

## **FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU**

### **Executive Summary: 2005 Proposed Budget – Employees' Retirement System**

1. There are no personnel changes included in the proposed 2005 ERS Budget (Page 2)
2. The 2005 Proposed Budget includes approximately \$15.9 million for ERS Operating Expenditures. This is an approximately \$200,000 decrease from the \$16.1 million provided in the 2004 Budget for this account. (Pages 2 and 3)
3. The 2005 Proposed Budget includes \$3,539,506-Custom Automation Project (Milwaukee Employee Retirement Information Technology Solutions). The purpose of MERITS) is to automate all of the essential business functions of the ERS as they relate to member services, both before and during retirement. (Page 4)
4. As of June 30, 2003, the value of the Fund was approximately \$4.15 billion. In 2003, Fund's rate of return (Net of Managers Fees) was 27.3% The Fund's rate of return through June 30, 2004 was 3.8%. (Pages 4 and 5)
5. The ERS manages two tax levy funded special purpose accounts with proposed funding of approximately \$3 million. (Page 5)

## FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

### 2005 Proposed Budget: Employees' Retirement System (ERS)

Expense Category	2003 Actual	2004 Budget	% Change	2005 Proposed	% Change
Operating	\$ 20,862,385	\$ 23,872,035	14%	\$ 22,562,869	-5%
Capital*	\$ -	\$ -	-	-	-
Positions	42	48	14%	48	0%

Note: As a result of the Global Settlement Agreement, the Pension Trust provides \$22,337,159 in funding for the 2005 ERS operating budget. )

The Employees' Retirement System (ERS) is responsible for ERS asset management and retirement benefits administration for approximately 27,000 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 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.

### ***HISTORICAL INFORMATION***

1. In a series of court decisions in 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) 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.

On April 11, 2000, the Common Council approved the implementation of the global pension settlement. The settlement took effect on January 19, 2001.

## **2005 Proposed Budget**

### **Proposed Personnel Changes**

There are no personnel changes included in the proposed 2005 ERS Budget.

### **Proposed Operating Expenditures**

The 2005 Proposed Budget includes approximately \$15.9 million for ERS Operating Expenditures. This is an approximately \$200,000 decrease from the \$16.1 million provided in the 2004 Budget for this account. Changes in operating expenditures include the following:

**General Office Expense** increases from \$117,200 to \$145,700. The majority of this increase is the result of ERS postage expense based on past experience. ERS also anticipates additional needs for paper to print checks, as ITMD will no longer be printing them.

**Professional Services** decreases from \$14,816,610 to \$14,572,149. This decrease is the result of a number of changes both increases and decreases. There were two fairly material changes compared to the 2004 adopted budget. In 2004, \$200,000 was provided for a one time fiduciary audit. The other relatively material change is that ERS anticipates fees paid for its real estate fiduciary for 2005 will be \$60,000 less than that provided for 2004.

The majority of the funding in this account is for investment management fees. In 2005, \$12.9 of the \$14.8 total ERS Professional Services account is for Investment Manager Fees, approximately the same amount as was provided in 2004. The current ERS investment managers are shown in the table on page 3.

<b>ERS INVESTMENT MANAGERS</b>			
<b>Fixed Income</b>	<b>Domestic Equity</b>	<b>International Equity</b>	<b>Real Estate</b>
Barclays Global Investors	Alliance Bernstein	Brandes Investment Partners	The Townsend Group
Loomis-Sayles & Co	Artisan Partners	William Blair & Company	Deutsche Asset Management
Reams Asset Management Company	Barclays Global Investors		Fremont Strategic Property Partners
	Brown Capital Management		GMAC Commercial Realty Partners
	Dimensional Fund Advisors		Guggenheim Structured Real Estate, Inc.
	The Northern Trust Co		Heitman Capital Management
	Turner Investment Partners		Jones Lang LaSalle
			Lubert Adler Partners, L.P.
			Prudential Investment Management
			JP Morgan Fleming Asset Management
			The Tuckerman Group
			Union Bank of Switzerland (UBS)
			Walton Street Capital

**Information Technology Services** decreases from \$120,000 to \$90,000 for Information. The reduction reflects the elimination of ITMD providing the printing of checks for ERS.

## **Proposed Equipment Purchases**

### **Replacement Equipment**

**Computer Hardware & Software** decreases from \$50,000 to \$10,000. ERS has budgeted computer hardware costs in various automation budgets. As a result, it anticipates that it will have less need for funding in O&M equipment.

## **Special Funds**

### **\$3,539,506-Custom Automation Project (Milwaukee Employee Retirement Information Technology Solutions)**

The 2005 Budget continues to provide funding for (Milwaukee Employee Retirement Information Technology Solutions (MERITS). Funding for MERITS began in 2002. The ERS currently has approximately 27,000 active, deferred and retired members, and manages a \$4.15 billion dollar pension system. Little had been done in the last decade, outside of some emergency Y2k remediation work and custom GPS systems development, to automate the systems that support ERS' operations. The MERITS project builds upon the Business Process Modeling project, begun in 2000 and completed in 2001, to document the critical business requirements of the system as dictated by Chapter 36 of the City Charter, 1,400 legal opinions related to the interpretation of Chapter 36, and the Rules and Regulations of the ERS Board. MERITS is a custom software development project because ERS learned, as a result of an RFP issued in 1999, that the proposed software packages failed to meet 90% of the systems needs as prescribed by Chapter 36.

The ERS is developing MERITS to replace its current pension management system, which is largely comprised of manual processes supported by disparate automation tools. ERS believes that its operational and system needs can be best addressed by a fully integrated, state-of-the-art information system capable of administering retirement benefits on behalf of all active and retired members, survivors, and beneficiaries. MERITS will encompass the entire member life cycle and consists of integrated pension record keeping; pension payment; and life, health, and COBRA dental insurance management software. Integration services will be necessary to support the customization and installation of all software and supporting frameworks.

Progress on MERITS during 2004 included the completion of the Requirements Phase, completion of the Design and Build Phase, and initiation of the System Test phase, including requisite equipment and operating software. Plans in 2005 include the completion of the System Test and User Acceptance Test Phases, user training and documentation, acquisition of production equipment and operating software, data conversion, and system roll out.

The total estimated cost of MERITS is \$25.3 million, including 2 years of post implementation support and two separate IT initiatives related to document (\$1 million) management and data remediation (\$1.5 million). The system is expected to go live in 2005.

### **Fund Value and Return**

1. As of June 30, 2003, the value of the Fund was approximately \$4.15 billion. In 2003, the Fund's rate of return (Net of Managers Fees) was 27.3% The Fund's rate of return through June 30, 2004 was 3.8%.

2. Listed in the table on page 4 are the Fund's 2003, and 2004 rate of return through June 30<sup>th</sup> and ranking compared to the Mercer/Russell/Mellon Total Funds Billion Dollar Public Universe. (The Mercer Universe Total Funds Billion Dollar Public Universe is comprised of 37 public funds that have at least \$1 billion in assets.)

Reporting Period	Rate of Return (Net of fees)	Percentile Ranking in Public Universe of Billion Dollar Funds
2003	27.3%	10 <sup>th</sup> Percentile
2004 (through 6/30/04)	3.8%	30 <sup>th</sup> Percentile

### SPAs

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 million.

	2003 Actual	2004 Budget	% Change	2005 Proposed	% Change
Group Life	\$2,607,208	\$2,683,200	3%	\$2,640,000	-2%
Retiree Adjustment	\$362,540	\$415,200	15%	\$335,000	-19%

For the 2005, ERS had requested \$2,740,000 for this SPA. The 2005 Proposed Budget provides \$43,000 less than the ERS requested amount. The ERS request had included funding for wage settlements. This funding will be provided from the Wages Supplement Fund.

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. These supplements are non-contractual, and are subject to continuation or termination by Council action. The proposed budget is based on actual expenditures.

Prepared by: Jim Carroll (X8679)  
LRB-Fiscal Review Section  
October 12, 2004

**FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU  
2005 Proposed Budget Summary: Provision for Employees' Retirement Fund**

<b>ER Fund Expenditures</b>	<b>2003 Actual</b>	<b>2004 Budget</b>	<b>Change</b>	<b>2005 Proposed</b>	<b>Change</b>
Firemen's Pension Fund	\$768,233	\$767,500	0%	\$628,200	-18%
Policemen's Pension Fund	\$1,063,177	\$1,579,880	49%	\$1,471,015	-7%
Employees' Retirement Fund	\$42,469,065	\$45,320,775	7%	\$44,497,783	-2%
Employer's Reserve Fund*	\$0	\$2,450,000	-	\$0	-100%
Social Security Tax	\$16,637,057	\$16,680,500	0%	\$16,810,000	1%
Town of Lake	\$114,799	\$176,000	53%	\$0	30%
Firemen's Pension Fund	\$22,536	\$28,850	28%	\$20,250	0%
Deferred Compensation	\$927,358	\$1,168,982	26%	\$1,261,029	8%
<b>Total</b>	<b>\$62,002,225</b>	<b>\$68,172,487</b>	<b>10%</b>	<b>\$68,722,487</b>	<b>-5%</b>
<b>ER Fund Revenues</b>					
Fringe Benefits-Pensions	\$715,474	\$802,267	12%	\$832,074	4%
Charges to Pension Fund	\$20,771,411	\$23,659,000	14%	\$22,337,100	-6%
Charges to Deferred Comp.	\$927,570	\$1,168,982	26%	\$1,261,029	8%
Property Tax Levy	\$38,090,209	\$42,386,238	11%	\$40,091,374	-5%
Miscellaneous-ERS	245	\$156,000	-	\$166,700	7%
<b>Total</b>	<b>\$60,504,909</b>	<b>\$68,172,487</b>	<b>13%</b>	<b>\$64,688,277</b>	<b>-5%</b>

\*2003 Budget included \$3 million for Employer's Reserve Fund. The actual expenditures will be recorded in 2004 (File#031039).

The Provision for the Employees' Retirement Fund provides the means by which the city tracks and monitors retirement-related expenditures and resources.

This budget summary includes all pertinent expenses, including the administrative expenses of the Employees' Retirement System (ERS) related to all of the city's retirement benefit programs.

Provisions for the Employees' Retirement Fund includes all costs associated with the retirement benefits of active and retired city employees. These include Social Security, retirement, and disability benefits, as well as administrative costs.

**Historical Information**

1. On April 11, 2000, the Common Council approved the implementation of the global pension settlement. The settlement took effect on January 19, 2001. Under the terms of the settlement all ERS administrative costs, management contracts and investment fees are paid from Fund assets.
2. In 2001, the Employer's Reserve Fund was established to reserve voluntary contributions from the city and city agencies for the purpose of offsetting future pension obligations. At the time of the Global Pension Settlement, the actuarial firm of Milliman & Robertson estimated that an

over 50% probability existed that the City's retirement system would have an unfunded liability (approximately \$90 million) by 2009. If this liability occurs, a substantial payment from the City will be needed to sustain the fund. The funding of the Employer's Reserve Fund is to offset the possibility of a huge sum of funding being needed in any one year to sustain the pension fund.

### **2005 Proposed Budget**

1. The 2005 proposed budget provides \$64.6 million for retirement-related expenses including the system's administration cost. This is a 5% decrease in expenditures over the 2004 budget.
2. The 2005 Proposed Budget includes a, levy funded, lump sum supplemental contribution of \$800,000 to the Firemen's Annuity and Policeman's Annuity Benefits Funds. The proposed budget provides \$400,000 for each fund.
3. The 2005 Proposed Budget includes \$19,914 in funding for duty disability payments for non-consenters of the Global Pension Settlement.
4. The 2005 Proposed Budget includes \$22.6 million for the administration of the ERS. Of the \$22.6 million, \$22.3 million is provided by the ERS Pension Trust.
5. The 2005 Proposed Budget does not include funding for the Employer's Reserve Fund. The 2004 Budget included \$2,450,000 for the Employer's Reserve Fund. The current value of the Employers' Reserve Fund is approximately \$17 million (not including 2004 gains or losses). The funding was provided to reduce future tax levy liabilities if the Pension Trust's rate of return falls below the actuarial estimate. (See History #2).

The 2004 Budget provided \$50,000 for a special purpose account to perform an actuarial study of the future reserve fund needs. The study has not been completed and it is not expected to be completed before the budget is adopted. The results of the actuarial study will assist in determining the level of funding provided for the Employer's Reserve Fund in 2006 future years.

6. The 2005 proposed budget provides \$16,810,000, an increase of \$129,500 from the level of funding provided for Social Security Payments in the 2004 budget.

Prepared by: James Carroll (286-8679)  
Fiscal Review Section  
October 12, 2004



## FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

### **EXECUTIVE SUMMARY: 2005 PROPOSED BUDGET – POLICEMEN'S ANNUITY & BENEFIT FUND**

1. The 2005 Proposed Budget includes \$975,733 as the City's PA&BF pension contribution. Of that amount, \$505,773 is to fund the amount annually set by the PA&BF actuary. The remaining \$470,000 is to fund part of the unfunded past service liability. The liability amount will be amortized over the next 5 years. (Page 2)
2. The 2005 Proposed Budget includes a, levy funded, lump sum supplemental contribution of \$40,000 to this fund. Another \$400,000 is being provided to the Firemen's Pension Fund. (Page 2)
3. The 2005 Proposed Budget provides \$54,340 for Professional Services. (Page 2)
4. As of July 31,2004, PA&BF membership included 206 total retired annuitants and spouses. (Page 3)
5. The 2003 Annual Actuarial Statement shows that as of December 31,2003, the PA&BF's actuarial value of assets was \$5.5 million and actuarial accrued liability (AAL) of \$8.7 million. The unfunded liability was \$3.2 million. (Page 3)