

CITY OF MILWAUKEE

Form CA-43

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September 29, 2005

To the Honorable
Committee on Finance & Personnel
Common Council of the
City of Milwaukee
Room 205 – City Hall

Re: Proposed Transfer of Responsibility for the Policemen's Annuity and
Benefit Fund to the Milwaukee Employees' Retirement System
CCFN 050744

Dear Committee Members:

Enclosed is a charter ordinance amending § 35-01-3-b, which abolishes the Policemen's Annuity and Benefit Fund Board of Trustees, and creating § 36-15-1-e, which transfers administrative and managerial responsibilities with respect to the Policemen's Annuity and Benefit Fund to the Annuity and Pension Board. The Budget Office will provide the fiscal note.

Status of Policemen's Annuity and Benefit Fund.

The PABF provided retirement and death benefits to police officers and their widows. All members of the fund are police officers who had joined the Milwaukee Police Department before July 1947. There are no members in active service. All current members are either retired police officers or their widows. There are approximately 63 retired police officers and 113 widows currently receiving benefits from the fund. A further 38 women have living husbands and will be eligible for partial benefits should

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they survive their husbands. The youngest member is 72 years of age; most of the others are considerably older.

The fiduciary responsibility for the fund rests in its board. The members of the board are elderly. There is a danger that as the membership becomes older, no members will be willing or able to serve on the board, and the board will be unable to function.

Financial status of the Fund.

As of December 31, 2004 the fund had \$7.2 million in assets held in trust for pension benefits. The future pension obligation totaled \$10.7 million, resulting in a \$3.5 million unfunded liability. The City of Milwaukee is obligated to pay all administrative expenses of the fund and to cover any funding shortfalls. Effective August 2005, the unfunded liability will be amortized over a ten year period.

Proposed transfer of administrative and fiduciary responsibilities to the ERS and its Board.

Contingent upon the approval of the current PABF Board, and 2/3 of the beneficiaries, the fiduciary responsibilities for managing the PABF would be transferred to the Milwaukee Employees' Annuity and Pension Board and the administrative responsibilities would be transferred to the ERS.

The Annuity and Pension Board would make any fiduciary decisions concerning the PABF including the investment of funds, disbursement of death benefits, etc.. The ERS would administer the benefits. Subject to the Annuity and Pension Board approval, the PABF would be invested in the same manner as the City's reserve fund is currently invested. 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. The PABF fund will be accounted for separately. The City would be charged and pay for all administrative costs including a proportionate share of investment management and consulting fees and the City would indemnify the Annuity and Pension Board for any liability arising out of its management of the PABF fund or benefits and

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the members of the PABF board for any liability arising out of the transfer to the ERS board. The ERS would continue to use the PABF's current actuary for any actuarial services needed for the PABF, all actuarial expense to be charged to the City. The PABF currently has one part time employee who would continue to service the PABF members with ERS staff cross trained to assist in case of an absence. The payment of benefits is currently handled by a third party vendor which would continue until the Annuity and Pension Board decided to incorporate these within their payment system. Other decisions such as conducting an audit of the fund would become the responsibility of the Annuity and Pension Board.


The ERS would conduct an informational meeting annually for PABF beneficiaries to report on the fund.

The expected life of the fund should not exceed ten to fifteen years.

Very truly yours,



GRANT F. LANGLEY
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RMK:lmb
enclosure
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