

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

Executive Summary: 2009 Proposed Budget – Employees' Retirement System

1. **Department Services:** The Employees' Retirement System (ERS) is responsible for ERS asset management and retirement benefits administration for nearly 27,000 members. ERS also administers the City's participation in federal Social Security, the City's group life insurance program, and health care and COBRA dental benefits for retirees. **(Page 3)**
2. **Total Expenditures:** The 2009 Proposed Budget for ERS is \$24,364,000, a decrease of \$97,700 (less than 1%) from the \$24,461,700 funded in the 2008 Budget. **(Page 3)**
3. **Personnel:** The 2009 Proposed Budget for Net Salaries and Wages is \$2,603,000, an increase of \$60,600 (2.4%), from the \$2,542,400 funded in the 2008 Budget. The 2009 Proposed Budget contains 51 positions, a decrease of 1 (-1.9%) from the 52 positions in the 2008 Budget. **(Page 3)**
4. **Operating Expenditures:** The 2009 Proposed Budget for Operating Expenditures is \$20,543,000, an increase of \$307,800 (1.5%), from the \$20,235,200 funded in the 2008 Budget. **(Pages 4 & 5)**
5. **Equipment Purchases:** The 2009 Proposed Budget includes \$151,000, a \$9,300 (6.6%) increase from the \$141,700 in the 2008 Budget. **(Page 5)**
6. **Special Funds:** There are no Special Funds included in the 2009 Proposed Budget. The authorization in the 2008 Budget for \$500,000 for the Fiduciary Liability Deductible can be carried over into 2009. **(Page 5)**
7. **Special Purpose Accounts:** Special Purpose Accounts are not included in department budgets but expenditure authority for these accounts is extended to the department by virtue of Council resolution after the Budget is adopted. The ERS manages two tax levy funded special purpose accounts (Group Life and Retiree Adjustment) with proposed funding of approximately \$2.9 million. **(Pages 5 & 6)**
8. **City Annuity Contribution – Tax Levy and the Employers' Reserve Fund:** The 2009 Proposed Budget allocates \$23,530,000 to fund the city's share of employees' annuity contribution; \$17,949,000 from the property tax levy and \$5,581,000 from the Annuity Contribution - Employer's Reserve Fund. **(Page 6)**
9. **Fund Value, Allocation and Return:** As of December 31, 2007, the Fund's rate of return was 7.2% (Net of Managers Fees) as compared to a blended benchmark passively managed return, or reference index, of 7.8%. The Fund's rate of return (Net of Managers Fees) through June 30, 2008 was -7.7%, as compared to the benchmark net return of -6.5%. **(Page 6)**

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

2009 Proposed Budget: Employees' Retirement System (ERS)

| Expense Category | 2007 Actual | 2008 Budget | % Change | 2009 Proposed | % Change |
|-------------------------|--------------------|--------------------|-----------------|----------------------|-----------------|
| Operating | \$19,337,849 | \$24,461,700 | 26.5 % | \$24,364,000 | -0.004% |
| Capital | - | - | - | - | - |
| Positions* | 49 | 52 | 6.1% | 51 | -1.9% |

* includes 8 Pension Board Members

Note: As a result of the Global Settlement Agreement, the Pension Trust provides \$24,174,060 (99.2%) funding for the 2009 ERS operating budget.

Historical Information

1. In a series of court decisions in the 1990s, the court of appeals for the first judicial district of the State of Wisconsin held that certain benefit modifications and structural modifications to the employees retirement act enacted into law by the Common Council required the consent of individual members, retired members and beneficiaries of the employees' retirement system. The City negotiated agreements (Global Pension Settlement-GPS) with the various City unions, City agencies and the Association of Retired Employees of the City of Milwaukee. The vast majority of individual members waived their rights and consented to certain changes in pension benefits. In August 2003 the court authorized the Board to continue to accept consent forms from members who had not consented to the GPS.
2. On April 11, 2000, the Common Council approved the implementation of the Global Pension Settlement. The settlement took effect on January 19, 2001.
3. On October 18, 2005, the Common Council approved a Charter Ordinance (File #050744) abolishing the Policemen's Annuity and Benefit Fund Board of Trustees and transferred administrative and managerial responsibilities with respect to the Policemen's Annuity and Benefit Fund to the Annuity and Pension Board.
4. MERITS, a multi-year multi-phased custom automation project, began in 2002 with the intent of standardizing and modernizing the ways in which ERS provides customer service. The primary line-of-business facilities of the system became operational in August 2006. Approximately \$19 million was spent on the project through August 2007. The project is completed and now is in a post-implementation phase.

5. In August of 2007, the ERS consolidated its operations at 789 N. Water Street, Suite 300. All ERS operations have been brought together in order to achieve better efficiencies. The cost of the consolidation was approximately \$600,000.

Department Services

The Employees' Retirement System (ERS) is responsible for ERS asset management and retirement benefits administration for nearly 27,000 members. ERS also administers the City's participation in federal Social Security, the City's group life insurance program, and health care and COBRA dental benefits for retirees.

In addition to city government employees, the ERS includes non-certified MPS employees, and employees of HACM, RACM, MMSD, MATC, and the Wisconsin Center ("city agency" employees).

The ERS is governed by an eight-member Annuity & Pension Board consisting of three persons appointed by the Common Council President, three persons elected by active system members, one person elected by retired members, and the City Comptroller.

2009 Proposed Budget

Total Expenditures

The 2009 Proposed Budget for ERS is \$24,364,000, a decrease of \$97,700 (less than 1%) from the \$24,461,700 funded in the 2008 Budget.

Personnel

1. The 2009 Proposed Budget for Net Salaries and Wages is \$2,603,000, an increase of \$60,600 (2.4%), from the \$2,542,400 funded in the 2008 Budget.
2. The 2009 Proposed Budget contains 51 positions, a decrease of 1 (-1.9%) from the 52 positions in the 2008 Budget. There are 41.5 O&M FTEs, compared to 42 in the 2008 Budget, a decrease of 0.5 (-1%).
3. The 2009 Proposed Budget reflects the loss of 1 half-time position of Office Supervisor in Fiscal Services which is no longer needed.
4. Under the Salaries and Wages budget for 2009 there is \$5,286 under the category of Other that was not in the 2008 Budget. This has been budgeted to support an exceptional achievement and professional development awards program planned for implementation in 2009.

Operating Expenditures

The 2009 Proposed Budget for Operating Expenditures is \$20,543,000, an increase of \$307,800 (1.5%), from the \$20,235,200 funded in the 2008 Budget. The major items include:

1. Professional Services

The majority of the 2009 Proposed Operating Budget consists of \$14,807,000 (72.1%) in Professional Services. This is a \$1,634,700 (-9.9%) decrease from the 2008 Budget amount of \$16,441,700. The Professional Services amount includes \$12,390,000 for Investment Manager Fees (83.7% of the Professional Services total). This is a \$2,080,000 (-14.4%) decrease from the \$14,470,000 in the 2008 Adopted Budget. The decrease is mainly due to lower performance fees paid based on performance below the identified benchmarks.

The current ERS investment managers are shown in the following table:

| ERS INVESTMENT MANAGERS | | | |
|--------------------------------|---------------------------------|-----------------------------|------------------------------------|
| Fixed Income | Domestic Equity | International Equity | Real Estate |
| Barclays' Global Investors | Alliance Bernstein | Brandes Investment Partners | AMB Property Corporation |
| Loomis-Sayles & Company | Artisan Partners | Dimensional Fund Advisors | Bryanston Realty Partners |
| Reams Asset Management | Barclays' Global Investors | William Blair & Company | Capmark |
| | Dimensional Fund Advisors | | Citigroup Property Investors |
| | Earnest Partners | | Colony Capital |
| | Northern Trust Global Investors | | Deutsche Asset Management |
| | Turner Investment Partners | | Fremont Group |
| | | | Guggenheim Structured Real Estate |
| | | | JP Morgan Fleming Asset Management |
| | | | Lubert-Adler Partners |
| | | | Morgan Stanley Real Estate Advisor |
| | | | Prudential Investment Management |
| | | | Square Mile Capital Management |
| | | | Stockbridge Capital Partners |
| | | | Union Bank of Switzerland |
| | | | Walton Street Capital |

2. Information Technology

A total of \$4,223,000 is included for Information Technology Services in the 2009 Proposed Budget. This is an increase of \$1,800,600 (74.3%) from the \$2,422,400 in the 2008 Adopted Budget. This reflects costs of professional services necessary to maintain and enhance the newly implemented custom automation project known as MERITS (Milwaukee Employee Retirement Information Technology System), costs to support and maintain a disaster recovery site as well as to make improvements in the ERS website.

3. Facility Rental

The 2009 Proposed Budget includes \$518,000 for Facility Rental. This is a \$175,200 (51.1%) increase from the \$342,800 provided in the 2008 Budget. This increase is largely due to the estimated cost to acquire a disaster recovery site in 2009.

Equipment Purchases

The 2009 Proposed Budget includes \$151,000, a \$9,300 (6.6%) increase from the \$141,700 in the 2008 Budget. Included in the 2009 Proposed Budget is \$146,000 for new computer hardware and software and \$5,000 for replacement furniture.

Special Funds

There are no Special Funds included in the 2009 Proposed Budget. There was \$500,000 in the 2008 Budget for the Fiduciary Liability Deductible. The Fiduciary Liability Policy contains a \$500,000 deductible. In the event there is a claim, the Trust is responsible for the first \$500,000 in costs. It was reauthorized in the 2008 Budget. So far, in 2008, no funds have been expended and the funds may be carried over into 2009.

Special Purpose Accounts

Special Purpose Accounts are not included in department budgets but expenditure authority for these accounts is extended to the department by virtue of Council resolution after the Budget is adopted. The ERS manages two tax levy funded special purpose accounts with proposed funding of approximately \$2.9 million.

| | 2007 Actual | 2008 Budget | % Change | 2009 Proposed | % Change |
|--------------------|------------------------|------------------------|---------------------|--------------------------|---------------------|
| Group Life | \$3,063,498 | \$2,807,000 | -8.4% | \$2,650,000 | -5.6% |
| Retiree Adjustment | \$237,550 | \$240,000 | 1.0% | \$226,000 | -5.8% |

For 2008, funding for the Group Life Special Purpose Account is decreased by \$157,000 to \$2,650,000. The decrease is the result of obtaining more favorable rates with the most recent provider.

The Retiree Benefit Adjustment Fund funds the cost of supplemental pension benefits to certain former city employees who retired prior to 1984. Recipients include members and surviving spouses of the Employees' Retirement System. The decrease is related to deaths in beneficiaries. These supplements are non-contractual, and are subject to continuation or termination by Council action.

City Annuity Contribution – Tax Levy and Employers' Reserve Fund

The 2009 Proposed budget allocates \$23,530,000 to fund the city's share of the employees' annuity contribution, compared to \$23,001,449 in 2008. In 2008, the city's share came entirely from the property tax levy; in 2009 the contribution is split - \$17,949,000 from the tax levy, and \$5,581,000 from the Employers' Reserve Fund. The reserve fund currently has a balance of \$24.9 million and was established as part of the Global Pension Settlement, effective January 19, 2001. This fund may be used to offset the city's share of employees' annuity contributions per s. 36-08-8, city charter.

Fund Value, Allocation and Return

As of December 31, 2007, the value of the Fund was approximately \$5.2 billion. The Fund's value as of June 30, 2008 was \$4.7 billion.

The ERS is well funded. As of January 1, 2008, the actuarial funding of the system was 131.2% and the funded status based on market value was 132.2%. From 1997 to 2007, the funded ratio has exceeded 115%.

Board policy dictates that funds are allocated as follows: 45% Domestic Equity, 28% Fixed Income/Cash, 20% International Equity and 7% Real Estate.

As of December 31, 2007, the Fund's rate of return was 7.2% (Net of Managers Fees) as compared to a blended benchmark passively managed return, or reference index, of 7.8%. The Fund's rate of return (Net of Managers Fees) through June 30, 2008 was -7.7%, as compared to the benchmark net return of -6.5%. For 2007, the Fund placed in the 75th percentile as measured by Mercer's Public Fund Universe. In 2006, it placed in the 38th percentile. (The Mercer's Public Funds Universe is comprised of 40 public funds that have at least \$1 billion in assets.) The ERS Board, as well as Mercer and staff, utilize longer term numbers over a full market cycle in assessing relative performance compared to benchmarks and peers. For example, during the 5-year period ending 2007, the Fund ranked in the 30th percentile and returned 14.2% compared to its blended benchmark of 12.3%.

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