

LRB - FISCAL SECTION ANALYSIS

October 12, 2005

ITEM 18, FILE 050744

FINANCE & PERSONNEL COMMITTEE

JAMES CARROLL

File #050744 is a charter ordinance abolishing the policemen's annuity and benefit fund board of trustees and transferring administrative and managerial responsibilities with respect to the policemen's annuity and benefit fund to the annuity and pension board.

Background

1. The Policemen's Annuity & Benefit Fund (PA&BF) provides retirement benefits to police officers who were first employed prior to July 30, 1947.
2. As of September 7, 2005, the fund had 176 members (61 annuitants and 115 widow annuitants).
3. As of December 31, 2004, the combined assets, liabilities, and unfunded pension liability of the "main" fund and the "supplemental" fund were \$7.3 million assets and \$9.5 million in liabilities, resulting in a \$2.2 million unfunded pension liability.
4. To address the issue of the Fund's unfunded liability, on May 20, 2005 the Common Council adopted File#050067 a substitute ordinance relating to amortization of any unfunded, liability for the Policemen's Annuity and Benefit Fund. The ordinance changed the liability's amortization period from 5 to 10 years, resulting in 2006 tax levy funding of 295,975.

The PA&BF Board also approved benefits improvements for all members increasing the minimum monthly payment from \$427 to \$500 per month and increasing payments for annuitants above the minimum by \$60.

5. The fiduciary responsibility for the fund rests in its board. The members of the board are elderly. As members age there is a concern that, no members will be willing or able to serve on the board, and the fund will be unable to function.
6. At the July 27, 2005, Annuity & Pension Board Chair Wally Morics determined that it was the "sense of the board" to agree to assume PA&BF governance and investment duties.
7. At its August 9, 2005 meeting, the PA&BF Board unanimously approved that the Annuity & Pension Board assume the governance and investment duties.
8. The PA&BF Board is recommending that its membership vote to accept this change. The vote is scheduled for October 26, 2005 at 1:30 p.m. at the Washington Park Senior Center.

Discussion

1. The City will be continue to pay for all PA & BF administrative costs including a proportionate share of investment management and consulting fees and the City will

indemnify the Pension Board for any liability arising out of its management of the PABF fund or benefits.

2. The Annuity and Pension Board will make any fiduciary decisions concerning the PABF including the investment of funds, disbursement of death benefits, etc.
3. The ERS will administer the benefits.
4. Subject to the Annuity and Pension Board approval, the PA&BF will be invested in the same manner as the City's pension reserve fund is currently invested.
5. All funds would be commingled with ERS for investment purposes with earnings distributed proportionately at the end of each year based upon the beginning of the year balances.
6. The PA&BF fund will be accounted for separately.
7. The PA&BF currently has one part time employee who will continue to service the PA&BF members with ERS staff cross trained to assist in case of an absence.
8. The ERS will continue to use the PA&BF's current actuary for any actuarial services needed for the PA&BF, all actuarial expense to be charged to the City.
9. The payment of benefits is currently handled by a third party vendor which will continue until the Annuity and Pension Board decides to incorporate these within their payment system.
10. Other decisions such as conducting an audit of the fund will become the responsibility of the Annuity and Pension Board.

Fiscal Impact

The ordinance has no fiscal impact. In future years, the budget office anticipates savings from reductions in administrative costs and investment manager's fees.

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