

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

Executive Summary: 2010 Proposed Budget – Employees' Retirement System

- 1. Fund Value and City Contribution:** The most significant item relating to the Employees' Retirement System is the loss of fund value and the need for the City to make a required contribution to the system. Because of past market conditions, the City has not had to make an employer's pension contribution in many years. The January 1, 2008 funding ratio on an actuarial basis was 131%. By January 1, 2009 the ratio had fallen to 99% on an actuarial basis or 82% on a market value basis. With the ratio falling below 100%, in order to be in compliance with the City Charter, the City has included a \$49.9 million contribution to the fund in the 2010 Proposed Budget. **(Page 6)**
- 2. Fund Value, Allocation and Return:** The Fund's value as of June 30, 2009 was \$3.5 billion. As of December 31, 2008, the Fund's 1-year rate of return was -30.8% (Net of Managers Fees) as compared to a blended benchmark passively managed return, or reference index, of -25.6%. However, there has been recent improvement. Through July 31, 2009, ERS estimates the Fund's return at 12.6% year-to-date with a market value of \$3.7 billion, reflecting an outperformance of 3.3% compared to the benchmark. **(Pages 6 & 7)**
- 3. City Annuity Contribution – Tax Levy and the Employers' Reserve Fund:** The 2010 Proposed budget allocates \$23,779,005 to fund the city's share of the employees' annuity contribution, compared to \$23,830,000 in 2009. Of the total contribution, \$16,979,005 is from the tax levy and \$6,800,000 is from the Employers' Reserve Fund. **(Page 6)**
- 4. Department Services:** The Employees' Retirement System (ERS) is responsible for ERS asset management and retirement benefits administration for 26,868 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)**
- 5. Total Expenditures:** The 2010 Proposed Budget for ERS is \$23,966,904, a decrease of \$153,626 (less than 1%) from the \$24,121,630 funded in the 2009 Budget. **(Page 3)**
- 6. Personnel:** The 2010 Proposed Budget for Net Salaries and Wages is \$2,501,084, a decrease of \$101,916 (- 0.39%), from the \$2,603,000 funded in the 2009 Budget. The 2010 Proposed Budget contains 52 positions, an increase of one from the 51 positions in the 2009 Budget. **(Pages 3 & 4)**

7. **Operating Expenditures:** The 2010 Proposed Budget for Operating Expenditures is \$20,543,000, the same as funded in the 2009 Budget. **(Pages 4 & 5)**
8. **Equipment Purchases:** The 2010 Proposed Budget includes \$106,000, a \$45,000 (-29.8%) decrease from the \$151,000 in the 2009 Budget. **(Page 5)**
9. **Special Funds:** There are no Special Funds included in the 2010 Proposed Budget. The authorization in the 2008 Budget for \$500,000 for the Fiduciary Liability Deductible can be carried over into 2011. **(Page 5)**
10. **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 2 tax levy funded special purpose accounts (Group Life and Retiree Adjustment) with proposed funding of approximately \$2.7 million. **(Pages 5 & 6)**
11. **Historical Information:** Historical information can be found at the end of the report. **(Pages 7 & 8)**

RESEARCH AND ANALYSIS SECTION – LEGISLATIVE REFERENCE BUREAU

2010 Proposed Budget: Employees' Retirement System (ERS)

Expense Category	2008 Actual	2009 Budget	% Change	2010 Proposed	% Change
Operating	\$24,100,102	\$24,121,630	.09 %	\$23,966,904	-0.6%
Capital	-	-	-	-	-
Positions*	52	51	-1.9%	52	1.9%

* includes 8 Pension Board Members

Note: As a result of the Global Settlement Agreement, the Pension Trust provides \$23,659,224 (98.7%) funding for the 2010 ERS operating budget.

Department Services

The Employees' Retirement System (ERS) is responsible for ERS asset management and retirement benefits administration for 26,868 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. **Please see pages 6 and 7 for a discussion of ERS assets, City 2010 contributions to the fund, and contributions for City's share of employees' contribution.**

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 8-member Annuity & Pension Board consisting of 3 persons appointed by the Common Council President, 3 persons elected by active system members, one person elected by retired members, and the City Comptroller.

2010 Proposed Budget

Total Expenditures

The 2010 Proposed Budget for ERS is \$23,966,904, a decrease of \$153,626 (less than 1%) from the \$24,121,630 funded in the 2009 Budget.

Personnel

1. The 2010 Proposed Budget for Net Salaries and Wages is \$2,501,084, a decrease of \$101,916 (- 0.39%), from the \$2,603,000 funded in the 2009 Budget.

2. The 2010 Proposed Budget contains 52 positions, an increase of 1 from the 51 positions in the 2009 Budget. There are 41.5 O&M FTEs, the same as in the 2009 Budget.
3. The 2010 Proposed Budget reflects the loss of one position of Office Assistant II, which is no longer needed, in Membership Services and the addition of one Records Technician II. There are changes in unfunded auxiliary positions, the loss of ERS Financial Officer and the addition of Pension Accounting Specialist and Pension Specialist – Sr.
4. Under the Salaries and Wages budget for 2010 there will be a savings of \$39,119 from the 4 planned furlough days.

Operating Expenditures

The 2010 Proposed Budget for Operating Expenditures is \$20,543,000, the same as funded in the 2009 Budget. The major items include:

1. Professional Services

A large portion of the 2010 Proposed Operating Budget consists of \$14,667,000 (71.4%) in Professional Services. This is a \$ (-0.9%) decrease from the 2009 Budget amount of \$14,807,000. The Professional Services amount includes \$12,086,000 for Investment Manager Fees (82.4% of the Professional Services total). This is a \$304,000 (-2.5%) decrease from the \$12,390,000 in the 2009 Adopted Budget. The decrease is mainly due to lower performance fees paid based on performance below the identified benchmarks.

The current ERS investment managers are shown in the following table:

Fixed Income	Domestic Equity	International Equity	Real Estate
Barclays' Global Investors	Alliance Bernstein	Brandes Investment Partners	Townsend
Loomis-Sayles & Company	Artisan Partners	Dimensional Fund Advisors	UBS
Reams Asset Management	Barclays' Global Investors	William Blair & Company	
	Dimensional Fund Advisors		
	Earnest Partners		
	Northern Trust Global Investors		
	Turner Investment Partners		

2. Information Technology

A total of \$4,223,000 is included for Information Technology Services in the 2010 Proposed Budget. This is the same as in the 2009 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), costs to support and maintain a disaster recovery site as well as to make improvements in the ERS website. The MERITS system will require replacement over the next 5 to 7 years. ERS plans on sending out a Request for Proposal in 2010. They hope to have a vendor on board in 2011 for what will be a 3 to 6 year project.

3. Facility Rental

The 2010 Proposed Budget includes \$648,000 for Facility Rental. This is a \$130,000 (25.1%) increase from the \$518,000 provided in the 2009 Budget. This increase is largely due to back-up communications for the main and remote offices (\$64,000) and the costs of leasing a remote office for disaster recovery (\$36,000).

Equipment Purchases

The 2010 Proposed Budget includes \$106,000, a \$45,000 (-29.8%) decrease from the \$151,000 in the 2009 Budget. Included in the 2010 Proposed Budget is \$101,000 for new computer hardware and software and \$5,000 for replacement furniture.

Special Funds

There are no Special Funds included in the 2010 Proposed Budget. There was \$500,000 in the 2008 Budget for the Fiduciary Liability Deductible. The Fiduciary Liability Policy contains a \$500,000 deductible. In the event there is a claim, the Trust is responsible for the first \$500,000 in costs. It was reauthorized in the 2008 Budget. Since being reauthorized, no funds have been expended and the funds may be carried over for 3 years to 2011.

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 2 tax levy funded special purpose accounts with proposed funding of approximately \$2.7 million.

	2008	2009	%	2010	%
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	Actual	Budget	Change	Proposed	Change
Group Life	\$2,540,330	\$2,650,000	4.3%	\$2,510,000	-5.3%
Retiree Adjustment	\$206,440	\$202,000	-2.2%	\$186,000	-7.9%

For 2010, funding for the Group Life Special Purpose Account is decreased by \$140,000 to \$2,510,000. The decrease is the result of an expected decrease in salaries in 2010 since Group Life is determined by cost per thousand of an employee's salary and the number of employees.

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.

Employer's Pension Contribution

The most significant item as it relates to the Employees' Retirement System is the loss of fund value and need for the City to make an Employer's Pension Contribution to the system. Because of past market conditions, the City has not had to make this contribution for nearly 15 years. The January 1, 2008 funding ratio on an actuarial basis was 131%. By January 1, 2009 the ratio had fallen to 99% on an actuarial basis or 82% on a market value basis. With the ratio falling below 100% the City is required, in order to be in compliance with the City Charter, to include a \$49.9 million contribution to the Fund in the Proposed Budget. Of this \$49.9 million, \$41.7 million is what is required to fund the normal costs and \$8.2 million is to cover unfunded liability.

City Annuity Contribution – Tax Levy and Employers' Reserve Fund

The 2010 Proposed Budget allocates \$23,779,005 to fund the city's share of the employees' annuity contribution, compared to \$23,830,000 in 2009. In 2009 the contribution was split - \$17,949,000 from the tax levy, and \$5,581,000 from the Employers' Reserve Fund. In the 2010 Proposed Budget this split is \$16,979,005 from the tax levy and \$6,800,000 from the Employers' Reserve Fund. The reserve fund currently has a balance of \$17.3 million and was established as part of the Global Pension Settlement, effective January 19, 2001. This fund may be used to offset the city's share of employees' annuity contributions per s. 36-08-8, city charter.

Fund Value, Allocation and Return

As of December 31, 2007, the value of the Fund was approximately \$5.2 billion; by December 31st of 2008 it had fallen to \$3.4 billion. The Fund's value as of June 30, 2009 was \$3.5 billion. The value as of July 31, 2009 has increased to \$3.7 billion. The Fund has seen an increase throughout 2009 to date.

Despite recent economic conditions, the ERS is actually well funded. As of January 1, 2009, the actuarial funding of the system was 99.1%. Unfortunately, because it fell below 100%, the City is required to make its \$49.9 million contribution.

Board policy dictates that the targets for fund allocation are as follows: 45% Domestic Equity, 27% Fixed Income, 20% International Equity, 7% Real Estate and 1% Cash,

As of December 31, 2008, the Fund's 1-year rate of return was -30.8% (Net of Managers Fees) as compared to a blended benchmark passively managed return, or reference index, of -25.6%. For 2008, the Fund placed in the 95th percentile as measured by Mercer's Public Fund Universe. In 2007, it had placed in the 75th percentile. However, for the 2nd quarter 2009 and year-to-date through June 30, 2009, ERS has placed in the 4th and 11th percentile, respectively. (The Mercer's Public Funds Universe is comprised of 59 public funds that have at least \$1 billion in assets.) Over the 5-year time periods ending in December 31, 2008 and June 30, 2009, ERS has underperformed its benchmark and peers. The underperformance over the past 5 years is largely a result of the Fund's performance over the past 2 years. However there has been recent improvement. Through July 31, 2009, ERS estimates the Fund's return at 12.6% year-to-date with a market value of \$3.7 billion, reflecting an outperformance of 3.3% compared to the benchmark.

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. Not all employees have agreed to the settlement. ERS continues to pursue individuals to consent to the agreement. In 2008, 17 new individuals consented to the settlement. Currently there are a total of 503 non-consenting members remaining.
- 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 \$19 million was spent on the project through August 2007 when the project was completed. It is now 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.

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