

January 23, 2008

File Ref: 08007

Mr. Jim Owczarski  
City Clerk's Office  
City Hall Room 205

Subject: Contingent Fund Resolution – Former Policemen's Annuity and Benefit Fund (PABF) 2008 Contribution

Dear Mr. Owczarski:

Please submit the attached Contingent Fund resolution to fill the file introduced "in title only" at the January 15, 2008 Common Council meeting.

The \$56,972 contingent fund request is the recently revised amortization of the unfunded pension liability of the former Policemen's Annuity and Benefit Fund. (Administrative expenses are paid by the City through its agreement with the Employees' Retirement System.) The amortization is based on the Buck Consultants December 19, 2007 actuarial report received by the Annuity and Pension Board of the City of Milwaukee Employees' Retirement System (ERS) in late December 2007, well after the November 9, 2007 adoption of the 2008 Budget.

As asserted by ERS Deputy Director Martin Matson in the attached Contingent Fund Request Information Form, the funds were not budgeted for 2008 as no accurate contribution number was available. The previous actuary's report, received in late September 2007, required a contribution of \$193,177 which was deemed overly conservative. The ERS's actuary, Buck Consultants, was engaged to submit a revised report but was unable to complete its work prior to budget adoption.

The old actuary had been PABF's actuary when PABF was a self-governing entity. The PABF Board had experienced investment disappointments in the late 1990s and early 2000s. Since governance and investment responsibilities were shifted to the A&P Board in 2005, effective January 1, 2006, the fund's position has improved from about 72.5% funded ratio as of December 31, 2005 to an 80% funded pension liability as of December 31, 2006. This improvement in one year is dramatic and due largely to investment experience and, to a lesser extent, actuarial experience. PABF's investments mirror ERS's main pension fund which has experienced substantial returns in recent years. Buck Consultants increased its investment return assumption to 8.5% more accurately reflecting ERS's experience.

Buck Consultants also utilized more appropriate mortality tables, based on CMERS's five year experience. They compare well to recent experience of Milwaukee retirees and are sex-distinct rather than the previously used unisex tables. In addition, the prior tables reflected the experience of individuals who purchase life annuity policies and are therefore assumed to be healthier than average and long-lived.

Individual data was assessed as of December 31, 2006 and updated to December 12, 2007 for the purposes of this valuation. PABF, the Annuity and Pension Board, and the City are therefore able to take advantage of actual experience through most of 2007 to reduce the unfunded liability amortization.

Please call John Ledvina at extension 3384 or me at extension 5060 if you have any questions about this matter.

Respectfully submitted,

Mark Nicolini  
Budget and Management Director

JJL:cei

Cc: Ald. Michael Murphy, Chairman, Finance and Personnel Committee  
W. Martin Morics, Chairman, Annuity and Pension Board  
Martin Matson, Acting Executive Director and Secretary

Attachments

Common/confund/2008/l-resfill-PABF08Contrib.doc