

LRB - FISCAL SECTION ANALYSIS

APRIL 9, 2003

ITEM 16 FILE 021730

FINANCE & PERSONNEL COMMITTEE

JAMES CARROLL

File #021730 is a substitute charter ordinance relating to annuity increases for participants in the Policeman's Annuity and Benefit Fund (PA&BF).

Background

1. At the request of the Policemen's Annuity and Benefit Fund Board, the City Attorney submitted for the Common Council's consideration this charter ordinance creating s. 35-01-71-f relating to annuity increases for participants in the Policemen's Annuity and Benefit Fund.
2. This charter ordinance is patterned after the catch-up (s. 36-05-1-i-1-a of the Milwaukee Charter) provided to retired members of the employees' retirement system who retired prior to October 1, 1987.
3. As of February 2003, there were 244 PA&BF annuitants and spouses.

Discussion

1. This charter ordinance will allow a policeman who retired prior to October 1, 1987 after having completed 25 years of continuous service and is receiving an annuity, to be eligible for a catch-up adjustment to his annuity effective with the first installment next following January 1, 2003. Such adjustment shall be a percentage change to the annuity equal to the greater of the total required percentage change for the annuity, to reflect the total percentage change in the cost of living for each full calendar month between the eighth anniversary of the policeman's service retirement and October 1, 1995, or the total percentage change required to bring the annuity to 60% of the whole inflation adjusted value of the annuity at the time of retirement.
2. The percentage change in the cost of living shall be measured by the increase in the Consumer Price Index (All Urban Consumers-CPI-U) U.S. Cities as reported by the U.S. Department of Labor, Bureau of Labor Statistics. The whole inflation adjusted value of the policeman's annuity or widow's annuity at the time of retirement shall be the sum of the product of the policeman's annuity or widow's annuity at the time of retirement, multiplied by the total percentage change in the cost of living during each full calendar month between retirement and October 1, 1995, added to the policeman's annuity or widow's annuity at the time of retirement.
3. If a policeman who retired prior to October 1, 1987, after having completed 25 years of continuous service as a member of the police department, died

following retirement, but prior to October 1, 1995, there shall be an adjustment to the surviving widow's annuity payable with the first installment next following January 1, 2003. Such adjustment shall be a percentage change to the widow's annuity equal to the greater of the total required percentage change for the widow's annuity, to reflect the total percentage change in the cost of living for each full calendar month between the eighth anniversary of the policeman's service retirement and October 1, 1995, or the total percentage required to bring the widow's annuity to 60% of the whole inflation adjusted value of the widow's annuity at the time of the policeman's retirement. The adjustment will be calculated using the Consumer Price Index described in Discussion #2.

Other Matters

1. The Police Annuity and Benefit Fund is facing a potential unfunded liability. In a letter dated January 30, 2002, the Budget and Management Division notified the Finance and Personnel Committee of the unfunded liability. In the letter, the division indicated that based on projected benefits to members and depending on the fund's performance, the fund could be depleted within three to five years. If the projected depletion of the fund materializes, the City will be required to make a contribution to the fund beginning in 2005 or 2006. The Budget and Management Division estimates the present value of these contributions (2005-2011) to total \$3.8 million.
2. Since 2000, the City has provided the following supplements or adjustments to the PA&BF:
 - a) The 2000 Budget provided \$300,000 for pension adjustments to participants in the Firemen's & Policemen Annuity Benefit Funds. Those funds were to be distributed to the participants based on year of retirement (\$75,000) and need (\$225,000). This \$300,000 was split between the two pension funds as follows: Of the \$300,000, \$180,000 went to the police fund and \$120,000 went to the firemen's fund. Under the retirement component, participants received benefits based on a sliding scale percentage. Increase in benefits were being based on the decade in which the year of retirement falls. The sliding scale percentage increases for retirements taken in earlier decades. The need-based component was provided only to those whose pension amount was below the U.S. Census Bureau's poverty threshold.
 - b) The 2001 Budget included a \$2.5 million supplement increase to the Fire Annuity and Benefit Fund and the PA&BF. The PA&BF portion of the \$2.5 million was \$1,395,349. Although members of the PA&BF were not eligible to participate in the city's global pension settlement,

the city decided to provide this one-time supplement. The supplement was funded by a \$2.5 million reduction in the tax levy supported annuity contribution, which in turn was funded by a \$2.5 million annuity contribution by the Employer's Reserve Fund.

- c) The Policemen's Annuity and Benefit Fund filed suit against the City regarding a dispute as to contributions to the PABF funded by the City. Originally, the City won this case, but it was appealed by the PABF. The court of appeals remanded the case to circuit court to determine the City's liability. The City petitioned the Wisconsin Supreme Court to review the court of appeal's decision. On August 15, 2001, the City and the PA&BF reached a tentative settlement. Under the terms of settlement, \$150,000 was included in the 2002 Budget as a contribution to PA&BF supplemental payment fund. The Common Council approved the settlement on September 25, 2001 (File #010650).
- d) The 2003 Budget included a, levy funded, lump sum supplemental contribution of \$500,000 to this fund. Another \$500,000 is being provided to the Firemen's Pension Fund.

Fiscal Impact

According to the Fund's consulting actuary, Joan Gucciardi, if the ordinance were implemented, plan liabilities would increase by approximately \$4,6 million as of January 1, 2003. If amortized over a 5-year period at the 6.75% interest rate, the annual tax levy would increase by \$1,110,832.

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