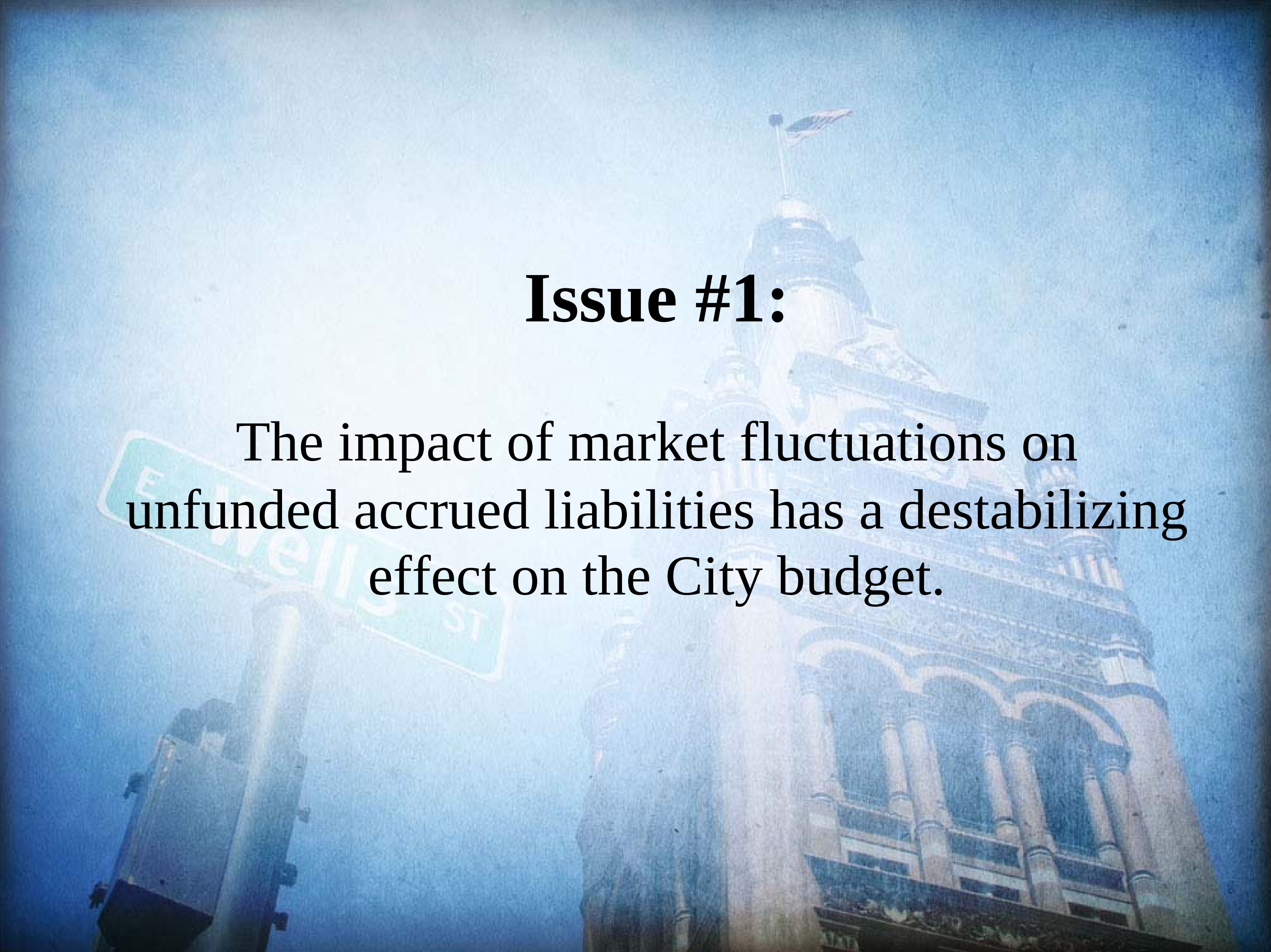
Milwaukee Pension Task Force

{ Issues and Options }

Presented
May 10, 2012



Issue #1:

The impact of market fluctuations on unfunded accrued liabilities has a destabilizing effect on the City budget.

Issue #1 (cont.):

The ERS anticipates an 8.5% rate of return.

The Reality:

2007	7.45%
2008	-30.68%
2009	23.72%
2010	14.08%
2011	-1.00%

Issue #1 (cont.):

Moderate deviations from the assumed rate of return can cause annual contribution changes of $25 million or more. Had 2011 returns been double the assumed rate, a not uncommon event, contribution requirements could have been eliminated for 2015-2017, assuming returns at the assumed rate for the three years following 2011.

Issue #2:

Chapter 36 of the
Charter of the City of Milwaukee, as
interpreted by the office of the City Attorney
and the courts, restricts most substantive
changes to new employees.

Issue #2 (cont.):

It is estimated that 50% of the City's employees turn over every 12 years.

Therefore:

These must be long-term solutions.

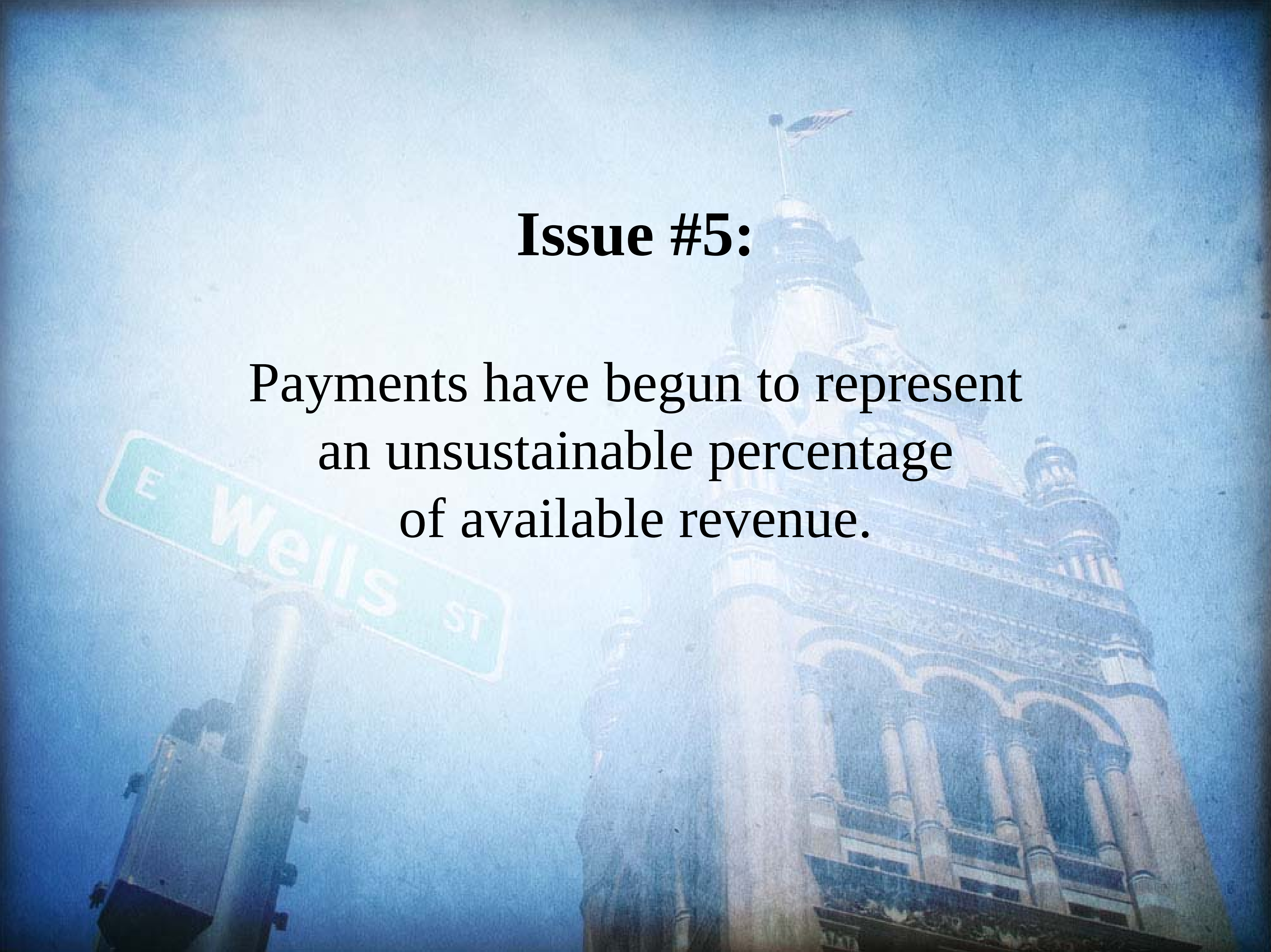
Issue #3:

All changes to benefits for protective services employees must be bargained.

Although only 44% of employees,
they represent ca. 70% of costs.

Issue #4:

City officials remain committed to meeting the City’s obligations to all its employees – past, present, and future.



Issue #5:

Payments have begun to represent
an unsustainable percentage
of available revenue.

Issue #5 (cont.):

Projected Equilibrium Contribution of ~$100 million* (including accrued liabilities) represent ~40% of the City’s 2012 Tax Levy of ~$248 million

*: Represents $80 million employer contribution and $20 million employer-paid member contribution

Issue #5 (cont.):

In 2009, the City eliminated 325 FTEs

Since 2007, the City has eliminated 500 FTEs

Issue #5 (cont.):

All of this diminishes the City's ability to attract and retain qualified employees.

The City’s Proactive Approach

1. Prior to the passage of Act 10, and before Milwaukee County or any Wisconsin municipality, required contributions of new employees

2. Adopted Common Council File Number 091264 institutionalizing various asset smoothing mechanisms previously adopted by the Annuity and Pension Board

The City's Proactive Approach (cont.)

3. Significant, multi-year contributions to the pension reserve fund.

4. Creation of policies to prevent pension "spiking"

The City's Proactive Approach (cont.)

5. Delayed the entry of probationary employees to the system

6. Unlike the County, which borrowed almost $400 million to meet its pension obligations, the City used budget reductions and responsible changes in funding practice to meet its payments.

Options

{ Financing Changes }

Option #1

Further increases to the smoothing "window":
10/15 years (from current 5)

Option #2

Adopt variable smoothing of assets so that relatively abnormal rates of investment gain or loss are smoothed over a longer period of time

Option #3

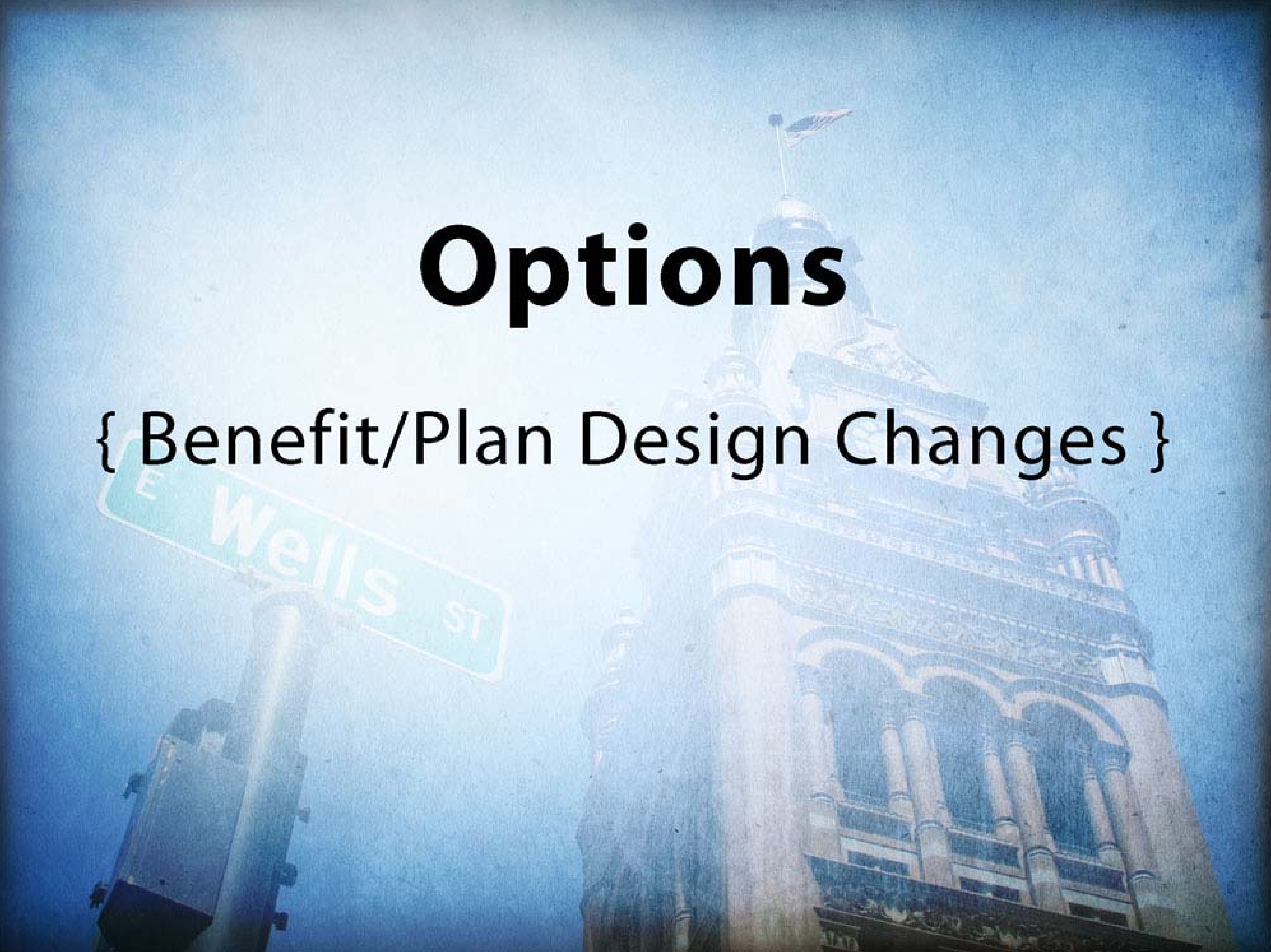
Allow for amortization over 5-7 years of a portion of the annual valuation that exceeds some threshold of a “normal” range of year-to-year contribution fluctuation. New York State, a very well-funded plan, has added this as an option for participating local governments.

Option #4

Eliminate the full funding limit and provide that the City shall provide for its share of the full normal cost either through a contribution to the fund or to the Employers' Reserve.

Options

{ Benefit/Plan Design Changes }



Option #1

Begin with the premise that the City
will guarantee an income replacement ratio
in the range of 85-95% calculating:

Pension Income + SSI

Option #1 (cont.)

Decrease the service multiplier:

1.8/1.5/1.2

Option #2

Increase the retirement age for general city employees:

62/65/67

Option #3

Offer dividend sharing versus straight CoLAs

1. This might be possible for current members

2. Increases reward and risk sharing

So, what might this look like?

Computer Modeled Options for General Employees

1. Decrease Service Multiplier – 2.0% to 1.5%

2. Increase Retirement Age

   Normal Retirement – 60 to 62

   Early Retirement – 55 to 60

3. Cost of Living Adjustment – CoLA

   Current Plan: 1.5% - Retirement Years 3 - 5

   2.0% - After 5th Retirement Year

   Option Modeled: 2.0% CoLA Delayed Until

   Normal Retirees: Age 69

   Early Retirees: Age 67

Projected Annual Savings after 10 – 12 years*
Computer Modeled Options for General Employees

Modeled Change	% Reduction to Normal Cost	$ Reduction to Normal Cost
Service Multiplier	26 %	$5.1 million
Retirement Age	8%	$1.6 million
CoLA	5%	$977,500
TOTAL	34%**	$6.7 million

* Based on Normal Cost of $19.55 million
** Overlapping savings reduce total from 39%

Actuary Analyzed Options for Protective Services

1. Decrease service multiplier from 2.5% to 2.3%

2. Set retirement age to age 51

    Police currently may retire after 25 years of service

    Fire personnel may retire at age 49 with 22 years of service

3. Set CoLA at 1.8%, delayed to retirement year 3.

    Current plan is 3.0% or CPI, whichever is less.

Projected Annual Savings after 10 – 12 years*
Actuary Analyzed Options for Protective Services

Modeled Change	% Reduction to Normal Cost	$ Reduction to Normal Cost
Service Multiplier	8%	$3.9 million
Retirement Age	8%	$4.1 million
CoLA	9%	$4.4 million
TOTAL	21% **	$10.2 million

* Blended protective services savings based on total NC of $48.76 million
**Overlapping savings reduce total from 25%

Comparative Pension Provisions – General Employees			
	Milwaukee City	Milwaukee County	Wisconsin State
Retirement			
Regular			
Age	60	64	65
Service	Any	Any	Any
Early			
Age	55	Rule 75	57
Service	30		30
Multiplier	2.0%	1.6%	1.6%
COLA	1.5% (3rd-5th years)	2.0%	Based on Earnings
	2.0% (thereafter)		
FAS Limitations	70%	80%	70%