



**City
of
Milwaukee**

*INTERDEPARTMENTAL CORRESPONDENCE
LEGISLATIVE REFERENCE BUREAU
RESEARCH & ANALYSIS SECTION*

MEMO

To: Finance and Personnel Committee
From: Mary Turk, Legislative Fiscal Analyst - Lead
Date: 2/22/10
Subject: File Number 091274, Charter Ordinance Relating to Annual Valuations of the Assets and Liabilities of the Employees' Retirement System

The purpose of File Number 091274 is to codify, that is, place into Chapter 36 of the City Charter, the action taken by the Annuity and Pension Board at its August 27, 2009 meeting approving a policy modifying current policy relating to the calculation of the Board's annual request in terms of the City of Milwaukee's annual pension contribution to the pension fund. The modification was developed by the Department of Administration, Budget Division and was reviewed twice (letters of June 26 and August 14, 2009) by the Board's actuary, Buck Consultants, which stated that the proposed policy is a "reasonable funding policy, within the bounds of responsible actuarial practice. The purposed policy modifies certain policy components within actuarially sound parameters, helps maintain funding requirements and achieves a balance between being sensitive to the current economic environment and contribution volatility." The letters were signed by a member of the American Academy of Actuaries who meets the Academy's Qualification Standards to issue a Statement of Actuarial Opinion.

Furthermore, as part of this codification, Substitute B of the charter ordinance, which will be offered for consideration at the Finance Committee's meeting of February 25, 2010, specifies that any future changes to the funding of city pension contributions with respect to amortization and smoothing methods, shall not be made "without written certification from the board's [Annuity and Pension Board] actuary that any such changes comply with Actuarial Standards of Practice."

The modification of the funding policy proposed in the charter ordinance is designed to continue the financing of retirement benefits in an actuarially responsible manner, and manage the volatility of pension contributions needed from the City to finance the pension fund. The Board approved the modification by a 5-3 vote. A number of the modifications in the policy, for example, increasing the asset smoothing period from 3 to 5 years, and modifying the amortization payment from level dollar amortization to level percent of payroll amortization, are common practices for public employee retirement systems.

It should be noted that the Wisconsin Legislature created the Milwaukee Employees' Retirement System in 1937, made changes in the system until 1947, and in 1947 gave the City (Common Council) home rule power to make further changes in the system via charter ordinance. Thus, the annual funding of the City's contribution to the pension system, as part of the annual budget process, would seem to be within the scope of the Common Council's authority to amend provisions of Chapter 36 of the City Charter.

It should also be noted that whether or not the Common Council approves the Annuity and Pension Board's modification of the pension contribution funding policy and codifies the policy within the City Charter, that policy as approved by the Board on August 27, 2009 stands and will continue to govern pension contributions.

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