City of Milwaukee

200 E. Wells Street
Milwaukee, Wisconsin
53202

Meeting Minutes

PENSION STUDY TASK FORCE

ALD. MICHAEL MURPHY, CHAIR
Patrick Cronin, Rudolph M. Konrad, W. Martin Morics, Dean Muller, Mark Nicolini, and Derek Tyus

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Legislative Liaison: Aaron Cadle, 286-8666, acadle@milwaukee.gov

Thursday, August 25, 2011 **9:00 AM** **Room 301-B, City Hall**

Meeting called to order at 9:08 a.m.

Present 7 - Morics, Nicolini, Murphy, Cronin, Konrad, Muller and Tyus

Individuals also appearing:
Joe'Mar Hooper, Intergovernmental Relations
Larry Langer, Retirement System Plan Actuary – Buck Consultants
Aaron Cadle, Legislative Reference Bureau

1. Approval of Previous Minutes

Mr. Morics moved approval of the previous meeting minutes on June 16, 2011. Seconded by Mr. Cronin. There were no objections.

2. Review Meeting Goals

Ald. Murphy opened to the task force with a reminder that, after a meeting in September, he hopes to have a recommendation for the Council for potential action in October.

Mr. Nicolini spoke on several meeting goals: putting together an agenda that would identify new possible retirement plan design features for new general city employees; trying to set up a process by which members could weigh in on options for a desirable replacement ratio for retirement plan income; how to identify career services; specifics about retirement age and the multiplier fallout from that; possible approaches to post retirement adjustments; and other options that could be considered for open discussion.

Mr. Nicolini said he collaborated with Mr. Hooper and Mr. Cadle on putting together a presentation that sets some context on some comparative material and policy questions relating to the retirement plan. Also, he added that Mr. Langer could inform, in a general way, and provide observations on how plan design features and its tweaks affect the overall normal cost, which currently is about 11.5% of payroll for general city employees. Big three parameters are retirement age, the service multiplier, and approach to post retirement adjustments.

Mr. Nicolini said that the normal cost of 11.5% is inclusive, made up of 5.5% member contribution paid each and every year primarily by the employer. The remainder is actuarially determined but remains relatively constant. For the 2011 budget, the remainder of normal cost is absorbed by plan surplus, which is a reflection of a sound condition. There is an expectation that the employer's share of normal cost for 2013 will have to be paid through the budget.

3. Presentation of Public Employee Retirement System Plan Design Comparative Material

Mr. Nicolini gave a few opening comments concerning the comparative material. He said that due to changes, a decision cannot be made entirely on comparisons. The reasons include: the tax base isn't growing, revenue structure is described as broken by individual think tanks, and the relationship with the state government in funding has changed radically within the last 15 years. The comparisons are helpful in showing how the city stands currently. By looking at the key question of replacement ratio, the task force can look into the policy question of retirement age and what should be aimed for in terms of social security. General city employees are the focus because of the changes in state law and that general city benefits throughout the state are no longer a matter of collective bargaining. The administration is interested in looking at maintaining a defined benefit plan within the ERS but with perhaps a modified plan design.

Mr. Nicolini proceeded with a PowerPoint presentation on the following study topics: replacement ratio, AON Consulting replacement ratio study, and a Milwaukee ERS replacement ratio example for the general city employee. He concluded that there' is an adequate replacement ratio and a strong case can be made for a career service employee.

Mr. Hooper continued with the PowerPoint presentation on the following study topics: comparative information on major public employee retirement systems, normal retirement, normal retirement "X Years and Out" provision statistics, normal retirement "Rule of Y" provision statistics, early retirement provision data, formula multipliers and data, limitations on benefits and data, final average salary and data, cost of living adjustments and policy considerations, Wisconsin Retirement System dividend process, and summary data analysis. Furthermore, Mr. Hooper presented data and observations on comparable plans with other retirement systems based upon the following categories: normal retirement age and years of service, cost of living adjustments, final annual salary period, multiplier, post retirement cost of living adjustment, and limitation on benefits.

For details of Mr. Nicolini's and Mr. Hooper's presentations, please see the PowerPoint attached to the activities file of the body.

4. Presentation of Information Regarding Potential Impacts of Plan Design Changes on Cost & Liabilities

Present at the table: Larry Langer

Mr. Langer opened his presentation commenting that the public sector world in terms of retirement benefits is very fluid. He was asked to take a look at changing how retirement plan benefits were being delivered. One thing to look at, by a fair amount, is a defined contribution plan. The vast majority, however, would look at ways to tweak their plans in terms of its parameters and not implement a new-design plan.

Mr. Tyus inquired as to why there has been a resistance to move to a defined contribution plan in general?

Mr. Langer replied that there are a few different reasons for the reluctance. One is under the county rules within the public sector. If you close your plan, they require you to fund it out faster. Second is the more paternalistic view of the public sector employers versus corporate employers. Third is that the public sector seems to have more life long careers, in which a DB plan would deliver benefits more efficiently.

Ald. Murphy said there is a large cost to start up a defined contribution plan. He added that a defined contribution plan will be examined in the next meeting in September as an option.

Mr. Konrad commented that these plans may be more suitable for the public than private sector since the government is more stable.

Mr. Langer proceeded to talk about the following parameters and plan provisions: cap, cost of living adjustment (COLA), Wisconsin Retirement System, final average salary, and normal retirement age.

The cap can be tricky from time to time. It can go from 70% to 50% and will have a fair amount of impact on the amounts. 70% is on the low end of the cap.

COLAs are a heavy cost of the retirement system. A retirement system is not a plan unless it provides for COLAs. Benefits should keep pace with inflation over time. If there is a desire to eliminate COLAs, it is strongly encouraged to delay COLAs for a few years instead.

The Wisconsin Retirement System as a dividend system is a neat idea and helpful in terms of sharing the cost of the plan. There should be consideration that when things go bad for the plan, participants are also negatively affected.

COLAs in Milwaukee have tended to range between 15% to 20% of the cost. The multiplier is a big cost as well. Both these parameters are interrelated. Any impact on the multiplier spreads through to the remainder of the cost. The current multiplier is 2%. Any reduction in that multiplier will have proportional reduction in the normal cost.

The final average salary of three versus four or five years is very common for plan sponsors to look at. Of these things, it is relatively a minor deal across the plan as long as there is not a pension spiking problem. Sometimes, years will be increased to get rid of spiking issues and move towards cost savings. From 3 years to 5 years, individual results can range widely.

The retirement age can have a significant impact on cost. It is a double edge sword. With a later retirement age, there is a shorter life expectancy over which to pay the amount. On the flip side, there is a longer period of time to pay the benefits. The normal retirement age is commonly being pushed back. Life expectancy has increased by 4 or 5 years over last generations. If the normal retirement age remains the same, retirement years will increase four or five years beyond it.

Ald. Murphy said protective services are a collective bargaining issue. He inquired as to the cost that protective services constituted the system.

Mr. Nicolini said 35% liability is attributable to general city and 65% attributable to police and fire.

Mr. Konrad said general city employees included a wider spectrum of people but not those from police and fire. He added that 35% is small, and there should be changes to protective services as well as public to make successful changes.

Mr. Morics said the task force should take a look at something that will make the entire system operable and sustainable for the city over the long period. The model has to include potential changes that have to be collectively bargained.

Ald. Murphy said the Council has gone on record to say that the disparity that's been created by the governor and legislature pitting one employee against another is not sustainable. It will cause a potential collapse due to one set of employees being treated very poorly while another segment is treated very well. He added that there is a major lawsuit that's in the courts on this issue. The task force should recommend not just for general city but also for what is on the other side as well.

5. Discussion of Homework Assignment

Mr. Nicolini talked about the homework assignment that was distributed to the task force prior to the meeting. He said the purpose of the homework assignment was to get at goals and objective questions in terms of a benefit system. Then, eventually relate those to what the task force thinks is a reasonable cost for the city. The homework assignment lists four key questions that might help the task force reach some recommendations.

For details of the homework assignment, please see the attachment in the activities file of the body.

Mr. Morics said the last question in the homework assignment regarding normal cost is the key driver and should be answered first. Determining a sustainable normal cost will lead to more menu options.

Mr. Nicolini said the general city cost is a minority in the majority cost. Total liability is growing 5% a year for the entire active population. There is no change to the tax base and state revenue amount is declining, which are two revenues for the city. The city is experiencing a decline in earnings. The liability growth and cost should be reduced by a third, which would make it more manageable in terms of dealing with the contribution requirements for the whole plan.

Mr. Konrad inquired as to the benefits of protective services.

Ald. Murphy replied that the earliest age to retire is 43 for police with 25 yrs of service and age 49 with 23 years of service for a firefighter. At age 43, it's 70% of the final average salary in the pension for a police officer.

Mr. Nicolini added that the normal cost for police and fire is about 24% of salary in the last evaluation compared to 11.5%. They don't participate in social security. They don't have that input in the final replacement ratio nor does the city have that portion of the cost. 6.2% can be subtracted from the salary from that 24% to get an equivalent of 18% versus 11.5%.

Mr. Morics said 11.5% of the normal cost is general city and not for the pension. There should be a blended normal cost percentage and the task force should look at those three pieces.

Mr. Nicolini said that to try to bring the percentage of liability and blended cost down *to 3% a year. If the blended cost is 18%, bring it down to 12%. This would lead to 8% to 8.5% for general city would probably. Police and fire will have higher normal cost due to their retirement age.*

Mr. Konrad said that the city has already made a change for new entrances. General city will be paying 5.5% out of general salary. There is a proposal for protective services to pay 7% for their salary, which is a higher contribution rate.

Mr. Nicolini said that he is attracted to the WRS system as it handles post retirement inflation. While it doesn't guarantee anything, practically every year they have provided a dividend. The annual average since the institution of the program has been 5.1%. That's technically a reserve in their plan. The actuary doesn't have to recognize that as a liability and can recognize it as a reserve. It looks at liabilities and not just benefits.

Mr. Muller inquired as to the number of new hires in their different categories.

Mr. Nicolini responded that the city went through changes in the last few years. One reason was the elimination of funded positions, particularly in the 2010 budget. Also, there were some early retirements in general city as a result of an incentive provided through collective bargaining. Police attrition has slowed down in part due to rate increases in post retirement insurance. Historically, there is the replacement of 60 to 80 police and 40 to 50 firefighters a year. For general city the average replacement is about 200 or so. Last year saw 400 retirements or so, which was unusual.

Mr. Langer added that new hires within zero to four years saw 1900 out of 8300 fired, 91 out of 882 hired within last five years as of this year, and 400 police out of 2000.

Mr. Tyus questioned if there is a way to impact future service benefits in the pension for existing employee?.

Mr. Konrad responded that changes can only be made to new entrants. Based upon the decision in the Wisconsin Court of Appeals, the pension system is a contractual one. The courts will enforce contractual obligations as written.

6. Identification of Plan Design Features for Additional Review

Ald. Murphy asked for the task force members to submit in writing to him anything that they would like to review, and he would make sure to review it at the next meeting.

Ald. Murphy asked for other police department comparables, including their retirement age and multipliers. Also, he asked for the Legislative Reference Bureau and budget office to look at what other communities were doing in the country, compared to Milwaukee, for protective services. Look at multipliers, FAS, years of service, retirement age, and COLAs. He said that the topic of asset allocation is possible for the meeting.

Mr. Cadle appeared at the table. He said that he looked at expenditure programs and their comparables of a few different cities. Three of the nine cities were in Ohio, which participated in their state program. Each one was tailored to local programming. Pittsburgh has a policy that at age 65, when social security kicks in, they would revisit and reduce benefits by 50% based on what a person gets from social security. A lot of these cities are not in the social security program. General city do not participate in social security. Cincinnati uniformly raised the retirement age in each category and lowered multipliers for all employees.

Mr. Langer said he was currently considering the following changes: multiplier at 1.6, FAS from 3 to 5 years, and COLA delay of 4 years. He added that the retirement age can be worked out and that he could do a couple of variables based on different retirement ages.

7. Meeting Wrap up and Information About Next Meeting

This discussion was covered under the previous agenda items.

Meeting adjourned at 11:00 a.m.
Chris Lee, Staff Assistant