

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

Executive Summary: 2006 Proposed Budget – Employees' Retirement System

1. The current Director of ERS is retiring. The Annuity & Pension Board has hired a professional recruiting firm to help with the search for the Executive Director. The firm, CPS, reported to the Administration and Operations Committee on August 16, 2005 that they anticipate having a new director on board by December 5, 2005. (Page 1)
2. The 2006 Proposed Budget includes approximately \$16.5 million for ERS Operating Expenditures. This is an approximately \$600,000 increase from the \$15.9 million provided in the 2005 Budget for this account. (Pages 2 and 3)
3. The 2006 Proposed Budget includes \$1,061,684 for the Custom Automation Project (Milwaukee Employee Retirement Information Technology Solutions). The purpose of MERITS is to automate all of the essential business functions of the ERS as they relate to member services, both before and during retirement. (Pages 3 & 4)
4. As of June 30, 2005, the value of the Fund was approximately \$4.37 billion. In 2004, Fund's rate of return (Net of Managers Fees) was 12.6% The Fund's rate of return through June 30, 2005 was 1.2%. (Page 4)
5. The ERS manages two tax levy funded special purpose accounts with proposed funding of approximately \$3.3 million. (Pages 4 & 5)

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

2006 Proposed Budget: Employees' Retirement System (ERS)

Expense Category	2004 Actual	2005 Budget	% Change	2006 Proposed	% Change
Operating	\$ 19,826,339	\$ 22,562,869	14%	\$ 20,976,648	-7%
Capital*	\$ -	\$ -	-	-	-
Positions	48	48	0%	48	0%

Note: As a result of the Global Settlement Agreement, the Pension Trust provides \$20,719,400 in funding for the 2006 ERS operating budget.)

The Employees' Retirement System (ERS) is responsible for ERS asset management and retirement benefits administration for approximately 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 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.

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.

On April 11, 2000, the Common Council approved the implementation of the global pension settlement. The settlement took effect on January 19, 2001.

2006 Proposed Budget

Personnel Changes

1. The current Director of ERS is retiring. The Annuity & Pension Board has hired a professional recruiting firm to help with the search for the Executive Director. The firm, CPS, reported to the Administration and Operations Committee on August 16, 2005 that they anticipate having a new director on board by December 5, 2005.
2. The Program Assistant II position was reclassified as an Administrative Services Specialist after a classification study by DER that was presented to the Finance and Personnel Committee on May 19, 2004. The position change was not reflected in the 2005 budget because the budget had already been submitted and was not updated to reflect the change.

Proposed Operating Expenditures

The 2006 Proposed Budget includes approximately \$16.5 million for ERS Operating Expenditures. This is an approximately \$600,000 increase from the \$15.9 million provided in the 2005 Budget for this account. Changes in operating expenditures include the following:

General Office Expense increases from \$145,700 to \$148,800. The increase reflects the scheduled increase in postal rates.

Professional Services increases from approximately \$14.6 million to \$15.3 million. There are two primary reasons for the increase, a \$174,000 increase in funding for audit services and an approximately \$530,000 increase for Investment Manager Fees.

The increase in funding for audit services reflects an approach for Internal Audit services developed for ERS by KPMG. KPMG provided the Board with an audit charter, committee oversight and a risk assessment. The risk assessment identifies areas that the Board should be concerned about from an Internal Audit perspective. It is the Board's intent to use external resources to conduct these internal audit activities.

The majority of the funding in this account is for investment management fees. In 2006, approximately \$13.5 million of the \$15.3 million total ERS Professional Services account is for Investment Manager Fees, an increase of approximately \$530,000 from amount in 2005. The current ERS investment managers are shown in the table on page 3.

ERS INVESTMENT MANAGERS			
Fixed Income	Domestic Equity	International Equity	Real Estate
Barclays Global Investors	Alliance Bernstein	Brandes Investment Partners	AMB Property Corporation
Loomis-Sayles & Co	Artisan Partners	William Blair & Company	Brayanston Realty Partners
Reams Asset Management Company	Barclays Global Investors		Deutsche Asset Management
	Dimensional Fund Advisors		Fremont Strategic Property Partners
	Earnest Partners		GMAC Commercial Realty Partners
	The Northern Trust Co		Guggenheim Structured Real Estate, Inc.
	Turner Investment Partners		JP Morgan Fleming Asset Management
			Jones Lang LaSalle
			Lubert Adler Partners, L.P.
			Morgan Stanley Prime Property Fund
			Prudential Investment Management
			The Tuckerman Group
			Union Bank of Switzerland (UBS)
			Walton Street Capital
			Heitman Capital Management

Proposed Equipment Purchases

Replacement Equipment

\$10,000 - Computer Hardware & Software- This account provides funding for computer hardware costs in various automation budgets. The account is funded at the same level as in 2005.

Special Funds

\$1,061,684-Custom Automation Project (Milwaukee Employee Retirement Information Technology Solutions)

The 2006 Budget continues to provide funding for (Milwaukee Employee Retirement Information Technology Solutions (MERITS). Funding for MERITS began in 2002. The ERS currently has approximately 27,000 active, deferred and retired members, and manages a \$4.5 billion dollar pension system.

Little had been done in the last decade, outside of some emergency Y2k remediation work and custom GPS systems development, to automate the systems that support ERS' operations. The MERITS project builds upon the Business Process Modeling project, begun in 2000 and completed in 2001, to document the critical business requirements of the system as dictated by Chapter 36 of the City Charter, 1,400 legal opinions related to the interpretation of Chapter 36, and the Rules and Regulations of the ERS Board. MERITS is a custom software development project because ERS learned, as a result of an RFP issued in 1999, that the proposed software packages failed to meet 90% of the systems needs as prescribed by Chapter 36.

Currently, the MERITS line-of-business computer system is in the User Training /Acceptance Testing & Rollout Phase of the project for. Depending upon the success of this Phase, the new system will go live in the 1st quarter of 2006. After the successful rollout of the main line-of-business system, the Member Self Service and Configuration Management modules will be completed and implemented. A Post-implementation Support Phase of the project will begin after rollout has been completed, and is scheduled for two years.

The total estimated cost of MERITS is \$25.3 million, including 2 years of post implementation support and two separate IT initiatives related to document management (\$1 million) and data remediation (\$1.5 million). The system is expected to go live in 2005.

Fund Value and Return

As of June 30, 2005, the value of the Fund was approximately \$4.37 billion. In 2004, the Fund's rate of return) was 12.6%. The Fund's rate of return (Net of Managers Fees) through June 30, 2005 was 1.2%. The fund's performance has been in the top quartile in Mercer/Russell/Mellon Total Funds Billion Dollar Public Universe for the 3 and 5-year periods ending December 31, 2004. (The Mercer Universe Total Funds Billion Dollar Public Universe is comprised of 37 public funds that have at least \$1 billion in assets.)

SPAs

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 \$3 million.

	2004 Actual	2005 Budget	% Change	2006 Proposed	% Change
Group Life	\$2,653,727	\$2,640,000	0%	\$3,000,000	14%
Retiree Adjustment	\$326,954	\$335,000	2%	\$325,000	-3%

For 2006, funding for the Group Life SPA is increased by \$360,000 to \$3,000,000. The increase reflects wage settlements and a rate increase based upon Mutual of Omaha's experience for the past 2.5 years. At the request of ERS, Mercer, the consultant who originally evaluated the proposals, reviewed Mutual of Omaha's proposed rate increase and concluded that the increase was appropriate.

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. These supplements are non-contractual, and are subject to continuation or termination by Council action. The proposed budget is based on actual expenditures.

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LRB-Fiscal Review Section
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