



**MILWAUKEE  
PUBLIC SCHOOLS**

**OFFICE OF HUMAN RESOURCES**  
5225 West Vliet Street  
P.O. Box 2181  
Milwaukee, WI 53201-2181

February 22, 2011

Alderman Michael J. Murphy  
Chair, Finance and Personnel Committee  
City of Milwaukee Common Council  
200 East Wells Street  
Milwaukee WI 53202-3570

Dear Alderman Murphy:

We respectfully request your assistance to advance our request to the Common Council for approval of changes to Chapter 36 of the Milwaukee City Charter to extend the following pension changes to Milwaukee Public School employees represented by Local 1616 of AFL/CIO Milwaukee District Council #48 as outlined below. This was approved by our Board and by the union subject to approval of the Common Council. We are on a very tight timeline and anything you can do to expedite this request would be greatly appreciated.

Employees who become enrolled in the Employees' Retirement System of the City of Milwaukee ("ERS") on or after July 1, 2011, are required to contribute 5.5% of their earnable compensation toward satisfaction of the contribution requirements specified in ERS sec. 36.08-7-a; contribution requirements for such employees under ERS sec. 36-08-7-m shall not apply to such employees.

Effective June 21, 2011 through December 31, 2011, employees who retire from active service during this period on a normal service retirement, including an allowance under sec. 36-05-1-d-3 or from active service on an immediate retirement allowance under sec. 36-05-6-c shall be eligible for a bonus year in accordance with sec. 36-04-1-f. At such employee's discretion, the bonus year may be added either to the employee's age for purposes of retirement eligibility or to creditable service. All or part of the bonus year cannot be applied to earn more than 35 years of creditable service or to exceed the 70 percent of final average salary limitation stated in sec. 36-06-10-f. This provision shall expire January 1, 2012.

Effective June 21, 2011 through December 31, 2011, employees who retire from active service during this period on a normal service retirement allowance, including an allowance under sec. 36-05-1-d-3 or from active service on an immediate retirement allowance under sec. 36-05-6-c, shall receive a 2 percent escalator effective with the installment next following the first anniversary of their retirement. This provision shall expire January 1, 2012.

The sunset for creditable service for active military service, as provided in 36-04-1-c for employees who participate in the combined fund, shall be removed effective July 1, 2007.

Attached you will find the language for these pension changes which was reviewed and approved by the Office of the City Attorney and included in Memorandum of Understanding signed by the Union and the Milwaukee Board of School Directors.

Attached you will also find a copy of the cost estimate dated February 9, 2010, performed by Buck Consultants, actuary for the City of Milwaukee Employees' Retirement System. The applicable costing and scenario you need to follow for this Union (Group E) is indicated by an arrow and/or circle.

If you need any additional information, please contact Chris Toth at 414-475-8557. We thank you for your continued cooperation.

Sincerely,



Dr. Karen R. Jackson  
Executive Director  
Office of Human Resources

Attachments

cc: Dr. Gregory E. Thornton, Superintendent  
Gerald Pace, Chief Financial & Operations Officer  
Lynne Sobczak, Director/Board Clerk  
Deborah Ford, Director of Labor Relations  
Chris Toth, Director of Benefits and Insurance Services  
Himanshu Parikh, Pension Specialist of Benefits and Insurance Services  
Rudy Konrad, Deputy City Attorney  
Bernard J. Allen, Executive Director, City of Milwaukee  
Martin Matson, Deputy Director, City of Milwaukee  
Tobie Black, City of Milwaukee  
Calvin Lee, Staff Representative, District Council 48

CT:som

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## PENSIONS

Effective June 21, 2011, the ERC City of Milwaukee pension provisions which apply to Milwaukee Public School employees represented by Local 1616 of AFL/CIO Milwaukee District Council #48 shall be modified as follows:

Employees who become enrolled in the Employee's Retirement System of the City of Milwaukee on or after July 1, 2011, are required to contribute 5.5 percent of their earnable compensation toward satisfaction of the contribution requirements specified in Employees' Retirement System sec. 36.08-7-a; contribution requirements for such employees under Employees' Retirement System sec. 36-08-7-m shall not apply to such employee.

Employees who retire during the period of June 21, 2011, through December 31, 2011, from active service on a normal service retirement, including an allowance under sec. 36-05-1-d-3 of the Milwaukee City Charter or from active service on an immediate retirement allowance under sec. 36-05-6-c of the Milwaukee City Charter, shall be eligible for a bonus year in accordance with sec. 36-04-1-f of the Milwaukee City Charter. At such employee's discretion, the bonus year may be added either to the employee's age for purposes of retirement eligibility or to creditable service. The bonus year may be divided into one month increments and used for a combination of additions to age and creditable service, not to exceed a total of 12 months. All or part of the bonus year cannot be applied to earn more than 35 years of creditable service or to exceed the 70 percent of final average salary limitation stated in sec. 36-06-10-f of the Milwaukee City Charter. In order to be eligible for this benefit, the employee shall provide written notice of his or her intent to retire in 2011 to the MPS Department of Human Resources, Division of Benefits and Insurance Services, by April 1, 2011. This provision shall expire January 1, 2012.

Employees who retire during the period of June 21, 2011, through December 31, 2011, from active service on a normal service retirement allowance, including an allowance under sec. 36-05-1-d-3 of the Milwaukee City Charter or from active service on an immediate retirement allowance under sec. 36-05-6-c of the Milwaukee City Charter, shall receive a 2 percent escalator effective with the installment next following the first anniversary of their retirement. This provision shall expire January 1, 2012.

Creditable service for active military service, as provided in Ch. 36-04-1-c of the Milwaukee City Charter, shall be extended to employees represented by the Union who participate in the combined fund and who retire on a service retirement on or after July 1, 2007.

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

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:

Count	Projected to be Eligible for and Benefit from Scenario I		
	A.	B.	C.
<b>Total</b>	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)

Item	Liability			Amortization at 8.5%	
	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.

Ms. Christine Toth  
February 9, 2010  
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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

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**APPENDIX A**  
**Potential Impact Split By Union Code**

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

Union Code	Count	Liability			Amortization at 8.5%	
		Baseline	ERI	Increase	5 Years	24 Years
A	44	\$ 9,401	\$ 12,895	\$ 3,494	\$ 815	\$ 262
B	352	22,004	30,285	8,281	1,931	620
C	8	1,613	2,293	680	159	51
D	72	13,396	18,072	4,676	1,090	350
E	43	8,411	11,599	3,188	743	239
F	152	21,293	30,173	8,880	2,070	665
G	51	15,855	22,334	6,479	1,511	485
H	0	-	-	-	-	-
I	77	7,660	10,582	2,922	681	219
J	215	9,928	13,652	3,724	868	279
X	0	-	-	-	-	-
Total	1,014	109,561	151,885	42,324	9,868	3,170

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

Union Code	Count	Employer Normal Cost			24-Year Amortization at 8.5%
		Baseline	Elimination of Proposed COLA	Increase	
A	145	\$ 1,050	\$ 571	\$ (479)	\$ (36)
B	1,627	3,251	1,560	(1,691)	(127)
C	21	99	52	(47)	(4)
D	258	1,355	715	(640)	(48)
E	174	818	410	(408)	(31)
F	489	1,779	908	(871)	(65)
G	134	1,291	683	(608)	(46)
H	2	5	3	(2)	-
I	395	1,080	507	(573)	(43)
J	806	1,614	818	(796)	(60)
X	2	48	34	(14)	(1)
Total	4,053	12,390	6,261	(6,129)	(461)

**APPENDIX A**  
**Potential Impact Split By Union Code**

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

Union Code	Count	Liability			24-Year Amortization at 8.5%
		Baseline	Imputed Military Service Credit	Increase	
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	Count	Liability			24-Year Amortization at 8.5%
		Baseline	Imputed Military Service Credit	Increase	
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.

Agency	Union Code	Description	Group
MPS	A1	MPS Local 18 Sheet Metal APPREN.	A
MPS	A2	MPS Local 19 Heat&Frost Ins APPREN	A
MPS	A3	MPS Local 781 Painter APPREN.	A
MPS	A4	MPS Local 75 Plumber APPREN	A
MPS	P0	MPS Loc 601 Steamfitter JRNY	A
MPS	P1	MPS Local 18 Sheet Metal Workers	A
MPS	P2	MPS Local 19 Heat&Frost Workers	A
MPS	P3	MPS Local 264 Carpenters	A
MPS	P4	MPS Local 1114 Carpenters	A
MPS	P5	MPS Local 1053 Carpenters	A
MPS	P6	MPS Local 1573 Carpenters	A
MPS	P7	MPS Local 1741 Carpenters	A
MPS	P8	MPS Local 2073 Carpenters	A
MPS	P9	MPS Prevailing Wage, Carpenter DC	A
MPS	PE	MPS Local 107 Boilermakers	A
MPS	PG	MPS Local 113 Laborers	A
MPS	PH	MPS Local 252	A
MPS	PI	MPS BAC District Council of WI	A
MPS	PN	MPS Local 15 Elevator Mechanics	A
MPS	PP	MPS Local 138 Plasterers	A
MPS	PQ	MPS Local 65 Roofers	A
MPS	PX	MPS Local 494 Electricians	A
MPS	PY	MPS Local 781 Painters	A
MPS	PZ	MPS Local 75 Plumbers JRNY	A
MPS	MC	MPS MTEA - Educational Assistants	B
MPS	MD	MPS MTEA - Accountants	C
MPS	MF	MPS IUOE, Local 950	D
MPS	MJ	MPS Local 1616, DC 48, AFSCME	E
MPS	VJ	MPS Exempt from 1616	E
MPS	MK	MPS Local 1053 Hrly Clerical	F
MPS	ML	MPS Local 1053, FT Clerical	F
MPS	VL	MPS Exempt from 1053 FT Clerical	F
MPS	CM	MPS Exempt - Cabinet Member	G
MPS	MM	MPS Admin. & Sup. Council	G
MPS	VM	MPS Exempt from ASC	G
MPS	MO	MPS Local 1616, Part Time Rec	H
MPS	MR	MPS Local 150, Bldg Serv Helper I	I
MPS	MS	MPS Local 150, Bldg Serv Helper II	I
MPS	MT	MPS Local 150, 20-/wk Fdsv-Child	J
MPS	MU	MPS Local 150, +20/wk Fdsv-Child	J
MPS	MW	MPS Local 150 Food Service/HCA	J
MPS	VT	MPS Exempt from 150 FSA/HCA	J
MPS	V	MPS None	X

