Reply to Common Council File No. 151869
From DOA-Budget and Management Division

June 2, 2016

Ref: 16004
File 050744

Common Council File 151869 contains a charter ordinance relating to the funding of benefits for members and beneficiaries of the Policemen's Annuity and Benefit Fund.

The charter ordinance creates § 35-01-12-e, Milwaukee City Charter, and repeals § 36-15-1-e-5, Milwaukee City Charter (MCC) The purpose of these proposed charter changes is to change the method of funding for the Policemen's Annuity & Benefit Fund (PABF). There is no change to the benefits that beneficiaries receive, nor does it modify the City's obligation to pay these benefits.

The PABF provides retirement and death benefits to police officers hired before July 31, 1947 and their widows. In 2005, administration of the PABF was transferred to the Annuity & Pension Board. During 2015, 11 annuitants and 32 widows received benefits in the amount of $493,000. The amount of benefit payments is expected to decline to less than $100,000 by 2021.

Currently, the City's required yearly payment to the PABF is based on an amount set by the actuarial report that is required on a yearly basis under §§ 36-15-1-e-5 and 35-01-1 of the Charter. The combination of contributions and investment earnings was directed towards benefit payments. However, during 2015 the PABF became insolvent. Benefits were paid in full from City operating funds.

It is not uncommon for a fund that is closed to new entrants where a large percentage of the assets are paid out in benefits to become insolvent before all benefit payments are made. That is the case for the PABF. For PABF, the insolvency was exacerbated by the downturn in asset values during calendar year 2008.

The Plan's actuary has stated that it would not be unreasonable to consider allowing the plan sponsor to fund the plan as benefit payments come due (aka "pay as you go"). The pay as you go approach has several advantages:

- It avoids exposure of funds to investment loss. Prior investment losses, particularly dating to 2008, have resulted in substantially larger expenditures by the City than what would have been needed had the plan's assets been maintained in cash;

- It allows for more precise budgeting and budget planning, since only projected benefit payments need to be taken into account;

- It ends a valuation process that is no longer relevant to a plan of this size and demographics. This is expected to save the City approximately $10,000 annually.

With these proposed charter changes, beginning in 2017, the City will pay the actual cost of the retirement annuities on a monthly basis.

The fiscal impact of this file is negligible, since benefit obligations are unchanged. The pay as you go approach provides for increased budget certainty from year-to-year. It is expected the end of the actuarial funding approach will avoid an annual expenditure of $10,000 for the valuation.

RECOMMENDATION: ADOPT COMMON COUNCIL FILE NUMBER 151869

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