

Reply to Common Council File No. 090426
From DOA-Budget and Management Division

December 14, 2009

Ref: 09004

File Number 090426 contains a substitute resolution appropriating \$120,000 to the Department of Administration (DOA) for financial planning and actuarial services related to projections of future pension liabilities, employer contributions and alternative plan designs.

The City of Milwaukee is the plan sponsor of the City of Milwaukee Employees Retirement System (ERS), a defined benefit pension plan with approximately 27,000 members and actuarial accrued liabilities on behalf of ERS members of more than \$4.1 billion. These liabilities are expected to exceed \$6 billion by 2017. As a defined benefit plan sponsor, the city is obligated to pay all pension benefits as provided for by the City Charter. An independent governing board, the Annuity and Pension Board, is responsible for plan governance.

Managing these liabilities is an essential component of effective financial planning and the sustainability of the city's capacity to provide essential services. Alternative plan designs may become a desirable priority for future collective bargaining agreements, from a financial sustainability perspective.

During 2009 DOA reallocated \$36,000 of vacancy savings from the Budget and Management Division to the development of an application that enables the projection of future liabilities and employer contributions, based on certain key assumptions. This application project involved the Annuity and Pension Board's actuary. The application enabled the Administration to forecast future pension contributions, and to develop an alternative funding policy for the ERS which the Board adopted prior to the 2010 budget and related valuation. The alternative funding policy, which is well within the mainstream of sound actuarial practice, resulted in a city government contribution of \$49 million for 2010, compared to an estimated \$92 million under the pre-existing funding policy.

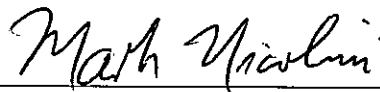
The desired deliverables associated with this funding include:

- Refinement of the existing application to make it even more robust by incorporating information about the impact of wage and salary changes on liabilities, normal cost, and future contributions;
- Improving the application's capacity to project the investment returns needed to stabilize contribution levels over a period of time, based on critical assumptions regarding compensation and benefit levels;
- Incorporating a feature in the application that projects the impact of future additions to and withdrawals from the Employers pension Reserve;
- Analysis of potential alternative benefit plan designs and options for financial management of contributions that are sustainable from a budgetary standpoint; that enable the city to compete successfully for, and retain, talent in the labor market; and that manage the potential for volatility to investment return. These analyses could become the basis for management proposals for future collective bargaining agreements.

- Actuarial estimates of retirement benefit proposals that may be included as part of future collective bargaining proposals.

The current balance in the 2009 Common Council Contingent Fund is approximately \$3.9 million. The Budget and Management Division projects that this balance is adequate to meet any remaining 2009 obligations if this appropriation is approved.

**RECOMMENDATION: ADOPT COMMON COUNCIL FILE NUMBER
090426.**



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Budget and Management Director

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