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**2016 Overview:**

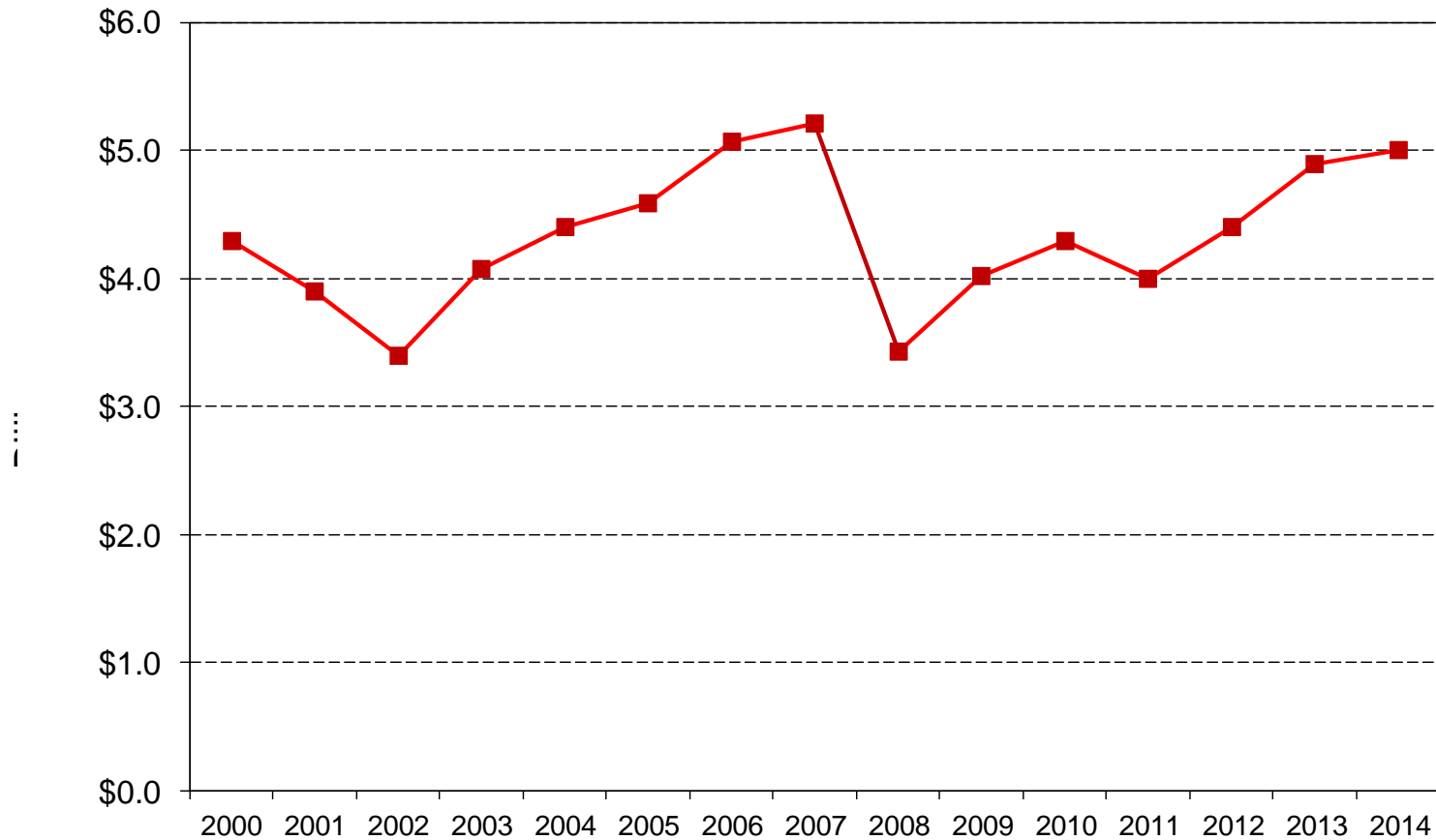
**Employees Retirement System**

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Finance & Personnel Committee

October 9, 2015

# Market Value of Assets



# Pension Fund Status January 1, 2015

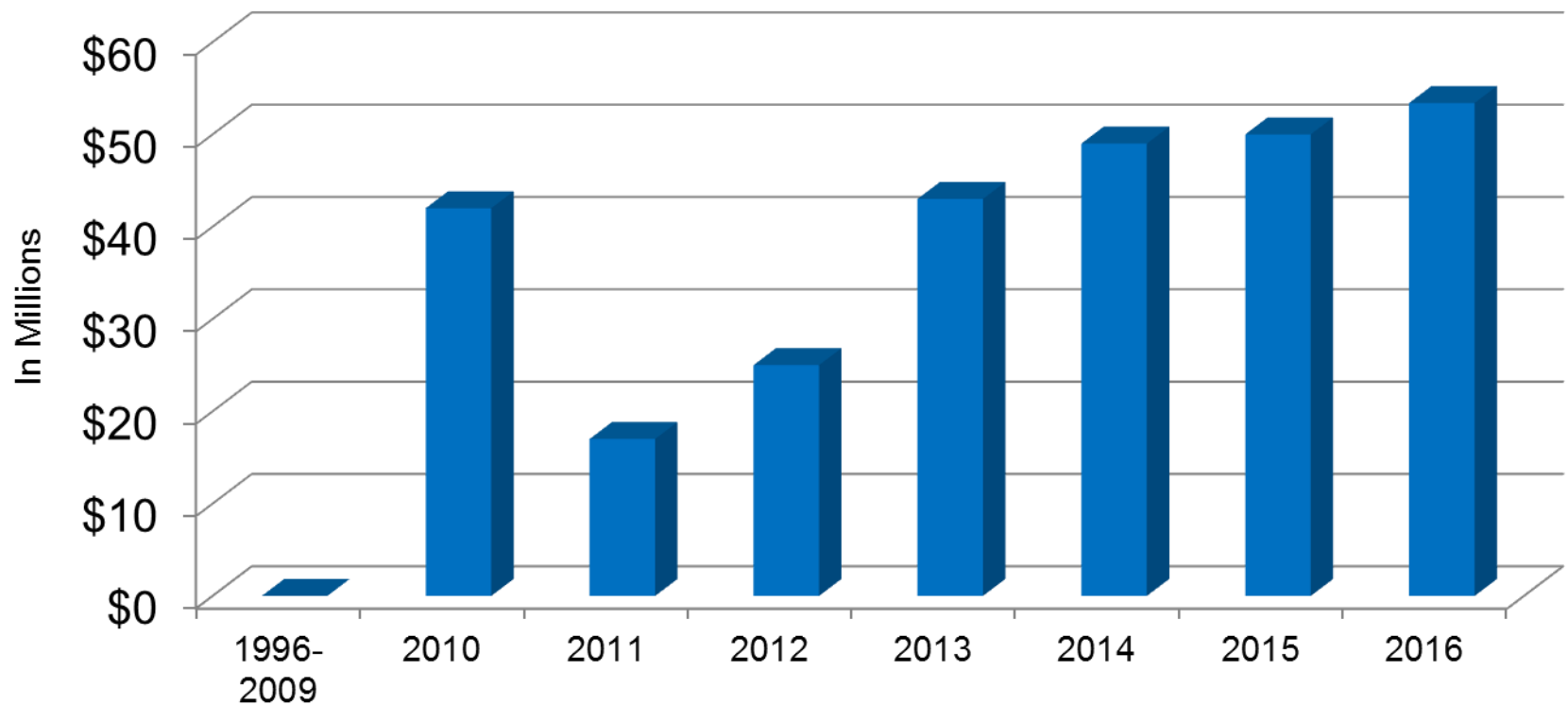
- 97.3% on an actuarial basis
- 100.3% on a market basis
- 9.9% return on investment on actuarial value
- 5.09% return on investment on market value

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# Pension Contribution

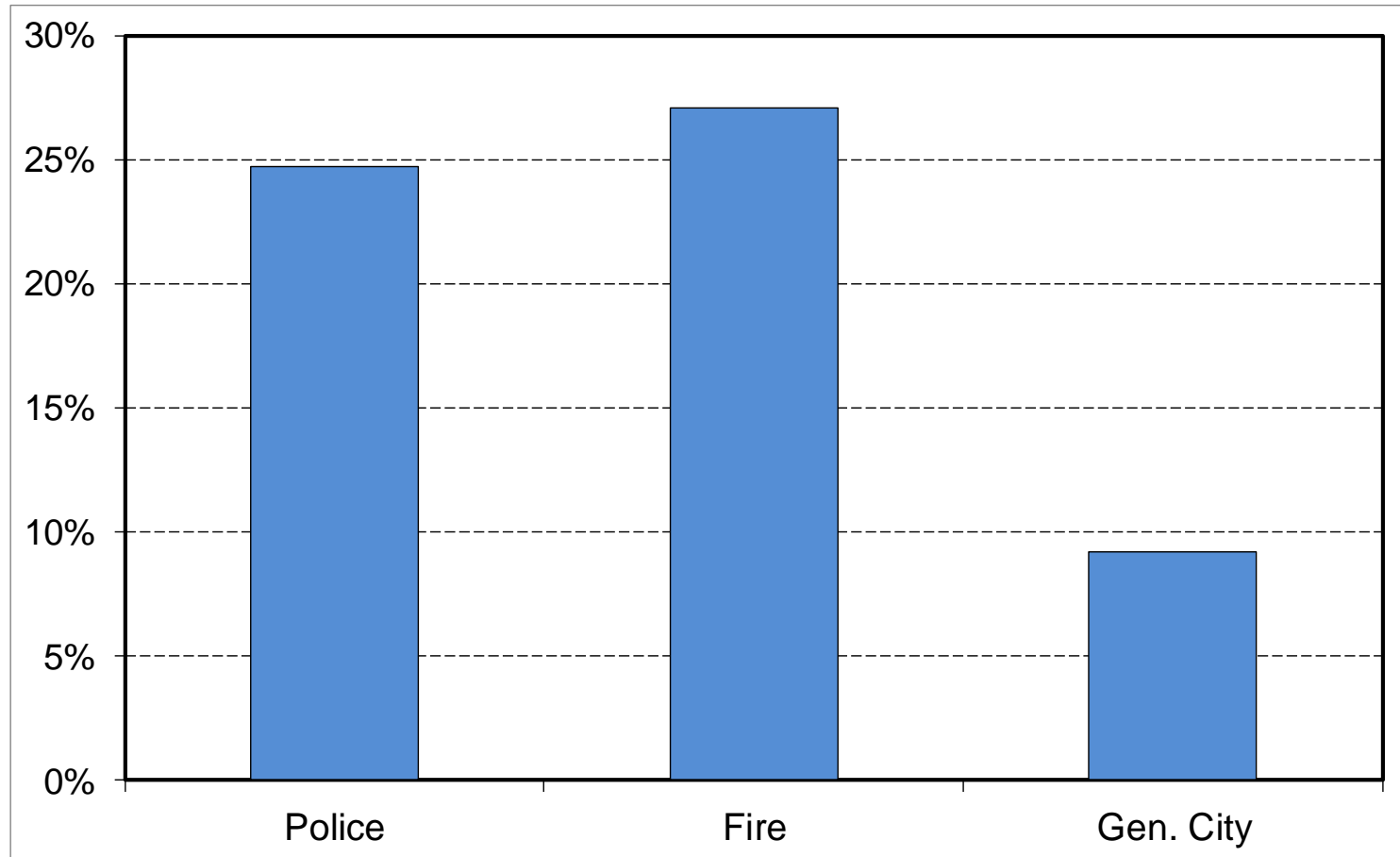
- Pension reserve fund will have a balance of approximately \$15.4 million at year end
- 2016 budget provides a payment of \$60 million for the Employer Contribution
- 2016 budget includes the use \$7 million from pension reserve fund to smooth the tax levy impact of the contribution

# A “New Normal” for City Employer Contributions to the ERS



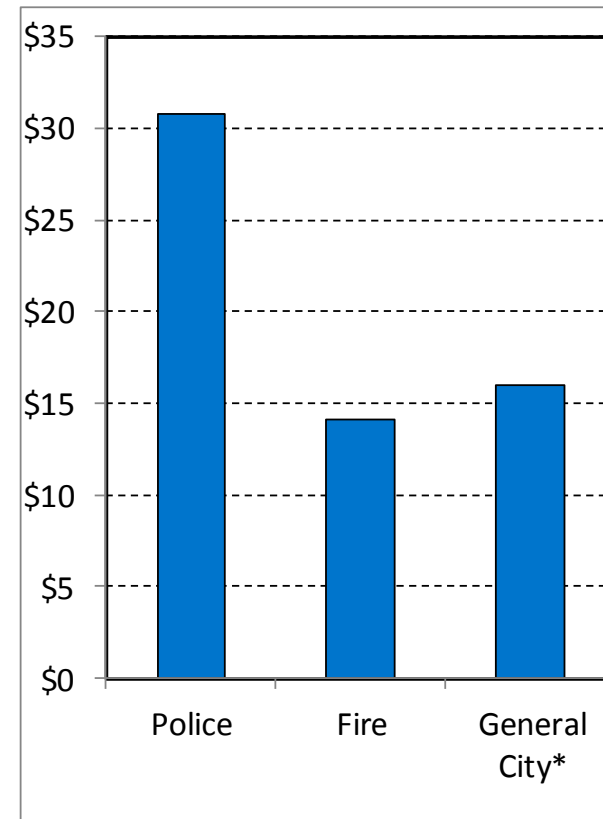
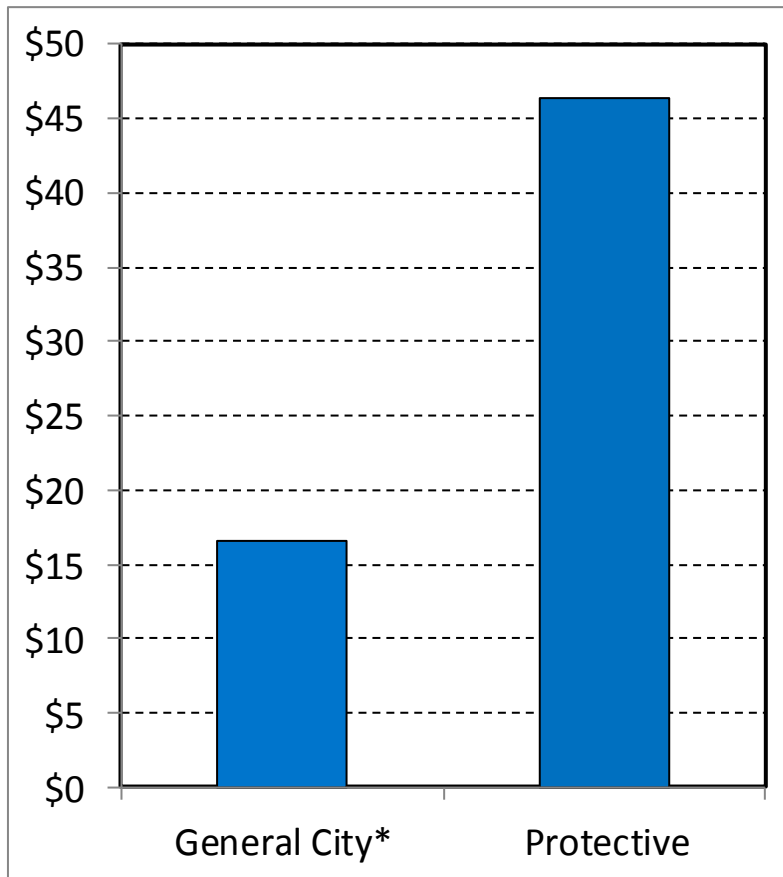
\*Tax levy amounts only. Contributions in 2011 & 2012 were made to the pension reserve.

# Pension Contribution Categorical Rates for Blended Rate of 17.8% of Covered Wages



**Note: Does not include members contributions**

# Employer's Pension Contribution by Employment Category (in million \$)



*Based on Actuary report amounts  
as of 1/1/2015*

\* Includes Water Department

# Other Budget Funding

- Employer Paid Member Contributions = \$12.2M
  - Fire \$3.6M
  - Police \$8.6M
- Social Security Tax = \$18.1 million
- Police Annuity Benefit Funds(PABF) = \$190,000
- Fire Annuity Benefit Funds (FABF) = \$0



# Budget Data

|                               | 2015ADOPTED<br>BUDGET | 2016 PROPOSED<br>BUDGET | DIFFERENCE<br>(amount, %) |
|-------------------------------|-----------------------|-------------------------|---------------------------|
| <b>FTEs – O&amp;M</b>         | 43.50                 | 43.50                   | 0 (0%)                    |
| <b>FTEs - Other</b>           | 0                     | 0                       | 0 (0%)                    |
|                               |                       |                         |                           |
| <b>Salaries &amp; Wages</b>   | \$2,737,992           | \$2,803,664             | \$65,672 (+2.4%)          |
| <b>Fringe Benefits</b>        | \$1,232,096           | \$1,345,759             | \$113,663 (+9.2%)         |
| <b>Operating Expenditures</b> | \$23,958,000          | \$22,290,000            | \$-1,668,000 (-7.0%)      |
| <b>Equipment</b>              | \$469,000             | \$204,000               | \$-265,000 (-56.5%)       |
| <b>Special Funds</b>          | \$0                   | \$0                     | \$0 (0%)                  |
| <b>TOTAL</b>                  | \$28,397,088          | \$26,643,423            | \$-1,753,665 (-6.2%)      |

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# Administration

- 2014 Plan Investment Return of 5.1%
- Customer satisfaction is close to 100%

# “What’s the Next Act?”



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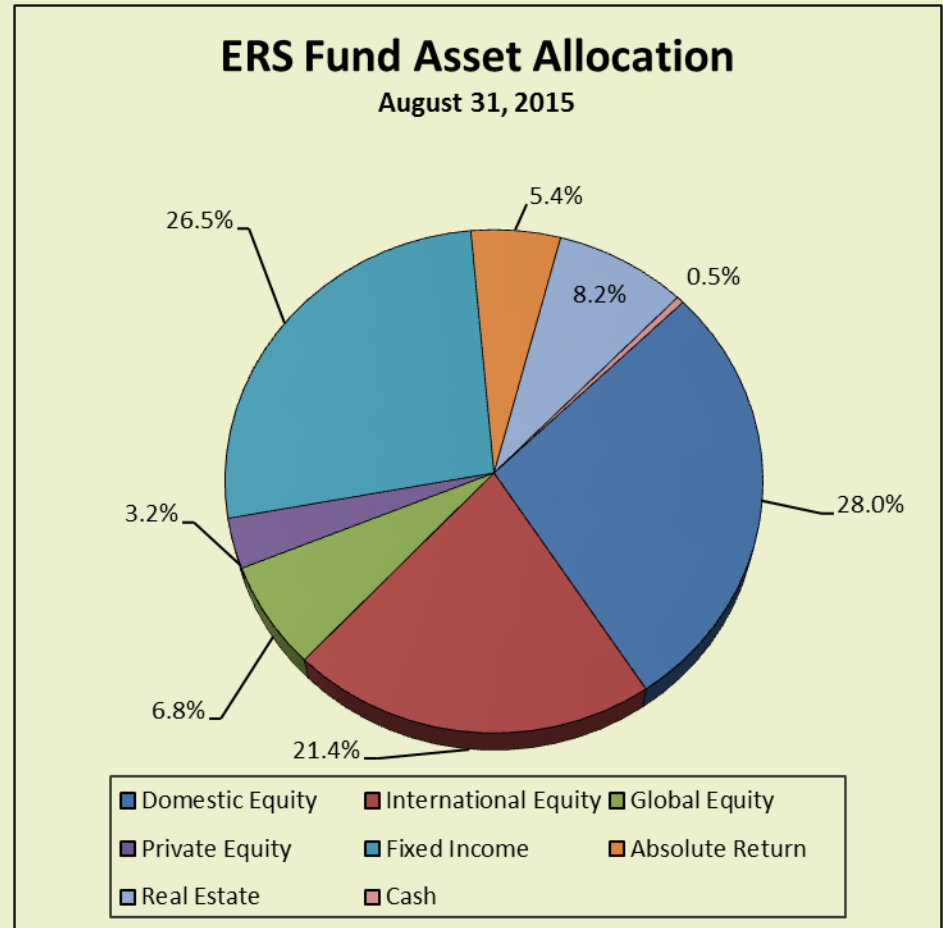
# 2016 Budget Presentation

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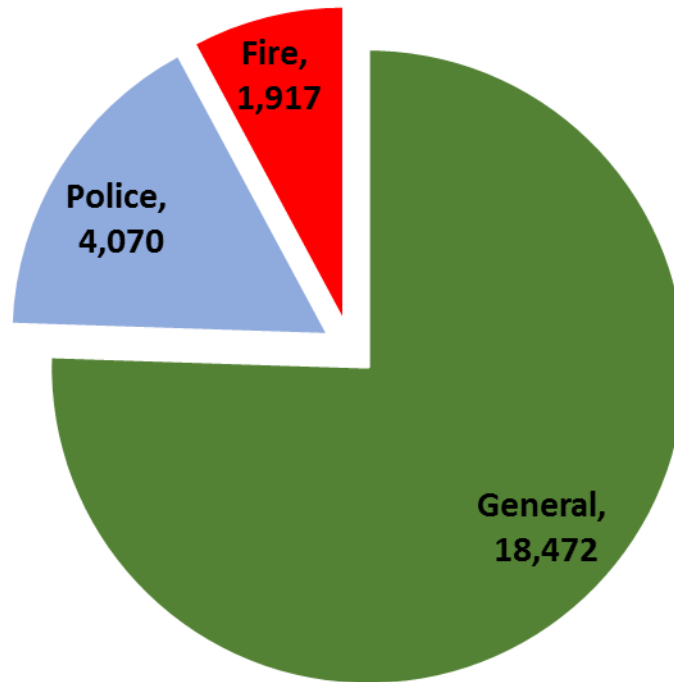
Employees' Retirement System  
October 9, 2015

# General Pension Fund Statistics

- **Fund Value: \$4.77 billion** (as of Aug. 31, 2015)
- **Membership Breakdown** (per 2015 valuation):
  - **Actives: 10,964**
  - **Deferred: 3,279**
  - **Retirees / Beneficiaries: 12,597**
- **Actuarial Funded Status: 97.2%** (per 2015 actuarial valuation; 100.4% based on market value)
- **Total Annual Pension Payroll: \$319.9 million** (est. for 2015 based on actuals through Aug. 2015)
- **Total Annual Pensionable Wages : \$508.2 million** (est. for 2015 based on YTD actuals through pay pd.17)
- **Total Annual Member Contributions: \$30.5 million** (est. for 2015 based on YTD actuals through pay pd.17)



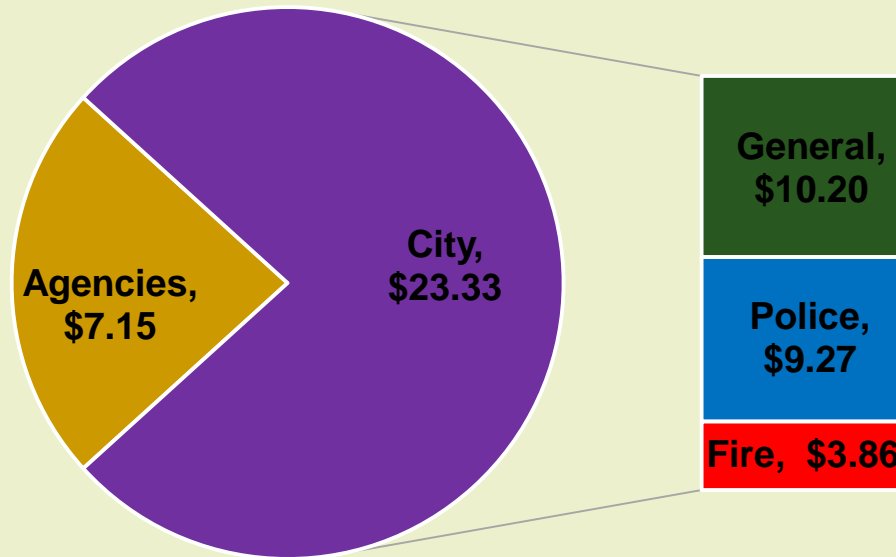
## CMERS Participant Headcount (Active, Deferred and Retired) as of August 2015



(chart does not include survivors/beneficiaries in payment)

# Total Annual Member Contributions

(in millions)  
(projected for 2015)



**Total Contributions: \$30.5 million**

| Unit                | Collected Through PP17-2015 |                     |                      |                      | Straight Line Projections for 2015 |                      |                      |                      |
|---------------------|-----------------------------|---------------------|----------------------|----------------------|------------------------------------|----------------------|----------------------|----------------------|
|                     | Payroll Size                | Employer Paid       | Member Paid          | Total                | Payroll Size                       | Employer Paid        | Member Paid          | Total                |
| City - General      | 122,619,657                 | 911,084             | 5,745,802            | 6,656,886            | 187,535,946                        | 911,084              | 9,287,318            | 10,198,402           |
| City - Police       | 86,326,512                  | 5,581,001           | 461,663              | 6,042,664            | 132,028,783                        | 8,564,960            | 708,497              | 9,273,458            |
| City - Fire         | 35,890,482                  | 2,318,467           | 193,872              | 2,512,339            | 54,891,326                         | 3,558,067            | 297,528              | 3,855,595            |
| <b>City - Total</b> | <b>244,836,651</b>          | <b>8,810,552</b>    | <b>6,401,336</b>     | <b>15,211,888</b>    | <b>374,456,054</b>                 | <b>13,034,112</b>    | <b>10,293,343</b>    | <b>23,327,455</b>    |
| Agencies            | 87,466,198                  | 139,601             | 4,518,726            | 4,658,327            | 133,771,832                        | 212,488              | 6,935,970            | 7,148,458            |
| <b>Total</b>        | <b>\$ 332,302,848</b>       | <b>\$ 8,950,153</b> | <b>\$ 10,920,062</b> | <b>\$ 19,870,215</b> | <b>\$ 508,227,886</b>              | <b>\$ 13,246,600</b> | <b>\$ 17,229,313</b> | <b>\$ 30,475,914</b> |

| Unit                | 1.6% Contributions          |                    |
|---------------------|-----------------------------|--------------------|
|                     | Collected Through PP17-2015 | Projected for 2015 |
| City - General      | 33,067                      | 33,067             |
| City - Police       | N/A                         | N/A                |
| City - Fire         | N/A                         | N/A                |
| <b>City - Total</b> | <b>33,067</b>               | <b>33,067</b>      |
| Agencies            | 592                         | 592                |
| <b>Total</b>        | <b>\$ 33,659</b>            | <b>\$ 33,659</b>   |

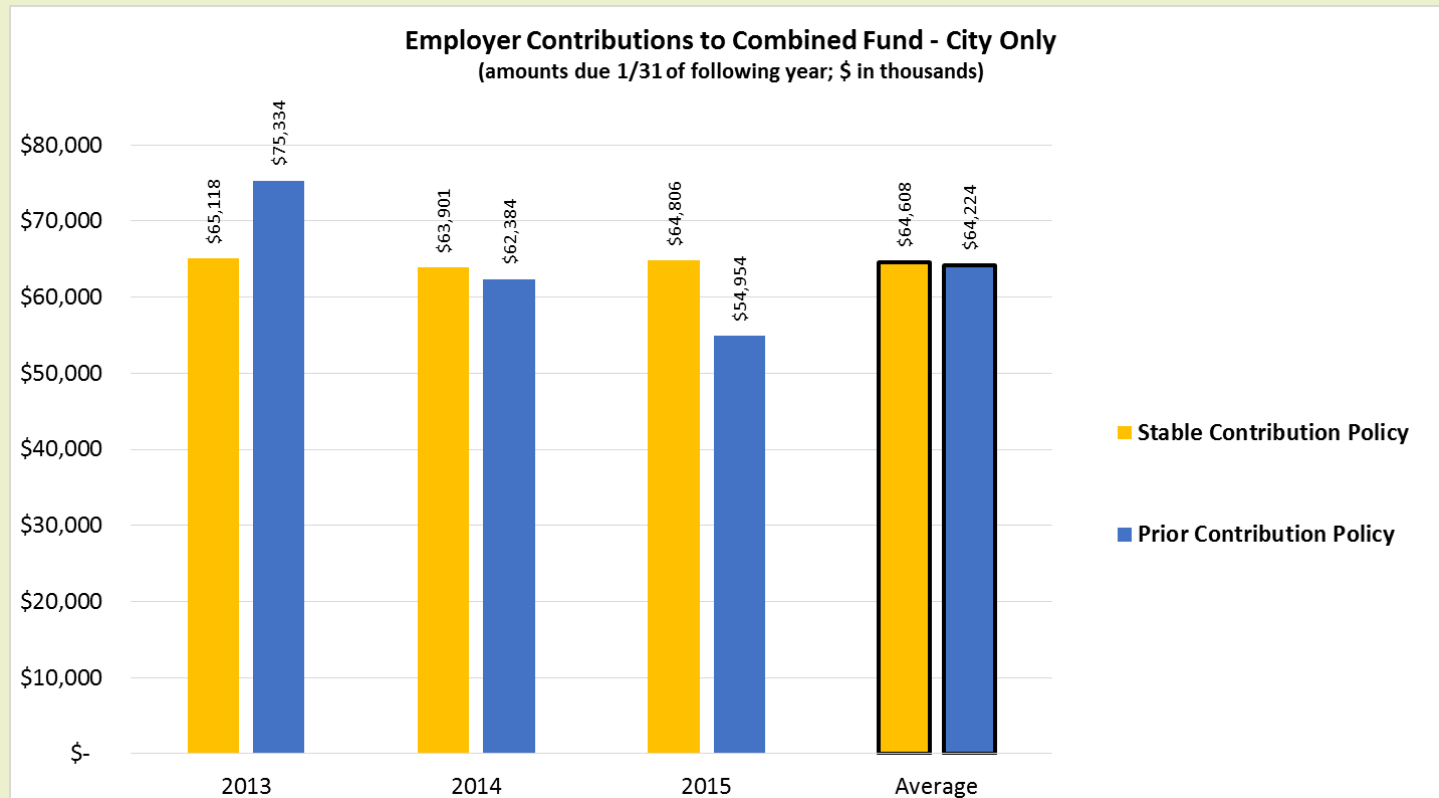


# Stable Employer Contribution Policy

| Group       | Employer Rate based on:             |                                |   |
|-------------|-------------------------------------|--------------------------------|---|
|             | Stable Employer Contribution Policy | Prior Contribution Requirement | Market Based Prior Contribution Requirement |
| General     | 8.48%                               | 6.96%                          | 5.22%                                       |
| Policemen   | 22.63%                              | 19.93%                         | 16.62%                                      |
| Firefighter | 24.83%                              | 19.98%                         | 16.19%                                      |

- The Prior Contribution Requirement would have provided for a smaller contribution this year
- This is in line with our final projections, which show the Stable Employer Contribution Policy rates being higher in the future
- The Market Based Prior Contribution Requirement is an indicator of where the contribution rates are headed long term. Based on this early indicator, it appears that the Stable Employer Contribution Policy will result in CMERS being better funded than if the Prior Contribution Requirement was in effect as of January 1, 2018 when the rates are reset

# Stable Employer Contribution Policy



| Valuation Year | Total Covered Compensation | Covered Compensation (City Portion) | Amounts Due 1/31 of Following Year Under: |                           |
|----------------|----------------------------|-------------------------------------|---|---------------------------|
|                |                            |                                     | Stable Contribution Policy                | Prior Contribution Policy |
| 2013           | 519,306                    | 364,880                             | 65,118                                    | 75,334                    |
| 2014           | 517,754                    | 359,644                             | 63,901                                    | 62,384                    |
| 2015           | 526,453                    | 365,254                             | 64,806                                    | 54,954                    |
| Average        |                            |                                     | 64,608                                    | 64,224                    |

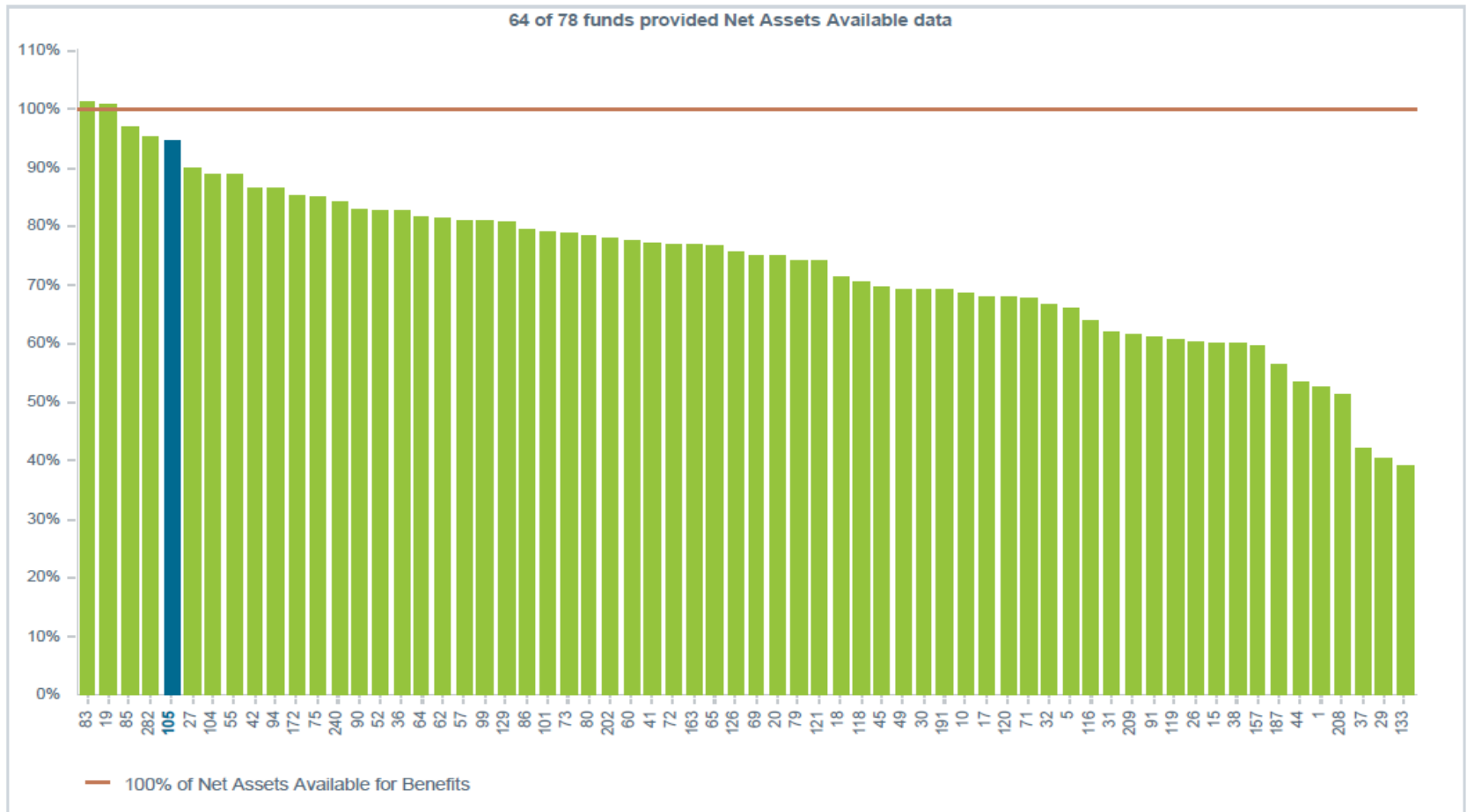
Amounts in thousands

Fund Number: 105

As of December 31, 2014

Net Assets Available For Benefits

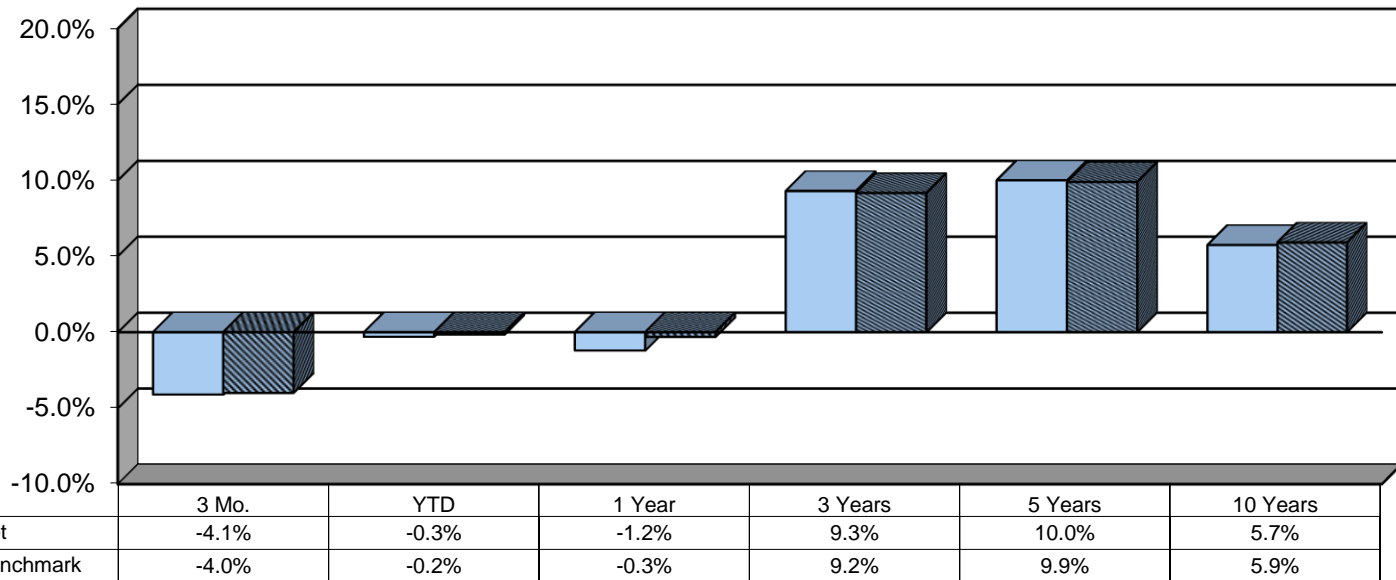
Expressed as a Percentage of the Pension Benefit Obligation



Funds that did not provide data will not appear in the chart.



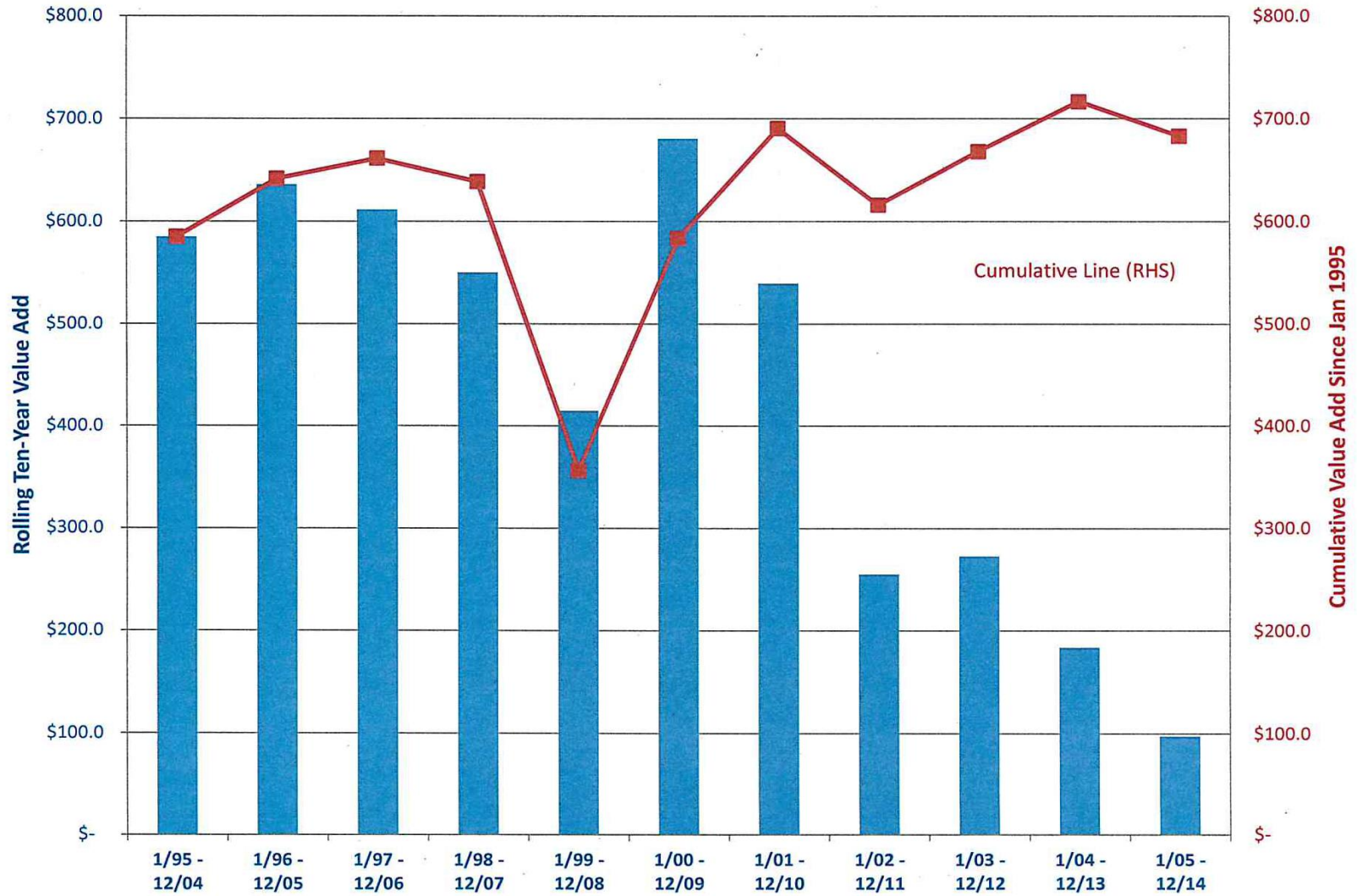
# CMERS Investment Performance History Periods Ending August 31, 2015



■ Total Fund Net

■ Total Fund Benchmark

## CMERS TOTAL FUND - HISTORICAL VALUE ADD



# Active Management versus Passive Analysis

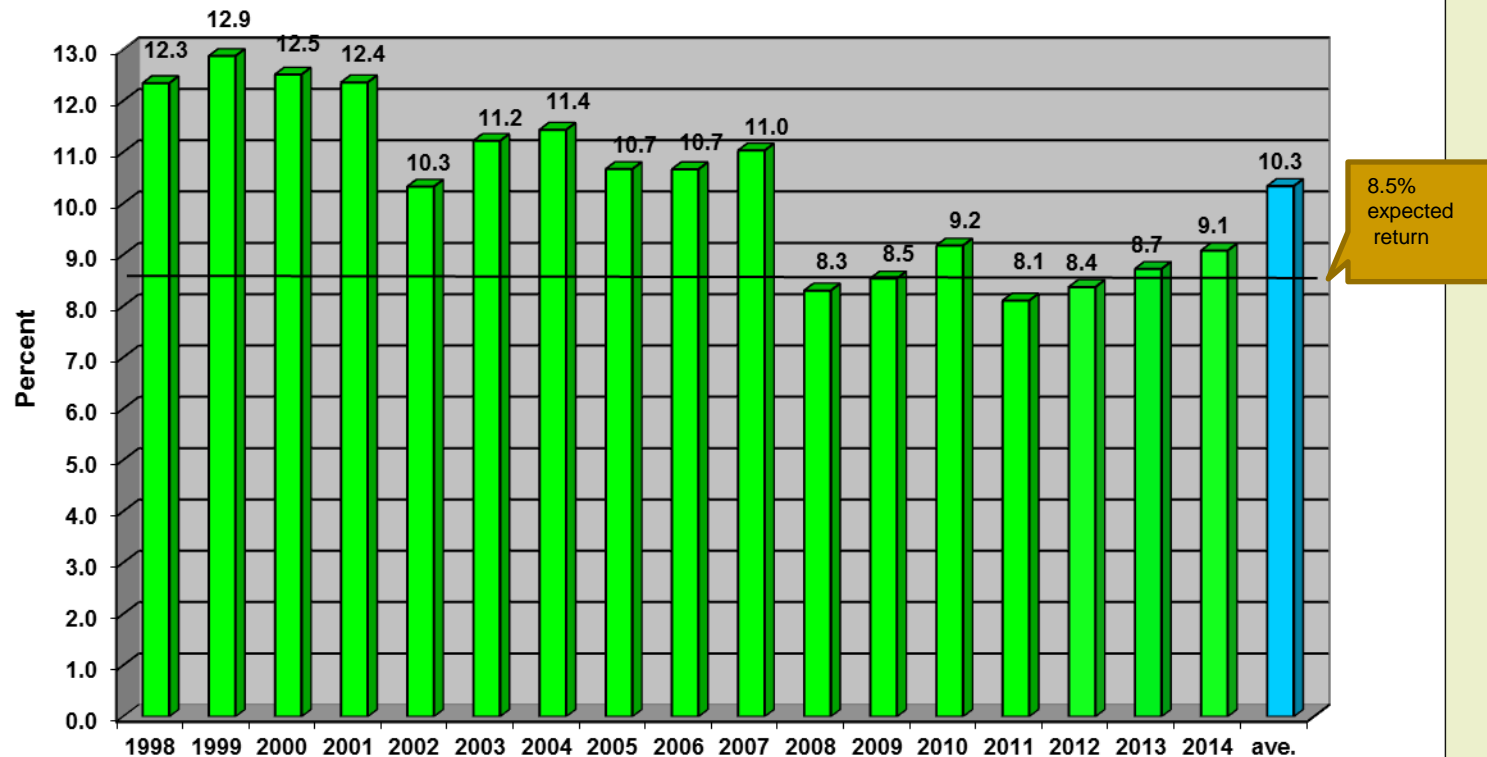
## 20-Years

### 1/1/95 - 12/31/14

MERS' decision to hire some active managers versus hiring only passive managers.

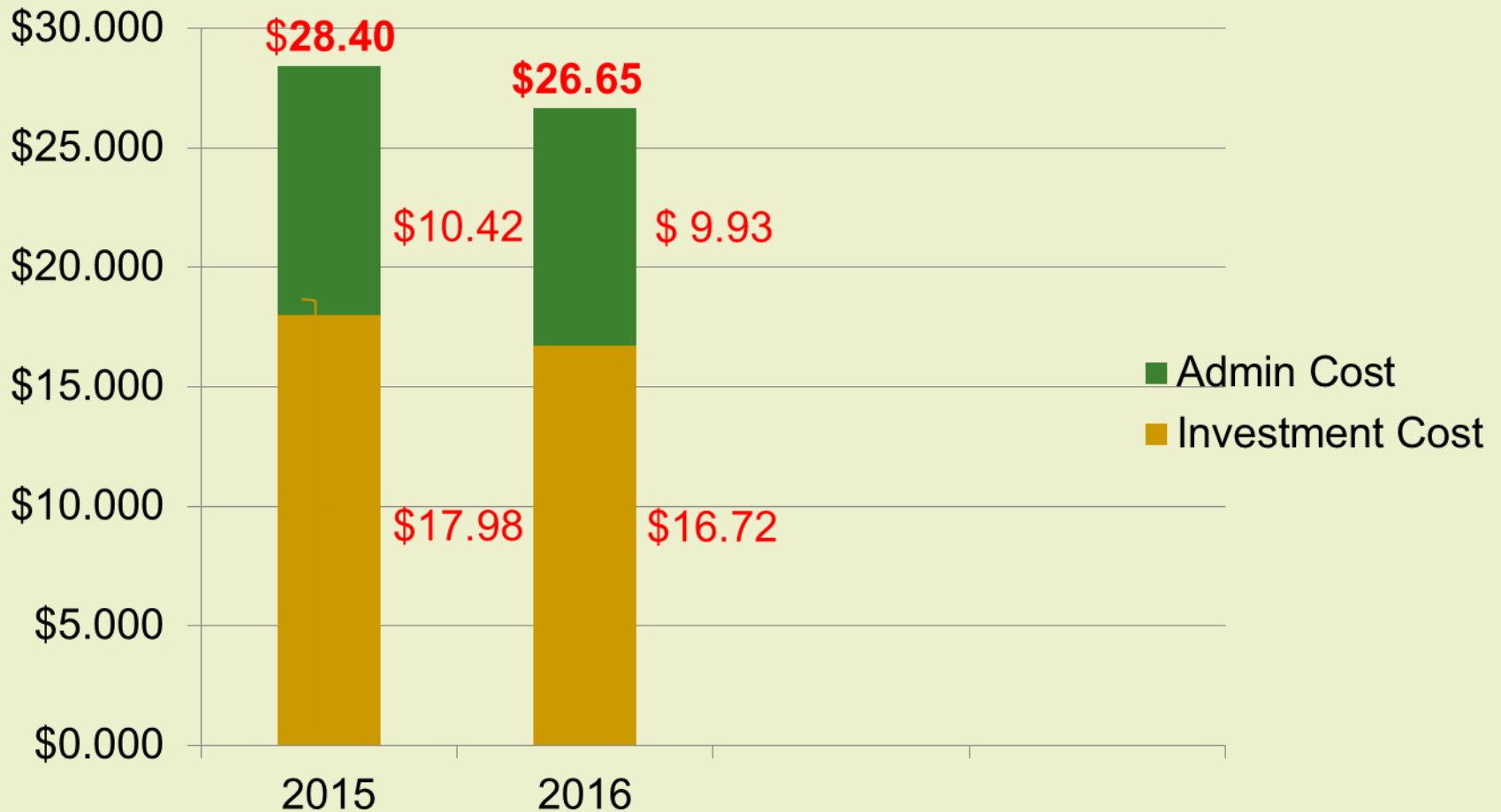
|  |                    | Time Weighted Returns       |             |                  | Dollar Weighted Estimates (Net of fees) |         |                          |
|--|--------------------|-----------------------------|-------------|------------------|---|---------|--------------------------|
|  |                    | Annualized MERS Asset Class |             | Annualized Index | Value of a Dollar Invested in           |         | Active Management Impact |
| MERS Asset Class   | Index              | Gross                       | Net of fees | Net of fees      | MERS Asset Class                        | Index   | \$Millions               |
| Domestic Equity  | Russell 3000       | 10.35%                      | 10.09%      | 9.94%            | \$ 6.84                                 | \$ 6.65 | \$ 132.3                 |
| International Equity   | MSCI EAFE          | 7.36%                       | 6.96%       | 4.44%            | \$ 3.50                                 | \$ 2.25 | \$ 330.2                 |
| Global Equity  | MSCI World         | 8.60%                       | 8.19%       | 9.80%            | \$ 1.45                                 | \$ 1.56 | \$ (25.7)                |
| Fixed Income   | Barclays Aggregate | 7.59%                       | 7.49%       | 6.20%            | \$ 4.24                                 | \$ 3.32 | \$ 246.3                 |
| Estimate of Fund's benefit from its decision to hire active managers over past 20 years. |                    |                             |             |                  |   |         | \$ 683.0                 |

# ERS 20 Year Rolling Ave. Investment Returns 1979-2014



Returns Gross of Fees

# Portion of ERS Budget Attributable to Investment Expense \$ Millions





Fund Number: 105

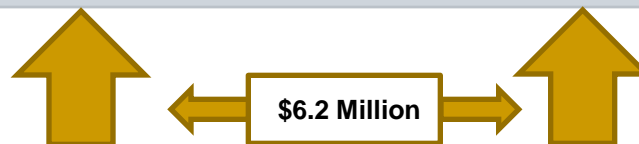
As of December 31, 2014

**Total Fund Fee Summary in Basis Points**

City of Milwaukee ERS vs. Average by Asset Range

63 of 78 funds provided fee data for this time period

| Administrative Expenses                        | City of Milwaukee ERS | Under \$500 Million | \$500mm - \$1 Billion | \$1 - \$5 Billion | \$5 - \$10 Billion | \$10 - \$20 Billion | Over \$20 Billion |
|--|-----------------------|---------------------|-----------------------|-------------------|--------------------|---------------------|-------------------|
| Internal Inv. Div. Staff                       | 0.70                  | 0.00                | 0.00                  | 1.68              | 0.49               | 0.76                | 1.56              |
| Actuary  | 0.28                  | 3.38                | 1.82                  | 0.57              | 0.29               | 0.17                | 0.12              |
| Legal  | 0.32                  | 2.04                | 0.70                  | 1.04              | 0.39               | 0.34                | 0.16              |
| Consultant                                     | 0.00                  | 0.74                | 0.10                  | 0.40              | 0.18               | 0.15                | 0.18              |
| Audit  | 0.12                  | 0.84                | 0.63                  | 0.22              | 0.08               | 0.07                | 0.04              |
| Other Professional                             | 0.13                  | 0.53                | 0.25                  | 0.30              | 0.85               | 0.07                | 0.54              |
| General Administrative                         | 0.34                  | 12.55               | 15.11                 | 7.87              | 3.18               | 4.33                | 1.85              |
| <b>Total Administrative Expenses</b>           | <b>1.89</b>           | <b>20.08</b>        | <b>18.62</b>          | <b>12.09</b>      | <b>5.46</b>        | <b>5.88</b>         | <b>4.45</b>       |
| Investment Expenses                            | City of Milwaukee ERS | Under \$500 Million | \$500mm - \$1 Billion | \$1 - \$5 Billion | \$5 - \$10 Billion | \$10 - \$20 Billion | Over \$20 Billion |
| Custodial                                      | 0.25                  | 2.81                | 2.70                  | 1.57              | 0.60               | 0.48                | 0.30              |
| Investment Consulting                          | 0.42                  | 3.25                | 2.56                  | 1.89              | 0.82               | 1.41                | 0.35              |
| Domestic Equity                                | 9.22                  | 6.47                | 9.00                  | 7.33              | 6.27               | 4.79                | 2.58              |
| International Equity                           | 12.52                 | 6.95                | 11.66                 | 8.03              | 6.78               | 6.88                | 4.63              |
| Fixed Income                                   | 3.22                  | 3.20                | 7.20                  | 5.56              | 5.01               | 3.23                | 3.21              |
| Real Estate                                    | 10.63                 | 2.19                | 5.91                  | 5.06              | 8.97               | 4.80                | 7.29              |
| Other Investment Management                    | 0.08                  | 0.00                | 0.00                  | 6.44              | 4.31               | 6.54                | 6.55              |
| <b>Total Investment Expenses (ex. Alt Inv)</b> | <b>36.35</b>          | <b>24.87</b>        | <b>39.03</b>          | <b>35.88</b>      | <b>32.76</b>       | <b>28.13</b>        | <b>24.90</b>      |
| Alternative Investments                        | 3.73                  | 6.25                | 8.46                  | 7.13              | 11.13              | 8.63                | 15.75             |
| <b>Total Investment Expenses</b>               | <b>40.08</b>          | <b>31.12</b>        | <b>47.49</b>          | <b>43.01</b>      | <b>43.89</b>       | <b>36.76</b>        | <b>40.66</b>      |
| <b>Total Expenses</b>                          | <b>41.97</b>          | <b>51.20</b>        | <b>66.10</b>          | <b>55.09</b>      | <b>49.35</b>       | <b>42.65</b>        | <b>45.11</b>      |



Expressed in basis points on total fund assets. Funds that did not provide fee data will not appear in the table.

