

Reply to Common Council File No. 020430

From DOA-Budget and Management Division

July 3, 2002

Ref: 02002


Common Council File 020430 contains a communication transmitting a report entitled; Annual Actuarial Statement of the Policemen's Annuity and Benefit Fund of Milwaukee for the year ended December 31, 2001.

Based on current assets of the Fund, expected rate of return on investments (6.75% annually), and mortality tables, the report projects the expected assets and liabilities of the fund for 2002 -2011 (the fund is estimated to expire in 2011). As depicted in Exhibit A of the report, the PABF currently has net assets of \$7.6 million. However, the projected liability of the Fund is \$9.5 million, leaving an unfunded liability of \$1.9 million.

The Committee was notified of this unfunded liability in the January 30, 2002 letter from Laura Engan (attached). The letter stated that based on the expected payment of benefits to members, the fund could be depleted within three to five years (depending upon market performance). Should these projections materialize, the city would be required to make a contribution to the fund starting in 2005 or 2006 in order to ensure that PABF members receive their pension benefits. In January 2002, we estimated that the present value of the projected contributions from 2005-2011 totaled \$3.8.

The Actuarial Statement also includes a review of the PABF Supplement Fund. This Fund is segregated from the PABF, and includes \$1.4 million from the one-time lump-sum supplement contribution made by the City in 2001 and \$150,000 from the settlement of the lawsuit PABF vs. the City of Milwaukee. According to the actuarial report, the Supplement Fund currently has assets of \$1.5 million. The liabilities against the fund are the monthly supplement payments distributed to members (currently members receive an additional \$94 per month). Based on expected rate of return on investments and liabilities, the PABF Board annually determines this monthly supplement payment to members with the goal of extending the payment until 2011. This fund is not considered a pension benefit, and therefore, the City is not liable for continuing these supplement payments once the Supplement Fund has expired.

RECOMMENDATION: PLACE COMMON COUNCIL FILE 020430 ON FILE.


Sandra J. Rotar
Budget and Management Team Leader

SJR/sjr

020430sr.doc



**Department of Administration
Budget and Management Division**

John O. Norquist
Mayor

David Riemer
Administration Director

Laura J. Engan
Budget and Management Director

January 30, 2002

File Ref: SF-Pensions

Alderman Frederick G. Gordon, Chairperson
Finance and Personnel Committee
City Hall, Room 205

Subject: Status of the Policemen's Annuity and Benefit Fund

Dear Alderman Gordon:

I thought it was appropriate to communicate some information regarding the current status of the Policemen's Annuity and Benefit Fund (PABF) and possible fiscal issues that may arise in the future. As you know, the PABF is governed by a Board whose obligation is to maintain and administer annuity and benefit funds for police officers hired prior to July 1947. Further per city charter, the PABF Retirement Board has sole fiduciary responsibility for the fund.

As of December 31, 2001, the Policemen's Annuity and Benefit Pension Fund had assets totaling \$7.5 million. Based on the projected payment of benefits to members, this fund may be depleted within three to five years (depending upon market performance). Should these projections materialize, the city will be required to make a contribution to this fund starting in 2005 or 2006 in order to ensure that PABF members receive their pension benefits. We have estimated that the present value of the projected contributions from 2005-2011 total \$3.8 million (the fund is estimated to expire in 2011). Attached for your information is a copy of the "Projection of Annual Benefit Distributions" from the latest actuarial report.

In an effort to better manage their investments and extend the assets of the fund, the PABF Retirement Board voted to retain the services of Alpha Investment Consulting Group. Alpha will act as the Board's financial advisor and aid in the development of investment policies, the selection of money managers to invest the funds, and the monitoring of the fund's performance to ensure that it is meeting the pre-defined investment goals.

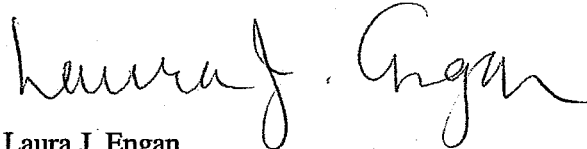
At the request of the Board members of Alpha Investment Consulting Group, the PABF Board, the Budget Office, and the City Comptroller recently met to determine the investment policy for the Policemen's Pension Fund and discuss investment parameters. Alpha Investments presented several Wealth Accumulation projections based on ratios of 10% to 90% equity investments (see attached). After reviewing this information, it was agreed that the investment policy developed should minimize risk and volatility (for example, investments in equities should not exceed 30% of all assets). The Board is expected to incorporate these parameters into its investment policy at its next meeting.

January 30, 2002

Implementation of these parameters may impact the timing of when the city would need to make a contribution to the fund. However, based on historical market projections, the risk would be limited to increasing or decreasing this contribution by six months to a year. The Budget and Management Division will continue to monitor this fund and will include the need for a city contribution into its future budget projections.

If you have any additional concerns or questions regarding this matter, please feel free to call Sandra Rotar of my staff at extension x3182.

Sincerely,



Laura J. Engan
Budget and Management Director

SJR:dmr
Attachments

Cc: Members of the Finance & Personnel Committee
Bonnie Stahl, PABF Board
Marianne Walsh

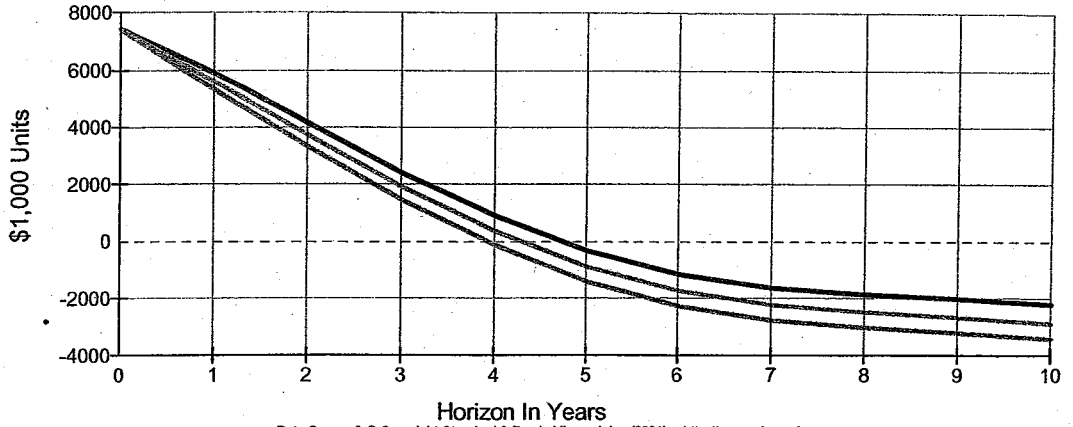
PROJECTION OF ANNUAL BENEFIT DISTRIBUTIONS
As of December 31, 2000

Year	Estimated Distributions	
2001	2,151,230	
2002	2,167,464	*
2003	2,120,382	
2004	1,965,839	
2005	1,608,389	
2006	1,250,904	
2007	776,742	
2008	396,591	
2009	128,585	
2010	44,330	
2011	63,842	**

* Remaining active participant assumed to retire January 1, 2002.

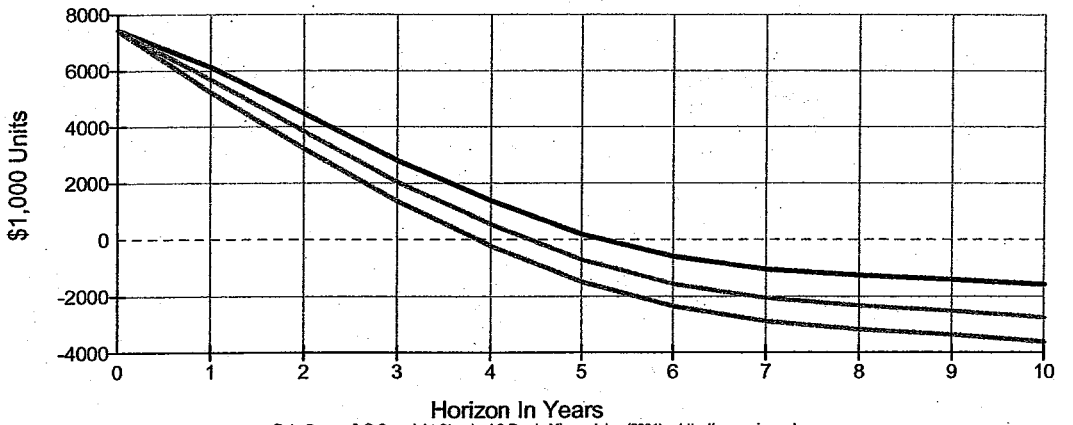
** Assumes annuity purchase for remaining annuitants on January 1, 2011.

**Wealth Accumulation for 10% Equity
based on 90.00% probability**



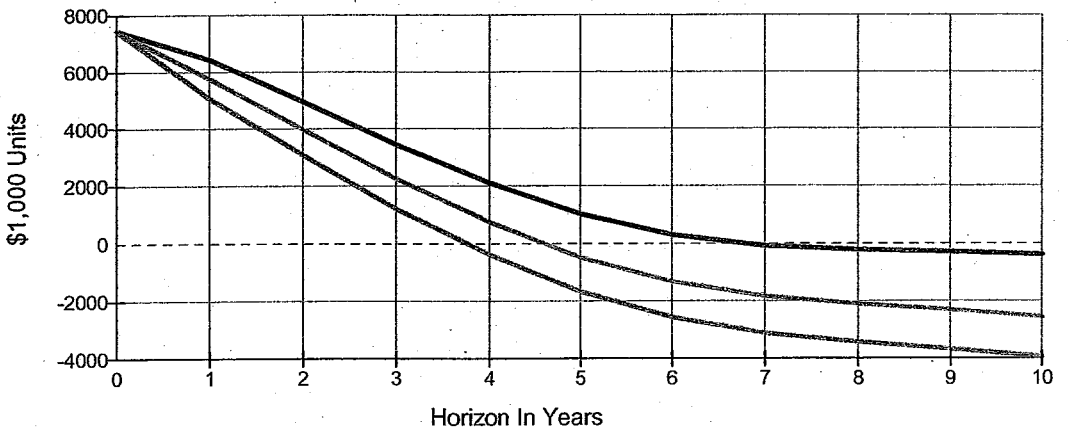
Data Source & © Copyright Standard & Poor's Micropal, Inc (2001) — <http://www.micropal.com>

**Wealth Accumulation for 20% Equity
based on 90.00% probability**



Data Source & © Copyright Standard & Poor's Micropal, Inc (2001) — <http://www.micropal.com>

**Wealth Accumulation for 30% Equity
based on 90.00% probability**



Data Source & © Copyright Standard & Poor's Micropal, Inc (2001) — <http://www.micropal.com>

