expensive but here, too, according to the collective-bargaining agreement, the district pays the employees' 5.5% share.

Overall, for teachers and other employees, the district's contributions for pensions and Social Security total 22.6 cents for each dollar of salary. The corresponding figure for private industry is 13.4 cents. The divergence is greater yet for health insurance:

Health care for current employees. Under the current collective-bargaining agreements, the school district pays the entire premium for medical and vision benefits, and over half the cost of dental coverage. These plans are extremely expensive.

This is partly because of Wisconsin's unique arrangement under which the teachers union is the sponsor of the group health-insurance plans. Not surprisingly, benefits are generous. The district's contributions for health insurance of active employees total 38.8% of wages. For private-sector workers nationwide, the average is 10.7%.

Health insurance for retirees. This benefit is rarely offered any more in private companies, and it can be quite costly. This is especially the case for teachers in many states, because the eligibility rules of their pension plans often induce them to retire in their 50s, and Medicare does not kick in until age 65. Milwaukee's plan covers the entire premium in effect at retirement, and retirees cover only the growth in premiums after they retire.

As is commonly the case, the school district's retiree health plan has not been prefunded. It has been pay-as-you-go. This has been a disaster waiting to happen, as retirees grow in number and live longer, and active employment shrinks in districts such as Milwaukee.

For fiscal year 2011, retiree enrollment in the district health plan is 36.4% of the total. In addition to the costs of these retirees' benefits, Milwaukee is, to its credit, belatedly starting to prefund the benefits of future school retirees. In all, retiree health-insurance contributions are estimated at 12.1% of salaries (of which 1.5% is prefunded).

Overall, the school district's contributions to health insurance for employees and retirees total about 50.9 cents on top of every dollar paid in wages. Together with pension and Social Security contributions, plus a few small items, one can see how the total cost of fringe benefits reaches 74.2%.

What these numbers ultimately prove is the excessive power of collective bargaining. The teachers' main pension plan is set by the state legislature, but under the pressure of local bargaining, the employees' contribution is often pushed onto the taxpayers. In addition, collective bargaining led the Milwaukee public school district to add a supplemental pension plan—again with no employee contribution. Finally, the employees' contribution (or lack thereof) to the cost of health insurance is also collectively bargained.

As the costs of pensions and insurance escalate, the governor's proposal to restrict collective bargaining to salaries— not benefits— seems entirely reasonable.

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