



2007-09 Bargaining Goals: WASB Position Paper Series

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Teacher Total Compensation and Salary

This bargaining goals position paper outlines the increase in fringe benefit costs as a percentage of total compensation over the past twenty years, the importance of negotiating collective bargaining agreements on a total package basis, the advantages associated with using a cast-forward costing mechanism to cost potential settlements, and settlement objectives and strategies.

Fringe Benefit Costs are an Increasing Percentage of Total Compensation

Over the past two decades, there has been a continuous (and significant) increase in fringe benefit costs as a percentage of total compensation, and a corresponding decrease in money allocated to salary. Specifically, during the 1985-86 school year, 24% of the average compensation package was dedicated to fringe benefits, while 76% was reserved for salary. To date, settlements for the 2005-07 contract period demonstrate that 35% of the average compensation package will go to pay for fringe benefits, while only 65% will be reserved for salary. Although this trend is largely attributable to the rising cost of health insurance premiums; post-retirement benefits, revenue limits, and the Qualified Economic Offer (QEO) law have had some impact on overall compensation levels in recent years.

Unfortunately, a byproduct of increasing fringe benefit costs is the perception that Wisconsin school districts are not paying teachers fairly. Focusing solely on salary, however, distorts the true compensation picture because it does not take into consideration the value of the fringe benefits offered to Wisconsin's school district employees. What is most telling is that according to the most recent United States Census Bureau data, Wisconsin ranks 2nd highest nationally in the percentage of total compensation going towards the payment of employee benefits. In contrast, the states surrounding Wisconsin (Iowa ranks 17th; Illinois ranks 26th; Minnesota ranks 34th) spend a much smaller amount of total compensation on fringe benefits such as health insurance.

The Importance of Negotiating Collective Bargaining Agreements on a Total Package Basis

Given that school districts have a finite number of revenue limit dollars to work with each year, WASB recommends that school districts bargain on a "total package" basis with all bargaining units; particularly when a significant item such as future insurance premiums must be estimated at the time a settlement is reached. *(Note, however, that this recommendation needs to be revisited at the point of preparing preliminary final offers for interest arbitration. There can be substantial risks associated with submitting a final offer under which employee's wage/salary compensation for a future year may fluctuate substantially due to presently unknown benefit costs.)* In addition, school districts should continue to educate their employees with regard to the trade-off between salary and fringe benefits; particularly when proposing measures aimed at

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containing the rising costs of health insurance. In an environment where annual health insurance premium increases may be higher than 25% (the highest increase for the 2006-07 school year was 26.19%) it is crucial for employees to understand that concessions on items such as plan structure, deductibles, and co-pays can free up money for the salary schedule.

As an aside, districts should carefully assess whether concessions on items such as plan structure, deductibles, co-pays, or carrier will result in additional cost savings to the district for retirees or other bargaining units. For example, depending on the type and number of incentives that are offered to retirees (i.e. district paid health insurance that matches health insurance benefits for current active bargaining unit employees), many districts could see significant immediate savings in post employment benefit obligations. In addition, districts with “me too” language in their support staff agreements (contract provisions that require districts to provide benefits that are identical to those received by teachers) could see immediate and substantial savings in health insurance costs for support staff bargaining units.

Advantages Associated with Using a Cast-Forward Costing Mechanism

When costing total package proposals and settlements, WASB strongly recommends that school districts adhere to the “cast-forward” costing model that applies to the calculation of a QEO and to the reporting of settlements under WIS. STAT. § 111.70(4)(cm)8s. Cast-forward costing involves establishing a base-line measure for each cost in the total package as of a specific point in time. In order to estimate costs during the contract periods that are the subject of the negotiations, standardized assumptions regarding staffing, hours, etc. are applied to the base-line measures. For teacher negotiations, the date for taking the base-line “snapshot” of the district’s costs falls on the 90th day prior to the expiration of any previous collective bargaining agreement. WASB recommends using the same date for costing in support staff negotiations.

There are several advantages to costing on a cast-forward basis:

- Cast-forward costing provides a realistic measure of the average per employee compensation increase associated with a given change in benefits and/or salaries, particularly when the district accounts for items that are excluded from the calculation under strict QEO rules (such as lane movement). For example, a cast-forward package settlement of “4.2%” generally does a good job of estimating the average total compensation increase of returning employees.
- Because cast-forward costing accounts for both salary and benefits, school districts can use the costing to counter the tendency of some employee unions to treat all benefits as “entitlements” that, as a matter of course, will either be increased or maintained at current levels.

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- Cast-forward costing imposes uniformity in the costing of proposals/settlements. The uniformity allows for more useful district-to-district comparisons.
- The standardized assumptions built into the cast-forward costing model make it relatively easy to administer. In particular, the assumptions reduce the need for districts to make projections about future staffing levels, hours, the mix of single and family health plans, and other compensation levels.
- The standardized assumptions built into the cast-forward costing model eliminate an area of potential disagreement. Because the standardized assumptions reduce the need to estimate data that is generally not known at the time of the costing, the parties are not put in a position where there is a need to dispute which side has presented the more accurate estimates.
- Teacher contract settlements must be reported to the Wisconsin Employment Relations Commission using the QEO, cast-forward costing method.

WASB believes that the advantages of negotiating agreements on a total package, cast-forward basis make this approach the preferred approach for all units of local government.

Cast-forward costing is, of course, different from an attempt to budget or estimate on an actual-cost basis. Differences between the cast-forward total package cost and the actual total package cost may result from changes in the number of full-time equivalents (FTEs), staff turnover, lane movement (i.e., pay due to educational attainment, which is not included in the QEO costing), and changes to the mix of single and family health plans. Districts should assess information that will have an impact on actual costs in order to:

- Understand the effects a proposal or settlement will have on the budget. In assessing actual costs, districts may be surprised to learn that they have more or less flexibility than they originally forecast.
- Rebut union arguments based on actual cost.
- Address the question of “ability to pay” during interest arbitration.

Settlement Trends, Objectives and Strategies.

There are still a number of school districts that have yet to settle their 2005-07 teacher contracts. In addition, some districts have implemented a QEO and may still be negotiating a potential voluntary agreement. Each unsettled district should continuously re-evaluate its bargaining goals

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and strategies. Data from settlements reached in comparable districts can be extremely useful in this process.

In voluntary teacher settlements across the state, annual total package increases over the 2005-07 contract period have averaged around 4.28% under the WERC's "cast-forward" costing model. However, an unsettled district should not necessarily be satisfied with a settlement at or near the average total package increase. First and foremost, each district needs to individually assess the impact of a potential settlement on the district's revenue limit, its educational program offerings, and its ability to recruit and retain qualified employees. WASB advises against agreements that result in depletions of the district's fund balance in order to meet salary obligations. Salaries are a recurring expense and should not be matched against a one-time source of funds. Using the fund balance to meet salary obligations is akin to using a personal savings account to make a monthly mortgage payment. Eventually, the savings account will be depleted, but the mortgage will still have to be paid.

Second, health care costs are, of course, the main driver in determining the allocation of total package costs between fringe benefits and salaries. In some districts, the teachers have adopted a "maintain the *status quo* on health care benefits at all expense" approach. Settlements and qualified economic offers in some of these districts have reflected frozen step movement and/or decreasing salaries. When the teachers refuse to consider any changes to the health care plan's structure or benefits, districts facing inordinate health care premiums and/or premium increases should be willing to: (1) consider going to interest arbitration to compel a change in health benefits or carriers; (2) settle at or near a 3.8% annual total package (whether voluntarily or by imposing a QEO); or (3) make changes to the salary schedule that are necessary to keep the total package settlement within acceptable limits.

Generally, districts should consider departing from a 3.8% package settlement only when their revenue limit situation can support the increase and when the Board secures changes in benefits that (1) achieve savings outside of the cast-forward package (e.g., through retirees or non-represented employees); and/or (2) are likely to allow for meaningful containment of health insurance cost increases going forward into future contracts. School Boards should keep in mind that, holding the total package percentage increase constant, any immediate premium savings that affect the calculation of the total package will be realized by the teachers as gains in the salary component of the equation. In such situations, it is critical that the teachers understand that the teachers themselves are already the beneficiary of 100% of the intra-package savings. Stated another way, it usually does not make sense for a school board to substantially increase its total package offer simply to secure health insurance savings that fall within the package.

Once a district reaches an agreement on total package costs and the allocation of the total package between salaries and benefits, districts should not overlook the need to assess and bargain over how any increases/freezes/decreases will be applied to the various salary

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components (*i.e.*, base, step, lane and longevity). Important management objectives can be obtained by realizing how each salary component affects: (1) your current and future salary costs; and (2) your recruitment and retention picture. For example, increasing the salary schedule by adding a flat dollar amount per cell will generally help bring up starting salaries more quickly than adding the same total dollars on a percent per cell basis. While changing the structure of the salary schedule (*e.g.*, by deleting a step) can be an effective means of implementing increases that target particular groups of teachers, changes to the schedule structure generally have a greater effect on long-term costs than granting increases through additional step/lane movement. Although past practice offers some guidance for the application of any increases or decreases in salary, there are certainly circumstances under which a school board may want to deviate from that practice; and even the default rules for applying increases/decreases under a QEO can be changed by obtaining mutual agreement and a waiver.

The Next Contract Term.

Looking ahead to the 2007-09 contract term, there is a substantial amount of uncertainty surrounding the economic model that will frame the next round of bargaining. Nonetheless, districts can take steps to prepare for the 2007-09 negotiations. WASB suggests that districts:

- Begin to establish district-specific economic and non-economic bargaining objectives for 2007-09.
- Collect and analyze information that will help the district project future revenues and costs, including enrollment data and health care premium estimates. Districts can and should bargain on a total package basis regardless of whether the QEO and revenue limits apply to 2007-09 negotiations.
- Continue to collect and analyze settlement data from comparable districts and engage in a comprehensive analysis of your compensation plan, including an analysis of the individual salary components.
- Continue to educate staff and residents of the district on the economic issues affecting the schools.
- Stay current with legislative activity.