CC-170 (REV. 6/86)

CITY OF MILWAUKEE FISCAL NOTE

A) DATE June 28, 2010

FILE NUMBER: 100241

Original Fiscal Note [X] Substitute [ ]

SUBJECT: A substitute charter ordinance relating to retirement benefits for employees represented by certain bargaining units (MPS)

B) SUBMITTED BY (Name/title/dept./ext.): Bernard J Allen, Executive Director, Employes' Retirement System, x5454

C) CHECK ONE:
- [ ] ADOPTION OF THIS FILE AUTHORIZES EXPENDITURES
- [ ] ADOPTION OF THIS FILE DOES NOT AUTHORIZE EXPENDITURES; FURTHER COMMON COUNCIL ACTION NEEDED. LIST ANTICIPATED COSTS IN SECTION G BELOW.
- [X] NOT APPLICABLE/NO FISCAL IMPACT.

D) CHARGE TO:
- [ ] DEPARTMENT ACCOUNT(DA)
- [ ] CAPITAL PROJECTS FUND (CPF)
- [ ] PERM. IMPROVEMENT FUNDS (PIF)
- [ ] OTHER (SPECIFY)
- [ ] CONTINGENT FUND (CF)
- [ ] SPECIAL PURPOSE ACCOUNTS (SPA)
- [ ] GRANT & AID ACCOUNTS (G & AA)

E) PURPOSE	SPECIFY TYPE/USE	ACCOUNT	EXPENDITURE	REVENUE	SAVINGS
SALARIES/WAGES:					
SUPPLIES:					
MATERIALS:					
NEW EQUIPMENT:					
EQUIPMENT REPAIR:					
OTHER:					
TOTALS					

F) FOR EXPENDITURES AND REVENUES WHICH WILL OCCUR ON AN **ANNUAL** BASIS OVER SEVERAL YEARS CHECK THE APPROPRIATE BOX BELOW AND THEN LIST EACH ITEM AND DOLLAR AMOUNT **SEPARATELY**.

[ ] 1-3 YEARS	[ ] 3-5 YEARS	
[ ] 1-3 YEARS	[ ] 3-5 YEARS	
[ ] 1-3 YEARS	[ ] 3-5 YEARS	

G) LIST ANY ANTICIPATED FUTURE COSTS THIS PROJECT WILL REQUIRE FOR COMPLETION:

H) COMPUTATIONS USED IN ARRIVING AT FISCAL ESTIMATE:

The actuary has determined an increase in the liabilities for the retirement system are from $38,000to $42,000.

PLEASE LIST ANY COMMENTS ON REVERSE SIDE AND CHECK HERE [ ]

buckconsultants A Xerox Company

February 9, 2010 VIA EMAIL

Ms. Christine Toth
Director
Benefits and Insurance Services Division
Milwaukee Public Schools
5225 W. Vliet St
Milwaukee, WI 53208

Re: Cost of Proposed Early Retirement Incentive and Imputed Military Service Credit for School Board Employees

Dear Chris:

As requested in your January 13, 2010 email, we have determined the fiscal impact of the following five scenarios, to School Board employees. The first three scenarios linked for the three categories below:

1. COLA
Employees who retire during the term of the Agreement shall receive a "One-Time" 2% COLA increase after twelve months of retirement.

A. Effective 1/1/2010 through 12/31/2010 - this provision shall sunset 12/31/2010.
B. Effective 1/1/2010 through 12/31/2011 - this provision shall sunset 12/31/2011.
C. Effective 1/1/2011 through 12/31/2011 - this provision shall sunset 12/31/2011.

2. Bonus Year
Employees who retire from active service on a normal or early service retirement shall be eligible for a bonus year. That year may be, at the discretion of the employee, added to either age, for eligibility qualification, years of service, or some combination thereof. If the bonus year is used as an additional year of service credit the total years of service cannot exceed 35, and will not be used to break the 70% cap.

A Retirements between 1/1/2010 and 12/31/2010 - this provision shall sunset 12/31/2010.
B Retirements between 1/1/2010 and 12/31/2010 - this provision shall sunset 12/31/2010.
C Retirements between 1/1/2011 and 12/31/2011 - this provision shall sunset 12/31/2011.

3. 5.5% Employee Contribution and 1.6% COLA
All new hires after certain effective dates shall pay a 5.5% employee contribution and shall not receive the 1.6% COLA.

A Effective 1/1/2010
B Effective 1/1/2010
C Effective 1/1/2011

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The last two scenarios pertain to the Imputed Military Service Credit, as listed below:

D Imputed military service effective 1/1/2011 for all units with no sunset.
E For those units that have the sunset, remove it.

Along with City Staff, we have identified 869 active members that would be eligible for Early Retirement Incentive (ERI) scenario A and B and 1,014 active members for scenario C out of the 4,053 active members of MPS reported for the latest valuation as of January 1, 2009. If enacted, this proposal could increase the projected benefits to be paid to these active members. Some members of these identified members do not benefit under the proposals. We are not aware of any additional incentives outside the retirement system that could incent early retirement behavior. As such, when evaluating proposals A through C, we have assumed that these individuals will not change their behavior, and that there will be no cost impact for these individuals should these proposals be enacted.

For scenario A, B and C, the results under the COLA and Bonus Year categories are combined. The results for the 5.5% employee contribution and 1.6% COLA are shown separately. For the COLA and Bonus Year, the number of members projected to be eligible for and benefit from the scenarios is summarized in the table below:

	Projected to be Eligible for and Benefit from Scenario I		
Count	A.	B.	C.
Total	869	869	1,014

Unless otherwise noted, this analysis is based on the participant data, actuarial assumptions and methods used to prepare the January 1, 2009 actuarial valuation. We have updated the participant data from January 1, 2009 to January 1, 2010 for Scenarios A, B and C assuming no participants have left and no pay increase have been granted. We have calculated the fiscal impact of scenarios A B and scenario C as of January 1, 2010, if all eligible members elect the ERI (except as described above), as summarized in the table below:

Potential Impact of ERI Assuming 100% Utilization by Eligible Benefiting Members
(dollars in thousands)

	Liability			Amortization at 8.5%	
Item	Baseline	ERI	Increase	5 Years	24 Years
Scenario A	$ 98,896	$ 137,481	$ 38,585	$ 8,996	$ 2,889
Scenario B	98,896	137,481	38,585	8,996	2,889
Scenario C	109,561	151,885	42,324	9,868	3,170

We have included an appendix with tables that break out each of the scenarios by union group. See Appendix A for these figures.

The Baseline Liability above is the liability for all affected members based on the current assumptions of the Retirement System. The 100% Utilization Liability assumes all eligible members electing the ERI at the earliest opportunity, reflecting the bonus year and COLA if applicable. Note that the actual utilization of an ERI is unpredictable. If it is anticipated that 50% of the affected group is likely to elect the ERI, it is not unreasonable to use 50% of the costs above. It should be noted that the actual demographics of those that elect will greatly influence the final cost of the ERI.

There are two primary sources of ERI costs to the Retirement System. First, the benefit enhancements used to incent, the 2% COLA and the bonus year, add costs to the Retirement System. Second, we anticipate that members will retire earlier than assumed in the annual valuation (except as noted above for unaffected members). For purposes of the annual valuation, we do not anticipate that all members will retire at the earliest retirement date, but rather member are anticipated to retire on average a few years after earliest retirement eligibility. When valuing the ERI we do assume that all members will retire at the earliest retirement date. Additional costs result from benefits being paid earlier than average. These additional costs from benefits being paid earlier than anticipated are a significant portion of the increase in liability.

If all 869 eligible members elect scenario A or B of the ERI, the annual contribution will decrease by the amount of employer normal cost which is estimated to be about $3.9 million in the upcoming year. If all 1,014 eligible members elect scenario C of the ERI, the decrease attributable to employer normal cost is about $4.5 million. The employer normal cost represents the cost of the accrual of benefits during 2010 for all eligible members. It should be noted that the savings above will rapidly decline to zero over the next few years.

The current funding policy for CMERS includes a provision for amortizing unfunded liabilities over a twenty four year period as of January 1, 2010. Assuming no change in policy, unfunded liabilities generated by an ERI will be amortized over the current board policy. We have included a twenty four year amortization of the costs. The cost associated with an ERI should be amortized over a short period of time that matches the period over which savings generated by the ERI are realized. Best practices dictate that these costs be paid back over a period of three to five years. We have included a five year amortization of costs in the exhibit above.

For purposes of this analysis, we have only isolated the potential impact on the Retirement System. The impact on other benefit programs has not been included in this analysis and should be developed to determine the overall impact on the City of the ERI.

The GFOA has a Recommended Practice regarding Early Retirement Incentives that we encourage the appropriate staff to read. We have attached a copy of the recommended practice to the cover email.

In addition to the costs of the ERI, we also calculated the savings for future new hires starting to pay the 5.5% employee contribution and the elimination of the 1.6% COLA after a certain effective date for scenario A, B and C. The results from the scenarios are summarized in the table below:

Potential Impact of 5.5% Member Contribution and Elimination of 1.6% COLA
(dollars in thousands)

Item	Employer Normal Cost			24-Year Amortization at 8.5%
	Baseline	Elimination of Proposed COLA	Increase	
Scenario A (Effective 1/1/2010)	$ 13,032	$ 6,964	$ (6,068)	$ (454)
Scenario B (Effective 1/1/2010)	13,032	6,964	(6,068)	(454)
Scenario C (Effective 1/1/2011)	12,390	6,261	(6,129)	(461)

We have estimated the impact for future hires by applying the proposed changes to all current hires. The costs of the new tier will emerge over time as new hires are added to the roles.

We have included an appendix with tables that break out each of the scenarios by union group. See Appendix A for these figures.

The Baseline Normal Cost above is the normal cost for all 4,053 MPS members based on the current assumptions of the Retirement System. We revised the refund of contribution provision to allow members to receive the refund even if they do not have eight years of credited service when they leave the system. The new normal cost is reduced by 5.5% of the current compensation since the members start paying the contributions.

Last, we are providing the requested cost estimations of two imputed military service credit scenarios. The results are summarized in the table below:

Potential Impact of Imputed Military Service Credit
(dollars in thousands)

Item	Liability			24-Year Amortization at 8.5%
	Baseline	Imputed Military Service Credit	Increase	
Scenario D	$ 234,116	$ 234,692	$ 576	$ 43
Scenario E	234,116	234,154	38	3

We have included an appendix with tables that break out each of the scenarios by union group. See Appendix A for these figures.

The Baseline liability above is the liability for all 4,053 MPS members based on the current assumptions of the Retirement System. For scenario D, we assumed effective 1/1/2011 every member who works for the school board is eligible for the imputed military service with no sunset. The liability increase is based on 10% of the eligible members earning one year of imputed service credit. For scenario E, only members who work for union MM have prior sunset date as of June 30, 2007. All other unions who currently are eligible for the imputed military service credit do not have the sunset provision.

The impacts shown are determined assuming that MPS is a stand-alone plan. Since costs are shared across all employees except for police and fire, the final impact on MPS may be diluted.

Please call me if you have any questions or need further information.

Sincerely,

Larry Langer, ASA, EA, MAAA
Principal, Consulting Actuary

LL:pl
12736/C6861RET01-ERI-Military-Svc-Credit-School-Bd.doc

APPENDIX A
Potential Impact Split By Union Code

Potential Impact of ERI Scenario A Assuming 100% Utilization by Eligible Members
(dollars in thousands)

	Liability				Amortization at 8.5%	
Union Code	Count	Baseline	ERI	Increase	5 Years	24 Years
A	35	$ 8,208	$ 11,223	$ 3,015	$ 703	$ 226
B	298	19,459	26,844	7,385	1,722	553
C	8	1,740	2,450	710	165	53
D	62	11,783	15,909	4,126	962	309
E	38	8,058	11,113	3,055	712	229
F	125	18,981	27,031	8,050	1,878	601
G	42	14,617	20,687	6,070	1,415	455
H	0	-	-	-	-	-
I	70	7,219	10,030	2,811	655	211
J	191	8,831	12,194	3,363	784	252
X	0	-	-	-	-	-
Total	869	98,896	137,481	38,585	8,996	2,889

Potential Impact of 5.5% Member Contribution and 1.6% COLA Scenario A
(dollars in thousands)

	Employer Normal Cost				
Union Code	Count	Baseline	Elimination of Proposed COLA	Increase	24-Year Amortization at 8.5%
A	145	$ 1,110	$ 632	$ (478)	$ (36)
B	1,627	3,383	1,721	(1,662)	(124)
C	21	106	59	(47)	(4)
D	258	1,443	804	(639)	(48)
E	174	864	460	(404)	(30)
F	489	1,889	1,021	(868)	(65)
G	134	1,373	769	(604)	(45)
H	2	5	3	(2)	-
I	395	1,135	570	(565)	(42)
J	806	1,675	889	(786)	(59)
X	2	49	36	(13)	(1)
Total	4,053	13,032	6,964	(6,068)	(454)

APPENDIX A
Potential Impact Split By Union Code

Potential Impact of Imputed Military Service Credit Scenario D
(dollars in thousands)

Union Code	Liability: Count	Liability: Baseline	Liability: Imputed Military Service Credit	Liability: Increase	24-Year Amortization at 8.5%
A	145	$ 22,188	$ 22,240	$ 52	$ 4
B	1,627	52,790	52,972	182	14
C	21	2,610	2,614	4	-
D	258	30,656	30,712	56	4
E	174	16,862	16,896	34	3
F	489	40,269	40,331	62	5
G	134	27,592	27,637	45	3
H	2	84	84	-	-
I	395	17,457	17,499	42	3
J	806	22,936	23,035	99	7
X	2	672	672	-	-
Total	4,053	234,116	234,692	576	43

Potential Impact of Imputed Military Service Credit Scenario E
(dollars in thousands)

Union Code	Liability: Count	Liability: Baseline	Liability: Imputed Military Service Credit	Liability: Increase	24-Year Amortization at 8.5%
A	145	$ 22,188	$ 22,188	$ -	$ -
B	1,627	52,791	52,791	-	-
C	21	2,610	2,610	-	-
D	258	30,656	30,656	-	-
E	174	16,862	16,862	-	-
F	489	40,269	40,269	-	-
G	134	27,592	27,630	38	3
H	2	84	84	-	-
I	395	17,457	17,457	-	-
J	806	22,935	22,935	-	-
X	2	672	672	-	-
Total	4,053	234,116	234,154	38	3

Note: For MPS members, only those who works for Union MM (MPS Admin. & Sup. Council) have the imputed military service credit sunset date as of June 30, 2007.