



Milwaukee County Pension 101

- I. Basic Terminology
- II. Anomalies in Milwaukee County
- III. How Funding Works
- IV. History and Projections



I. Basic Terminology

- A. Defined Benefit
- B. Vesting Period
- C. Retirement Age
- D. Benefits Equation
- E. Multiplier
- F. Creditable Service
- G. Final Average Salary
- H. Average Calculation
- I. Annuity Options
- J. Employee Contribution
- K. Employer Contribution
- L. Contract & Property Right





A. Defined Benefit

Defined benefit (DB) pension plans are designed to provide employees with a predictable monthly benefit for life when they retire. Typically, employees and employers make contributions to a common pension trust fund over the course of each employee's career. These funds are invested by professional asset managers whose activities are overseen by trustees. For comparison purposes, **Defined Contribution (DC) plans**, do not include a guarantee of a certain level of retirement income. Instead a DC plan, typically includes a contribution from the employee and employer into an individual investment account (e.g. 401k).

This definition has been adapted from Jennifer Brown and Matt Larabee, *Decisions, Decisions: An update on Retirement plan Choices for Public Employees and Employers* (National Institute on Retirement Security, Aug. 2017) available at http://www.nirsonline.org/storage/nirs/documents/Decisions%20Decisions/final_decisions_2017_report.pdf





B. Vesting Period

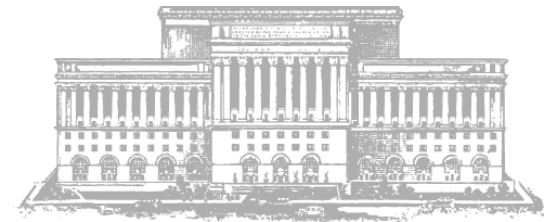
Typically a pension plan has a vesting period. For example in Milwaukee County, there is a 5 year vesting period. If an employee works for Milwaukee County for less than 5 years, then they are considered an unvested employee. Unvested employees have no property right to receive a pension once they reach retirement age. Employees working for Milwaukee County for more than 5 years are considered vested employees. Vested employees have a property right to receive the pension they have earned once they reach retirement age.





C. Retirement Age

Even if an employee is vested, they may not claim a benefit until they reach a certain retirement age. In Milwaukee County for example, the current **retirement age is 64**. As will be noted later, retirement age can also be a combination of years of service and age combined.





D. Benefits Equation

Every pension plan has a benefits equation. Milwaukee County's benefits equation is:

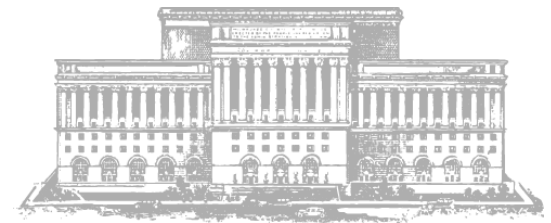
Multiplier x Creditable Service x Final Average Salary





E. Multiplier

A multiplier is a percent of Final Average Salary that is replaced in retirement. Currently, Milwaukee County's multiplier for most employees is 1.6%. As will be noted later, the multiplier has not always been consistent across employee classifications.





F. Creditable Service

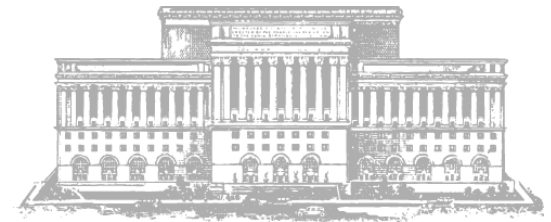
Typically, Creditable Service is the number of eligible years an employee has worked for the employer offering the pension. As will be noted later, this concept gets complicated by reciprocity agreements with other employers.





G. Final Average Salary Period

Final Average Salary is the average salary earned over the Final Average Salary Period set by the plan. For Milwaukee County, the Final Average Salary Period is 3 years.





H. Average Calculation

Recall that the benefits equation for Milwaukee County is:

Multiplier x Creditable Service x Final Average Salary

If an employee began working at the County at age 34, and worked until age 64 they would have 30 years of creditable service. If that employee in their last 3 years of service made \$58,000, \$60,000, and \$62,000, then the Final Average Salary would be \$60,000. Consequently, this employees pension would annually be:

$$\underline{\underline{1.6\% \times 30 \times \$60,000 = \$28,800}}$$

This annual payment is paid out monthly, and is commonly referred to as an annuity.





I. Annuity Options

Currently, members in Milwaukee County's pension, upon retirement, have several options when selecting an annuity.

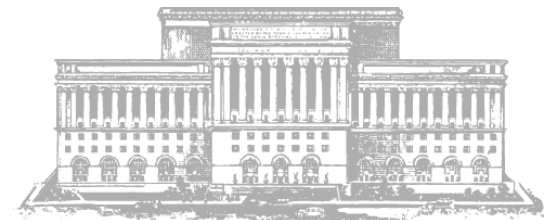
1. Maximum Option. Benefit payable for the member's lifetime and ceases upon the member's death (e.g. \$28,800)
2. Joint & Survivor. During the member's life, the pension is reduced based on a table called a mortality table, which takes into consideration the member's age and other factors ("Actuarially Reduced") to estimate their likely life span and adjust their pension benefit accordingly. Upon, the member's death, either 25%, 50%, or 75% is paid over the life of a named beneficiary. As an example, if the Maximum Option was \$28,800 and the member chose the 50% Joint and survivor option, then depending on the mortality table, the payment for the member's life might be \$20,000 per year, and then reduced to 50% or \$10,000 after the member's death.
3. 10 Year Certain and Life. This option is also Actuarially Reduced and is payable over the life of the member. In the event the member should die within 10 years, the benefit continues to the named beneficiary. (e.g. \$25,000 for 10 years guaranteed).





J. Employee Contribution

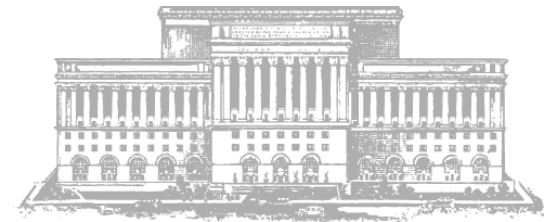
In many pension plans, the employee must contribute to the pension fund. How much an employee must contribute in Milwaukee County is an equation that includes concepts of the Normal Cost and Unfunded liability, which will be discussed later. Currently, Milwaukee County has for most employees a contribution requirement of 6.5%. So, for an employee earning \$60,000 per year, the annual contribution by the employee would be \$3,900. This annual contribution is deducted on a prorated basis from each pay check.





K. Employer Contribution

The employer also contributes to the pension fund. How much Milwaukee County must contribute each year is an equation that includes concepts of the Normal Cost and Unfunded Liability, which will be discussed later. Milwaukee County's historical annual contribution has been as low as \$629,279 in 2000 and was \$50,625,672 in 2016.





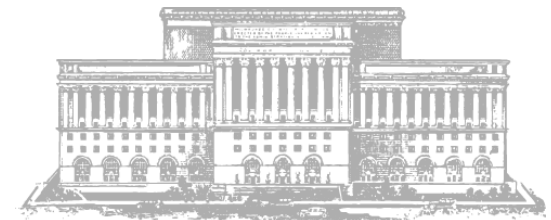
L. Contract & Property Right

The legal rights of future benefit payments are the subject of much litigation and scholarship. There seems to be consensus, however, that most past benefits are protected, and future benefits may be adjusted. Here is one perspective:

TABLE 1. LEGAL BASIS FOR PROTECTION OF PUBLIC PENSION RIGHTS UNDER STATE LAWS

Legal basis	Accruals protected			
	Past and future	Past and maybe future	Past only	None
State constitution	AK, IL, NY	AZ	HI, LA, MI	
Contract	AL, CA, GA, KS, MA, NE, NV, NH, ND, OR, PA, TN, VT, WA, WV	CO, ID, MD, MS, NJ, RI, SC	AR, DE, FL, IA, KY, MO, MT, NC, OK, SD, UT, VA	
Property	ME, WY	CT, NM, OH	WI	
Promissory estoppel ^a	MN			
Gratuity				IN, TX ^b

Alicia Munnell and Laura Quinby. *Legal Constraints on Changes in State and Local Pensions* (Center for Retirement Research at Boston College, Aug. 2012), available at http://crr.bc.edu/wp-content/uploads/2012/08/slp_25.pdf





L. Contract & Property Right

Here is another perspective:

“[A]n employee’s right to public pension benefits is considered contractual, and therefore is protected against substantial impairment under both state and federal constitutions.... [I]t is generally unconstitutional for a state to take any action that substantially impairs the employee’s benefits....

[C]ourts typically find any decrease in the amount of retirement benefits to be a substantial impairment.... As a general rule, changes that are purely prospective (changes that affect not what an employee has already earned but solely what he will earn through future service) invite less judicial scrutiny than changes that affect an employee’s already-earned and vested benefits because prospective changes are considered less substantial impairments than changes to accrued benefits.”





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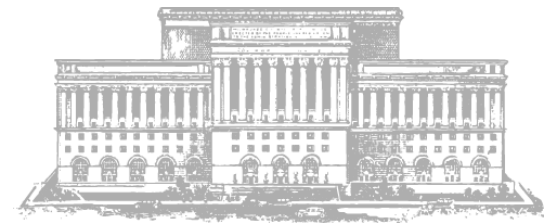
Any questions?





II. Anomalies in Milwaukee County

- A. Relevant Documents
- B. Governance
- C. Enhancements
- D. Collective Bargaining
- E. Variations
- F. Frequent Changes
- G. Multiple Status
- H. # of Active vs. Inactive
- I. Reciprocity
- J. Public Safety Officers

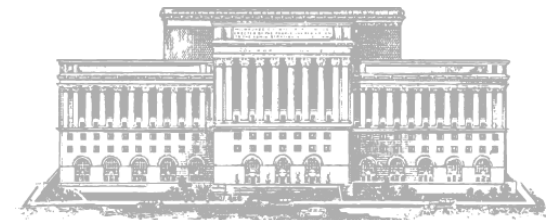




A. Relevant Documents

There are a dizzying number of documents related to the plan. We do not expect you to read through them, but wanted to provide an overview so that you understand how complex the existing plan is. Here are the documents that have details on the County's Pension Plan:

1. County Ordinances
2. Pension Board Rules
3. Actuarial Valuations
4. Annual Reports
5. Investment Reports
6. State Statutes
7. Federal Statutes





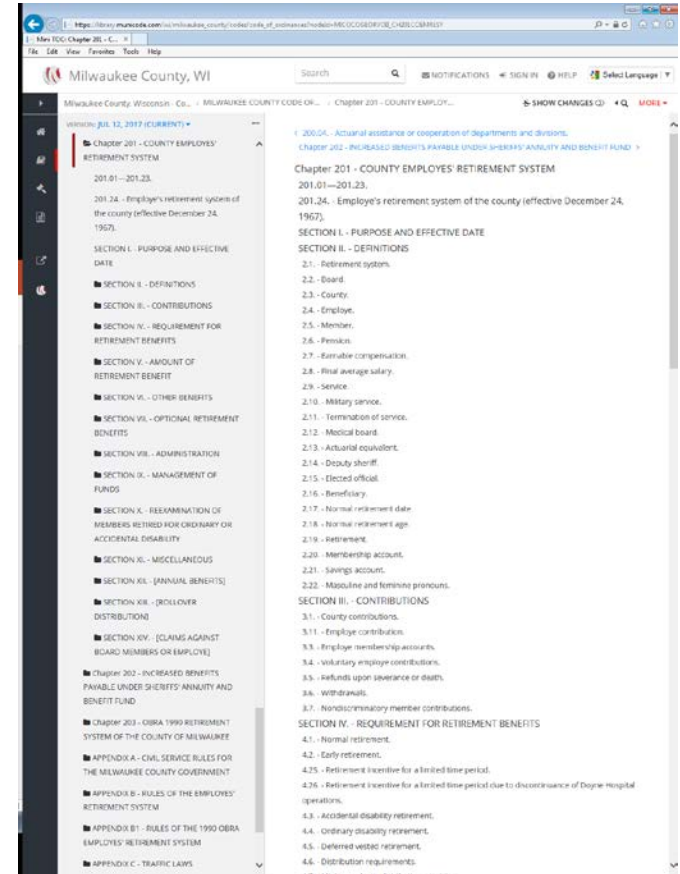
1. County Ordinances

Benefit levels are set by County Ordinance. County Ordinances are available at <http://county.milwaukee.gov/CountyOrdinances2003.htm>

Ch 201 – County Employees’ Retirement System

Ch 202 – Increased Benefits Payable Under Sheriff’s Annuity and Benefit Fund

Ch 203 – OBRA 1990 Retirement System of the County



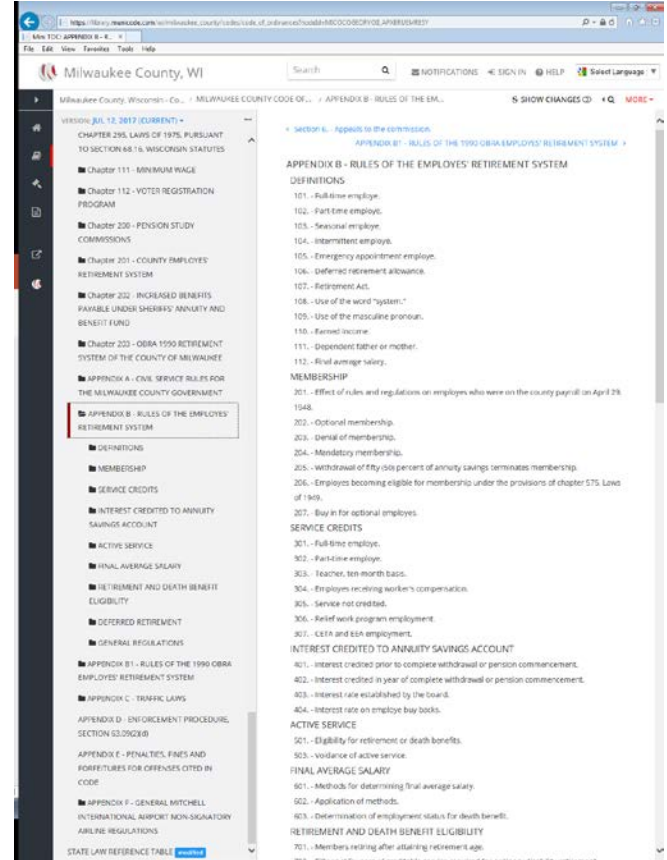


2. Pension Board Rules

Further guidance is set by the County Pension Board. Pension Board rules are appendices to the Ordinances and are available at <http://county.milwaukee.gov/CountyOrdinances22003.htm>

Appendix B – Rules of the Employees' Retirement System

Appendix B1 – Rules of the 1990 OBRA

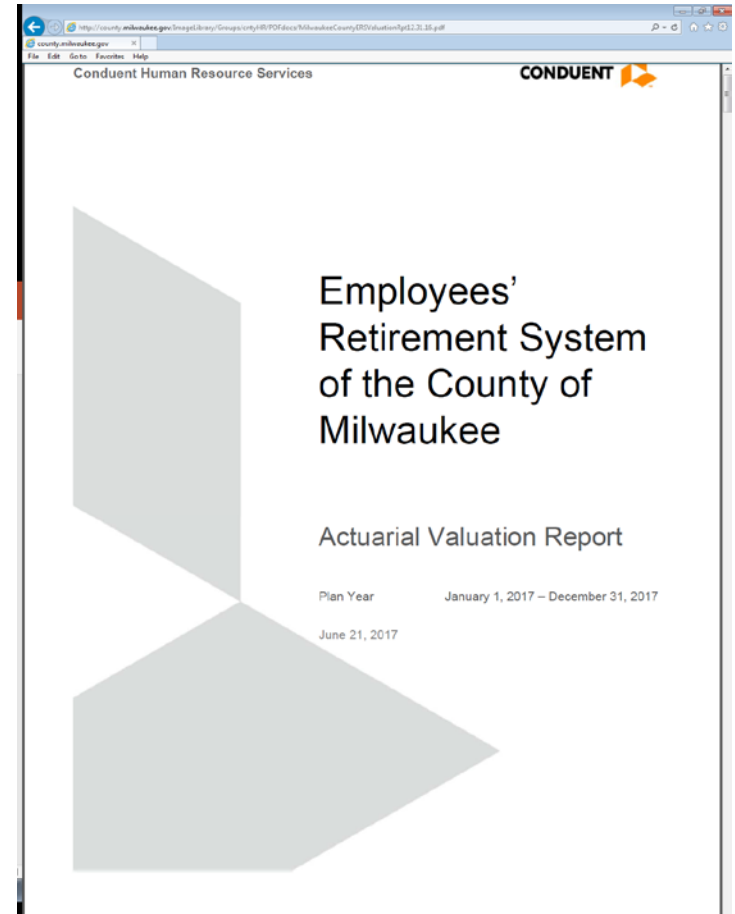




3. Actuarial Valuations

Each year the County gets an actuarial valuation. This valuation identifies the Normal Cost and the Net Amortization Payments which pay down the Unfunded Liability. These reports are available at: <http://county.milwaukee.gov/Retirement/Reports/ActuarialReports.htm>

2017 Normal Cost: \$16,405,955
Net Amortization: \$47,838,754
Admin Expense: \$1,554,742
Total Contribution: \$65,799,451



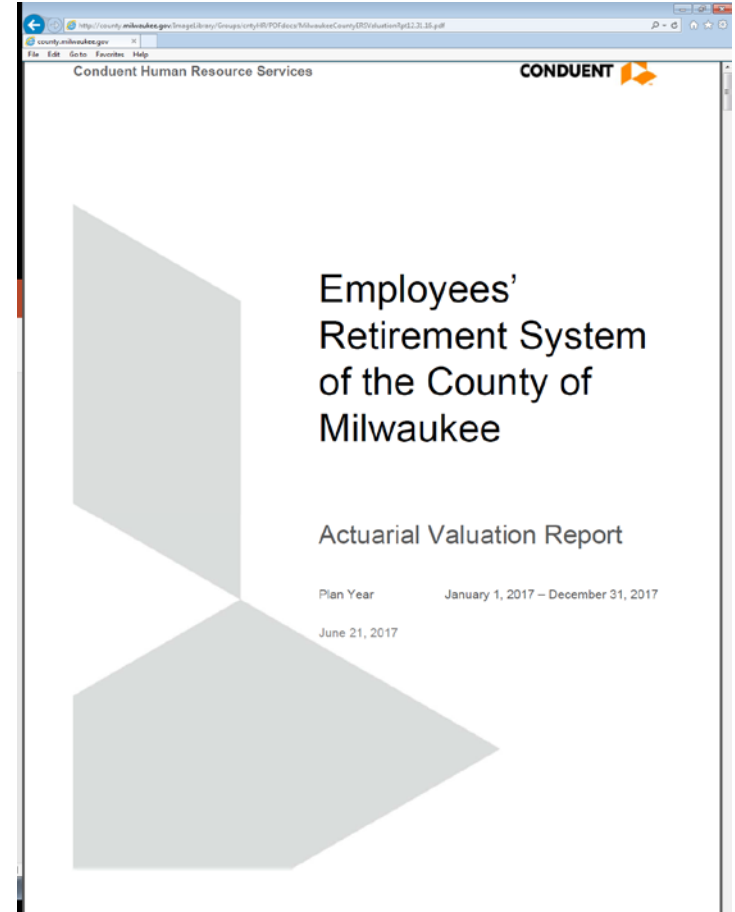


3. Actuarial Valuations

These documents also show the total Accrued Liability, Assets, Unfunded Liability, and Funded Ratio.

The valuation as of Jan. 1, 2017 was:

Accrued Liability: \$2,256,308,243
Value of Assets: \$1,740,422,208
Unfunded Liability: \$515,886,035
Funded Ratio: 77.1%



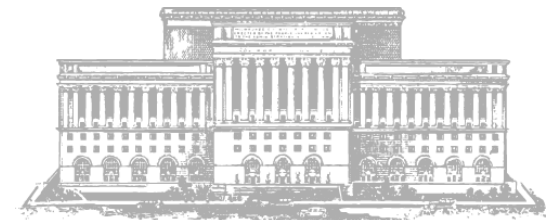
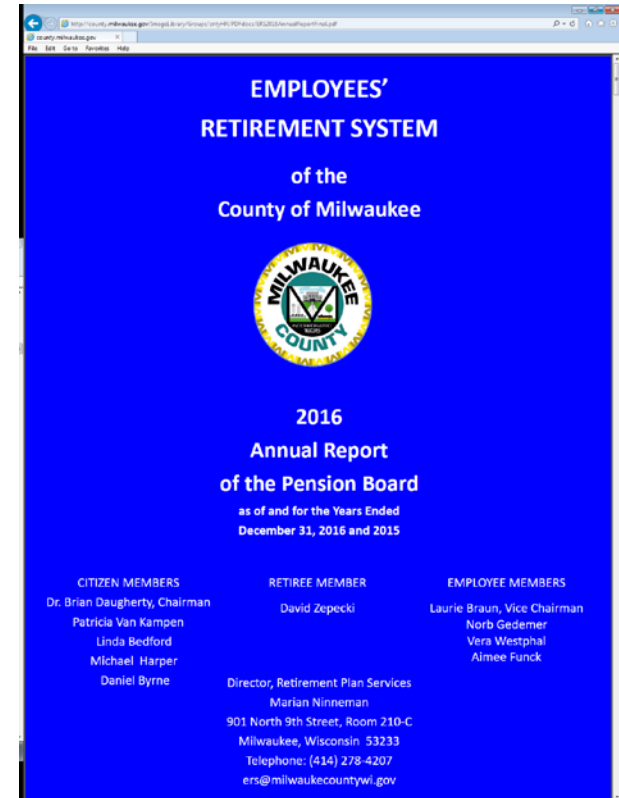


4. Annual Reports

Each year the County gets an annual report from the Pension Board that includes the audited financial statements of the Pension. These reports are available at:

<http://county.milwaukee.gov/Retirement/Reports/Annual.htm>

Note: Additional financial information can be found in the County's Budget available at <http://county.milwaukee.gov/PSB/County-Budget.htm> , and the County's Comprehensive Annual Financial Report (CAFR) available at <http://county.milwaukee.gov/ComprehensiveAnnualF12237.htm>.

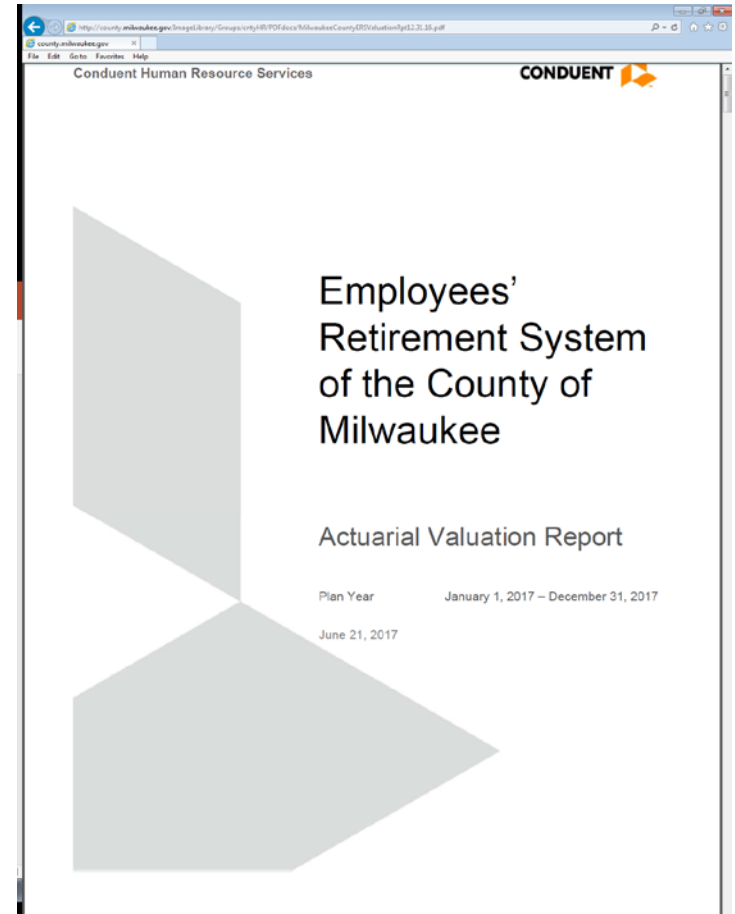




4. Annual Reports

The annual report, among other financial reports shows the additions and deductions each year from the fund. For example, in 2016:

Beginning Balance:	\$1,716,151,763
Additions:	
County Contribution	\$50,625,672
Employee Contribution	\$12,143,510
Net Investment Income	\$110,336,000
Deductions:	
Benefits paid	(\$211,163,822)
Admin. Expense	(\$4,912,501)
Withdrawal	<u>(\$1,498,291)</u>
Ending Balance	\$1,671,682,331





5. Investment Reports

Each month the Pension Board gets a report on the performance of the pension investments.

These reports are available at:

<http://county.milwaukee.gov/Retirement/Reports/Investment.htm>





6. State Statutes

All of the County's work must be consistent with State Statutes. There are a few state statutes passed in 2007 – 2015 that specifically relate to Milwaukee County's pension system. Chapter 59 is the primary statute related to Counties and can be found here:

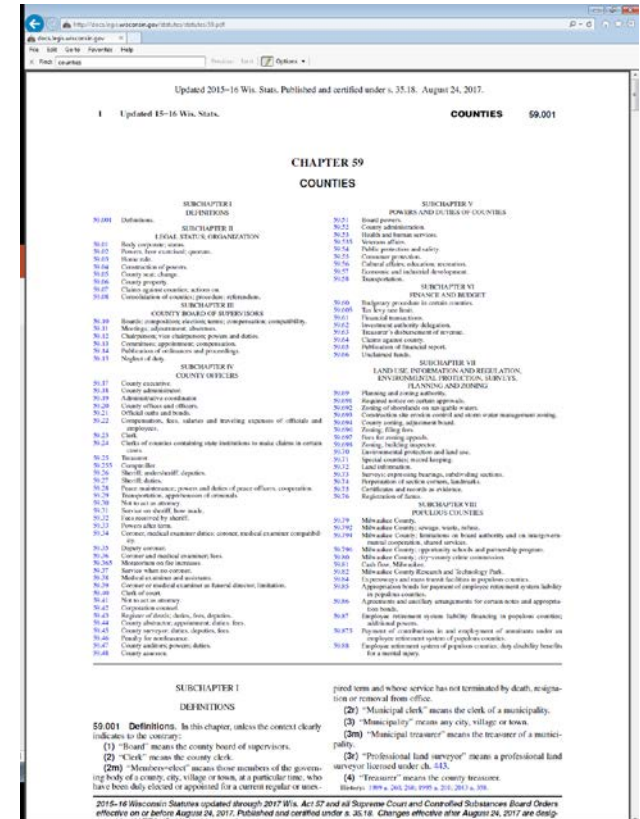
<http://docs.legis.wisconsin.gov/statutes/statutes/59.pdf>

59.85 – Appropriation bonds for payment of employee retirement system liability in populous counties

59.87 – Employee retirement system liability financing in populous counties; additional powers.

59.875 – Payment of contributions in and employment of annuitants under an employee retirement system of populous counties.

59.88 – Employee retirement system of populous counties; duty disability benefits for mental injury

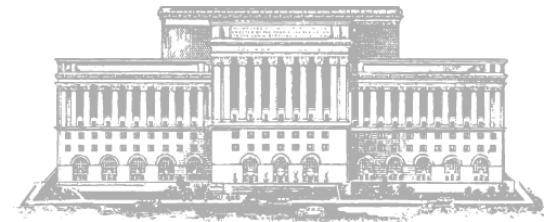




6. State Statutes

Wis. Stat. 59.875(2) (a):

Beginning on July 1, 2011, in any employee retirement system of a county, except as otherwise provided in a collective bargaining agreement entered into under subch. IV of ch. 111 and except as provided in par. (b), employees shall pay half of all actuarially required contributions for funding benefits under the retirement system. The employer may not pay on behalf of an employee any of the employee's share of the actuarially required contributions.



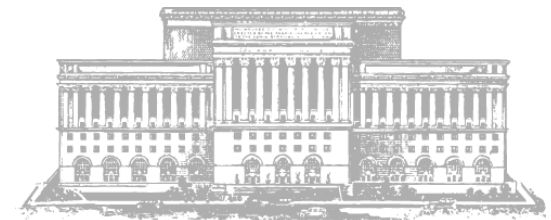


7. Federal Statutes

All of the County's work must be consistent with Federal Statutes. The Employee Retirement Income Security Act of 1974 (ERISA), generally only applies to private, not public pension plans. However, the County's plan must comply with 26 U.S. Code 401(a), which is available here:

<https://www.law.cornell.edu/uscode/text/26/401>

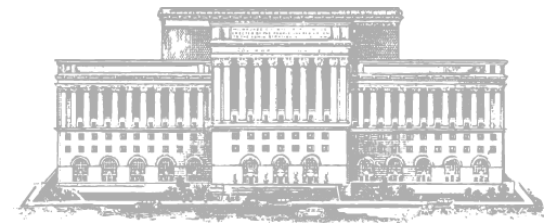
A screenshot of the Cornell Law School Legal Information Institute (LII) website. The browser address bar shows the URL 'https://www.law.cornell.edu/uscode/text/26/401'. The page title is '26 U.S. Code § 401 - Qualif...'. The navigation menu includes 'ABOUT LII', 'GET THE LAW', 'LAWYER DIRECTORY', 'LEGAL ENCYCLOPEDIA', and 'HELP OUT'. The breadcrumb trail is 'U.S. Code > Title 26 > Subtitle A > Chapter 1 > Subchapter D > Part 1 > Subpart A > § 401'. The main heading is '26 U.S. Code § 401 - Qualified pension, profit-sharing, and stock bonus plans'. Below the heading are tabs for 'US Code', 'Notes', 'IRS Rulings', and 'Authorities (CFR)'. The text of the statute is displayed, starting with '(a) REQUIREMENTS FOR QUALIFICATION A trust created or organized in the United States and forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of his employees or their beneficiaries shall constitute a qualified trust under this section—'. Two numbered paragraphs follow: (1) 'if contributions are made to the trust by such employer, or employees, or both, or by another employer who is entitled to deduct his contributions under section 404(a)(3)(B) (relating to deduction for contributions to profit-sharing and stock bonus plans), or by a charitable remainder trust pursuant to a qualified gratuitous transfer (as defined in section 664(g)(1)), for the purpose of distributing to such employees or their beneficiaries the corpus and income of the fund accumulated by the trust in accordance with such plan;' and (2) 'if under the trust instrument it is impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees or their beneficiaries (but this paragraph shall not be construed, in the case of a multiemployer plan, to prohibit the return of a contribution within 6 months after the plan administrator determines that the contribution was made by a mistake of fact or law (other than a mistake relating to whether the plan is described in section 401(a) or the trust which is part of such plan is exempt from taxation under section 501(a), or the return of any withdrawal liability payment determined to be an overpayment within 6 months of such determination).;'. A small '[1]' is at the bottom left of the text area.





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B. Governance

As mentioned before, the County's pension plan is established by County Ordinance. "The general administration and responsibility for the proper operation of the retirement system" is vested with the Pension Board (MCO 201.8.1). The Membership of the Pension Board includes:

1. Three Members appointed by County Executive (subject to 2/3 County Board approval)
2. Two Members appointed by County Board Chairperson (subject to County Board approval)
3. Three elected Employee Members (non-MDSA).
4. One elected Retiree Member
5. One Milwaukee Deputy Sheriffs Association (MDSA) representative

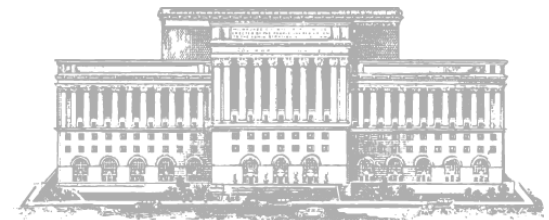




B. Governance

There are two retirement plans. The primary plan is Employees' Retirement System (ERS). There is also another plan called OBRA, which is mainly for part-time employees.

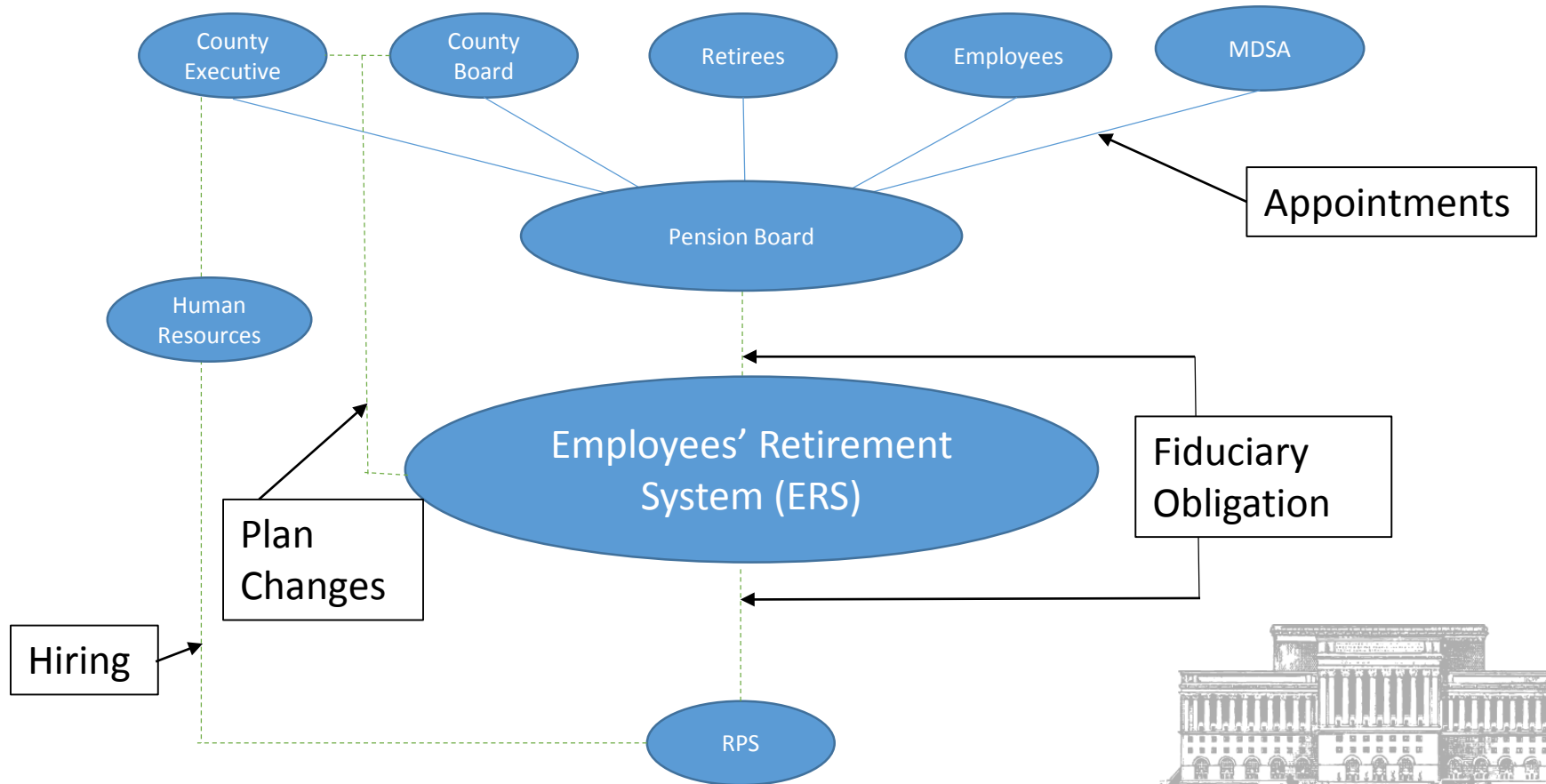
There is a division within the Department of Human Resources called Retirement Plan Services (RPS). The director of RPS is hired by the director of HR. The RPS director has a fiduciary responsibility to the plan and reporting responsibilities to both the plan (i.e. pension board) and to the plan sponsor (i.e. County Board and County Executive).





B. Governance

It is difficult to draw a governance organizational chart, but it would look something like this:



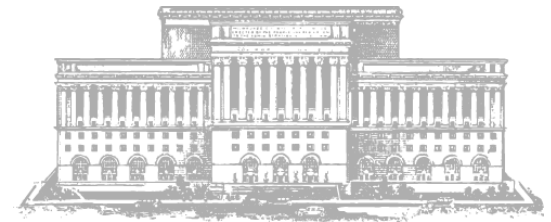


B. Governance

It is important to note that there are only 3 public pension systems in the State of Wisconsin, despite there being 72 counties and hundreds of municipalities and school districts.

The 3 public pension systems are City of Milwaukee, Milwaukee County and Wisconsin Retirement System (WRS).

All other 71 Counties are in the WRS.





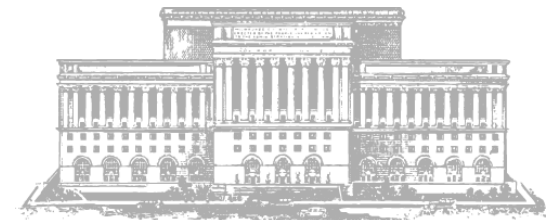
C. Enhancements

	Pre 2001 Employee Example	Post-2012 Employee Example
County Paid Healthcare Premiums	Yes*	No
Pension Multiplier	2% (i.e. years of service * 2% * highest average annual salary)	1.6%
Employee Contribution	0%	Approximately 6% of salary
Buy-in-Buy-Back	Allowed purchase of service credits for part-time and seasonal work.	None
Backdrop	Allowed pension balance to accumulate while still working	None
25% Bonus to Final Average Salary	Yes**	None

* For employees starting before 1994.

** For employees starting before 1982.

Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
Underlying data from: 2006 – 2016 Annual Report of the Pension Board

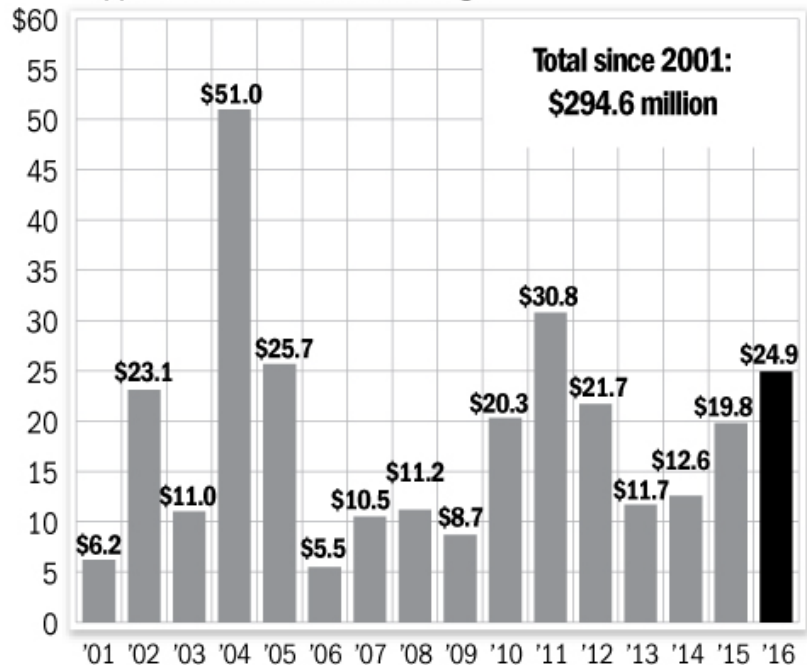




C. Enhancements

County backdrops

For the first time, Milwaukee County handed out lump-sum "backdrop" payments exceeding \$1 million to four retiring workers. This controversial pension perk is a bonus paid to Milwaukee County workers who stay on past their retirement date. Milwaukee County has paid out more than \$294 million in backdrop payments to retirees since they were approved more than a decade ago.



Daniel Bice. *Four Milwaukee County retirees receive pension backdrops topping \$1 Million* (Milwaukee Journal Sentinel, Jan. 30 2017) available at <http://www.jsonline.com/story/news/investigations/daniel-bice/2017/01/30/bice-four-milwaukee-county-retirees-receive-pension-backdrops-topping-1-million/97158960/>





C. Enhancements

Backdrops are no longer offered, but those that worked at the County prior to the termination of backdrops still receive.

Backdrops are calculated as:

Monthly Pension Benefit * # of Months worked past retirement eligibility

(MCO 201.5.16)

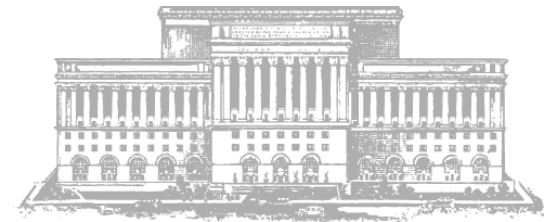
In determining Monthly Pension Benefit, Final Average Salary is locked at 2013 date (i.e. if salary increases after 2013, it is not calculated in Monthly Pension Benefit).





D. Collective Bargaining

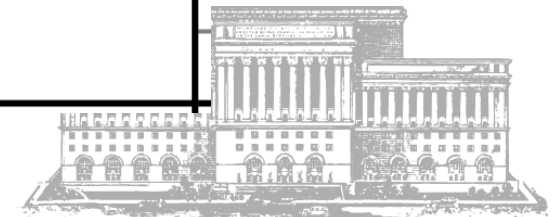
Recall that previously offered benefits become a contract right. When there were several collective bargaining units, each had their own negotiated pension benefits. This resulted in a complex chart that looks like this:





D. Collective Bargaining

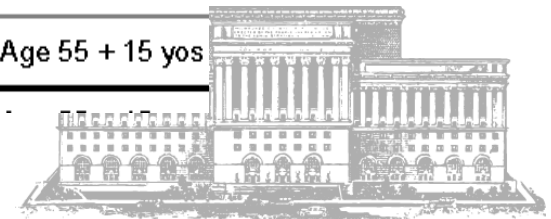
Employee Group Identification				
Name	Union Code	Enrollment Date	Comments	
Elected Officials	NR	Pre-1/1/82		
		1/1/82-12/31/93		
		1/1/94-12/31/00		
		1/1/01-3/14/02		
		3/15/02-12/31/05		
		On or after 1/1/06		
Deputy Sheriffs	SH	Pre-1/1/82		
		(Deputy Sheriffs who were Represented from Date of Hire to Date of Termination)	1/1/82-12/31/90	
			1/1/91-12/31/93	
			1/1/94-6/30/95	
			On or after 7/1/95	





D. Collective Bargaining

Vesting		Normal Retirement			Early R
Term before 12/31/00	Term after 12/31/00	Condition 1	Condition 2	Rule of 75 (Retirement only)	Condition
6 Years	5 Years	Age 60	Age 55 + 30 yos	Yes	Age 55 + 15 yos
10 Years	5 Years	Age 60	Age 55 + 30 yos	Yes	Age 55 + 15 yos
10 Years	5 Years	Age 60	Age 55 + 30 yos	Yes	Age 55 + 15 yos
	5 Years	Age 60	Age 55 + 30 yos	Yes	Age 55 + 15 yos
	5 Years	Age 60	Age 55 + 30 yos	Yes	Age 55 + 15 yos
	5 Years	Age 60	Age 55 + 30 yos	No	Age 55 + 15 yos
	6 Years	Age 57	Age 55 + 15 yos	Yes	Age 55 + 15 yos
	10 Years	Age 57	Age 55 + 15 yos	Yes	Age 55 + 15 yos
	10 Years	Age 57	Age 55 + 15 yos	Yes	Age 55 + 15 yos
	10 Years	Age 57	Age 55 + 15 yos	No	Age 55 + 15 yos
	10 Years	Age 57	Age 55 + 15 yos	No	Age 55 + 15 yos





D. Collective Bargaining

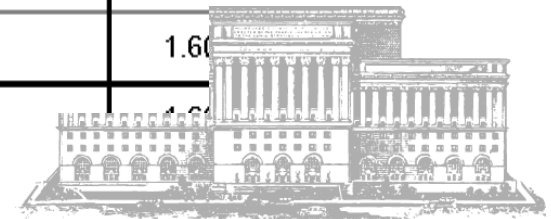
Final Average Salary			E		
3 yr average <u>unless:</u>	Overtime excluded if:	25% Bonus	Up to		
			Before 2010	2010	Change Date
	Hired \geq 9/1/85	Yes	2.50%	2.50%	
Term < 1/1/03 - 5 yrs	Hired \geq 9/1/85	No	2%+.5%	2.00%	
Term < 1/1/03 - 5 yrs	Hired \geq 9/1/85	No	2%+.5%	2.00%	
Term < 1/1/03 - 5 yrs	Hired \geq 9/1/85	No	2.50%	2.50%	
Term < 1/1/03 - 5 yrs	Hired \geq 9/1/85	No	2.00%	2.00%	
	Hired \geq 9/1/85	No	2.00%	1.60%	10/14/20
	Hired $>$ 11/12/87	No	2.50%	2.50%	
5 years	Hired $>$ 11/12/87	No	2.50%	2.50%	
5 years	Hired $>$ 11/12/87	No	2.50%	2.50%	
5 years	Hired $>$ 11/12/87	No	2.50%	2.50%	
5 years	Hired $>$ 11/12/87	No	2.00%	2.00%	





D. Collective Bargaining

Benefit Percent Multiplier							
Up to 80% Threshold							Above 80% Threshold
Before 2010	2010	Change Date	2011	Change Date	2012 and after	Change Date	
2.50%	2.50%		2.50%		2.50%		1.60%
2%+.5%	2.00%		2.00%		2.00%		1.60%
2%+.5%	2.00%		2.00%		2.00%		1.60%
2.50%	2.50%		2.50%		2.50%		1.60%
2.00%	2.00%		2.00%		2.00%		1.60%
2.00%	1.60%	10/14/2010	1.60%		1.60%		1.60%
2.50%	2.50%		2.50%		2.50%		1.60%
2.50%	2.50%		2.50%		2.50%		1.60%
2.50%	2.50%		2.50%		2.50%		1.60%
2.50%	2.50%		2.50%		2.50%		1.60%
2.00%	2.00%		2.00%		2.00%		1.60%
2.50%	2.50%		2.50%		2.50%		1.60%





D. Collective Bargaining

Above 80% Threshold	Member Contributions*	BackDROP Eligibility (Retirement only) ¹	County-Provided Subsidized Medical	Payment of Accrued Sick Time
1.60%	beg. 7/24/11	Yes	Yes	There is no payout for Elected Officials
1.60%	beg. 7/24/11	Yes	Yes	
1.60%	beg. 7/24/11	Yes	No	
1.60%	beg. 7/24/11	Yes	No	
1.60%	beg. 7/24/11	No	No	
1.60%	beg. 7/24/11	No	No	
1.60%	beg. 7/24/11	No	Yes	Accrued unused sick time added to service credit if retire > 1/1/94
1.60%	beg. 7/24/11	No	Yes	
1.60%	beg. 7/24/11	No	Yes	
1.60%	beg. 7/24/11	No	No	To be coordinated with Ceridian Payroll system
1.60%	beg. 7/24/11	No	No	
1.60%	beg. 7/24/11	No	No	To be coordinated with





E. Variations

Milwaukee County ERS
Benefit Chart - Retirement / Deferred - Updated June 2013

Employee Group Identification				Vesting		Normal Retirement			Early Retirement		Final Average Salary			Benefit Percent Multiplier					Above 90% Threshold	BackDROP Eligibility (Retirement only)	County-Provided Subsidized Medical	Payment of Accrued Sick Time					
Name	Union Code	Enrollment Date	Comments	Term before 12/31/90	Term after 12/31/90	Condition 1	Condition 2	Rule of 75 (Retirement only)	Condition	Reduction (calculated monthly)	3 yr average salary	Overtime included if:	35% Bonus	Before 2010	2010	Change Date	2011	Change Date					2012 and after	Change Date	Member Contributions*		
Elected Officials	NR	Pre-1/1/82		8 Years	5 Years	Age 60	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.50%	2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes	None		
		1/182-12/1/93		5 Years	5 Years	Age 60	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	Yes			
		1/194-12/1/93		10 Years	5 Years	Age 60	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	No			
		1/151-3/1/92		5 Years	Age 60	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	No			
Deputy Sheriffs	SH	Pre-1/1/82		8 Years	Age 57	Age 55 + 15 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes	None	
		1/182-12/1/93		10 Years	Age 57	Age 55 + 15 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes		
		1/194-12/1/93		10 Years	Age 57	Age 55 + 15 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	No			
		1/194-6/30/96		10 Years	Age 57	Age 55 + 15 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	No			
Deputy Sheriffs	NR	Pre-1/1/82		8 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes	None	
		1/182-12/1/93		10 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes		
		1/194-6/30/96		10 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	No			
		1/196-12/1/96		10 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	No			
Deputy Sheriffs	NR	Pre-1/1/82		8 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes	None	
		1/182-12/1/93		10 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes		
		1/194-6/30/96		10 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	No			
		1/196-12/1/96		10 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2% - 5%	2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	No			
Deputy Sheriffs	NR	Pre-12/1/93		5 Years	Age 57	Age 55 + 15 yrs	Yes	Age 55 + 15 yrs	5 years	Head => \$1185	Head => \$1185	No	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes	None	
		1/106-12/31		5 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5 years	Head => \$1185	Head => \$1185	No	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes		
		1/106-12/31		5 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5 years	Head => \$1185	Head => \$1185	No	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes		
		On or after 1/1/94		5 Years	Age 57	Age 55 + 15 yrs	No	Age 55 + 15 yrs	5 years	Head => \$1185	Head => \$1185	No	2.50%	2.50%		2.50%		2.50%		2.50%		1.80%	beg. 7/24/11	Yes	Yes		
General Employees	NR	Pre-1/1/82		8 Years	Age 60	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.00%	1.80%	1/1/10	1.80%		1.80%		1.80%		1.80%	beg. 7/24/11	Yes	Yes	None	
		1/182-12/31		Age 60	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	1.5% + 5%	1.80%	1/1/10	1.80%		1.80%		1.80%		1.80%	beg. 7/24/11	Yes	No		
		1/194-12/31		Age 60	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	1.5% + 5%	1.80%	1/1/10	1.80%		1.80%		1.80%		1.80%	beg. 7/24/11	Yes	No		
		1/151-3/1/92		Age 60	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2.00%	1.80%	1/1/10	1.80%		1.80%		1.80%		1.80%	beg. 7/24/11	Yes	No		
General Employees	FF	Pre-1/1/82		8 Years	5 Years	Age 60 + 5 yrs	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Yes	2.00%	2.00%		2.00%		2.00%		2.00%		1.80%	beg. 7/24/11	Yes	Yes	None
		1/182-12/1/93		10 Years	5 Years	Age 60 + 5 yrs	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	No	1.5% + 5%	1.50%		1.50%		1.50%		1.50%		1.80%	beg. 7/24/11	Yes	No	
		1/194-12/1/96		15 Years	5 Years	Age 60 + 5 yrs	Age 55 + 30 yrs	Yes	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2.00%	1.80%	1/1/10	1.80%		1.80%		1.80%	beg. 7/24/11	Yes	No		
		1/10001		10 Years	5 Years	Age 60 + 5 yrs	Age 55 + 30 yrs	See Chart	Age 55 + 15 yrs	5% per yr + 90	Terms + 1/1/03 - 5 yrs	Head => \$1185	Head => \$1185	No	2.00%	1.80%	1/1/10	1.80%		1.80%		1.80%	beg. 7/24/11	No	No		

3 variations of Retirement Age

8 variations of Multiplier

2 variations of medical

2 variations of contribution

2 variations of vesting

2 variations of Early Retirement

2 variations of backdrop

77 separate Collective Bargaining Time Periods

3 variations of Final Average Salary

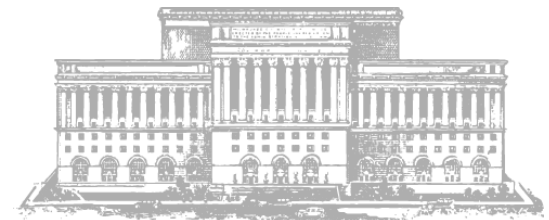
= 2,304 Variations

This document is a guide only, meant only for an initial review of benefit eligibility. When verifying benefit eligibility, Milwaukee County Ordinance made for benefit calculations is subject to peer review.



F. Frequent Changes

Recall again, that previously offered benefits are considered a contract or property right, so if the plan changes 10 times over someone's career, then they have 10 different periods, each with unique benefits and potential interpretations. Because the changes to the plan are done by ordinance, and done frequently, it is difficult to sort out each of the 10 periods. This can be done electronically for the changes since 2010, but is very difficult before then.





F. Frequent Changes

Here is an example:

Comparison of Current to 2015

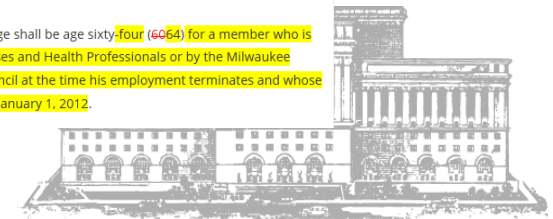
2.18. - Normal retirement age.

- (1) Except as provided in subsections (2), (3), (4) and (5), normal retirement age for all members shall be age sixty (60).
- (2) Normal retirement age shall be age fifty-seven (57) for a member who is a deputy sworn sheriff law enforcement officer at the time his employment terminates.
- (3) Normal retirement age shall be age sixty-four (64) for the following members whose initial membership date in the retirement system began on or after January 1, 2010:
 - (a) A member who is not covered by a collective bargaining agreement and who is not an elected official at the time his employment terminates; or
 - (b) A member who is represented by the International Association of Machinists and Aerospace Workers at the time his employment terminates; or
 - (c) A member who is represented by the Technicians, Engineers and Architects of Milwaukee County at the time his employment terminates; or
 - (d) A member who is represented by the Association of Milwaukee County Attorneys at the time his employment terminates.
- (4) Normal retirement age shall be age sixty-four (64) for a member who is represented by the American Federation of State, County and Municipal Employees District Council 48 at the time his employment terminates and whose initial membership date is on or after August 1, 2011.
- (5) Normal retirement age shall be age sixty-four (64) for a member who is represented by the Federation of Nurses and Health Professionals or by the Milwaukee Building and Construction Trades Council at the time his employment terminates and whose initial membership date is on or after January 1, 2012.

Comparison of Current to 2010

2.18. - Normal retirement age.

- (1) Except as provided in subsections (2), (3), (4) and (5), normal retirement age for all members shall be age sixty (60).
- (2) Normal retirement age shall be age fifty-seven (57) for deputy sheriffs member who is a sworn law enforcement officer at the time his employment terminates.
- (3) Normal retirement age shall be age sixty-four (64) for the following members whose initial membership date in the retirement system began on or after January 1, 2010:
 - (a) A member who is not covered by a collective bargaining agreement at the time his employment terminates; (b) and who is not an elected official at the time his employment terminates; or
 - (b) A member who is represented by the International Association of Machinists and Aerospace Workers at the time his employment terminates; or
 - (c) whose initial membership in a member who is represented by the retirement Technicians, Engineers and Architects of Milwaukee County at the time his employment terminates; or after
- (d) 2010 January
A member who is represented by the Association of Milwaukee County Attorneys at the time his employment terminates.
- (4) Normal retirement age shall be age sixty-four (64) for a member who is represented by the American Federation of State, County and Municipal Employees District Council 48 at the time his employment terminates and whose initial membership date is on or after August 1, 2011.
For other members, all normal
Normal retirement age shall be age sixty-four (60-64) for a member who is represented by the Federation of Nurses and Health Professionals or by the Milwaukee Building and Construction Trades Council at the time his employment terminates and whose initial membership date is on or after January 1, 2012.





G. Multiple Status

Recall again, that previously offered benefits are considered a contract or property right, so if a person had switched positions within the County, they could have multiple statuses. For example if someone was at the County for 30 years and moved from a correction officer, to Sheriff Deputy, and then to administration, they would cross over several multipliers and other variations.





H. # of Inactive vs. Active

Active Plan Members refers to current employees. Inactive Plan Members refers to members of the plan that are no longer current employees and are either receiving benefits (i.e. retirees), or are not yet eligible for retirement and are working somewhere else. The balance of Active vs. Inactive is important for overall plan health. The County is currently out of balance.

Members	As of December 31	
	<u>2016</u>	<u>2015</u>
Inactive plan members currently receiving benefits	7,991	7,979
Inactive plan members entitled to but not yet receiving benefits	1,387	1,370
Current employees	3,619	3,680
Total participants	<u>12,997</u>	<u>13,029</u>

Source: ERS 2016 Annual Report





H. Reciprocity

Wis. Stats. 40.30 allow reciprocity for service credits between the City of Milwaukee, Milwaukee County and the State of Wisconsin. Essentially, these rules are designed so that when a person has worked for two of these entities, they are able to retire with the system for which they last worked for. There are rules related to whether a person receives a pension from each entity, or whether there is a “true up” where one system reimburses the other system for the actual cost.

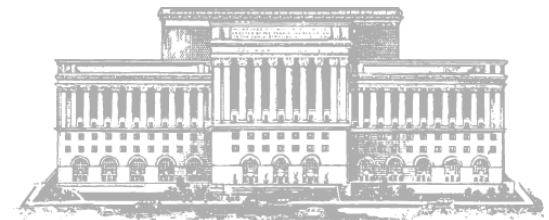




J. Public Safety Officers

Public Safety Officers have a different status under state statutes related to collective bargaining (Wis. Stat. 111.70 et. al.). Public Safety Officers also represent a separate risk pool.

Consequently, the status, retirement age, and contribution rate for Public Safety Officers is different from a general county employee.

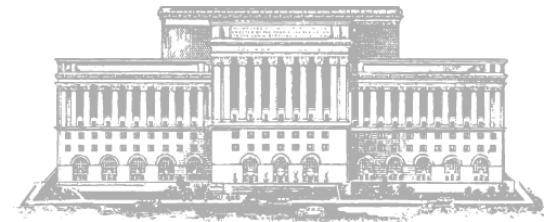




II. Anomalies in Milwaukee County

- A. Relevant Documents
- B. Governance
- C. Enhancements
- D. Collective Bargaining
- E. Variations
- F. Frequent Changes
- G. Multiple Status
- H. # of Active vs. Inactive
- I. Reciprocity
- J. Public Safety Officers

Any questions?





III. How Pension Funding Works

- A. Funding Equation
- B. Normal Cost
- C. Amortization Payment
- D. Unfunded Liability
- E. Amortization Term
- F. Assumed Rate of Return
- G. Pension Obligation Bonds
- H. OPEB

Portions of this section have been adapted from Brainard, Keith. "Public Pension Funding 101: Key Terms and Concepts" (Benefits Magazine, Apr. 2013), available at <http://www.nasra.org/files/Articles/Benefits101-1304.pdf>





A. Funding Equation

The basic retirement funding equation is:

$$C + I = B + E$$

C: Contributions

I: Investment Earnings

B: Benefits

E: Expenses

If Contributions plus Investment Earnings equal Benefits plus Expenses then the plan is adequately funded. If Contributions plus Investment Earnings is less than Benefits plus expenses then there is an Unfunded Liability.





A. Funding Equation

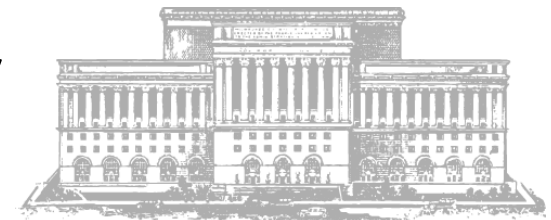
The basic retirement funding equation is:

$$C + I = B + E$$

Here is how this equation worked out for Milwaukee County in 2016

$$\begin{aligned} &(\text{Employee + County Contribution}) + I < (\text{Benefits + Withdrawals}) + E \\ &\$62,769,182 + \$110,336,000 < \$212,662,113 + \$4,912,501 \\ &\$173,105,182 < \$217,574,614 \\ &\quad\quad\quad (\$44,469,432) \end{aligned}$$

This means that the County's Unfunded Liability went up by \$44,469,432.





B. Normal Cost

Every year, the County receives an Actuarial Valuation, which is the mathematical process of determining a pension plan's condition, required contributions and liabilities. The ERS Actuarial Valuation is conducted by Conduent (formerly Buck), an independent actuarial firm.

The Actuarial Valuation shows the annual contribution required to finance a public pension plan. This annual contribution includes two components: **Normal Cost** and **Amortization Payment**.

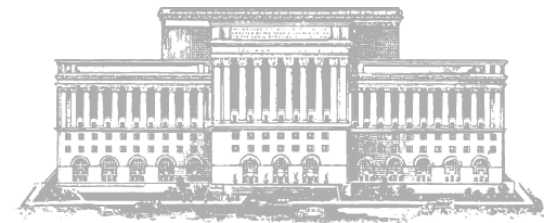




B. Normal Cost

The Normal Cost is the cost of benefits accrued in the current year for active employees.

For 2017, the Normal Cost for the County was: \$16,405,955





C. Amortization Payment

The Amortization Payment is the cost to amortize any unfunded pension liability. The Amortization Payment is determined by the Unfunded Liability and an Amortization Term. For the County, the unfunded liability is approximately \$500 Million, and the amortization term is 20 years.

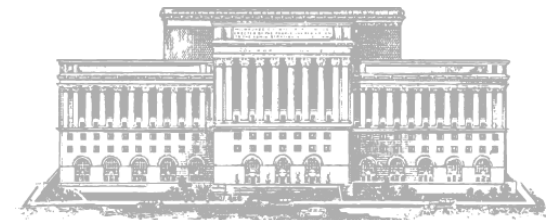
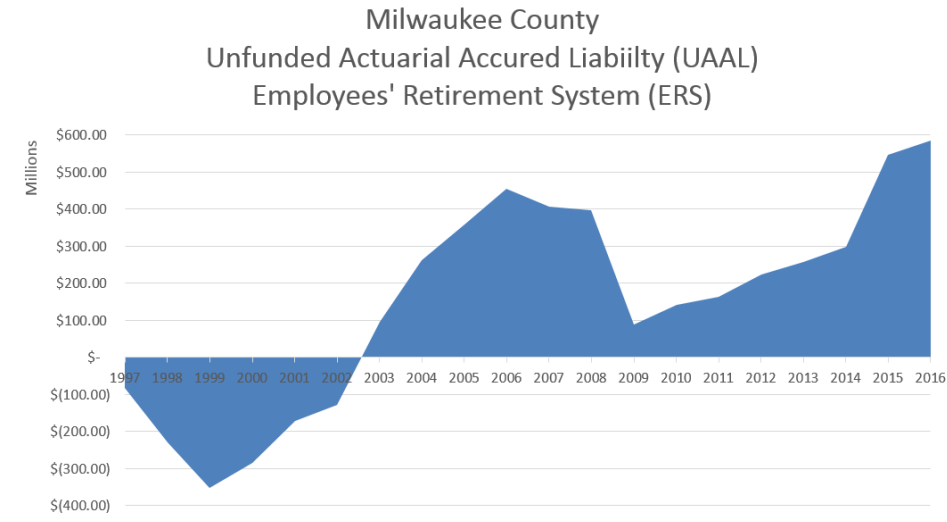
For 2017, the Amortization Payment for the County was:
\$47,838,754



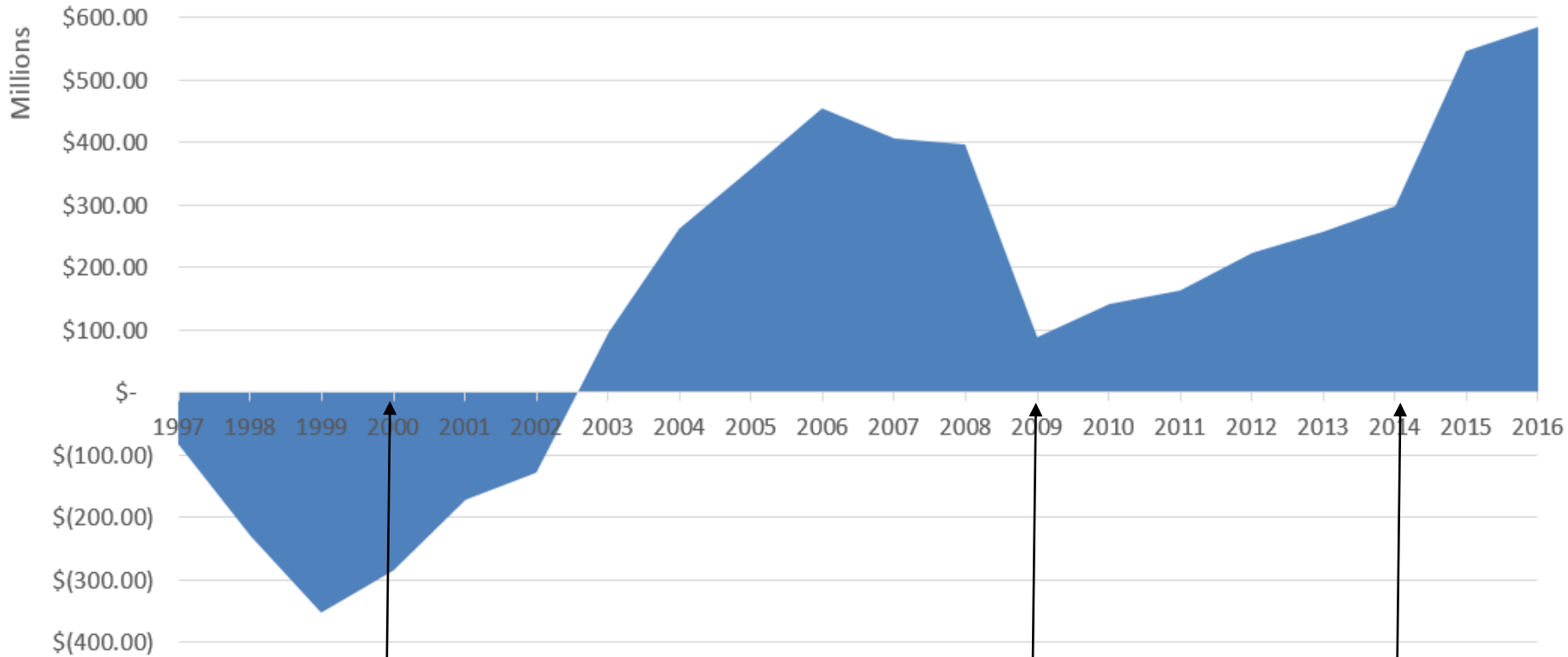


D. Unfunded Liability

If the full payment (Normal Cost + Amortization Payment) is not made each year, the Unfunded Liability grows. The amount underfunded in any given year is referred to as the Unfunded Liability. The cumulative Unfunded Liability is referred to as the Unfunded Actuarial Accrued Liability (UAAL). Here is what the County's UAAL has looked like over time:



Milwaukee County Unfunded Actuarial Accrued Liability (UAAL) Employees' Retirement System (ERS)



Note that County had a negative UAAL prior to Pension Enhancements. This means there was a surplus.

Note that UAAL went down by \$400 Million because of Pension Obligation Bond

Note that UAAL went up because of changes in Amortization Term and Assumed Rate of Return





E. Amortization Term

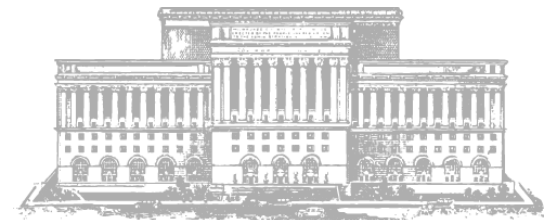
There are several ways a plan sponsor might handle an amortization term. One option is 30 year rolling amortization. This is when you take the UAAL, assume you will pay it off over 30 years to determine the annual contribution. Then the next year you take the new UAAL and assume another 30 year amortization. Consequently, the UAAL usually never gets paid off. It is the equivalent of buying your house with a 30 year mortgage, and refinancing it every year with a new 30 year mortgage.





E. Amortization Term

Another option is 20 year fixed amortization. This is when you take the UAAL, assume you will pay it off over 20 years to determine the annual contribution. Then the next year you take the new UAAL and assume 19 years, etc. Consequently, the UAAL is paid off in 20 years. It is the equivalent of buying your house with a 20 year mortgage, and paying the mortgage off in 20 years.

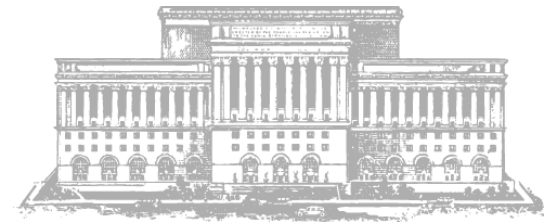




F. Assumed Rate of Return

The UAAL is heavily influenced by the assumed rate of return on investments. For example if you assume you are going to earn 9% on investments, then the UAAL would be closer to \$300 Million rather than \$500 Million. Milwaukee County recently reduced its Assumed Rate of Return from 8% to 7.75% and is scheduled to reduce it to 7.5% in the next few years.

If an Assumed Rate of Return turns out to be significantly higher than actual results, then the UAAL will increase over time.





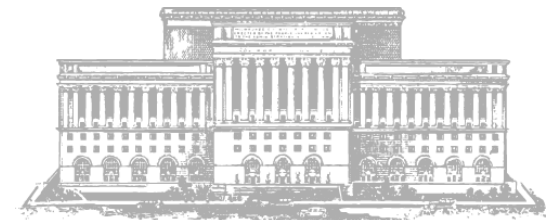
G. Pension Obligation Bonds

Pension Obligation Bonds (POBs) are when a plan sponsor borrows money to put into the pension fund to pay down the UAAL. In 2009 the County borrowed approximately \$400 million to put in the pension fund, and consequently now has a pension bond payment of approximately \$30 Million each year. This bond payment does not get captured in the Actuarial Valuations or Annual Reports.

The full annual county contribution would be determined as follows:

2017 Normal Cost:	\$16,405,955
Net Amortization:	\$47,838,754
Admin Expense:	<u>\$1,554,742</u>
Total Contribution:	\$65,799,451

Plus 2017 Bond Payment:	<u>\$33,182,634</u>
Total Adjusted Contribution:	\$98,982,085





H. OPEB

The Actuarial Valuations and Annual reports also do not include Other Post-Employment Benefits (OPEB). OPEB is essentially the cost of health care for retirees. Recall that employees that started with the County prior to 1994 have their healthcare premiums paid by the County. The County's OPEB cost in 2017 was \$65,979,497.

Thus the full cost for Retirement Benefits including Health Care is:

Total Adjusted Contribution for Pension:	\$98,982,085
Total OPEB Contribution:	<u>\$65,979,497</u>
Total Retirement Benefits Cost	\$164,961,582





III. How Pension Funding Works

- A. Funding Equation
- B. Normal Cost
- C. Amortization Payment
- D. Unfunded Liability
- E. Amortization Term
- F. Assumed Rate of Return
- G. Pension Obligation Bonds
- H. OPEB

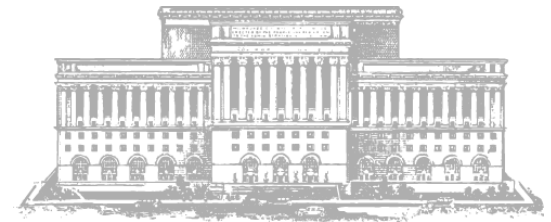
Any questions?





IV. History and Projections

- A. Unfunded Liability
- B. Contributions
- C. Projected Contributions Compared to Tax Levy
- D. Trends in State Revenue
- E. Successful Financial Reforms





A. Unfunded Liability

Milwaukee County
Unfunded Actuarial Accrued Liability (UAAL)
Employees' Retirement System (ERS)



Note that County had a negative UAAL prior to Pension Enhancements. This means there was a surplus.

Note that UAAL went down by \$400 Million because of Pension Obligation Bond

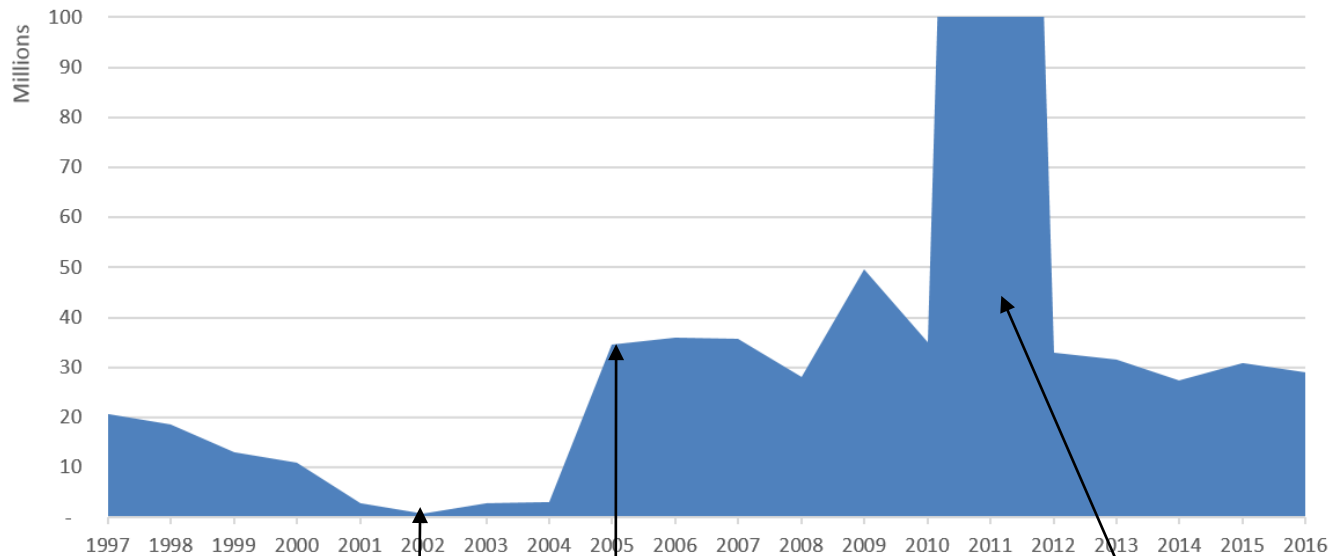
Note that UAAL went up because of changes in Amortization Term and Assumed Rate of Return





C. Projections compared to Levy

Milwaukee County
Annual Contributions
Employees' Retirement System (ERS)



Note: before the Enhancements, contribution was at an all time low of \$810,008

Note: after Enhancement, contribution has been consistently \$30 - \$40 Million

Note: this spike represents the contribution of pension bond proceeds.

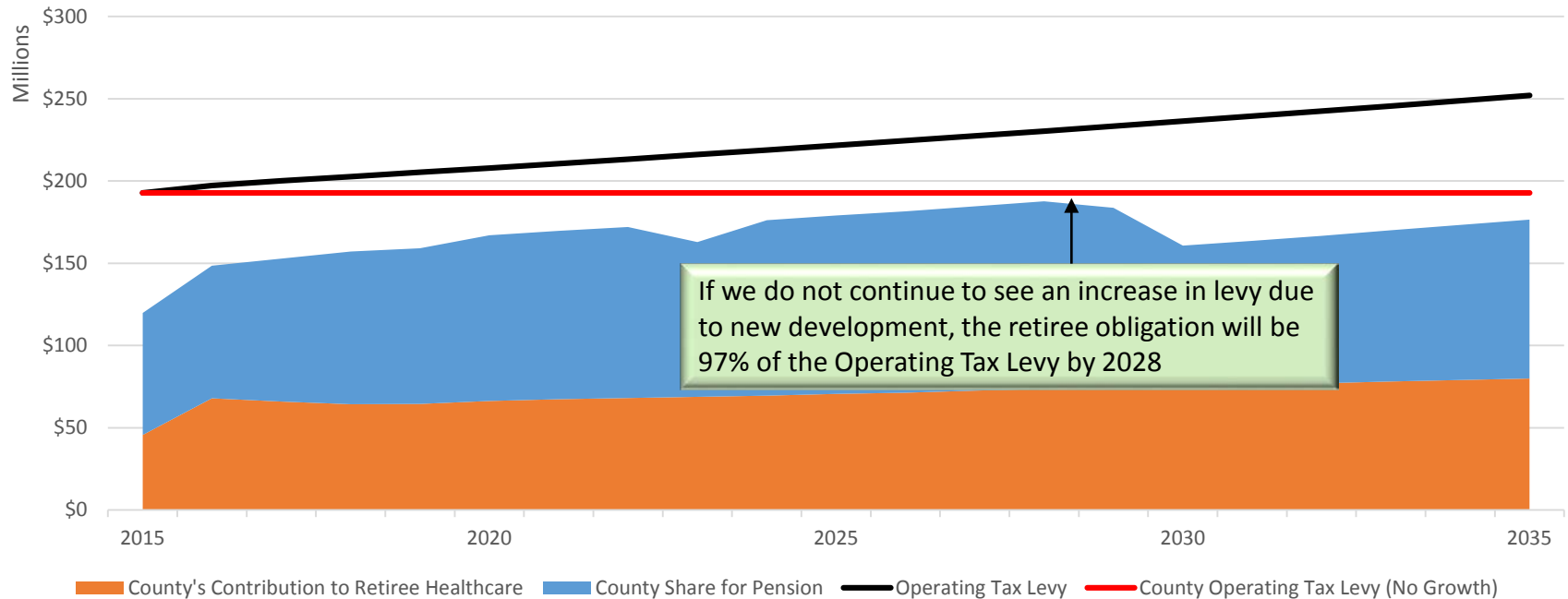




C. Projections compared to Levy

To put this in perspective, we can compare it to the predicted Operating Tax Levy

County Contribution to Retirement Benefits

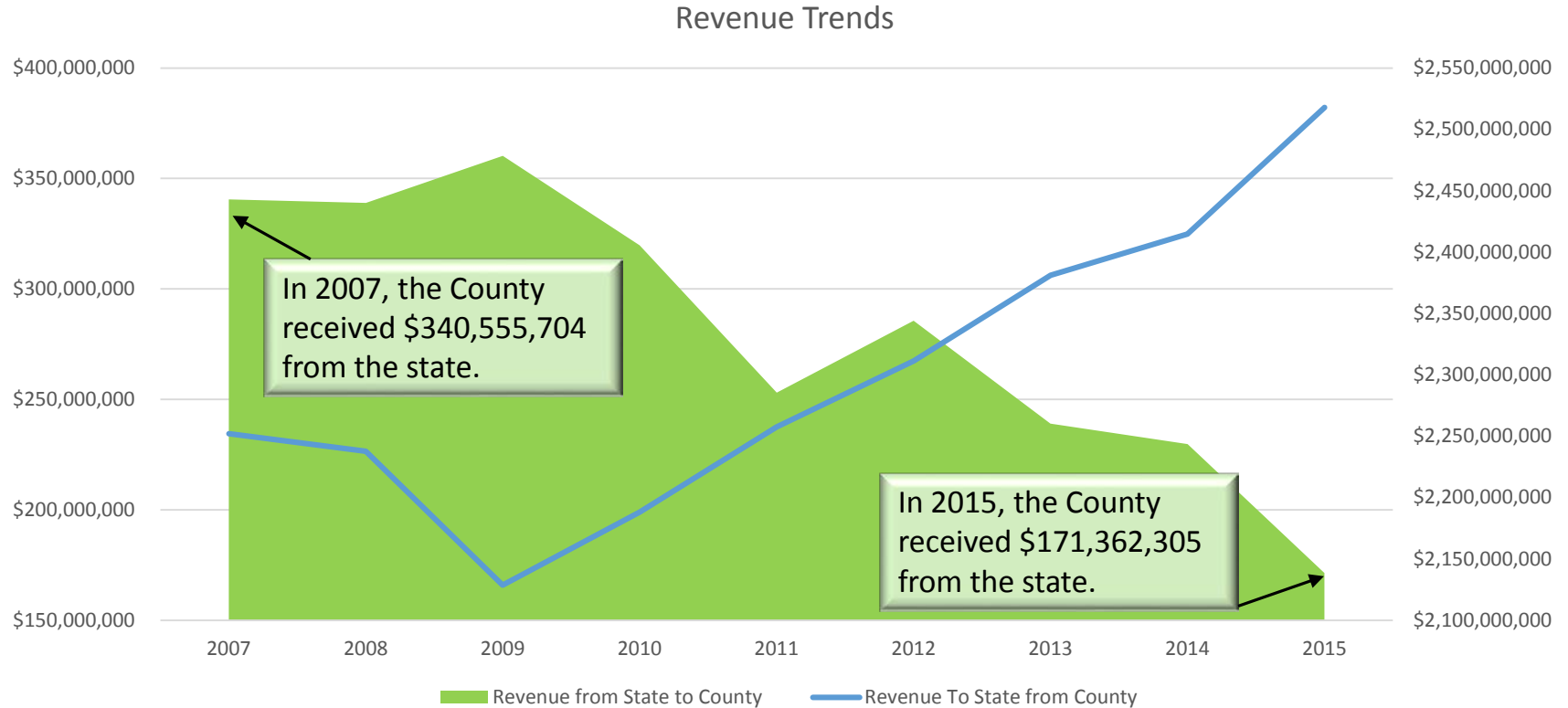


Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
 Healthcare Underlying data from: 2015 – 2016 data from WillisTowersWatson report on Employee vs. Employer Cost Summary (November 30, 2016), 2016 – 2035 projections prepared by WillisTowersWatson (April 2017), plus approximately \$7 million annually for Medicare reimbursement to retirees.
 Pension Underlying data from: 2015 – 2016 data from Milwaukee County Comptroller (actual expenses). 2018 – 2021 projected increase from BuckConsultants, “Milwaukee County Employees’ Retirement System, Investment Return Assumption Discussion.” (June 15, 2016). Note, 2018-2030 projected numbers increased by \$31.1 Million to represent Pension Obligation Bond Payment, and reduced by approximately \$13 million annually to reflect employee contribution. Projections beyond 2026 include a projected increase of 2.79%.
 Operating Property Tax Levy data from: Milwaukee County Budget 2015 – 2017. Projections beyond 2017 include increase of 1.87% annually, which is the average annual increase from 2015-2017. Note, the Operating Property Tax Levy is defined as Total Tax Levy – minus Total Debt Service. The actual Operating Property Tax Levy is defined by the Department of Revenue 2016 County Levy Limit Worksheet and is typically within +/- 5% of the calculation above.





D. Trends in State Revenue



Note: These are raw numbers and do not reflect departments that have moved to the state. For example in 2011 Income Maintenance Moved to the State which represented a \$25 Million Cost moving to the State.

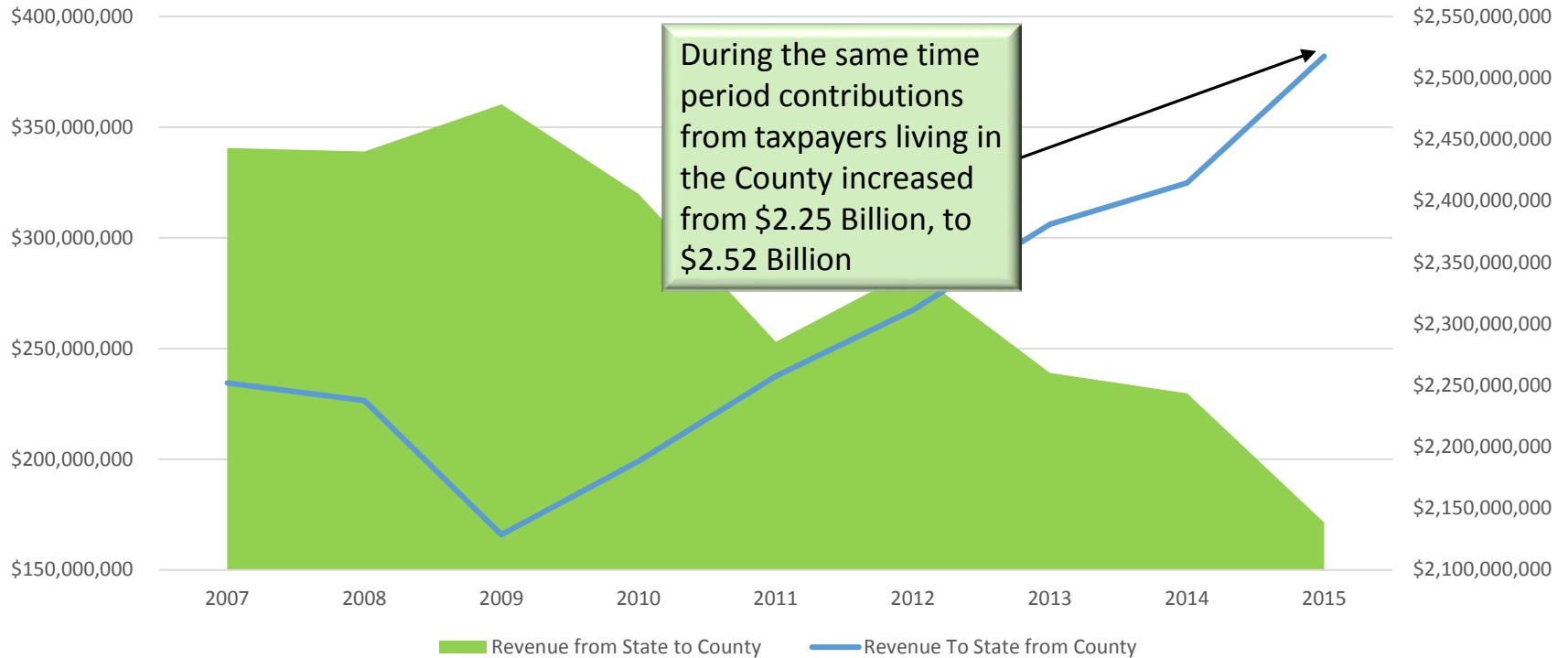
Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
Underlying data from: Wisconsin Department of Revenue, "State Taxes & Aids By Municipality and County For Calendar Year 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, available at <https://revenue.wi.gov/Pages/Report/s.aspx#shared>





D. Trends in State Revenue

Revenue Trends



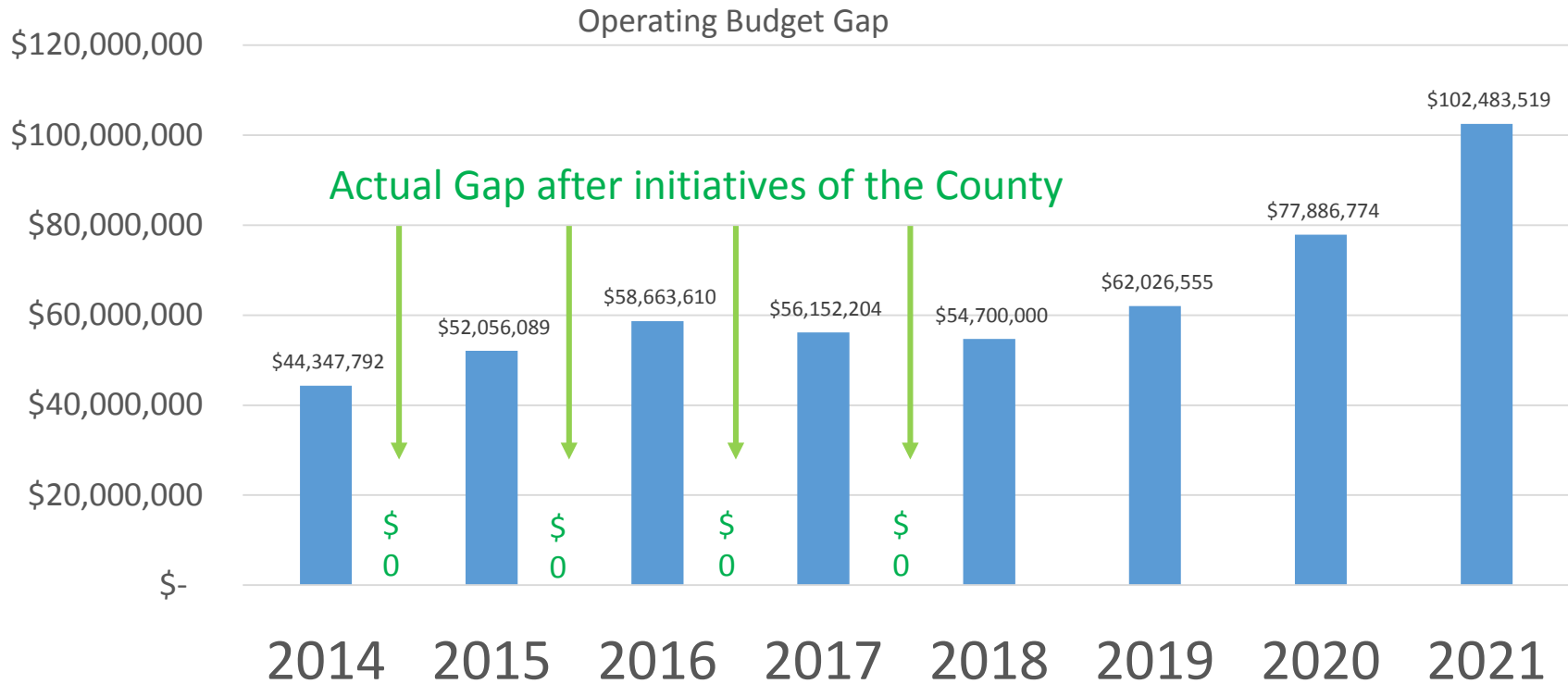
Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
Underlying data from: Wisconsin Department of Revenue, "State Taxes & Aids By Municipality and County For Calendar Year 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, available at <https://revenue.wi.gov/Pages/Report/s.aspx#shared>





E. Successful Financial Reforms

As a consequence, every year we will continue to close the gap



Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
Underlying data from: 2014 – 2018 Estimates from Department of Administrative Services – Performance Strategy and Budget Office; 2019 – 2021 Projections from Milwaukee County Office of the Comptroller, “Milwaukee County Five-Year Financial Forecast” available at <https://milwaukeecounty.legistar.com/LegislationDetail.aspx?ID=2831513&GUID=1B295EC1-F20F-4B92-9C65-748955867D16&Options=ID|Text|&Search=forecast>





IV. History and Projections

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Any questions?





Disclaimer

This presentation is intended to be used in conjunction with the source documentation identified herein. The original source documentation should be relied on. This presentation shall not be construed to provide tax advice, legal advice or investment advice. Readers are cautioned to examine original source materials and to consult with subject matter experts before making decisions related to the subject matter of this presentation.

