

2023



Legislative Reference Bureau

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# EMPLOYEES' RETIREMENT SYSTEM

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## 2023 Proposed Plan and Executive Budget Review

Prepared by: Chris Hillard, Legislative Fiscal Analyst  
Budget Hearing: 1:00 pm on Wednesday, October 5, 2022



**\$23,383,349**

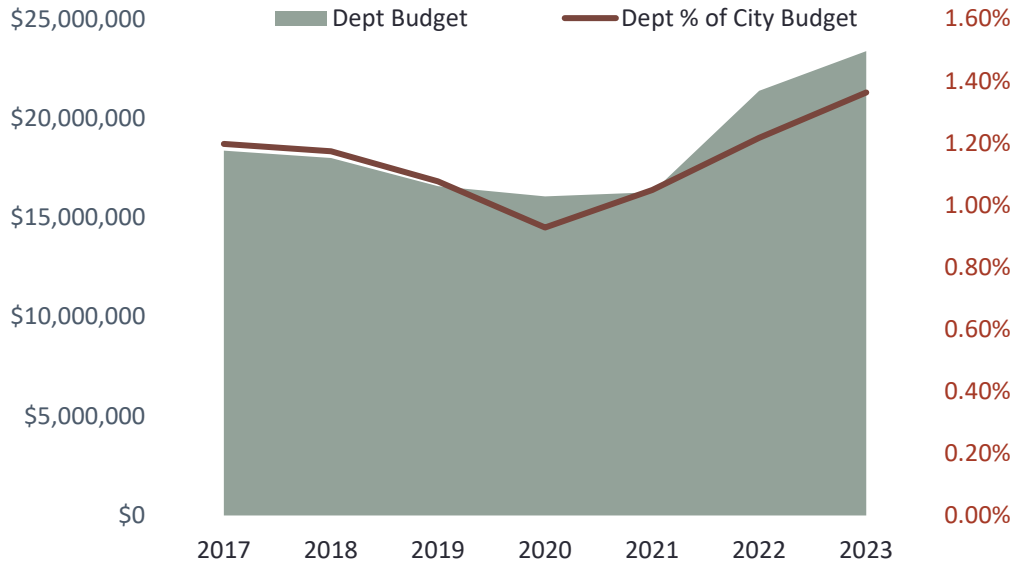
Proposed 2023 Budget

**\$1,995,445**

Change in Proposed Budget

**9.3%**

% Change in Proposed Budget



**Departmental Budget Impact**

The ERS Budget is funded almost entirely through Pension Trust Fund assets, as approved by the Pension and Annuity Board, and, therefore, does not have a noticeable impact on the tax levy or general budget.

**Departmental Budget Appropriation Category**



Salaries/Wages   Fringe Benefits   Operations   Equipment   Special Funds

	Salaries/Wages	Fringe Benefits	Operations	Equipment	Special Funds
\$	\$3,749,620	\$1,687,329	\$15,910,400	\$2,036,000	\$0
%	16%	7%	68%	9%	0%
Δ	4.6%	2.4%	2.3%	240.5%	0.0%

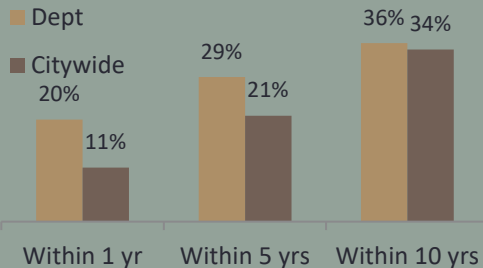
**\$25,354,014**

Requested Budget  
+ \$163,335 (+ 9%) more than  
Proposed Budget.

**\$2,036,000**

Proposed equipment expenditure for 2023, a 240% increase from 2022. Funds will be used to upgrade from the current IBM FileNet product, which loses support in 2023, to the new version.

**Retirement Eligible**



**1**

Change in Positions

**1.7%**

% Change in Positions

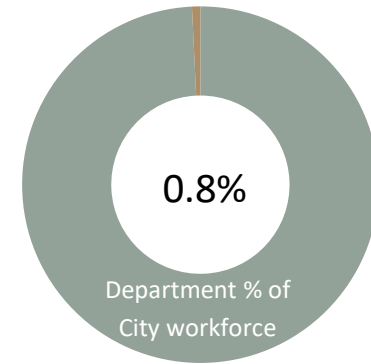
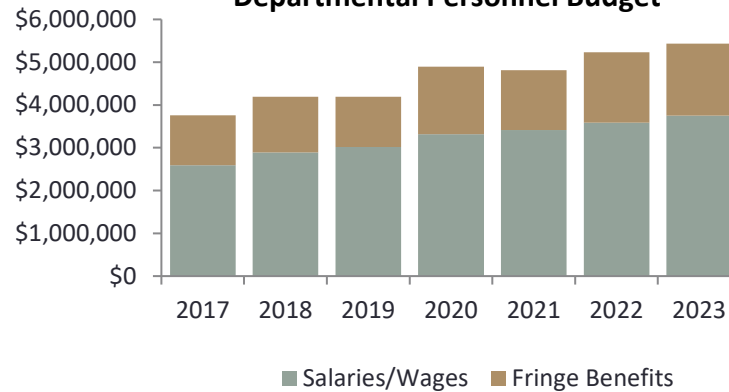
**0**

Current Vacancies

**3**

Voluntary Separations

**Departmental Personnel Budget**



**Staffing Vacancies**

Currently, the Department has 3 vacancies:

Operations Director: Vacant since 6/2/22. Currently not recruiting.

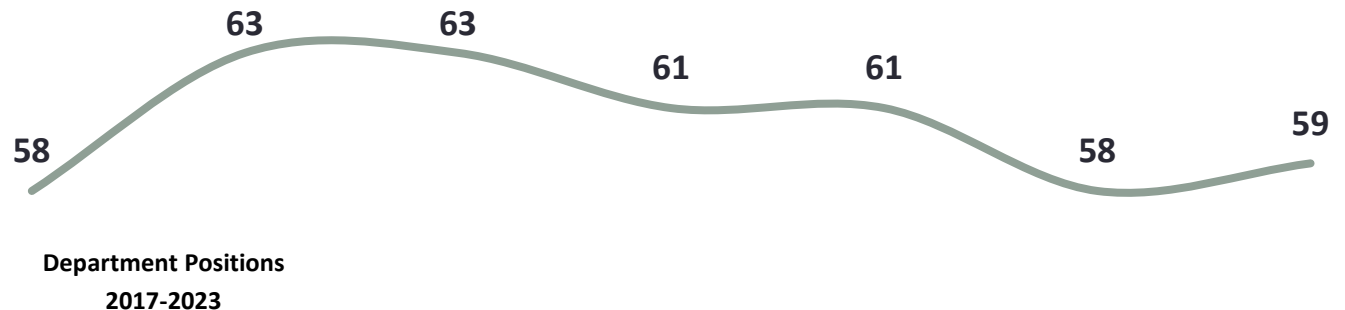
Investment Analyst – Sr.: New position added 5/25/22. Currently not recruiting.

Administrator: Vacant Since 5/14/22. Working on recruitment with DER.

**Staffing Update**

The Proposed Budget adds 2 new positions:

- Disability Specialist-Lead.
- Pension Investment Analyst-Senior.
- In addition, there are two positions that are being reclassified: a Program Assistant II is changed to a Benefit Services Coordinator and an ERS Network Administrator that is changed to an ERS Network Security Administrator.



**\$80,778,303**

Current balance of the Pension Reserve Fund.

**\$56 million**

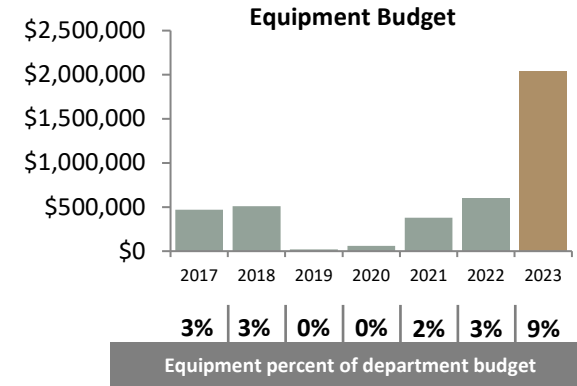
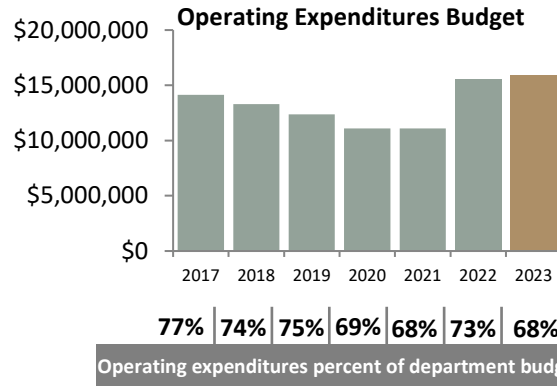
Projected actuarially determined additional employer contributions to the fund starting in 2023.

**29,364**

Total number of members and beneficiaries of the Employees' Retirement System as of January 1, 2022, of which 65.6% are retirees or inactive members, a slight increase since 2022.

**7.5%**

Assumed rate of return of pension fund assets from 2019 onward, down from 8%.



**Revenue**

Revenues received by ERS:

- The department receives \$21.4 million in revenues for Charges for Services.

**Special Purpose Accounts**

(Not funded by the Pension Trust Fund)

- 2023 Group Life Insurance Premium: \$4.36 million, a decline from \$4.56 million in 2022.
- Retirees' Benefit Adjustment Fund: \$25,000, down from \$32,000 in 2022 (Covers certain former City employees who retired prior to 1984.)

**Grants**

This department receives no grant funding.

**Capital Projects**

This department has no capital projects funded in the 2023 Proposed Budget.

**93.5%**

Ratio of Fund Asset Market Value compared to Accrued Pension Liability as of January 1, 2022.

**83.4%**

Ratio of Fund Asset Actuarial Value compared to Accrued Pension Liability as of January 1, 2022.

**18.9%**

Fund's net of fees rate of return in 2021.

**-3.7%**

Fund's 2023 YTD net of fee rate of return.

**Recent Technology Upgrades**

Several technology upgrade projects were completed in 2022 and more will be completed in 2023:

- Updates to product lines that are nearing end-of-life status.
- Enhancements made to the ERS website and self-service site, including security updates.
- Network security enhancements were made to better protect and secure member and institutional data, including:
  - Implementation of security incident and event management technologies.
  - Additional internal and external network scanning.
  - Website configuration security updates that provide a more proactive approach to network security.

ERS plans to further strengthen its network security in 2023 and will use a third-party security firm to assist in a security review. An update to the ERS server infrastructure is also being considered for 2023.

**Actual Accrued Liability**

- This is the amount the City will owe in future pension obligations, in today's dollars. The City's actuarial accrued liability is \$6.8 billion as of January 1, 2022.
- Reducing the discount rate from 8.0% to 7.5% had a significant impact on the accrued actuarial liability.
- As of January 1, 2022, the actuarial accrued liability is approximately \$6.8 billion, and the funded status on an actuarial basis is 83.4%, with an unfunded liability of approximately \$1.1 billion.

**Possible Change to Discount Rate**

Based on market analysis performed by Callan, CMERS's investment consultant, ERS's actuaries have recommended a new discount rate of 7.4% for the next five years. Callan's assumptions are based on passive indices for publicly traded securities, not actively managed accounts like those used by CMERS, so there is a possibility that the current, higher rate of 7.5% may still be appropriate.

Because Callan reissued economic assumptions for 2023 using 2022 market experience, the Stable Contribution reset must necessarily be linked to year-end 2022 asset values. Resetting the stable contribution due and payable in January 2024 through January 2028 will therefore not happen until CMERS has its December 31, 2022 asset values. Because of these factors, ERS will not know with precision the amount of the reset stable employer contribution percent of pensionable wages for the next five-year period.

**ERS Fund Investment Return Blended Benchmark Comparison Indices**

- Morgan Stanley Capital International ACWI IMI (All Country World Investable Market Index) Stock Index
- Bloomberg Barclays U.S. Aggregate Bond Index
- NFI-ODCE (NCREIF Open End Diversified Core Equity) Real Estate Property Index
- 90 Day T-Bill + 3%
- Russell 3000 + 2%
- S&P Global Infrastructure Index
- FTSE EPRA/NAREIT Developed Index
- S&P Global Natural Resources Index
- Barclays U.S. TIPS Index
- Bloomberg Commodity Total Return Index

**Annuity and Pension Board Members**

Name	Member	Term Expires
Aycha Sawa – Comptroller	Ex-Officio (Comptroller)	
Matthew Bell – MPD	Elected - Active Member – CHAIR	December 31, 2025
James Campbell – MPD	Elected - Active Member – VICE-CHAIR	December 31, 2022
Molly Christianson – Mayor's Office	Elected - Active Member	December 31, 2024
Deborah Ford – Retired DER	Appointed by Common Council President	June 30, 2022
Tom Klusman – Retired MPD	Elected Representative - Retirees	December 31, 2025
Rudolph Konrad – Retired City Attorney	Appointed by Common Council President	June 30, 2022
Nik Kovac – Budget Director	Appointed by Common Council President	June 30, 2022

**Annualized Excess Return above the Blended Benchmark Index, Gross of Fees (over the past five years)**

Year		%
2021	Actual:	0.9%
2022	Projected:	0.5%
2023	Planned:	0.5%