City of Milwaukee

Department of Administration
Budget and Policy Division

Tom Barrett
Mayor

Sharon Robinson
Administration Director

Mark Nicolini
Budget and Management Director

June 16, 2009

Ref: 09028

Mr. Larry Langer
Principal and Consulting Actuary
Buck Consultants, An ACS Company
One North Dearborn, Suite 1400
Chicago, IL 60602-4336

Subject: Proposed Funding Policy

Dear Mr. Langer:

The following describes our proposed funding policy.

Pursuant to our consulting engagement, the City Administration requests your opinion as to whether this proposal is within actuarially responsible parameters.

Thank you very much.

Please call me at 414-286-5060 if you have any questions.

Sincerely,

Mark Nicolini

Mark Nicolini
Budget and Management Director

MN:cei

attachment

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Proposal

Modify certain components that are used in the annual valuation of the City of Milwaukee Employes' Retirement System

Objectives

1. Continue to finance retirement benefits in an actuarially responsible manner.
2. Manage the volatility of contributions needed from the City to finance the Plan.

Elements of Proposal

1. Increase the asset smoothing period from three to five years
    - Smoothing reduces the impact of any one year's investment return on the funded status of the Plan.
    - The majority of Public Employe Retirement Systems (PERS) use a four-year or five-year smoothing period.
    - An expanded smoothing period is consistent with the potential for greater volatility in financial markets.
2. Expand the variance between the market and actuarial value of assets (Asset Corridor) from 10% to 20%
    - A corridor of 20% is the most common corridor employed by PERS.
    - The corridor ensures that the smoothed value of assets does not deviate too far from the true market value.
3. Modify the amortization payment type from level dollar amortization to level percent of payroll amortization.
    - Level percent of payroll amortization facilitates budget planning.
    - Level percent of payroll amortization is the more common practice.

4. Modify the amortization period from "expected working lifetime of the active employes" to 25 years

   - The proposed period remains lower than the 30-year period allowed by City Charter and the recommended maximum period of the Government Accounting Standards Board (GASB).

   - The City's proposal to move from an open to closed amortization period (see below) will reduce the effective amortization period by one year with each annual valuation.

5. Modify the amortization method from open to closed until an amortization period of "expected working lifetime of the active employes" is reached.

   - The closed amortization approach decreases the payment period by one year each year until the unfunded liability is paid, similar to a traditional mortgage concept.

   - The proposed change to the amortization method serves to offset some of the impact of moving to a longer amortization period.

   - An amortization period of less than future working lifetime (which has generally been ten to fifteen years for CMERS) would result in a significant amount of contribution volatility.