MILWAUKEE COUNTY FISCAL NOTE FORM

DATE: 07/13/2011 Updated

Original Fiscal Note ☐

Substitute Fiscal Note ☒

SUBJECT: State Mandated Employee Pension Contribution - Ordinance Change

FISCAL EFFECT:

- ☐ No Direct County Fiscal Impact
  - ☐ Existing Staff Time Required
- ☐ Increase Operating Expenditures (If checked, check one of two boxes below)
  - ☐ Absorbed Within Agency's Budget
  - ☐ Not Absorbed Within Agency's Budget
- ☒ Decrease Operating Expenditures
- ☐ Increase Operating Revenues
- ☐ Decrease Operating Revenues
- ☐ Increase Capital Expenditures
- ☐ Decrease Capital Expenditures
- ☐ Increase Capital Revenues
- ☐ Decrease Capital Revenues
- ☐ Use of contingent funds

Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure	-1,551,643	-6,897,400
	Revenue	0	0
	Net Cost	-1,551,643	-6,897,400
Capital Improvement Budget	Expenditure		
	Revenue		
	Net Cost		

DESCRIPTION OF FISCAL EFFECT

In the space below, you must provide the following information. Attach additional pages if necessary.

A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated. [1] If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
D. Describe any assumptions or interpretations that were utilized to provide the information on this form.

A. Proposed County ordinance amendments are being made for implementation of the State-mandated employee pension contributions. The State budget repair bill included a statute change that would require employees to "pay half of all actuarially required contributions for funding benefits under the retirement system." The Pension Actuary, Buck Consultants, has issued a letter dated July 11, 2011, which provides their report on the State statute change, and the impact on Milwaukee County. The fiscal note is prepared based on letter issued by the actuary.

For 2011, the County adopted a pension contribution of 2% for non-represented employees, increasing to 3% in June, and 4% at the end of December. The pension contribution was matched with a wage increase of 1% in June and another 1% in December. The pension ordinance has already been adjusted for the pension contribution adopted for non-represented employees. The proposed ordiance changes would provide for the requirements that are proposed under the State statutue.

In a question and answer document that was provided to employees on the State Budget Repair Bill, a discussion occurred regarding the pension change. In that document, an initial pension contribution from employees was estimated at 6% for 2011. The City of Milwaukee currently has a 5% rate, and the State of Wisconsin was proposing a rate for members of its employee retirement system of 5.7%. The County contribution of 6% was based on an allocation of normal cost and prior service cost to contributing employees, with no offset for retiree allocation.

[1] If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

The rate being proposed by the Actuary in the July 11, 2011 letter to the Pension Study Commission is 4.7%. This rate is a reduction from the earlier estimate. The employee pension contribution represents a sharing of the annual pension expense of the County's Employee Retirement System (ERS). The ERS pension expense consists of Normal Cost and Prior Service Cost. The The Actuary's interpretation of the State Statute finds that full nomal cost should be allocated to active contributors and non-contributors. The normal cost represents the cost of benefits earned by active employees in the current year. Per the actuary, the prior service cost should be allocated based on the active employees proportional share of the actuarial liability. Active employees represent 31% of the Actuarial Liability.

Attached to this fiscal note are schedules that breakdown the calculation of the employee contribution for active employees (Exhibit A). In addition, there is a breakdown of the budget impact of the State Budget Repair bill, based on different contribution rates, including the rate from the Actuary (Exhibit B).

Exhibit C - Exhibit F provide an outlook of the pension contribution for the years 2012 - 2017. During these years, the normal cost increases by 3.5% per year, but the prior service cost increases at a greater rate, based upon the items that have occurred in prior years including the loss on investments in 2008, and the runout of the Mercer settlement that was contributed in 2009.

Under the proposed ordinance change, the actuary has based their estimates on waiting for actual pension expenses to be determined prior to determining an employee pension contribution rate. Exhibit G and Exhibit H provide a comparison of two methods of calculating the employee contribution. Exhibit G shows the change in employee contributions (based on actual expense) matched with the change in pension expense. Due to employee contributions lagging pension expense by one year, there is a delay in the catchup of employee contributions with pension expense of that one year. Exhibit H provides a comparison if both the pension expense and employee contributions were calculated on the same basis.

Exhibit I and J provide an estimate of the pension contribution by Union under different rate scenarios for 2012. Exhibit K and L provide an estimate of the pension contribution by Union under different rate scenarios for 2011. For 2011, the contribution rates would only apply to AFSCME DC-48, and non-represented employees.

B. Per Exhibit L, the County would have cost savings in 2011 of $1,551,600 over a current budget for employee contributions of $1,260,000. This estimate is based on an implementation of the State Budget Repair Bill on July 24, 2011. These additional savings would be used to offset fringe benefit costs that are currently not being achieved in org unit 1950, or in org unit 1972.

Per Exhibit J, the County would have net cost savings of $6,897,400 for the 2012 year. The savings are after consideration of any revenue offsets for departments that receive outside revenue. The full gross contribution received would be $9,053,000 for 2012. The schedule is broken down by union. It is anticipated that all unions will be participating in the employee contribution, except Deputy Sheriffs and Firefighters. These two unions are identified as the public safety unions. They have been exempted from the employee contribution under the State Statute. The County could negotiate a contribution from the public safety unions, but it is not anticipated that they will contribute in 2012.

C. The savings generated by the change in State Statutue, if made into law, will provide an offset to the costs in the 2011 and 2012 budget, and for years going forward. The cost savings is tied to the pension expense and therefore provides an offset to the pension expense. The pension expense generally fluctates more due to prior service cost then due to normal cost. As stated earlier, the employee contribution is more tied to the normal cost then the prior service cost, therefore, the employee contribution will not fluctuate to the level of the pension expense. For example, in 2015, it is anticipated that pension expense will increase by $9.2 million. Half of that contribution increase is $4.5 million. However, the employee contribution would only be increased by $1.4 million under a budget basis or by $0 under an actual contribution calculation basis. The increase in pension expense in future years, due to changes in prior service costs, will have to be provided from other means then the employee contribution.

D. Calculations were based upon the July 11, 2011 report from the Actuary to the Pension Study Commission, the Annual Actuarial Report as of January 1, 2011 from Buck Consultants, a spreadsheet of the projection of annual pension cost prepared by the County and the County's Actuary, and calculations done by the Department of Administrative Services.

Department/Prepared By Department of Administrative Services - Scott B. Manske

Authorized Signature

Did DAS-Fiscal Staff Review? ☐ Yes ☒ No

Milwaukee County
Analysis of Required Contribution based on State Budget Repair Bill
ERS Members only. OBRA is not in these numbers.

EXHIBIT A

		2012
1	Normal Cost	$ 19,480,100
2	Prior Service Cost	7,327,900
3	Total Pension Exp	$ 26,808,000
4	Prior Service Cost	
5	Admin Expense	$ 1,558,200
6	Active	1,830,800
7	Retirees	3,938,900
8		$ 7,327,900

		Proposed Dollars	Pcnt Salaries of Contributors
9	Full Contribution	$ 26,808,000	13.8%
10	Reduction for Administrative Cost	(1,063,788)	-0.5%
11	Reduction for Retiree portion of Prior Service Cost	(3,938,900)	-2.0%
12	Reduction for Non-Contributors "Public Safety"	(3,697,312)	-1.9%
		$ 18,108,000	9.4%
13	Half of Actuarial Contribution	50%	
14	Employee Contribution	$ 9,054,000	4.7%
15	Salaries of Contributors	$ 193,563,275	

Actuarial Liability of Contributors	$ 547,220,130
Act Liability Non-Contributors and Retirees	$ 1,544,706,521
Total Actuarial Liability	$ 2,091,926,651

Schedule is intended to show the allocation of pension costs under the interpretation of the State Statute 59.875 (Budget Repair Bill) of half of all actuarially required contributions for funding benefits under the retirement system. The Actuary finds that normal cost is fully allocable under the State Statutue to active employees. However, administrative costs charged to the pension plan, plus the prior service cost related to retirees is only partially allocable, therefore a portion of these costs are removed from allocation formula. Final adjustment is for the cost of non-contributors which reduces the contribution for employee groups who provide a contribution.

Exhibit B

Employee Contributions	2011 Budget	2012 Budget	Contribution Rate	
Half ARC - No Adjustment	$ 2,006,083	$ 8,917,800	6.0%	
Adjusted Rate - Before Public Safety Offset	$ 1,631,753	$ 7,254,200	4.9%	
Adjusted Rate - with Public Safety Offset	$ 1,551,643	$ 6,897,400	4.7%	**Proposed**

Estimate of Budget impact under different scenarios presented in this fiscal note.

EXHIBIT C
Contribution Rate from Employees - 2012 - 2017

	Full Contribution	Alloc Half ARC - No Adj.	Adj For Prior Svc - Combined	Proposed Non Public Safety - Adj Prior Svc
2012	12.1%	6.0%	4.9%	4.7%
2013	13.7%	6.9%	5.2%	4.9%
2014	15.0%	7.5%	5.4%	5.1%
2015	13.7%	6.9%	5.2%	4.9%
2016	16.9%	8.4%	5.7%	5.4%
2017	17.4%	8.7%	5.8%	5.5%

The Full Contribution represents the total employee contribution based on the pension expense, including normal cost and prior service cost. The Allocation of the Half Arc, is simply half of the Full Contribution rate. The Adj for Prior Service Combined reduces prior service cost allocation for administrative cost and prior service cost allocatable to retirees based on their portion of the actuarial accrued liability. The non-public safety - adj for prior service cost, attempts to split the normal cost between public safety and non-public safety. Public safety has a higher percentage of normal.

Milwaukee County
Analysis of Required Contribution based on State Budget Repair Bill
ERS Members only. OBRA is not in these numbers.

EXHIBIT D

Future Full Pension Expense versus Allocable Pension Expense

	Full Pension Expense			Allocated Under Proposal		
	Normal Cost	**Prior Service Cost**	**Full Pension Expense**	**Normal Cost**	**Prior Service Cost**	**Proposed Pens Exp To Be Allocated**
				87.3%		
2012	$ 19,480,000	$ 7,328,000	$ 26,808,000	$ 16,104,200	2,003,800	18,108,000
2013	$ 20,162,000	$ 11,327,000	$ 31,490,000	$ 16,668,100	3,051,900	19,720,000
2014	$ 20,868,000	$ 14,827,000	$ 35,695,000	$ 17,251,400	3,970,600	21,222,000
2015	$ 21,598,000	$ 12,144,000	$ 33,742,000	$ 17,855,200	3,271,800	21,127,000
2016	$ 22,354,000	$ 20,574,000	$ 42,928,000	$ 18,480,300	5,479,700	23,960,000
2017	$ 23,137,000	$ 22,668,000	$ 45,804,000	$ 19,127,100	6,029,900	25,157,000

The actuary has determined that Normal Cost has a true relationship to active employees, and the actuary is allocating that cost to the groups based upon their pensionable wages. Contributions, as proposed, consist mostly of normal cost allocation. Prior Service Cost is being allocated based on the percentage of the actuarial accrued liability. As a result, the active employees are only 31% of the actuarial accrued liability, so they have a smaller share of that cost. As prior service cost rises, the employee contribution rises slower.

** - employee contributions from contributors only. Non-contributors, as a result, do not make a contribution, and therefore are not part of this number.*

EXHIBIT E

Comparison of Employee Contributions based on Full and Allocable Pension Expense

	Pension Expense	Emplyee Contib	Proposed	Proposed
	Full Pension Expense	**Alloc Half ARC - No Expense Adj.***	**Pension Exp To Be Allocated**	**Non Public Safety - Adj Prior Svc ***
Contribution				
2012	$ 26,808,000	11,706,000	18,108,000	9,054,000
2013	$ 31,490,000	13,750,000	19,720,000	9,860,000
2014	$ 35,695,000	15,586,000	21,222,000	10,611,000
2015	$ 33,742,000	14,733,000	21,127,000	10,563,000
2016	$ 42,928,000	18,744,000	23,960,000	11,980,000
2017	$ 45,804,000	20,000,000	25,157,000	12,578,000

The Full Pension Expense represents the annual pension expense, as estimated by the Acutary, over the next several years. The proposed employee contributions, are based on the proposed pension expense to be allocated. Reductions have been made to the pension expense, based on an allocation of prior service costs, between active and retired participants.

** - employee contributions from contributors only. Non-contributors, as a result, do not make a contribution, and therefore are not part of this number.*

EXHIBIT F

Variance of Employee Contributions based on Full and Allocable Pension Expense

	Alloc Half ARC - No Expense Adj.*	**Non Public Safety - Adj Prior Svc ***	Proposed **Variance from Est Emplyee Contrib**
Employee Contribution Variance			
2012	11,706,000	9,054,000	(2,652,000)
2013	13,750,000	9,860,000	(3,890,000)
2014	15,586,000	10,611,000	(4,975,000)
2015	14,733,000	10,563,000	(4,170,000)
2016	18,744,000	11,980,000	(6,764,000)
2017	20,000,000	12,578,000	(7,422,000)

The variance between the Half Arc contribution and the other options, shows a growing gap, as the prior service cost increases in the future years.

Milwaukee County
Analysis of Required Contribution based on State Budget Repair Bill
ERS Members only. OBRA is not in these numbers.

EXHIBIT G
Contribution based on Actual Expense

		Budgeted		Change in Exp	Alloc Half ARC - No Adj. Change Contrib	Proposed Non Public Safety - Adj Prior Svc Change Contrib	Actual
2012	$	31,490,000					$ 26,808,000
2013	$	35,695,000	$	4,205,000	2,044,000	806,000	$ 31,490,000
2014	$	33,742,000	$	(1,953,000)	1,836,000	751,000	$ 35,695,000
2015	$	42,928,000	$	9,186,000	(853,000)	(48,000)	$ 33,742,000
2016	$	45,804,000	$	2,876,000	4,011,000	1,417,000	$ 42,928,000
2017	$	47,392,000	$	1,588,000	1,256,000	598,000	$ 45,804,000

Under the current proposal contributions from employees would be based on actual costs and would therefore lag the budgeted pension expense. As can be seen on the table above, in 2015 there is a $9.1 million increase in pension expense, but a $48,000 decrease in pension contribution, based on actual expense from the prior year. Actual cost is a better method of determining pension contribution, since it is based on actual experience. Normal cost and plan prior service activity are trued up.

EXHIBIT H
Contribution based on Budgeted Expense

		Budgeted		Change in Exp	Alloc Half ARC - No Adj. Change Contrib	Proposed Non Public Safety - Adj Prior Svc Change Contrib	Actual
2012	$	31,490,000			2,044,000	806,000	$ 26,808,000
2013	$	35,695,000	$	4,205,000	1,836,000	751,000	$ 31,490,000
2014	$	33,742,000	$	(1,953,000)	(853,000)	(48,000)	$ 35,695,000
2015	$	42,928,000	$	9,186,000	4,011,000	1,417,000	$ 33,742,000
2016	$	45,804,000	$	2,876,000	1,256,000	598,000	$ 42,928,000
2017	$	47,392,000	$	1,588,000	1,256,000	598,000	$ 45,804,000

Under a modified proposal contributions from employees would be based on budgeted costs and would therefore match the actual expense. As can be seen on the table above, in 2015 there is a $9.1 million increase in pension expense, but a $1,417,000 increase in pension contribution, based on actual expense from the prior year.

Milwaukee County
Analysis of Required Contribution based on State Budget Repair Bill
ERS Members only. OBRA is not in these numbers.

EXHIBIT I

Contrib By Union 2012 - If Annualized Full Contribution

		Proposed	
	Alloc Half ARC - No Adj.	**Non Public Safety - Adj Prior Svc**	**Pub Safety Only - Adj Prior Svc**
	6.0%	4.7%	6.6%
Attorneys	297,700	230,200	
Bldg Trades	330,500	255,600	
Dist Council 48	6,786,600	5,249,200	
Dist Counc Seas	38,800	30,000	
Firefighter			67,400
Machinists	18,000	13,900	
Non Represented	3,025,400	2,340,100	
Nurses	1,014,700	784,800	
State Prosecutors	52,900	40,900	
Sheriff Deputies			1,781,300
Teamco	141,400	109,200	
	11,706,000	9,053,900	1,848,700

This schedule shows the breakdown in employee contributions by Union, under the different scenarios. The effective date is different for different unions depending on their contract expiration date.

EXHIBIT J

2012 Contribution Netted for Revenue Offset

		Proposed	
	Alloc Half ARC - No Adj.	**Non Public Safety - Adj Prior Svc**	**Pub Safety Only - Adj Prior Svc**
Attorneys	222,800	172,300	
Bldg Trades	252,900	195,600	
Dist Council 48	4,719,400	3,650,300	
Dist Counc Seas	38,800	30,000	
Firefighter	-	-	-
Machinists	17,800	13,800	
Non Represented	2,541,100	1,965,500	
Nurses	950,800	735,400	
State Prosecutors	37,000	28,600	
Sheriff Deputies	-	-	1,781,300
Teamco	137,200	105,900	
	8,917,800	6,897,400	1,781,300

This schedule shows the breakdown in employee contributions by Union, under the different scenarios. The effective date is different for different unions depending on their contract expiration date. This shows the impact after revenue offset.

Milwaukee County
Analysis of Required Contribution based on State Budget Repair Bill
ERS Members only. OBRA is not in these numbers.

EXHIBIT K
Contrib By Union 2011 - If Annualized Full Contribution
Assume a four month contribution

		Alloc Half ARC - No Adj.	Proposed Non Public Safety - Adj Prior Svc
		6.05%	4.68%
Attorneys			
Bldg Trades			
Dist Council 48		2,262,200	1,749,733
Dist Counc Seas		12,933	10,000
Firefighter			
Non Represented	Budgeted	1,500,000	1,500,000
Non Represented	Additional Contribution	500,066	386,793
Nurses			
State Prosecutors			
Sheriff Deputies			
Teamco			
		4,275,200	3,646,527
	Budgeted	1,500,000	1,500,000
	Addl Contributions	2,775,200	2,146,527

EXHIBIT L
2011 Contribution Netted for Revenue Offset

		Alloc Half ARC - No Adj.	Proposed Non Public Safety - Adj Prior Svc
Attorneys			
Bldg Trades			
Dist Council 48		$ 1,573,133	$ 1,216,767
Dist Counc Seas		12,933	10,000
Firefighter			
Non Represented	Budgeted	1,260,000	1,260,000
Non Represented	Additional Contribution	420,017	324,876
Nurses			
State Prosecutors			
Sheriff Deputies			
Teamco			
		$ 3,266,083	$ 2,811,643
	Budgeted	$ 1,260,000	$ 1,260,000
	Addl Savings	$ 2,006,083	$ 1,551,643

Milwaukee County
Analysis of Required Contribution based on State Budget Repair Bill
ERS Members only. OBRA is not in these numbers.

EXHIBIT M

Comparison of State, County and City Pension Plans

	Milwaukee County (ERS)	City of Milwaukee	Wisconsin Retirement System (WRS)
Pension Multiplier	2%	2%	1.60%
Limitation on Payout	80% of Final Average Salary (FAS)	70% of FAS	70% of FAS
Final Average Salary	Three Highest Consecutive	Three Highest	Three Highest
Vesting Period	5 years	4 years	immediate
Employee Contribution	4.70%	5.5%, not paid by all employees	5.80%
Normal Retirement Age	Age 60 or Rule of 75, if eligible	Age 60 or age 55 plus 30 years of svc	Age 65 or age 57 plus 30 years of svc. May retire earlier with reduced benefit
Early Retirement	Age 55 plus 15 years of svc	Age 55	Age 55 plus 15 years of svc
Reduction for Early Retirement	5% per year	based on table	varies by amt of service
Active Employees	4,837	263,186	11,581
Retired Employees	7,308	144,033	11,082
Ratio of Active to Retired	0.66	1.83	1.05
Interest Assumption	8.0%	7.2%	8.5%
Wage Inflation	3.0%	4.0%	3.0%
Economic Spread	5.0%	3.2%	5.5%
Funded Ratio	95.7%	99.7%	99.1%
Annual Post-Ret Increase	2% flat	Invest Earnings; reductions possible	1.5% incr to 2%