

City of Milwaukee Pension Task Force

Stable Employer Contribution Policy Plan

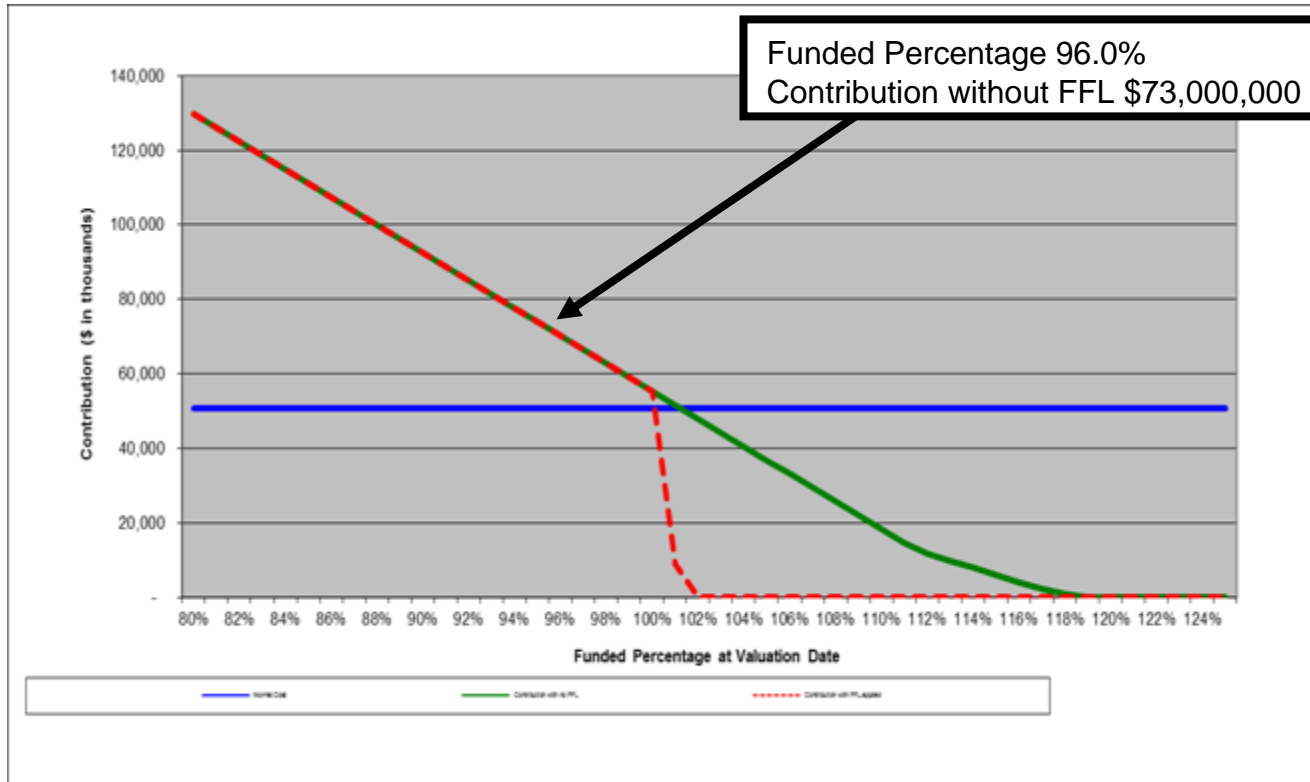
September 28, 2012

Study Purpose & Background

- Purpose: Determine the feasibility of a fixed level percent of payroll employer contribution policy for the ERS
- What we have heard about the current employer contribution policy
 - Hyper-responsive to each year's investment results
 - Policy is not conducive to budget planning
 - Policy is inconsistent with reality of market cycles (full funding limit; volatile funding requirements)
- Use study results as a basis for changes to Chapter 36

Employees' Retirement System of the City of Milwaukee

Combined Fund contributions under various funded statuses as of January 1, 2012:
With and without the full funding limit



The full funding limit has not reduced the employer contributions for at least the last 15 years other than the amounts due January 31 2011 and 2012, where the full funding limit reduced the employer contribution to zero. In the period leading up to the 2011 contribution amount, the contributions were zero due to the future lifetime amortization of "excess" assets completely offsetting the employer normal cost." In 2011 and 2012 the City made a combined total of \$44 million of voluntary contributions to the Employer's Reserve.

Note: Contributions described above do not include the members' portion that the city contributes on their behalf.

Policy Objectives

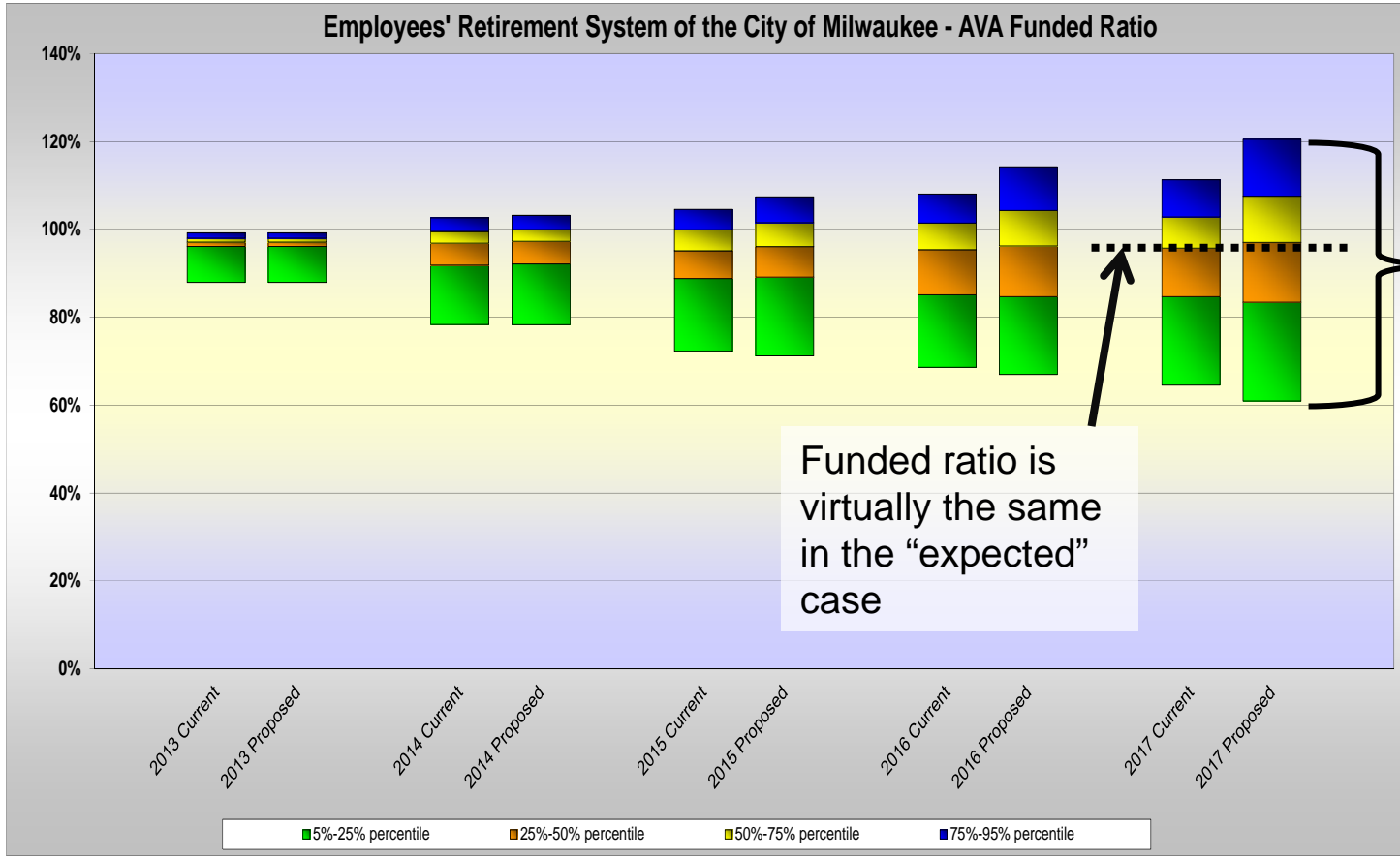
- Given volatility of current contribution policy, staff requested that Buck review a contribution policy with the following objectives:
 - Budget annually for the normal cost (funds could go to Reserve if funded status allows)
 - Make progress on reducing unfunded liability
 - Maintain asset coverage = or > retired lives' liabilities
 - Achieve stable and predictable contribution levels over 5-year periods beginning with the contribution due 1/31/2014
 - Review adequacy of contributions as part of a 5-year cycle
 - No change to member contributions
- To review this policy, we need to make use of Asset Liability Modeling (ALM) techniques

Components of Potential Stable Contribution

1. 1st 5-year period: 2014-2018
2. Express as a “blended” percentage of covered compensation of 18% comprised of 9.54%, 25.46% and 27.94% for General, Police and Fire
3. Review adequacy of contribution rate during 2018 to determine if change is appropriate for 2019
4. To review this policy, we needed to make use of ALM techniques
5. Conclusions appear on following slides =>

Employees' Retirement System of the City of Milwaukee

Funded Ratio Impact

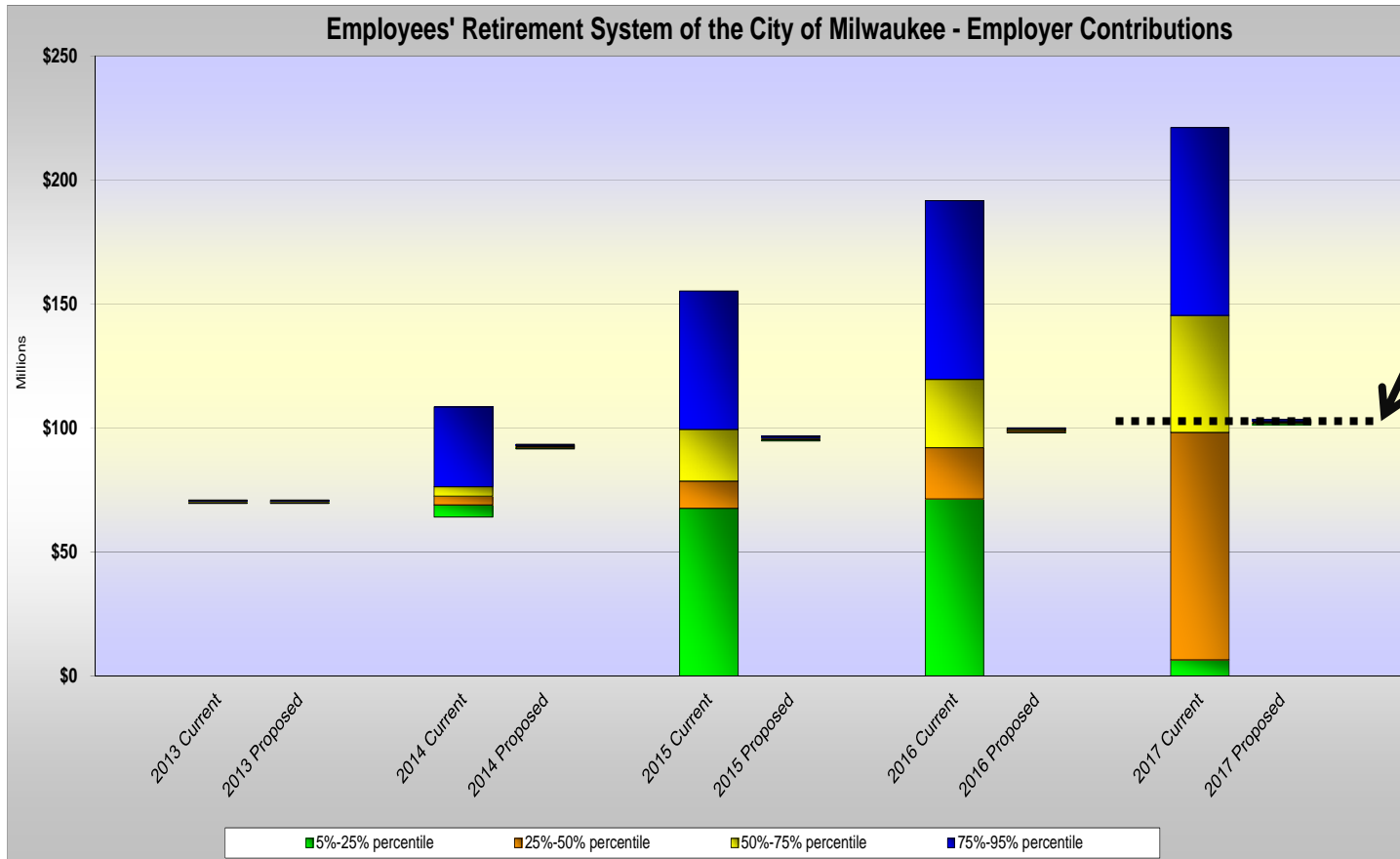


Funded ratio is virtually the same in the "expected" case

Under a wide range or portfolio return scenarios the funded ratio is not appreciably different. The funded status range is 60%-120% for new policy compared to 65% to 111% for the current policy.

Employees' Retirement System of the City of Milwaukee

Annual Employer Contribution Impact



Employer contribution under alternative is virtually the same as the “expected” case under the current policy throughout the time period. The proposed funding policy is highly predictable, only varying by payroll