



City of Milwaukee
Employees' Retirement System

Anne M. Bahr
Executive Director

Jennifer A. Shannon, CFA
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May 7, 2004

Honorable Common Council
Finance and Personnel Committee

Re: File #020598

Dear Committee Members:

The aforementioned File was previously held by your committee in order to provide additional background information to the Labor Negotiator, the unions and committee members before adoption. In particular, committee members expressed interest in examples of the types and amounts of lump sum amounts that would be payable under this recommended change to the Charter.

Before the Employees' Retirement System (ERS) could provide this information, we contacted the City Attorney's Office to clarify individual members' rights to guaranteed pension benefits after an involuntary separation. We received a response to our opinion request that indicates that each member is entitled to receive at least his or her contribution balance at the time of separation.

Currently, the City Charter provides a member who has been involuntarily separated certain rights. One of those rights is a right to receive a monthly allowance beginning immediately that is the actuarial equivalent of the monthly allowance that would be payable to the member at normal retirement age. For example, a member who is terminated after three years of service at age 29 would be entitled to receive a pension of \$102.01 per month at age 60, or may be entitled to an immediate allowance of \$6.50 per month. The reduced amount reflects both the time value of money and the additional years that a member would be receiving the benefits from the ERS. This revision to the Charter would extend the minimum benefit provision that exists for service and deferred retirements to these immediate allowance benefits as well. If the minimum pension amount is less than \$100, the member is entitled to receive a lump sum equivalent in lieu of being placed on the monthly pension payroll.

The proposed change largely attempts to deal with members who have been involuntarily separated but have less than eight years of service credit. There already is a provision in Chapter 36 that allows members with eight or more years to withdraw their accumulated contributions. This provision essentially enables such members to relinquish all rights to a pension and roll their contributions over to an IRA or other retirement plan or receive a taxable payment immediately.

A significant number of terminated members have only two or three years of service credit and find themselves terminated at a relatively young age. The immediate monthly allowance of such members is often less than \$10. In addition, the monthly allowance

payable to most of these members at normal retirement age will be less than the minimum benefit provision (currently \$100). Under current provisions, these members will not be eligible for a monthly allowance but will receive a lump sum, which is the actuarial equivalent of the monthly allowance at age 60. For someone who is terminated at age 29, this payout would occur 31 years after separation.

There is a cost associated with continuing to administer these small benefits for what can be hundreds, or even thousands, of terminated members. The primary purpose of this provision is to avoid these costs by enabling such members to take an actuarial lump sum of this immediate allowance but no less than the contributions made on their behalf to the ERS. The System actuary has indicated there is no fiscal impact to the fund on the disbursement of these funds.

We currently have several hundred such individuals. In 2001 alone, 176 individuals were considered to be involuntary separated. We drew a representative sample of these and itemized them in the enclosed schedule. Column 3 reflects the retirement benefit payable at age 60. Column 4 reflects the involuntary separation benefit payable immediately. Column 5 reflects the equivalent lump sum amount. As you can see, the highest lump sum in the sample is approximately \$12,000, while the lowest is approximately \$8. The highest amount payable is to a forty-five year old member who has more than five years of service credit. It is more typical for such an affected member to have two or less years of service credit and to be younger. Because of a 2003 City Attorney's opinion, these members will be allowed to withdraw their contribution balance since this amount is guaranteed to them under the provisions of Chapter 36 (Column 6).

The chart also reflects a sample one year of involuntary separation benefits that would be payable by the ERS if all of the members who were considered to be involuntarily separated decided to elect an immediate lump sum withdrawal from the retirement system. The decision to take the immediate allowance as a lump sum equivalent is an individual choice in lieu of a future benefit. The Charter provision insures that each member is given his or her total benefit without additional administrative costs on the system.

I hope this letter and the attached schedule answers your questions and concerns regarding the adoption of this provision. If I can provide any additional information or clarification, please do not hesitate to call me at 286-5454.

Sincerely,



Anne M. Bahr
Executive Director

AMB:MH:smf

Enclosure

C: Sally McAttee, Labor Negotiator

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

SAMPLE OF INVOLUNTARY SEPARATIONS FROM 2001 DEFERRED TERMINATIONS

Age at Termination Date in Years (Column 1)	Creditable Service in Years (Column 2)	Normal Monthly Allowance at Retirement Age in Dollars (Column 3)	Early Monthly Allowance at Termination Date in Dollars (Column 4)	Actuarial Lump Sum Amount at Termination Date in Dollars (Column 5)	Contribution Balance at 12/31/01 in Dollars* (Column 6)
45	5.62440	345.68	89.74	12,073.33	14,439.84
38	8.01916	414.68	55.32	7,717.31	16,219.69
41	3.54655	217.11	36.76	5,071.14	8,621.74
42	4.76643	120.17	23.40	3,205.69	5,230.08
28	3.95226	209.76	12.46	1,780.41	7,391.68
28	5.18857	177.99	10.06	1,438.40	5,964.06
29	3.01249	102.01	6.50	927.21	3,512.23
43	1.37714	45.88	9.54	1,302.61	1,613.69
44	0.55750	26.22	6.23	842.84	961.54
35	1.64631	39.98	4.27	600.52	1,376.62
41	0.70500	22.16	3.87	532.64	748.69
37	0.52191	15.00	2.26	316.04	594.25
29	0.68036	31.28	1.92	274.76	1,108.90
29	0.53559	10.00	1.06	150.72	597.93
30	3.67488	117.14	7.78	1,108.79	4,005.62
24	1.23785	41.46	2.24	237.19	1,448.13
20	0.34154	10.73	0.33	48.04	351.30
36	0.07940	0.37	0.06	7.95	193.18
Sample Averages					
Universe Averages		2.53	108	15	4,132
Universe Totals		2.23	89	12	3,443
			15,643	2,056	605,995

Selection basis = Every 10th terminated employee, beginning with the 3rd employee on the Universe List.
Total selected equals 18 out of 176, or 10.23 %

*The amount a member would be eligible to withdraw if a member had 8 or more years of creditable service.
The sample yielded 1 such individual, and the universe had only 2 such individuals.