

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

Executive Summary: 2008 Proposed Budget – Employees' Retirement System

1. **Department Services:** The Employees' Retirement System (ERS) is responsible for ERS asset management and retirement benefits administration for approximately 26,446 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. **Personnel:** The 2008 Proposed Budget for Net Salaries and Wages is \$2,542,400, an increase of \$77,749 (3.0%), from the \$2,464,651 funded in the 2007 Budget. The 2008 Proposed Budget contains 52 positions, an increase of 3 (6.1%) from the 49 positions in the 2007 Budget. **(Page 3)**
3. **Operating Expenditures:** The 2008 Proposed Budget for Operating Expenditures is \$20,235,200, an increase of \$643,332 (3.3%), from the \$19,591,868 funded in the 2007 Budget. **(Pages 4 & 5)**
4. **Equipment Purchases:** The 2008 Proposed Budget includes \$141,700, a \$293,300 (67.4%) decrease from the \$435,000 in the 2007 Budget. **(Page 5)**
5. **Special Funds:** The 2008 Proposed Budget is \$300,000, a decrease of \$2,850,924 (90.5%) from \$3,150,924 in the 2007 Budget. **(Page 5)**
6. **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 \$3.5 million. **(Page 6)**
7. **Fund Value, Allocation and Return:** As of June 30, 2007, the value of the Fund was approximately \$5.3 billion. The Fund's value at December 31, 2006 was \$5.1 billion. From 1997 to 2007, the funded ratio has exceeded 115%. As of January 1, 2007, the system was funded at 127.4%. In 2006, the Fund's rate of return was 15.1% (Net of Managers Fees); through June 30, 2007 it was 6.5%, exceeding the benchmark net return of 6.2%. **(Page 6)**

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

2008 Proposed Budget: Employees' Retirement System (ERS)

| Expense Category | 2006 Actual | 2007 Budget | % Change | 2008 Proposed | % Change |
|------------------|--------------|-------------|----------|---------------|----------|
| Operating | \$23,462,283 | 26,677,643 | 13.7% | \$24,261,700 | -9.1% |
| Capital | - | - | - | - | - |
| Positions* | 48 | 49 | 2% | 52 | 4% |

* includes 8 Pension Board Members

Note: As a result of the Global Settlement Agreement, the Pension Trust provides \$23,974,060 (98.8%) funding for the 2008 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 \$17 million has been 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 approximately 26,446 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.

2008 Proposed Budget

The 2008 Proposed Budget for ERS is \$24,261,700, a decrease of \$2,415,943 (9.1%) from the \$26,677,643 funded in the 2007 Budget.

Personnel

1. The 2008 Proposed Budget for Net Salaries and Wages is \$2,542,400, an increase of \$77,749 (3.0%), from the \$2,464,651 funded in the 2007 Budget.
2. The 2008 Proposed Budget contains 52 positions, an increase of 3 (6.1%) from the 49 positions in the 2007 Budget. There are 42 O&M FTEs, compared to 40.5 in the 2007 Budget, an increase of 1.5 (3.6%).
3. The 2008 Proposed Budget reflects the addition of one Management Accountant Senior (\$51,168) and one College Intern (\$11,076). The Management Accountant – Senior is for Financial Services and will reduce the use of temporary help in order to provide resources for deferred benefit calculations. The College Intern will provide support, assist existing staff and conduct initial research. In addition, an auxiliary position of ERS Financial Officer is added for the purpose of double filling the position for training purposes due to the pending retirement of the current Financial Officer. No salary is associated with the position since it will not be filled until 2009.

Operating Expenditures

The 2008 Proposed Budget for Operating Expenditures is \$20,235,200, an increase of \$643,332 (3.3%), from the \$19,591,868 funded in the 2007 Budget. The major items include:

1. Professional Services

The majority of the 2008 Proposed Operating Budget consists of \$16,441,700 (88.0%) in Professional Services. This is a \$515,064 (3.0%) decrease from the 2007 Budget amount of \$16,956,764. The Professional Services amount includes \$14,470,000 for Investment Manager Fees (88% of the Professional Services total). This is a \$573,364 (3.8%) decrease from the \$15,043,364 in the 2007 Adopted Budget. The decrease is mainly due to lower performance fees paid to Barclays 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 | Citigroup Property Investors |
| | Dimensional Fund Advisors | | Colony Capital |
| | Earnest Partners | | Deutsche Asset Management |
| | Northern Trust Global Investors | | Fremont Group |
| | Turner Investment Partners | | 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 \$2,422,400 is included for Information Technology Services in the 2008 Proposed Budget. This is an increase of \$1,305,296 (117%) from the \$1,117,104 in the 2007 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) as well as costs to maintain and upgrade various software and hardware necessary to run the system.

3. Other Operating Services

The 2008 Proposed Budget includes \$857,000 for Other Operating Services. This is a \$83,200 (8.8%) decrease from the \$940,200 provided for this account in the 2007 Budget. This reduction is the result of a decrease in the need for temporary help, a decrease in the amount paid to the city because of no longer occupying space in City Hall, and the one-time cost in 2007 to pay movers.

Equipment Purchases

The 2008 Proposed Budget includes \$141,700, a \$293,300 (67.4%) decrease from the \$435,000 in the 2007 Budget. The \$141,700 included in the 2008 Proposed Budget is for new computer hardware and software. There is a 5-year replacement schedule for the three ERS server environments. This amount covers the replacement of one of those environments that has now reached the end of its lifespan. It also includes the replacement of 17 desktop workstations.

Special Funds

The 2008 Proposed Budget is \$300,000, a decrease of \$2,850,924 (90.5%) from \$3,150,924 in the 2007 Budget. The decrease is due to no funds allocated in 2008 for the Custom Automation Project, or MERITS, system's post-implementation contract services, project management, facility costs, Election Management System and the establishment of a disaster recovery site. In 2007 \$2,828,924 was allocated for the Custom Automation Project. The \$300,000 for 2008 is for use as a Fiduciary Liability Deductible. The Fiduciary Liability Policy contains a \$300,000 deductible. In the event there is a claim, the Trust is responsible for the first \$300,000 in costs. This was initially budgeted in 2004 and carried over to 2005, 2006 and 2007. It cannot be carried over further and is being reauthorized in the 2008 Budget.

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 \$3.5 million.

| | 2006 Actual | 2007 Budget | % Change | 2008 Proposed | % Change |
|--------------------|------------------------|------------------------|---------------------|--------------------------|---------------------|
| Group Life | \$3,066,927 | \$3,165,000 | 3.2% | \$3,257,000 | 2.9% |
| Retiree Adjustment | \$272,673 | \$291,900 | 7.1% | \$263,000 | -9.9% |

For 2008, funding for the Group Life Special Purpose Account is increased by \$92,000 to \$3,257,000. The increase is based on prior years' experience.

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.

Fund Value, Allocation and Return

As of June 30, 2007, the value of the Fund was approximately \$5.3 billion. The Fund's value at December 31, 2006 was \$5.1 billion.

The ERS is well funded. As of January 1, 2007, the system was funded at 127.4%. 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.

In 2006, the Fund's rate of return was 15.1% (Net of Managers Fees) as compared to a blended benchmark passively managed return, or reference index, of 14.1%. The Fund's rate of return (Net of Managers Fees) through June 30, 2007 was 6.5%, exceeding the benchmark net return of 6.2%. For 2006, the Fund placed in the 38th percentile as measured by Mercer's Public Fund Universe. (The Mercer's Public Funds Universe is comprised of 37 public funds that have at least \$1 billion in assets.)

Prepared by: Mary Turk 286-8680
Research & Analysis Section - LRB
October 12, 2007