

Reply to Common Council File No. 050234  
From DOA-Budget and Management Division

June 23, 2005

Ref: 05002

Common Council File 050234 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, 2004.


Based on assets of the Fund as of that date, expected rate of return on investments (6.00% annually), and mortality tables, the report projects the expected assets and liabilities of the fund for 2005-2014 (the fund is estimated to expire in 2014). As depicted in Exhibit A of the report, the PABF had net assets of \$5.5 million, a total liability (present value of projected benefits) of \$7.5 million, and a resulting unfunded liability of \$1.9 million.

This unfunded liability is amortized over five years to determine the 2005 tax levy for 2006 purposes. The levy will be \$517,144 based on the actuary's calculations. This was approved by the PABF board and is formally communicated in Common Council File 050233.

The Actuarial Statement also includes a review of the PABF Supplement Fund. This Fund is segregated from the PABF, and originally included \$1.4 million from the one-time lump-sum supplement contribution made by the city in 2001, another one-time lump-sum of \$400,000 in 2004, and \$150,000 in 2002 from the settlement of the lawsuit PABF vs. the City of Milwaukee. According to the actuarial report, the Supplement Fund currently has assets of \$1.8 million with liabilities of \$2 million. The liabilities against the fund are the monthly supplement payments distributed to members (currently members receive an additional \$127 per month from a \$94 supplement effective December 1, 2001 and a \$33 supplement effective January 1, 2004). 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 2014. 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.

Subsequent to December 31, 2004, events have occurred to improve the benefits Fund members receive, restructure the portfolio to combine the main and supplement funds, slightly increase the unfunded liability, and reduce the required tax levy. As of January 1, 2006, minimum monthly payments are increased from \$427 (including supplements) to \$500, with all members receiving at least a \$60 per month increase. While these benefit improvements increased the unfunded liability somewhat, the longer ten-year amortization period will substantially decrease the required tax levy.

**RECOMMENDATION: PLACE COMMON COUNCIL FILE 050234 ON FILE.**

  
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