



Tom Barrett
Mayor, City of Milwaukee

June 10, 2021

Thank you for agreeing to serve on the Mayor's Task Force on Milwaukee's Pension System. The task force will advise how the City can sustain crucial services and meet its obligations to the pension fund.

As you are aware, the City of Milwaukee has considerable challenges arising from the funding requirements for the City's pension fund.

Since 2018, increasing contributions for pensions have been a major factor in budget decisions including the elimination of Fire companies, reductions in the Police force, and increases in charges for service. In 2023, the City's pension funding requirement is projected to increase by \$76 million per year, from \$73 million to \$149 million. This increase threatens the City's ability to deliver core services.

Over the last 10 years, the City of Milwaukee has taken many actions to ensure adequate funding for pensions and preserve its ability to continue providing the critical services our residents need every day. The City's 2022 budget again presents serious challenges to keep the Police and Fire Departments staffed at current levels and avoid serious budget and staffing reductions in other parts of City government.

Key questions I would like the Task Force to address are:

- 1) What are the most feasible options to help the City of Milwaukee manage and reduce funding costs for employee pensions?
- 2) What are the most impactful and fair changes at the State level to help the City meet those goals?
- 3) How do those options impact employees, retirees, and the City's current and future costs?

The Task Force will include the following individuals:

- Alderman Nik Kovac – Common Council 3rd District
- Dennis Yaccarino – City of Milwaukee Budget & Management Director
- Nicole Fleck – City of Milwaukee Labor Negotiator
- Jerry Allen – City of Milwaukee Employees' Retirement System CEO
- Beth Cleary – City of Milwaukee Deferred Compensation Executive Director
- Michael Bongiorno, President – International Association of Firefighters Local 215
- Andy Wagner, Vice President – Milwaukee Police Association
- Carmelo Patti, Vice President – Milwaukee Police Supervisors Organization
- Mark Pelzek, President – American Federation of State, County, and Municipal Employees District Council 32
- Joe' Mar Hooper – Public member

- Mark Nicolini – Public member
- Antonio Riley – Public member
- Gina Spang – Public member
- *Additional members may be added*

Mr. Riley, at my request, has agreed to chair the Task Force. My office, the City's Budget & Management Division, the Department of Employee Relations, and the City Attorney will provide staff support for the task force's work. The task force's first meeting will be scheduled for June 17 or 18, 2021. I am asking that the Task Force share its work with me no later than August 15, 2021.

Working together, this group can help the City take another important step forward in dealing with our structural fiscal challenges. Thank you in advance for your participation and hard work for the residents and taxpayers of Milwaukee.

Sincerely,

A handwritten signature in cursive script that reads "Tom Barrett".

Tom Barrett
Mayor

Mayor's Task Force On Milwaukee's Pension System
Charter Document
Version: June 11, 2021

The *Mayor's Task Force on Milwaukee's Pension System* will bring together all the stakeholders in the City of Milwaukee's pension system. The Task Force is charged with identifying approaches to balance the City's funding obligations for pension liabilities to avoid ongoing cuts to critical City services. The Task Force will share those recommendations in full in a report to Mayor Tom Barrett by August 15, 2021.

Structure: The Task Force will include key stakeholders and those with roles in the City's funding of the pension system. In addition to the Mayor, acting as the convener, members include key City officials, the Common Council, Police, Fire, and General City employee representatives, the Employees' Retirement System, Deferred Compensation program

Membership, named by Mayor Tom Barrett

- **Chair:** Antonio Riley – Public member
- Alderman Nik Kovac – Common Council 3rd District
- Dennis Yaccarino – City of Milwaukee Budget & Management Director
- Nicole Fleck – City of Milwaukee Labor Negotiator
- Jerry Allen – City of Milwaukee Employees' Retirement System Executive Director
- Beth Cleary – City of Milwaukee Deferred Compensation Executive Director
- Michael Bongiorno, President – International Association of Firefighters Local 215
- Andy Wagner, Vice President – Milwaukee Police Association
- Carmelo Patti, President – Milwaukee Police Supervisors Organization
- Mark Pelzek, Vice President – American Federation of State, County, and Municipal Employees District Council 32
- Joe'Mar Hooper – Public member
- Mark Nicolini – Public member
- Gina Spang – Public member
- *Additional members may be added*

Staff: Aaron Szopinski – Mayor's Office
 Patrick McClain – City Attorney's Office
 Eric Pearson & Molly King – Budget & Management Division

Meetings & Topics

June 18, 2021: Kick off & Background: City's pension system and funding

Message from Mayor Barrett
 David Riemer & Mark Nicolini:
 History of Milwaukee's Pension Fund and Key Events Since 1999
Global Pension Settlement & other key legal/Legislative actions
History of City funding & Stable Contribution policy
Key levers for managing the City's pension funding contributions

Week of July 5: Background: Local & national outlook, best practice for managing funding

Rob Henken, WI Policy Forum
 Pew Charitable Trusts' Public Retirement Project
Call for submissions from members, deadline July 16

Mayor's Task Force On Milwaukee's Pension System
Charter Document
Version: June 11, 2021

Week of July 19 & 26: Task Force Discussion on Submissions

Review and Consensus/Dissent on compiled submissions
Draft report to be drafted by Staff for August 9 meeting

Week of August 9: Review & Consensus on Report to Mayor

Review Staff report, affirm consensus
Task Force approval for submission to Mayor

Mayor's Task Force On Milwaukee's Pension System
Charter Document
Version: August 5, 2021

The *Mayor's Task Force on Milwaukee's Pension System* will bring together all the stakeholders in the City of Milwaukee's pension system. The Task Force is charged with identifying approaches to balance the City's funding obligations for pension liabilities to avoid ongoing cuts to critical City services. The Task Force will share those recommendations in full in a report to Mayor Tom Barrett by August 31, 2021.

Structure: The Task Force will include key stakeholders and those with roles in the City's funding of the pension system. In addition to the Mayor, acting as the convener, members include key City officials, the Common Council, Police, Fire, and General City employee representatives, the Employees' Retirement System, Deferred Compensation program

Membership, named by Mayor Tom Barrett:

- **Chair:** Joe' Mar Hooper – Public member
- Alderman Nik Kovac – Common Council 3rd District
- Aycha Sawa – City of Milwaukee Comptroller
- Dennis Yaccarino – City of Milwaukee Budget & Management Director
- Nicole Fleck – City of Milwaukee Labor Negotiator
- Jerry Allen – City of Milwaukee Employees' Retirement System Executive Director
- Beth Cleary – City of Milwaukee Deferred Compensation Executive Director
- Michael Bongiorno, President – International Association of Firefighters Local 215
- Andy Wagner, Vice President – Milwaukee Police Association
- Carmelo Patti, President – Milwaukee Police Supervisors Organization
- Mark Pelzek, Vice President – American Federation of State, County, and Municipal Employees District Council 32
- Mary Reavey – Vice President, Milwaukee Retirees Association
- John Barmore – President, Milwaukee Retired Firefighters, former Pension Board Chair
- Ron Roberts – Public member
- Mark Nicolini – Public member
- Gina Spang – Public member

Staff: Aaron Szopinski – Mayor's Office
 Patrick McClain – City Attorney's Office
 Eric Pearson & Molly King – Budget & Management Division

Meetings & Topics

June 18, 2021: Kick off & Background: City's pension system and funding

Message from Mayor Barrett
 David Riemer & Mark Nicolini:
 History of Milwaukee's Pension Fund and Key Events Since 1999
Global Pension Settlement & other key legal/Legislative actions
History of City funding & Stable Contribution policy
Key levers for managing the City's pension funding contributions

July 8, 2021: Background: Local & national outlook, best practice for managing funding
 Rob Henken, WI Policy Forum

Mayor's Task Force On Milwaukee's Pension System
Charter Document
Version: August 5, 2021

Pew Charitable Trusts' Public Retirement Project

- August 5-20, 2021:** **Task Force Discussion On City Funding & Options**
Begin compilation of member perspectives & ideas
Call for member submissions and input for report
- Week of August 23:** **Draft Report Prepared for Task Force Review & Approval**
Review draft report, affirm consensus
- August 31, 2021:** **Task Force Submission to Mayor**

Employes' Retirement System 36-01

CHAPTER 36
EMPLOYES' RETIREMENT SYSTEM

TABLE

36-01 Purpose
 36-02 Definitions
 36-02.5 Tax Code Compliance
 36-03 Membership
 36-04 Creditable Service
 36-05 Benefits
 36-055 Election of Survivorship Benefits
 36-06 Coordinated Plan
 36-07 Re-examination of Disability
 Beneficiaries
 36-08 Method of Financing
 36-09 Management of Funds
 36-10 Exemption from Taxation,
 Execution and Assignment
 36-11 Protection Against Fraud and
 Elimination of Errors
 36-12 Limitations on Payment of Benefit
 36-13 Contractual Benefits;
 Miscellaneous Provisions
 36-14 Home Rule
 36-15 Administration

36-01. Purpose. The retirement system provided for herein shall be maintained by the city and by such agencies as are included specifically within the provisions of this chapter to assure and guarantee the payment of retirement and other benefits to persons covered by this chapter and to their beneficiaries and to such other persons who are authorized by the provisions of this chapter to receive benefits. If a person is a member of either the firemen's annuity and benefit fund or the policemen's annuity and benefit fund then he shall be ineligible to participate as a member in this system. The purpose of this chapter shall further be to safeguard and protect the funds of such retirement system and to invest the same in a prudent and vigilant manner. (*S. 36-01 rc. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.*)

36-02. Definitions. Except where the context plainly requires different meaning, the following words and phrases shall have the following meanings:

1. ACCUMULATED CONTRIBUTIONS shall mean the sum of the contributions, in the member's account, as provided for in s. 36-08-7-i, together with regular interest, credited at the end of each year on the balance in the account at the beginning of each year. For members who retire or die, interest for the current year shall be calculated to the first day of the month preceding retirement or death. (*Sub. 1 am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.*)

2. ACT refers to the employes' retirement act as created by the provisions of ch. 396, laws of [Wisconsin] 1937, and as amended thereafter, including amendments enacted by the common council under its home rule powers.

2.5. ACTUARIAL CONTRIBUTION RATE shall mean the percentage of covered compensation that determines the amount of the annual contribution from the city and city agencies to the combined fund beginning with the contribution due on January 31, 2014. (*Sub. 2.5 cr. File #121417, April 30, 2013; eff. July 16, 2013.*)

3. ACTUARIAL EQUIVALENT shall mean a benefit of equivalent value as determined on the basis of the tables most recently adopted by the board. (*Sub. 3 am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.*)

3.2. AMORTIZATION PERIOD shall mean the period of time over which unfunded liability, if any, is amortized. (*Sub. 3.2 cr. File #091274, Mar. 2, 2010; eff. May 18, 2010.*)

3.5. ASSET SMOOTHING PERIOD shall mean the length of time over which changes in the market value of assets are converted to actuarial values. (*Sub. 3.5 cr. File #091274, Mar. 2, 2010; eff. May 18, 2010.*)

3.7. ASSET VALUATION CORRIDOR shall mean the maximum variance between the market value of assets and the actuarial value of assets that may be used in the annual valuation. (*Sub. 3.7 cr. File #091274, Mar. 2, 2010; eff. May 18, 2010.*)

36-02-4 Employees' Retirement System

4. ANNUITY shall mean the annual payments made to a beneficiary who elects an annuity in lieu of a lump sum ordinary death benefit. All annuities shall be paid in equal monthly installments. When the annuity begins after the 1st day of the month or ends before the last day of the month, the pro rata amounts shall be paid for that month. (*Sub. 4 am. Ch. Ord. 348, File #68-2287, Jan. 21, 1969.*)

5. BENEFICIARY shall mean any person in receipt of a retirement allowance, or other benefit, as provided by this act. (*S. 1, Ch. 396, L. 1937.*)

6. BOARD shall mean the annuity and pension board provided for in section 7 of this act [s. 36-15] to administer the retirement system. (*S. 1, Ch. 396, L. 1937.*)

7. CITY shall mean the city in which the retirement system as herein provided is established. (*S. 1, Ch. 396, L. 1937.*)

8. CITY AGENCY shall mean any board, commission, division, department, office or agency of the city government, including its school board under ch. 119, Wis. Stats., an exposition center under ch. 229, Wis. Stats., a local exposition district board under ch. 229, Wis. Stats., annuity and pension board under s. 62.63, Wis. Stats., a metropolitan sewerage district under ch. 66, Wis. Stats., a vocational, technical and adult education district under ch. 38, Wis. Stats., a housing authority under ch. 66, Wis. Stats., and a redevelopment authority under ch. 66, Wis. Stats., having jurisdiction within such city, by which an employee of the city or city agency is paid. (*Sub. 8 rc. File #900632, Sept. 25, 1990; eff. Dec. 11, 1990. Sub. 8 am. File #950563, July 28, 1995; eff. Oct. 16, 1995.*)

8.2. CLOSED AMORTIZATION PERIOD shall mean a schedule for amortizing unfunded liability that decreases by one year annually. (*Sub. 8.2 cr. File #091274, March 2, 2010; eff. May 18, 2010.*)

8.5. COMBINED FUND shall mean the fund created under s. 36-08-9. (*Sub. 8.5 cr. File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

9. CONSENT AGREEMENT shall mean the agreement entered into between the employee and the employer providing for participation under the coordinated plan. (*Sub. 9 am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

10. COORDINATED PLAN shall mean those provisions of this chapter providing benefits in conjunction with those benefits provided under the social security act. (*Sub. 10 am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.*)

10.5. COVERED COMPENSATION shall mean the compensation earned for which membership service is credited. (*Sub. 10.5 cr. File #121417, April 30, 2013; eff. July 16, 2013.*)

11. CREDITABLE SERVICE shall mean prior service plus membership service for which credit is allowable under section 4 of this act [s. 36-04]. (*S. 1, Ch. 396, L. 1937.*)

12. EARNABLE COMPENSATION shall mean: a. The annual regular base salary that would be payable to a member if he or she worked the full normal working time for his or her position, provided, however, that where service is credited during periods of absences as provided in s. 36-04-1-b and e, the employee shall be considered to have an earnable compensation during such periods of absence equivalent to the earnable compensation the employee would have had if the employee had continued to work the full working time for the employee's position during the period of absence. In cases where compensation includes maintenance, the board shall fix the value of that part of the compensation not payable in money. Policemen, excluding sergeant of police, detective lieutenant and ranks above same, retiring on a service retirement allowance on or after January 1, 1983, shall have longevity in rank pay, if any, payable at the close of the calendar year immediately preceding their retirement included as earnable compensation, except that policemen excluding sergeant of police, detective lieutenant and ranks above same, retiring on a service retirement allowance on or after January 1, 1998, who would have accrued 20 years of creditable service if they had remained in active service to the end of the calendar year in which they retire, shall have longevity in rank pay, if any, that would have been payable at the close of the calendar year of their retirement had they not retired included as earnable compensation, policemen of the rank of police sergeant and above (excluding the rank of commander and above) retiring on a service retirement allowance prior to January 1, 2000 shall have variable shift assignment pay, if

any, to a maximum of \$1,410 per calendar year for police sergeant, administrative police sergeant, police sergeant (garage) and police identification supervisor, and \$1,400 per calendar year for all others payable for the calendar year immediately preceding the calendar year in which they retire included as earnable compensation except that such other policemen who retire during calendar year 1985 shall have variable shift assignment pay, if any payable for calendar year 1985 included as earnable compensation. Policemen of the rank of police sergeant and above (excluding policemen of the rank of police commander and above) retiring on a service retirement on or after January 1, 2000 shall have variable shift assignment pay, if any, to a maximum of \$1,060 per calendar year for the ranks of police sergeant, police sergeant (garage) and police identification supervisor and \$1,050 per calendar year for all others payable for the calendar year immediately preceding the calendar year in which they retire included as earnable compensation. Policemen of the rank of police sergeant or administrative police sergeant retiring on a service retirement on or after January 1, 2003 shall have variable shift assignment pay, if any, to maximum of \$1,360 per calendar year included in the calculation of final average salary for computing an employee's normal service retirement allowance. Policemen of the rank of police commander or above retiring on a service retirement allowance prior to January 1, 2001 shall have variable shift assignment pay, if any, to a maximum of \$1,400 per calendar year for the year immediately prior to the calendar year in which they retire included as earnable compensation and policemen of the rank of police commander or above retiring on a service retirement on or after January 1, 2001 shall have variable shift assignment pay, if any, to a maximum of \$1,500 per calendar year for the year immediately prior to the calendar year in which they retire included as earnable compensation. Variable shift assignment pay for policemen represented by the MPSO and retiring on a service retirement allowance on or after January 1, 2011 shall cease to be included as earnable compensation. Firemen retiring on a service retirement allowance on or after January 1, 1992, shall have up to a maximum of \$550 in

special emergency medical technician pay, if any, payable at the close of the calendar year immediately preceding their retirement included as earnable compensation. Firemen retiring on a service retirement allowance on or after January 1, 2000, shall have longevity pay, payable at the close of the calendar year immediately preceding their retirement included as earnable compensation. Firemen represented by Local 215 IAFF and retiring on a service retirement allowance in 2004 shall have training standards pay, if any, up to a maximum of \$400, that would have been payable at the close of calendar year 2004 had they not retired, included as earnable compensation. Firemen represented by Local 215 IAFF and retiring on a service retirement allowance on or after January 1, 2005 shall have training standards pay, if any, up to a maximum of \$400 received for the calendar year immediately preceding the calendar year of their retirement, included as earnable compensation. Training standards pay for firemen represented by Local 215 IAFF and retiring on a service retirement allowance on or after January 1, 2011 shall cease to be included as earnable compensation. Firemen represented by Local 215 IAFF and retiring on a service retirement allowance on or after January 1, 2006 shall have EMT II premium pay, if any, up to a maximum of \$1000 received for the calendar year immediately preceding the calendar year of their retirement, included as earnable compensation. Members who are employees of the school board represented by Local 950, Operating Engineers International Union, who retire on or after March 4, 1990, shall have site differential pay if received on or after March 4, 1990, included as earnable compensation. Earnable compensation for any one year of creditable service shall not exceed \$150,000. If for any calendar year after 1994 the excess of \$150,000 increased by the cost of living adjustment prescribed by section 415(d), Internal Revenue Code, on a base period of the last quarter of calendar year 1993 exceeds \$150,000 by an amount in excess of \$10,000, the maximum for any subsequent calendar year shall be increased by the amount of the excess rounded to the next lowest multiple of \$10,000. Earnable compensation for any calendar year commencing on or after

36-02-13 Employees' Retirement System

January 1, 2002 shall not exceed \$200,000, as adjusted for cost of living increases in accordance with section 401(a)(17)(B) of the Internal Revenue Code. Earnable compensation means compensation during the calendar year or such other consecutive 12-month period over which earnable compensation is otherwise determined by the retirement system (the determination period). The cost of living adjustment in effect for a calendar year applies to any determination period beginning in such calendar year.

b. In computing the service retirement allowance payable to a policeman retiring on a service retirement allowance under s. 36-05-1-e, a policeman retiring during calendar year 1995 shall have the certification pay benefit which would have been payable at the close of calendar year 1995, had such policeman not retired included in earnable compensation. In computing the retirement allowance payable to a policeman retiring on a service retirement allowance under s. 36-05-1-e in calendar years 1996 through 2003, the certification pay benefit payable to such policemen at the close of the calendar year immediately prior to the calendar year of retirement shall be included in earnable compensation. In computing the retirement allowance payable to a policeman who is entitled to certification pay at the time of retirement, other than a sergeant, lieutenant and ranks above, retiring on a service retirement allowance under s. 36-05-1-e in calendar year 2004, such policeman shall have the sum of \$1,000 of certification pay included as earnable compensation. In computing the retirement allowance payable to a policeman who is entitled to certification pay at the time of retirement, other than a sergeant, lieutenant and ranks above, retiring on a service retirement allowance under s. 36-05-1-e on or after January 1, 2005, certification pay in an amount not to exceed the first \$1,000 of certification pay payable to such policeman at the close of the calendar year immediately prior to the calendar year of retirement shall be included in earnable compensation. Certification pay for policemen represented by the MPSO and retiring on a service retirement allowance on or after January 1, 2011 shall cease to be included as earnable compensation. A policeman who has served in

the position of police liaison officer, who retires on a service retirement allowance after January 1, 2004 shall have the \$150 biweekly payments payable in and after pay period 1, 2004, which are payable in lieu of certain other payments and allowances received by policemen, included as earnable compensation in an amount not to exceed a maximum of 12 months of such biweekly payments. This par. shall not apply to policemen who receive a retirement allowance under s. 36-05-6-b-2 and 3, 6-c, 6-d or 6-e. (*Sub. 12 am. Ch. Ord. 556, File #85-769, Dec. 4, 1985; eff. March 15, 1986. Sub. 12 am. File #890633, July 25, 1989; eff. Oct. 14, 1989. Sub. 12 am. File #902072, April 23, 1991; eff. July 9, 1991. Sub. 12 am. File #91154, Oct. 15, 1991; eff. Dec. 31, 1991. Sub. 12 am. (Note) File #901684, July 28, 1992; eff. Sept. 30, 1992. Sub. 12 am. File #931464, Jan. 25, 1994; eff. April 12, 1994. Sub. 12 am. File #951902, June 4, 1996; eff. Aug. 20, 1996. Sub. 12-a am. File #990892, Oct. 19, 1999; eff. Jan. 4, 2000. Sub. 12-a am. File #991213, Nov. 29, 1999; eff. Feb. 15, 2000. Sub. 12-a am. File #991904, May 19, 2000; eff. Aug. 8, 2000. Sub. 12-a am. File #000932, Nov. 28, 2000; eff. Feb. 13, 2001. Sub. 12-a am. File #010670, Sept. 25, 2001; eff. Dec. 10, 2001. Sub. 12-a am. File # 040265, July 7, 2004; eff. Sept. 13, 2004. Sub. 12-b am. File #041649, April 12, 2005; eff. June 28, 2005. Sub. 12-a am. File #050475, Sept. 27, 2005; eff. Dec. 13, 2005. Sub. 12-a am. File #060488, Sept. 26, 2006; eff. Dec. 12, 2006. Sub. 12-a am. File #070075, May 8, 2007; eff. July 24, 2007. Sub. 12-a am. File #090183, June 16, 2009; eff. August 25, 2009. Sub. 12-a & b am, File #110747, Nov. 2, 2011; eff. Jan. 18, 2012.*)

13. EMPLOYEE shall mean any person whose name appears on a regular payroll of the city or city agency, except persons who are contributing under the teachers' retirement act or a participating employee under the provisions of the Wisconsin retirement system; or who are elected to office by vote of the people unless such elected person shall request the board in writing to be included within the provisions of this fund; or who are school crossing guards. In the event of a question arising as to the right of any person in the service of the city to be classified as an employee under this act, the decision of the board shall be final. (*Sub. 13 am. File #950985, Nov. 6, 1995; eff. Jan. 22, 1996.*)

14. EMPLOYEES' RETIREMENT SYSTEM. (See Retirement System.)

14.5. EMPLOYERS' SHARE OF NORMAL COST shall mean the difference between normal cost as defined under s. 36-2-2.5 and member contributions under s. 36-8-7. (Sub. 14.5 cr. File #121417, April 30, 2013; eff. July 16, 2013.)

15. FINAL AVERAGE SALARY shall mean the average annual earnable compensation of a member computed on the 3 years of creditable service preceding his date of death or retirement during which his earnable compensation was the highest or if he should have less than 3 years of creditable service, then his average annual earnable compensation during his creditable service; except that for policemen whose date of death or retirement is on or after October 5, 1973, and firemen whose date of death or retirement is on or after July 28, 1974, "final average salary" shall mean the average annual earnable compensation of a member computed on the year of creditable service preceding his date of death or retirement during which his earnable compensation was the highest. (Sub. 15 am. Ch. Ord. 526, File #83-986, Sept. 27, 1983.)

16. FIREMAN shall mean a person first employed on or after July 30, 1947, in the fire department whose duty it is to extinguish fires and to protect property and life therefrom, including the chief and all other firemen officers. Commencing in 1975, this term includes a fireman on detached service under the contract administration provisions of a labor contract. Commencing February 14, 1989, this term includes a person employed in the fire department as a fire alarm dispatcher who was promoted from a position whose exclusive duty it is to provide emergency medical services. Commencing June 1, 1989, this term includes a person employed in the fire department whose exclusive duty it is to provide emergency medical services. (Sub. 16 am. Ch. Ord. 561, File #86-821, Sept. 23, 1986; eff. Dec. 8, 1986. Sub. 16 am. File #890598, July 25, 1989; eff. Oct. 14, 1989.)

17. GENERAL CITY EMPLOYEE shall mean: An employee of the city or a city agency who is not a policeman or fireman. For purposes of s. 36-05-1-h-5, general city employee shall include a person meeting this definition on January 1, 2000, even though the person was no longer employed by the city or city agency on

January 19, 2001. (Sub. 17 rc. File #900631, Sept. 25, 1990; eff. Dec. 11, 1990. Par. c cr. File #941982, Apr. 25, 1995; eff. July 12, 1995. Par. b am. File #950563, July 28, 1995; eff. Oct. 16, 1995. Par. c am. File #950563, July 28, 1995; eff. Oct. 16, 1995. Par. c am. File #950869, October 17, 1995; eff. January 2, 1996. Par. d cr. File #950981, November 6, 1995; eff. January 9, 1996. Par. e cr. File #951195, Dec. 19, 1995; eff. Mar. 13, 1996. Par. a am. File #951504, Feb. 13, 1996; eff. April 30, 1996. Par. b am. File #951504, Feb. 13, 1996; eff. April 30, 1996. Par. c am. File #951504, Feb. 13, 1996; eff. April 30, 1996. Par. d am. File #951488, Feb. 13, 1996; eff. April 30, 1996. Par. d am. File 951904, May 14, 1996; eff. July 31, 1996. Sub.17 am. File #971131, Dec. 16, 1997; eff. March 9, 1998. Par. c am. File #980238 June 16, 1998; eff. Sept. 1, 1998. Sub. 17 am. File #991585, April 11, 2000; eff. Jan. 19, 2001. Sub. 17 am. File #011501, March 5, 2002; eff. May 21, 2002.)

17.5. LEVEL PERCENT OF PAYROLL AMORTIZATION shall mean a trend in the amortization payments needed, if any, to eliminate unfunded liability, expressed as a constant percentage of projected payroll. (Sub. 17.5 cr. File #091274, March 2, 2010; eff. May 18, 2010.)

18. MASCULINE PRONOUN shall include the feminine. (am. Ch. Ord. 332, File #67-355-a, July 25, 1967.)

19. MEDICAL COUNCIL shall mean the council of physicians provided for in s. 36-15-12. (Ch. 396, L. 1937.)

20. MEDICAL PANEL as it relates to policemen and firemen shall mean a panel of physicians consisting of one member to be selected by designation of the city; one member to be selected by the certified bargaining agent for the affected policeman or fireman; and the 3rd member to be selected by the other 2 members. In the case of a policeman who becomes a member of the retirement system after June 28, 2005, or a fireman represented by Local 215, IAFF, who becomes a member of the retirement system after December 13, 2005 and who applies for, or is granted, a duty disability retirement allowance based on a mental injury, "medical panel" shall mean the medical council. Notwithstanding the foregoing, "medical panel" shall mean the medical council as it relates to a policeman represented by the MPSO who files an application for a duty disability retirement on

36-02-21 Employees' Retirement System

or after January 1, 2016, a policeman represented by the MPA who files an application for a duty disability retirement on or after June 19, 2016, and a fireman represented by Local 215, IAFF, who files an application for a duty disability retirement on or after July 30, 2016. In the case of a policeman or fireman who is not represented by a certified bargaining agent, "medical panel" shall mean the medical council. All decisions of the medical panel shall be made by a majority vote. (*Sub. 20 am. Ch. Ord. 552, File #85-118-a, July 16, 1985; eff. Sept. 30, 1985. Sub. 20 am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Sub. 20 am. File #001664, April 10, 2001; eff. June 27, 2001. Sub. 20 am. File #041649, April 12, 2005; eff. June 28, 2005. Sub. 20 am. File #050475, Sept. 27, 2005; eff. Dec. 13, 2005. Sub. 20 am. File #081272, Feb. 10, 2009; eff. Apr. 28, 2009. Sub. 20 am. File #151113, Dec. 15, 2015; eff. Feb. 29, 2016. Sub. 20 am. File #151274, Feb. 9, 2016; eff. April. 26, 2016. Sub. 20 am. File #141568, Sept. 20, 2016; eff. Dec. 6, 2016.*)

21. MEMBER shall mean any person included in the membership of the retirement system as provided in section 3 of this act [s. 36-03]. (*S. 1, Ch. 396, L. 1937.*)

22. MEMBERSHIP SERVICE shall mean service as an employee since last becoming a member of the retirement system and on account of which contributions are made by the city or city agency. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

22.5. NORMAL COST shall mean the actuarial present value of the projected retirement benefits under the benefit formulas attributable to members' service during the current year. (*Sub. 22.5 cr. File #121417, April 30, 2013; eff. July 16, 2013.*)

23. PARAMEDIC shall mean a person other than a fireman employed in the fire department and classified as a paramedic or paramedic officer. (*am. Ch. Ord. 530, File #82-2109-b, Jan. 24, 1984.*)

24. POLICEMAN for the purposes of this act shall mean a person first employed on or after July 30, 1947, in the police department whose duty it is to preserve peace and good order of the city, having the power of arrest without warrant, including the chief and all other policemen, officers and police aides hired on or before October 2, 2011. Commencing in 1969, this term includes a policeman on detached service under the contract administration

provisions of a labor contract. (*Sub. 24 am. Ch. Ord. 561, File #86-821, Sept. 23, 1986; eff. Dec. 8, 1986, Sub. 24 am. File #110289, July 26, 2011; eff. Oct. 11, 2011.*)

25. PRIOR SERVICE shall mean the service of a member as an employee rendered prior to January 1, 1938, either in the service of the city or city agency, certified on a prior service certificate. In the event, however, that a person ineligible for membership in the retirement system is made eligible by amendments to this act, prior service shall be defined to mean all service of a member rendered prior to the effective date of the amendment which made him eligible for such membership. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

26. REGULAR INTEREST shall mean interest at such rate as may be set from time to time by the board in accordance with section 9 of this act [s. 36-09]. (*S. 1, Ch. 396, L. 1937.*)

26.5. RETIRED LIVES shall mean the portion of plan liabilities attributed to retired members. (*Sub. 26.5 cr. File #121417, April 30, 2013; eff. July 16, 2013.*)

27. RETIREMENT ALLOWANCE shall mean the annual payments for life, or any optional benefit payable in lieu thereof. All allowances shall be paid in equal monthly installments. When the allowance begins after the first day of the month or ends before the last day of the month, the pro rata amount shall be paid for that month. (*am. Ch. Ord. 348, File #68-2287, Jan. 21, 1969.*)

28. RETIREMENT SYSTEM shall mean the employees' retirement system of the city of Milwaukee.

29. SINGULAR. Unless the context clearly indicates otherwise, the singular shall include the plural. (*cr. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. Sub. 29 cr. File #940667, July 29, 1994; eff. Oct. 17, 1994. Sub. 29 rp. File #950869, October 17, 1995; eff. January 2, 1996. Sub. 30 rn. to 29, File #950869, October 17, 1995; eff. January 2, 1996.*)

30. SOCIAL SECURITY ACT shall mean Title II of the old-age survivors, disability and health insurance benefits act. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967. Sub. 31 rn. to 30 File #950869, October 17, 1995; eff. January 2, 1996.*)

31. SOCIAL SECURITY BENEFIT shall mean the unreduced old-age insurance benefit provided under the social security act to which the member is entitled or would be entitled upon proper application or the reduced social security benefit to which the member is entitled if the member elects an advance against such reduced old-age insurance benefit. (*Sub. 32 am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. Sub. 32 rn. to 31 File #950869, October 17, 1995; eff. January 2, 1996. Sub. 31 rc. File #041179, Feb. 1, 2005; eff. April 19, 2005.*)

36-02.5. Tax Code Compliance. The following are effective January 1, 2002:

1. The retirement system is established as a qualified defined benefit plan, pursuant to ss. 401(a) and 414(d) of the Internal Revenue Code and other applicable provisions of the Internal Revenue Code, as well as applicable U.S. treasury regulations and other guidance.

2. The assets of the retirement system shall never inure to the benefit of the city or any city agency, and shall be held for the exclusive purposes of providing benefits to members and their beneficiaries and defraying reasonable expenses of administering the plan.

3. A member shall be 100% vested in his or her retirement benefit upon attaining eligibility for a retirement benefit.

4. A member shall be 100% vested at all times in a benefit determined under this chapter attributable to the member's accumulated contributions paid by the member under this chapter.

5. In the event of a full or partial termination of, or a complete discontinuance of employer contributions to, the retirement system, the accrued benefits of the affected members under this chapter shall be 100% vested and nonforfeitable to the extent funded and required by federal law.

6. In conformity with s. 401(a)(8) of the Internal Revenue Code, any forfeitures of benefits by members or former members shall not be used to pay benefit increases. The forfeitures shall be used to reduce employer contributions. (*36-02.5 cr. File #150113, June 2, 2015; Eff. August 18, 2015.*)

36-03. Membership. 1. ELIGIBILITY. The following shall be eligible to membership in the system:

a. Any employee who is entitled to and who elected membership at the time of the creation of the retirement system, or (Par. a am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)

b. Any person who becomes an employee after January 1, 1938, and who is eligible under the provisions of this act and who shall satisfy the following conditions:

b-1. Who is a full time employee; or

b-2. Who is a part-time employee who is eligible for membership under rules and regulations adopted by the board; or

b-3. Elected officials who have evidenced their intention to join the system.

[NOTE: Notwithstanding the provisions of subd. 1, any employee of the city or a city agency as defined in s. 36-02, who became eligible for membership in the employees' retirement system as a result of part-time employment in calendar years prior to 1988, but was not enrolled as a member of the employees' retirement system during such years may file a written election not to become a member of the employees' retirement system within 60 days after February 8, 1990. Such election shall be on a form approved by the annuity and pension board and shall constitute a waiver of all present and prospective benefits which would otherwise inure to the employee by virtue of his or her membership in the employees' retirement system. If such employee becomes a member by virtue of service from and after January 1, 1988, such employee shall not be given prior service credit or service as an employee prior to January 1, 1988. (*File #881377, Nov. 17, 1989; eff. Feb. 8, 1990.*)

36-03-2 Employees' Retirement System

2. WAIVER OF MEMBERSHIP. Any person who filed with the board a written election not to become a member which shall constitute a waiver of all present and prospective benefits which would otherwise inure to him by his participation in the system, may later become a member provided he passes such medical examination as the board may require. If such employee becomes a member within one year after the effective date of establishment of the retirement system, he shall be eligible for prior service credit, but if he does not become a member within such period, he shall not be eligible for prior service credit.

3. DENIAL OF MEMBERSHIP. The board may, in its discretion, admit to membership any employee or class of employees whose compensation is only partly paid by the city or who are serving on a temporary basis, which the board considers eligible under the provisions of this act.

4. REPORT OF CITY OFFICIALS. It shall be the duty of the head of each department or agency of the city government employing persons who are members or are entitled to become members to submit to the board such statements as the board shall require, of the name, title, compensation, duties, date of birth and length of service of each such person employed by such department or agency.

5. TERMINATION OF MEMBERSHIP. Should any member in a period of 10 consecutive years after last becoming a member be absent from service a total of more than 5 years, except as provided in ss. 36-04-1-b and 36-05-6-b-2 and 6 c and d, or should he become a beneficiary as a result of his contributions under this act or die, or should he withdraw his accumulated contributions, he shall thereupon cease to be a member. (*Sub. 5 rc. Ch. Ord. 332, File #67-355-a, July 25, 1967. Sub. 5-b rp. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.*)

6. WHO NOT TO BECOME MEMBERS. The following shall not be eligible for membership in the retirement system:

a. Persons who are actively employed as a teacher and eligible to contribute to the teacher retirement system.

b. Persons who are employed by the city as school crossing guards.

c. Persons who are elected to office by vote of the people unless such elected person shall request the board in writing to be included within the provisions of this act.

d. Part time employees, except those eligible under rules and regulations promulgated by the board.

e. No disability beneficiary restored to active service prior to October 17, 1992 after attaining the minimum service retirement age shall become a member of this system.

f. Persons who are employed by the city as police aides on or after October 3, 2011.

g. Persons who are receiving a retirement allowance under any provision of this chapter.

h. Persons who are employed by the city as fire cadets.

i. Persons who are employed by the city as management trainees.

j. Persons who are employed by the Milwaukee board of school directors as management interns - restricted terms. *(Sub. 6 rc. Ch. Ord. 332, File #67-355-a, July 25, 1967. Par. a am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. Par. f rc. File #930123, May 25, 1993; eff. Aug 11, 1993. Par. e am. File #941981, April 25, 1995; eff. July 12, 1995. Par. f rp. File #060982, Dec. 12, 2006; eff. Mar 5, 2007. Par. f cr. File #110289, July 26, 2011; eff. Oct. 11, 2011. Par. g cr. File #110779, Oct. 11, 2011; eff. Dec. 27, 2011. Par. h cr. File #110798, Nov. 30, 2011; eff. Feb. 15, 2012. Par. l cr. File #120022 July 24, 2012; eff. Oct. 9, 2012. Par. b, f and h am. File #120057 Sept. 25, 2012; eff. Dec. 11, 2012. Par. j cr. File #120894 Dec. 18, 2012; eff. March 11, 2013.)*

36-04. Creditable Service. 1. SERVICE

CREDITED. a. The board shall fix and determine by appropriate rules and regulations how much service in any years is equivalent to one year of service, but in no case shall more than one year of service be creditable for all service in one calendar year. In no case shall the board allow credit as service for any period of more than one month's duration during which the employee was absent without pay, except that members employed by the school board for a 10-month school year shall receive credit for one year of service, and except as provided for in par. b. A determination of any service credit by the board is and has been declared to be a contractual and vested right of the member consistent with retirement requirements of this system. *(Par. a am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)*

b. The board shall allow as creditable service all time during which any employee was absent due to service in the military, air or naval forces, service in the National Disaster Medical System, or in any defense or compulsory military training programs of the United States of America, and absence during federal hospitalization because of injuries or sickness resulting from such service, provided that such employee was duly excused or granted leave of absence from his services as an employee, and provided further that the period allowed for such service shall begin with the date the employee was excused or granted leave of absence, and shall extend until a date of not more than 90 days after his discharge from military, air or naval service or immediately related federal

hospitalization incurred as a result of such service. No absence allowed for such service under the provisions of this paragraph shall be considered as absences under the provisions of s. 36-03-5. City, city agency and member contributions shall continue to be made during periods of absence as though the employee had continued to work the full working time for the employee's position during the periods of such absence. *(Par. b am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. Par. b am. File #070075, May 8, 2007; eff. July 24, 2007. Par. b am. File #100894, Feb. 8, 2011; eff. April 26, 2011.)*

c. The board shall allow one year of creditable service for each 3 years of active military service prior to enrollment in the retirement system. The creditable service awarded under this par. shall not exceed 3 years. To be eligible the member must be honorably discharged from the armed forces of the United States. To be eligible for inclusion in the calculation, a period of active military service must be a period of not less than 90 consecutive days spent in the active service of the armed forces of the United States and meet the requirements of 10 U.S.C. § 101(d)(1). If a member has accumulated less than 3 years of active military service, the member shall be allowed additional months of service credit on a pro rata basis calculated as the product of the full months of active military service under this par. multiplied by a fraction, the numerator of which is one and the denominator of which is 3. The additional service credit earned under this par. shall be taken into account for purposes of determining the amount of the service retirement allowance, but shall not be taken into account for any other purpose including, but not limited to determining eligibility for a service retirement allowance under s. 36-05-1-d or f, a deferred retirement allowance under s. 36-05-6-b-2 or 6-d-2, an early retirement allowance under s. 36-05-6-b-3 or 6-c, or eligibility for additional imputed service credit under sub. 4. *(Par. c cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. c am. File #001306, Jan. 16, 2001; eff. April 3, 2001. Par. c am. File #021584, March 25, 2003; eff. June 10, 2003. Par. c am. File #021798, April 15, 2003; eff. June 24, 2003. Par. c am. File #040265, July 7, 2004; eff. Sept. 13, 2004. Par. c am. File #040886, Nov. 3, 2004; eff. Jan. 10, 2005. Par. c. rc. File #041075, Dec. 21, 2004; eff. March 14, 2005. Par. c. rc. File #041438, March 16, 2005; eff. May 31, 2005. Par. c. rc. File #041775, May 3, 2005; eff. July 19, 2005. Par. c am. File #061455, March 22, 2007; eff. June 11, 2007. Par. c am. File #080369, July 30, 2008; eff. Oct. 15, 2008. Par. c am. File #081398, March 3, 2009; eff. May 19, 2009. Par. c am. File #090204, July 7, 2009, eff. Sept. 1, 2009. Par. c am. File #090613, Sept. 22, 2009; eff. Dec. 9, 2009. Par. c am. File #090951, Dec. 1, 2009; eff. Feb. 16, 2010. Par. c*

36-04-1-d Employees' Retirement System

am. File #091068, Dec. 22, 2009; eff. March 10, 2010. Par. c am. File #091214, Jan. 20, 2010; eff. April 5, 2010. Par. c am. File #091308, Mar. 2, 2010; eff. May 18, 2010. Par. c am. File #091530, Mar. 24, 2010; eff. June 1, 2010. Par. c am. File #100173, June 15, 2010; eff. August 25, 2010. Par. c am. File #100241, July 7, 2010; eff. Sept. 22, 2010. Par. c am. File #100286, July 27, 2010; eff. Oct. 2, 2010. Par. c am. File #100697, Oct. 12, 2010; eff. Dec. 21, 2010. Par. c am. File 101418, Apr 12, 2011; eff. June 28, 2011; Par. c am. File 101246, July 26, 2011; eff. Oct. 11, 2011.)

NOTE: The foregoing amendment to s. 36-04-1-c shall apply only to policemen represented by the MPA and firemen represented by Local 215, IAFF, who participate in the combined fund and who retire on a service retirement allowance between January 1, 1998 and December 31, 2002; policemen represented by the MPSO, and general city employees, who participate in the combined fund and who retire on a service retirement allowance between January 1, 1999 and December 31, 2002; non-represented firemen or policemen who participate in the combined fund and who retire on a service retirement allowance between January 1, 2000 and December 31, 2002; policemen represented by the MPA, firemen represented by Local 215, IAFF, nonrepresented firemen, and general city management and nonrepresented employees, who participate in the combined fund and who retire on a service retirement allowance on or after January 1, 2003; city of Milwaukee employees who participate in the combined fund and who retire on a service retirement allowance on or after January 1, 2003, and who are represented by Milwaukee District Council 48, AFSCME, AFL-CIO; city of Milwaukee employees represented by the Milwaukee Building and Construction Trades Council who participate in the combined fund and who retire on a service retirement allowance on or after August 1, 2007; city of Milwaukee employees represented by the Technicians, Engineers and Architects of Milwaukee, the Association of Scientific Personnel, the Association of Municipal Attorneys, SEIU Healthcare District 1199 Wisconsin/Staff Nurses Council, Local 195, IBEW, AFL-CIO, Local 75, Journeyman Plumbers and Gasfitters Union, AFL-CIO, Local 494, IBEW, AFL-CIO, Machine Shop, District 10, IAMAW, AFL-CIO, Joint Bargaining Unit Local 139, IUOE, AFL-CIO/Milwaukee District Council 48, AFSCME, AFL-CIO, Local 494, IBEW, AFL-CIO, Fire Equipment Dispatchers, Public Employees' Union 61, LIUNA, AFL-CIO, CLC, and the association of Law Enforcement Allied Services Personnel, Local #218, I.U.P.A., AFL-CIO, (Police Support Service Personnel) who participate in the combined fund and who retire on a service retirement or allowance on or after January 1, 2007; city of Milwaukee employees represented by the International Association of Machinists and Aerospace Workers who participate in the combined fund and who retire on a service retirement allowance between January 1, 2003 and December 31, 2006; and city of Milwaukee employees represented by Local 494, IBEW, AFL-CIO, Electrical Group, who participate in the combined fund and who retire on a service retirement allowance on or after June 1, 2007; and members represented by the Administrators and Supervisors Council who participate in the combined fund and retire on a service retirement allowance between January 1, 2003 and June 30, 2007; and Milwaukee public schools employees represented by Local 150, FSA/SNA/HCA, Local 150, BSH, and Local 950, International Union of Operating Engineers who participate in the combined fund and who retire on a service retirement between

January 1, 2004 and June 30, 2007; and Milwaukee public schools employees represented by Milwaukee Building and Construction Trades Council, AFL-CIO, and Local 1616, AFL-CIO, District Council 48, and Milwaukee public schools employees represented by, and clerical employees exempt from, Local 1053, AFL-CIO, District Council 48, who participate in the combined fund and who retire on a service retirement allowance on or after July 1, 2007; and employees of Veolia Water Milwaukee, LLC., represented by District Council 48, AFSCME, AFL-CIO, Local 366, or IBEW, Local 494, or Steamfitters, Local 601, or International Union of Operating Engineers, Local 317, or District No. 10, I.A.M.A.W., Lodge 66, who participate in the combined fund and retire on a service retirement allowance on or after March 1, 2008; and employees of the Milwaukee Metropolitan Sewerage District represented by District Council 48, AFSCME, AFL-CIO, Local 366, who participate in the combined fund and retire on a service retirement allowance on or after March 8, 2010; and employees of the Milwaukee Metropolitan Sewerage District who are management or nonrepresented, who participate in the combined fund and retire on a service retirement allowance on or after September 1, 2010.

d. Notwithstanding any provision of s. 36-05 and the rules of the board, hours worked as city laborer-seasonal or playground laborer-seasonal (MPS), including time worked in other titles while maintaining city laborer-seasonal status, shall be taken into account as creditable service in determining the amount of a service retirement allowance. The additional creditable service earned under this paragraph shall be granted in accordance with the rules of the board and shall not exceed one year of creditable service. The additional creditable service earned under this paragraph shall not be taken into account for any other purpose including but not limited to determining eligibility for a service retirement allowance under s. 36-05-1-d or f, a deferred retirement allowance under s. 36-05-6-b-2 or 6-d-2, an early retirement allowance under s. 36-05-6-b-3 or 6-c, or eligibility for additional imputed service credit under sub. 4. (*Par. d cr. File #040886, Nov. 3, 2004; eff. Jan. 10, 2005. Par. d rc. File #040987, Nov. 23, 2005; eff. Feb. 12, 2005. Par. d rc. File #041075, Dec. 21, 2004; eff. March 14, 2005. Par. d rc. File #041078, Dec. 21, 2004; eff. March 14, 2005. Par. d rc. File #041081, Dec. 21, 2004; eff. March 14, 2005. Par. d rc. File #041309, Feb. 1, 2005; eff. April 19, 2005. Par. d rc. File #041775, May 3, 2005; eff. July 19, 2005.*) **NOTE:** The foregoing amendment to section 36-04-1-d shall apply only to individuals who participate in the combined fund and who retire on a service retirement allowance on or after January 1, 2005 with at least 5 years of creditable service as a general city employee and who are city of Milwaukee employees represented by Milwaukee District Council 48, AFSCME, AFL-CIO; the Public Employees' Union 61, LIUNA, AFL-CIO; the Technicians, Engineers and Architects of Milwaukee; Local 195, IBEW, AFL-CIO and Joint

Bargaining Unit Local 139, IUOE, AFL-CIO/Milwaukee District Council 48, AFSCME, AFL-CIO; Local 494, IBEW, AFL-CIO, Machine Shop; the Milwaukee Building and Construction Trades Council; the International Association of Machinists and Aerospace Workers; Local 494, IBEW, AFL-CIO, Electrical Group; Local 494, IBEW, AFL-CIO, Fire Equipment Dispatchers; and city of Milwaukee management employees, and nonmanagement, nonrepresented employees.

e. The board shall allow as creditable service periods of unpaid time as necessitated by furloughs mandated by the city or city agencies, subject to the limitations of par. a. (*Par e cr. File #090183, June 16, 2009; eff. August 25, 2009.*)

f. City employees represented by Milwaukee District Council 48, AFSCME, AFL-CIO, the Technicians, Engineers and Architects of Milwaukee, the Association of Scientific Personnel, and the Association of Municipal Attorneys, SEIU Healthcare District 1199 Wisconsin/Staff Nurses Council, Local 195, IBEW, AFL-CIO, Local 75, Journeyman Plumbers and Gasfitters Union, AFL-CIO, Local 494, IBEW, AFL-CIO, Machine Shop, District 10, IAMAW, AFL-CIO, Joint Bargaining Unit Local 139, IUOE, AFL-CIO/Milwaukee District Council 48, AFSCME, AFL-CIO, Local 494, IBEW, AFL-CIO, Fire Equipment Dispatchers and nonmanagement/nonrepresented employees who during the calendar year 2010 retire from active service on a normal service retirement allowance, including allowances under s. 36-05-1-d-3, or on an immediate retirement allowance under s. 36-05-6-c, shall be eligible for a bonus year. At the member's discretion, the bonus year may be added either to the member's age for purposes of retirement eligibility, or to creditable service. The bonus year may be divided into one month increments and used for a combination of additions to age and creditable service, not to exceed a total of 12 months. All or part of the bonus year cannot be applied to earn more than 35 years of creditable service or to exceed the 70% of final average salary limitation stated in s. 36-06-10-f. In order to be eligible for the bonus year provided in this paragraph, a non-represented/nonmanagement employee must provide notice of his or her intent to retire to his or her department head or designee by August 31, 2010. Employees of the Milwaukee Metropolitan Sewerage District represented by District Council 48, AFSCME, AFL-CIO, Local 366, who during the period commencing May 1, 2010 and ending April 30, 2011, retire from active service on a normal service retirement allowance, including allowances under s. 36-05-1-d-3, or on an

immediate retirement allowance under s. 36-05-6-c, shall be eligible for a bonus year pursuant to this paragraph and must give notice by February 1, 2011, of their intent to retire in order to be eligible for the bonus year. This provision shall expire at the end of April 30, 2011. Employees of the Milwaukee Metropolitan Sewerage District who are management or non-represented, who during the period commencing January 1, 2011 and ending December 31, 2011, retire from active service on a normal service retirement allowance, including allowances under s. 36-05-1-d-3, or on an immediate retirement allowance under s. 36-05-6-c, shall be eligible for a bonus year pursuant to this paragraph and must give notice by November 1, 2011, of their intent to retire in order to be eligible for the bonus year. This provision shall expire at the end of December 31, 2011. City employees represented by Local 494, IBEW-AFL-CIO, Electrical Group, who during the period commencing June 1, 2010, and ending December 31, 2010, retire from active service on a normal service retirement allowance, including allowances under s. 36-05-1-d-3, or on an immediate retirement allowance under s. 36-05-6-c, shall be eligible for a bonus year pursuant to this paragraph. This provision shall expire at the end of December 31, 2010. Employees of Milwaukee public schools represented by Milwaukee Building and Construction Trades Council, AFL-CIO, who during the period commencing August 1, 2010, and ending December 31, 2010, retire from active service on a normal service retirement allowance, including allowances under s. 36-05-1-d-3, or on an immediate retirement allowance under s. 36-05-6-c, shall be eligible for a bonus year pursuant to this paragraph. This provision shall expire January 1, 2011. Employees of Milwaukee public schools represented by, and clerical employees exempt from, Local 1053, AFL-CIO, District Council 48, and employees of Milwaukee public schools represented by Local 1616, AFL-CIO, District Council 48, who during the period commencing June 21, 2011, and ending December 31, 2011, retire from active service on a normal service retirement allowance, including allowances under s. 36-05-1-d-3, or on an immediate retirement allowance under s. 36-05-6-c, shall be eligible for a bonus year pursuant to this paragraph and must give written notice by April 1, 2011 of their intent to retire in order to be eligible for the bonus year. This provision shall expire January 1, 2012. City employees represented by Milwaukee Building

36-04-2 Employees' Retirement System

and Construction Trades Council, AFL-CIO, who during the period commencing August 1, 2010, and ending December 31, 2010, retire from active service on a normal service retirement allowance, including allowances under s. 36-05-1-d-3, or on an immediate retirement allowance under s. 36-05-6-c, shall be eligible for a bonus year pursuant to this paragraph. This provision shall expire at the end of December 31, 2010. City employees represented by the Public Employees' Union #61, LIUNA, AFL-CIO, CLC, who during the period commencing May 1, 2010, and ending April 30, 2011, retire from active service on a normal service retirement allowance, including allowances under s. 36-05-1-d-3, or on an immediate retirement allowance under s. 36-05-6-c, shall be eligible for a bonus year pursuant to this paragraph. This provision shall expire at the end of April 30, 2011. (*Par f cr. File #090613, Sept. 22, 2009; eff. Dec. 9, 2009. Par f am. File #090951, Dec. 1, 2009; eff. Feb. 16, 2010. Par f am. File #091068, Dec. 22, 2009; eff. March 10, 2010. Par f am. File #091214, Jan. 20, 2010; eff. April 5, 2010. Par f am. File #091308, Mar. 2, 2010; eff. May 18, 2010. Par f am. File #091530, Mar. 24, 2010; eff. June 1, 2010. Par f am. File #091609, May 25, 2010; eff. August 10, 2010. Par f am. File #100173, June 15, 2010; eff. August 25, 2010. Par c am. File #100241, July 7, 2010; eff. Sept. 22, 2010. Par f am. File #100286, July 27, 2010; eff. Oct. 2, 2010. Par f am. File #100574 Sept. 21, 2010; eff. Dec. 6, 2010. Par f am. File #101070, Jan. 19, 2011; eff. March 29, 2011. Par f am. File #101418, April 12, 2011; eff. June 28, 2011.*)

2. PRIOR SERVICE CERTIFICATES. The board shall issue prior service certificates certifying to each member the length of service with which he is credited and which was rendered prior to January 1, 1938, or prior to any subsequent amendment to the act which made him eligible for membership. So long as membership continues, a prior service certificate shall be final and conclusive as to prior service credit except a member may request modification within one year of the date of issue. When membership ceases for any cause other than retirement, a prior service certificate shall become void and shall not be renewed upon any return to service as an employee except as provided in ss. 36-05-6-b-4, 6-c and d, and 36-07-3. (*Sub. 2 am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

3. DUTY DISABILITY RETIREMENT CREDIT. a. Any member employed as a policeman on or after October 5, 1973, who is thereafter retired from active service upon becoming entitled to a duty disability retirement

allowance or who was restored to active service prior to October 5, 1973, following termination of a duty disability retirement allowance, any member employed as a fireman on or after July 28, 1974, who is thereafter retired from active service upon becoming entitled to a duty disability retirement allowance or who was restored to active service prior to July 28, 1974, following termination of a duty disability retirement allowance, and any member other than a fireman or policeman employed or receiving a duty disability retirement allowance on or after May 15, 1973, shall be allowed toward his or her service retirement a credit for each year or part thereof during which he or she is eligible to receive a duty disability retirement allowance, or in which duty disability retirement allowance is suspended under s. 36-07-3, in computing his or her service retirement on the basis of the formula applicable. Such credit shall only be reflected for the purposes of establishing eligibility for and calculating the amount of the service retirement allowance but not otherwise. The service retirement allowance shall be computed on the basis of the annual regular base salary in effect for the member's position in the year immediately prior to the member's service retirement and the additional amount that would have been includable under s. 36-02-12 in the member's earnable compensation if the member had retired from active service on a service retirement allowance on the date of the member's service retirement. The cost thereof shall be reflected by the actuary in computing the employer's contribution to the fund. (*Par. a am. File #880374, June 7, 1988; eff. Aug. 22, 1988. Par a am. File #001476, Feb. 27, 2001; eff. May 15, 2001. Par. a am. File #011514, March 5, 2002; eff. May 21, 2002.*)

b. Upon retirement of an employee, all creditable service and all other credits provided for in this act shall be reflected in determining his retirement allowance. (*Par. b rc. Ch. Ord. 398, File #73-120, May 2, 1973.*)

4. IMPUTED SERVICE CREDIT.

a. A fireman or policeman in active service as of January 1, 2000, who participates in the combined fund and who has attained 20 years of creditable service in the retirement system as a fireman or policeman shall be allowed 1.5 years of additional imputed creditable service toward the computation of his or her service retirement allowance if he or she applies for retirement as a fireman. A fireman or policeman in active service as of January 1, 2000, who participates in the combined fund and

who applies for a service retirement allowance as a fireman without first having attained 20 years of creditable service as a fireman or policeman shall be allowed additional imputed creditable service under this sub. on a pro rata basis calculated as the product of 1.5 multiplied by a fraction, the numerator of which is the full years of the member's creditable service as a fireman or policeman (excluding imputed creditable service credited under sub. 1-c) to the date of retirement and the denominator of which is 20. A fireman or policeman in active service as of January 1, 2000 who participates in the combined fund who has attained 25 years of creditable service in the retirement system as a policeman or fireman or the minimum service retirement age under s. 36-05-1-b, shall be allowed 1.5 years of additional imputed creditable service toward the computation of his or her service retirement allowance if he or she applies for retirement as a policeman. The imputed service credited under this par. shall not be included in determining eligibility for a retirement allowance under s. 36-05-1-f or in calculating the maximum service retirement allowance under s. 36-05-1-e. This par. does not apply to a retirement allowance authorized by s. 36-05-6-b-2, 6-d-2, 6-b-3 or 6-c. The imputed service credit under this par. shall be included in the deceased member's allowance when calculating the spouse survivor allowance under s. 36-05-7-b-4-a.

b. Firemen and policemen survivorship fund dissolution bonus. A policeman in active service as of January 1, 2000 who participates in the combined fund shall be allowed 2 years of additional service credit toward the computation of his or her service retirement allowance if he or she applies for a service retirement allowance after having attained 25 years of creditable service in the retirement system as a policeman or fireman or the minimum service retirement age under s. 36-05-1-b. A policeman retired on a disability retirement allowance as of January 1, 2000 who participates in the combined fund shall be allowed 2 years of additional service credit toward the computation of his or her service retirement allowance upon conversion from a duty disability allowance to a service retirement allowance if he or she is an active member in good standing in the fireman or policeman's survivorship fund as of January 1, 2000. The imputed service credit under this par. shall not be included in determining the eligibility for a retirement allowance under s. 36-05-1-f or in

calculating the maximum service retirement allowance under s. 36-05-1-e. This par. shall not apply to a retirement allowance authorized by s. 36-05-6-b-2, 6-b-3, 6-c or 6-d-2.

(36-04-4 cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. 36-04-4 am. File #000484, July 11, 2000; eff. Jan. 19, 2001. 36-04-4-a am. File #000792, Oct. 10, 2000; eff. Jan. 19, 2001.)

36-05. Benefits. 1. SERVICE RETIREMENT ALLOWANCE. a. To File Request. Any member in active service may retire on or after reaching the minimum service retirement age, upon filing with the board a request for retirement and a retirement allowance on a form provided by the board for that purpose. The request shall be filed not less than 30 days nor more than 90 days prior to the effective date of retirement. A member whose allowance would be less than \$25 per month shall be paid a lump sum amount which is the actuarial equivalent of the allowance and the member shall not be eligible to receive any other benefits under this system. The board may adjust the minimum allowance under this paragraph, 1-a, sub. 6-b-2, sub. 6-b-3, sub. 6-d-2, and sub. 10-a-3, provided however that the minimum monthly allowance of \$25 may not be increased by more than the cost of living increase as measured by the increase in the Consumer Price Index-All Urban Consumers-CPI-U U.S. Cities Average as reported by the U.S. Department of Labor Bureau of Labor Statistic between January 1, 1973 and the effective date of the adjustment. A member whose allowance is less than the minimum allowance shall be paid a lump sum amount that is the actuarial equivalent of the allowance in lieu of receiving any other benefits under this system. In the event a policeman who has elected an option under sub. 7 dies between the date of his or her application and the effective date of his or her retirement, the policeman shall be treated as though he or she died immediately after his or her retirement became effective. *(Par. a am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972. Par. a am. File #950521, July 28, 1995; eff. Oct. 3, 1995, Par. a am. File #001665, April 10, 2001; eff. June 27, 2001. Par. a am. File #010197, June 19, 2001; eff. Aug. 29, 2001. Par. a am. File #020598, July 27, 2004; eff. Oct. 12, 2004.)*

b. Minimum Age. The minimum service retirement age shall be, in the case of firemen and policemen, age 57, for members enrolled in the retirement system prior to January 1, 2014, age 60, and for all other

36-05-1-d Employees' Retirement System

members, age 65. (*Par. b am. File #121701, May 21, 2013; eff. Aug. 10, 2013.*)

d. Retirement Allowance. d-1. General City Employee. For a general city employee enrolled as a member in the retirement system prior to January 1, 2014, a service retirement allowance shall equal 2% of the member's final average salary times the total number of years of all creditable service, including all other creditable and prior service credits at the percentage specified in this act and applied to the member's final average salary in the retirement system as defined in this act. For a general city employee who enrolls as a member in the retirement system on or after January 1, 2014, the service retirement allowance shall equal 1.6% of the member's final average salary times the total number of years of all creditable and prior service credits at the percentage specified in this act and applied to the member's final average salary in the retirement system as defined in this act. The member shall be guaranteed that if the total benefit in the form of a monthly retirement allowance, either under a maximum allowance or under any optional plan elected by such member pursuant to sub. 7, does not equal the amount of the member's contributions as provided for in s. 36-08-7, together with interest to the date of retirement, then the balance of the member's contributions with interest shall be payable in a lump sum amount to a designated beneficiary or to an estate entitled thereto. The guarantee provided for shall be applicable also to a retirement which was in effect as of January 1, 1971, without adjustment, and shall also be applicable to all retirements which occur after January 1, 1971, and to retirements under subs. 1-e, f and g, 2, 3 and 6. The service retirement allowance for members who retire between January 1, 1989 and December 31, 1994, shall not exceed the lesser of an amount established by the U.S. secretary of the treasury or 100% of final average salary under s. 415 of the Internal Revenue Code. The service retirement allowance for members who retire on or after January 1, 1995 shall not exceed an amount established by the secretary of the treasury under s. 415 of the Internal Revenue Code. (*Subd. 1 am. File #890633, July 25, 1989; eff. Oct. 14, 1989. Subd. 1 am. File #961325, Dec. 17, 1996; eff. Mar. 10, 1997. Par. d-1 am. File #121701, May 21, 2013; eff. Aug. 10, 2013.*)

d-2. A member shall receive a pro rata retirement allowance based upon the above

formula for service for any period less than a full year. (*S. 2, Ch. Ord. 344, Nov. 18, 1968.*)

d-3. General City, Age 55. Effective January 1, 1996, a general city employee enrolled as a member in the retirement system prior to January 1, 2014, who attains the age of 55 years and completes 30 years of creditable service in the employees' retirement system shall be eligible for a service retirement allowance as computed under subds. 1 and 2. (*Subd. 3 cr. File #941981, April 25, 1995, eff. July 12, 1995. Par. d-3 am. File #121701, May 21, 2013; eff. Aug. 10, 2013.*)

d-4. General City, Age 60. Notwithstanding subd. 3, effective January 1, 2014, a general city employee who enrolls as a member in the retirement system on or after January 1, 2014, who attains the age of 60 years and completes 30 years of creditable service in the retirement system shall be eligible for a service retirement allowance as computed under subds. 1 and 2. (*Par. d-4 cr. File #121701, May 21, 2013; eff. Aug. 10, 2013.*)

e. Firemen or Policemen, Creditable Service. The annual service retirement allowance of firemen and policemen shall consist of: (*Par. e-0 am. Ch. Ord. 511, File #80-597-b, Oct. 27, 1981.*)

e-1. A service retirement allowance equal to 2.25% of the member's final average salary times the number of years of creditable service up to and including 25 years of service and 2.4% of the member's final average salary times the number of years of creditable service thereafter; such credit shall be applicable only to service as a fireman or policeman. Service of policemen in the years 1979 through 1994 and service of firemen commencing March 1, 1983, and thereafter through December 31, 1994, shall be credited at the rate of 2.5% of the member's final average salary per year for each such year of creditable service or part thereof. Firemen and policemen in active service on or after January 1, 1995 shall be credited at the rate of 2.5% of the member's final average salary for each year of creditable service or part thereof as a fireman or policeman. The service retirement allowance of firemen who retire on or after March 1, 1985, and policemen who retire on or after November 3, 1988, shall not exceed 100% of the member's final average salary. The service retirement allowance of policemen who retire on or after July 1, 1989, and firemen who retire on or after March 1, 1989, shall not exceed 90% of the member's final average salary provided, however, that the application of this

limitation shall not operate to diminish that portion of a policemen's retirement allowance attributable to creditable service earned through July 1, 1989 or a firemen's retirement allowance attributable to creditable service earned through March 1, 1989. (*Subd. 1 am. Ch. Ord. 552, File #85-118-a, July 16, 1985, eff. Sept. 30, 1985. Subd. 1 am. Ch. Ord. 554, File #85-845, Oct. 1, 1985, eff. Dec. 15, 1985. Subd. 1 am. File #872401, May 17, 1988, eff. Aug. 2, 1988. Subd. 1 rc. File #872396, Sept. 20, 1988, eff. Dec. 5, 1988. Subd. 1 am. File #881667, Dec. 20, 1988, eff. March 13, 1989. Subd. 1 am. File #890633, July 25, 1988, eff. Oct. 14, 1989. Subd. 1 am. File #890982, Sept. 19, 1989, eff. Dec. 6, 1989. Subd. 1 am. File #891650, Jan. 16, 1990, eff. Apr. 4, 1990. Subd. 1 am. File #892369, Apr. 9, 1990, eff. June 26, 1990. Subd. 1 am. File #911154, Oct. 15, 1991, eff. Dec. 31, 1991. Subd. 1 am. File #911820, Feb. 11, 1992; eff. Apr. 13, 1992. Subd. 1 am. File #901684, July 28, 1992, eff. Sept. 30, 1992. Subd. 1 am. File #940423, July 15, 1994; eff. Sept. 28, 1994. Subd. 1 am. File #950521, July 28, 1995; eff. Oct. 3, 1995. Subd. 1 am. File #950597, Sept. 27, 1995; eff. Dec. 13, 1995.*)

e-2. A fireman or policeman shall receive a pro rata retirement allowance based upon the above formula for service for any period less than a full year. (*Subd. 2 rc. Ch. Ord. 344, File #68-726, Nov. 18, 1968.*)

f. Firemen or Policemen. A fireman or policeman who has attained the age of 52 years and has completed 25 years of creditable service in the employees' retirement system in that capacity shall be eligible for a service retirement allowance as computed under par. e. A fireman represented by Local 215, IAFF, in active service on or after January 1, 1998, or a fireman who is not represented by Local 215, IAFF, in active service on or after January 1, 2000 shall be eligible for a service retirement allowance as calculated under par. e. if he or she participates in the combined fund and attains the age of 49 years and completes 22 years of creditable service as a fireman or policeman. A policeman represented by the MPA, in active service on or after January 1, 1998, a policeman represented by MPSO, in active service on or after January 1, 1999, or a policeman who is not represented by the MPA or MPSO in active service on or after January 1, 2000 shall be eligible for a service retirement allowance as calculated under par. e if he or she participates in the combined fund and completes 25 years of creditable service as a policeman or fireman. A fireman, including a person who was a fireman prior to June 1, 1989, shall have all service in a position whose duty it is to provide emergency medical service included in the computation of creditable service for purposes of determining eligibility for a service retirement

allowance under this paragraph and for purposes of computing creditable service under subs. 6-e and 7-b-4. Notwithstanding the foregoing, a policeman who is first enrolled in the retirement system on or after December 20, 2015, shall be eligible for a service retirement allowance calculated under par. e if he or she participates in the combined fund and has attained the age of 50 years and has also completed 25 years of creditable service as a policeman in the retirement system. Notwithstanding the foregoing, a fireman who is first enrolled in the retirement system on or after July 30, 2016, shall be eligible for a service retirement allowance calculated under par. e if he or she participates in the combined fund and has attained the age of 52 years and has also completed 25 years of creditable service as a fireman in the retirement system. (*Par. f am. File #900682, Sept. 25, 1990; eff. Dec. 11, 1990. Par. f am. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. f am. File #151274, Feb. 9, 2016; eff. April 26, 2016. Par. f am. File #151451, Feb. 9, 2016; eff. April 26, 2016. Par. f am. File #160124, July 26, 2016; eff. Oct. 11, 2016. Par. f am. File #141568, Sept. 20, 2016; eff. Dec. 6, 2016.*)

g. Elected Officials. The annual service retirement allowance for elected officials elected to office by vote of the people, except the mayor, shall equal 2.6% of the member's final average salary times the number of years of creditable service accrued as an elected official for years of service prior to 1996 and 2.5% of the member's final average salary times the number of years of creditable service accrued as an elected official for years of service on or after January 1, 1996. The annual service retirement for the mayor shall equal 2.6% of the mayor's final average salary times the number of years of creditable service accrued for years of service prior to 1996, and 2% of the mayor's final average salary times the number of years of creditable service accrued for years of service on or after January 1, 1996. Notwithstanding the foregoing, the annual service retirement allowance for an elected official who enrolls as a member in the retirement system on or after January 1, 2014, shall equal 1.6% of the member's final average salary times the number of years of creditable service accrued as an elected official. Service before or after service for elected officials shall be credited at the rate applicable to such service. (*Par. g am. File #920411, July 7, 1992; eff. Sept. 22, 1992. Par. g am. File #931035, Nov. 9, 1993; eff. Jan. 29, 1994. Par. g am. File #950766, October 17, 1995; eff. January 2, 1996. Par.*

36-05-1-h Employees' Retirement System

g am. File #951082, Nov. 28, 1995; eff. Feb. 13, 1996. Par. g am. File #121701, May 21, 2013; eff. Aug. 10, 2013.)

h. Escalator. h-1. Firemen who retire on a service retirement allowance under subs. 1-b or f or 3-c-3 between March 1, 1990 and December 31, 1992, policemen who retire on a service retirement allowance under subs. 1-b or f or 3-c-3 between January 1, 1990 and December 31, 1992, and firemen or policemen represented by the Milwaukee Police Association, with 25 years of creditable service as a fireman or policeman who separate from service between January 1, 1993 and December 31, 1994 and elect a deferred retirement under sub. 6-e, shall be eligible for a pension escalator in the amount of \$50 per month on the 4th annual anniversary of service retirement, an additional escalator of \$50 per month on the 7th annual anniversary after service retirement and an additional \$50 per month on the 10th annual anniversary after service retirement.

h-3. An escalator under subd. 1 included in a fireman's or policeman's service retirement allowance at the date of death shall be included for purposes of determining a spouse's survivor allowance upon death of such fireman or policeman under Options 2 and 3 and such spouse's survivor allowance under Option 2 shall be escalated in the amount of \$50 per month and under Option 3 in the amount of \$25 per month at such times as such fireman's or policeman's pension would have been escalated under subd. 1 had the fireman or policeman continued to live. If a fireman or policeman elects Option 4 and selects a reduced service retirement allowance payable in equal installments during the fireman's or policeman's life with the provision that after the fireman's or policeman's death the surviving spouse shall receive an allowance payable in equal installments during the spouse's life which is a proportionate share of the member's reduced service retirement allowance, the escalator under subd. 1 included in the fireman's or policeman's service retirement allowance at the date of death shall be included for purposes of determining the proportionate share of the spouse's survivor allowance upon death of such fireman or policeman and the spouse's survivor allowance shall be escalated by an amount computed by multiplying \$50 by the spouse's proportionate share at such times as the fireman's or policeman's service retirement allowance would have been escalated under subd. 1 had the fireman or policeman continued

to live. If a fireman or policeman elects Option 4 and selects a reduced service retirement allowance with the provision that after the fireman's or policeman's death the surviving spouse shall receive an allowance but does not select a payout option referred to in this subdivision the escalator included in the fireman's or policeman's service retirement allowance at the date of death shall not be included in determining the spouse's survivor allowance upon death of such fireman or policeman but such spouse's survivor allowance shall be escalated \$25 for each escalation the member received or would have been entitled to receive under subd. 1 if the member would have continued to live.

h-4. General city employees who retire on a service retirement allowance under sub. 1-b or 1-d-3, on or after January 1, 1993 (on or after August 16, 1994 for employees represented by the Milwaukee Building and Construction Trades Council, AFL-CIO), and retired general city employees receiving a duty disability retirement allowance, who have attained the minimum service retirement age and convert to service retirement allowance on or after January 1, 1993 (on or after August 16, 1994 for employees represented by the Milwaukee Building and Construction Trades Council, AFL-CIO), shall be eligible for a pension escalator of 2% effective with the installment next following the 8th annual anniversary of service retirement and an additional 2% pension escalator in each successive year effective on each subsequent anniversary of the first adjustment. Each successive adjustment shall be computed on the service retirement allowance as previously adjusted. General city employees receiving retirement benefits under sub. 6-b-2 and 3, 6-c or 6-d-2 shall not be eligible for a pension escalator under this subdivision. If a member who is eligible for an adjustment under this subd. dies without receiving an adjustment prior to death, a beneficiary who is eligible for a spouse survivor allowance under sub. 7-b-2 shall be eligible for a pension escalator in the amount of 2% effective with the installment in which the member would have received an adjustment had the member lived. If the member has received an adjustment under this subd. prior to death, a beneficiary who is eligible for a spouse survivor allowance under sub. 7-b-2 shall be eligible for a pension escalator in the amount of 2% effective with the installment in which the member next would have received an

adjustment had the member lived. If a general city employee who has elected a protective survivorship option under sub. 7-b-4 dies on or after January 1, 1993, while in active service, a beneficiary who is eligible for a spouse survivor allowance under sub. 7-b-2 shall be eligible for a pension escalator in the amount of 2% effective with the installment next following the 8th annual anniversary of the commencement of the spouse survivor allowance. After the first adjustment to the spouse survivor allowance, there shall be an additional 2% escalator to the spouse survivor allowance in each successive year effective on each subsequent anniversary of the first adjustment to the spouse survivor allowance. Each successive adjustment to the spouse survivor allowance shall be computed on the spouse survivor allowance as previously adjusted. Beneficiaries, other than spouses receiving survivor benefits under sub. 7-b-2 and 4, shall not be eligible for a pension escalator. After January 1, 2000 this subd. shall not apply to members, retired members (or spouse survivors if the member or retired member is deceased) who participate in the combined fund and spouse survivors of members and retired members who participate in the combined fund.

h-5-a. A general city employee in active service on or after January 1, 2000, who participates in the combined fund and was enrolled as a member of the retirement system prior to January 1, 2014, shall be eligible for an annual pension escalator of 1.5% effective with the installment next following the second, third and fourth anniversary of his or her retirement, and an annual pension escalator of 2% effective with the installment next following the fifth and each successive anniversary of his or her retirement if he or she retires on a service retirement allowance under par. b or d, a deferred retirement allowance under sub. 6-b-2 or d-2, or an immediate allowance under sub. 6-b-3 or c. Each successive annual increase to the member's allowance under this subd. shall be calculated on the retirement allowance as previously increased. If a member eligible for an adjustment under this subd. retires on a duty disability retirement allowance and converts to a service retirement allowance, the member's adjustment following conversion shall be first payable with the installment next following the second anniversary of his or her conversion and the percentage increase of the annual escalator payable on each anniversary following conversion shall be calculated by reference to the member's date of conversion to a service

retirement allowance rather than by reference to the member's date of retirement on disability. If a member who is eligible for an adjustment under this subd. elects a retirement option under sub. 7-b-1, b-2 or b-3 with a spouse survivor allowance payable to the member's surviving spouse after the member's death in proportionate share to the member's reduced retirement allowance, and the member dies after receiving a retirement allowance, the spouse survivor allowance payable on the member's death shall be calculated as a proportionate share of the member's retirement allowance including adjustments under this subd. up to the date of death and the spouse survivor allowance shall be increased by an annual pension escalator payable at the same time and in the same percentage as the increase the member would have received, had the member lived. If a member who is eligible for an adjustment under this subd. elects a protective survivorship option under sub. 7-b-4, with a spouse survivor allowance payable on the member's death in proportionate share to the member's reduced retirement allowance and the member dies while in active service, the spouse survivor allowance payable on the member's death, shall be increased by an annual pension escalator to the spouse survivor allowance payable at the same time and in the same percentages as the increases the member would have received had the member retired on the date of the member's death. Each successive annual increase to the spouse survivor allowance under this subd. shall be calculated on the spouse survivor allowance as previously increased.

h-5-b. A general city employee who enrolls as a member in the retirement system on or after January 1, 2014 and who retires on a service retirement allowance under sub. 1-b or d shall be eligible for an annual pension escalator of 2% effective with the installment next following the fifth anniversary and each successive anniversary of his or her retirement. Each successive annual increase to the member's allowance under this subparagraph shall be calculated on the retirement allowance as previously increased. General city employees receiving retirement benefits under subs. 2-a, 3, 6-b-2 and 3, 6-c or d-2 shall not be eligible for a pension escalator. If a member who is eligible for an adjustment under this subparagraph dies without receiving an adjustment prior to death, a beneficiary who is eligible for a spouse survivor allowance under subs. 7-b-1, 2 and 3 shall be eligible for a

36-05-1-h-6 Employees' Retirement System

pension escalator in the amount of 2% of the spouse survivor's proportionate allowance effective with the installment in which the member would have received an adjustment had the member lived. If the member has received an adjustment under this subparagraph prior to death, a beneficiary who is eligible for a spouse survivor allowance under subs. 7-b-1, 2 and 3 shall be eligible for a pension escalator in the amount of 2% of the spouse survivor's proportionate allowance effective with the installment in which the member next would have received an adjustment had the member lived. If a general city employee who has elected a protective survivorship option under sub. 7-b-4 dies while in active service, a beneficiary who is eligible for a spouse survivor allowance under subs. 7-b-1, 2 and 3 shall be eligible for a pension escalator in the amount of 2% of the spouse survivor's proportionate allowance effective with the installment next following the fifth annual anniversary of the commencement of the spouse survivor allowance. After the first adjustment to the spouse survivor allowance, there shall be an additional 2% escalator to the spouse survivor allowance in each successive year effective on each subsequent anniversary of the first adjustment to the spouse survivor allowance. Each successive adjustment to the spouse survivor allowance shall be computed on the spouse survivor allowance as previously adjusted. Beneficiaries, other than spouses receiving survivor benefits under sub. 7-b, shall not be eligible for a pension escalator.

h-5-c. City employees represented by Milwaukee District Council 48, AFSCME, AFL-CIO, the Technicians, Engineers and Architects of Milwaukee, the Association of Scientific Personnel, the Association of Municipal Attorneys, SEIU Healthcare District 1199 Wisconsin/Staff Nurses Council, Local 195, IBEW, AFL-CIO, Local 75, Journeyman Plumbers and Gasfitters Union, AFL-CIO, Local 494, IBEW, AFL-CIO, Machine Shop, District 10, IAMAW, AFL-CIO, Joint Bargaining Unit Local 139, IUOE, AFL-CIO/Milwaukee District Council 48, AFSCME, AFL-CIO, Local 494, IBEW, AFL-CIO, Fire Equipment Dispatchers, Public Employees' Union #61, LIUNA, AFL-CIO, CLC, and nonmanagement/nonrepresented employees who during the calendar years 2010 and 2011 retire from active service on a normal service retirement allowance, including allowances under par. d-3, or on an immediate retirement allowance under par. 6-c, and their

surviving spouses, shall receive a 2% pension escalator effective with the installment next following the first anniversary of their retirement. City employees represented by Local 494, IBEW-AFL-CIO, Electrical Group, who during the period commencing June 1, 2010, and ending December 31, 2011, retire from active service on a normal service retirement allowance, including allowances under par. d-3, or on an immediate retirement allowance under par. 6-c, and their surviving spouses, shall receive a 2% pension escalator effective with the installment next following the first anniversary of their retirement. Employees of Milwaukee public schools represented by Milwaukee Building and Construction Trades Council, AFL-CIO, who during the period commencing August 1, 2010, and ending December 31, 2010, retire from active service on a normal service retirement allowance, including allowances under par. d-3, or on an immediate retirement allowance under par. 6-c, and their surviving spouses, shall receive a 2% pension escalator effective with the installment next following the first anniversary of their retirement. Employees of Milwaukee public schools represented by, and clerical employees exempt from, Local 1053, AFL-CIO, District Council 48, and employees of Milwaukee public schools represented by Local 1616, AFL-CIO, District Council 48, who during the period commencing June 21, 2011, and ending December 31, 2011, retire from active service on a normal service retirement allowance, including allowances under par. d-3, or on an immediate retirement allowance under par. 6-c, and their surviving spouses, shall receive a 2% pension escalator effective with the installment next following the first anniversary of their retirement. City employees represented by Milwaukee Building and Construction Trades Council, AFL-CIO, who during the period commencing August 1, 2010, and ending December 31, 2011, retire from active service on a normal service retirement allowance, including allowances under par. d-3, or on an immediate retirement allowance under par. 6-c, and their surviving spouses, shall receive a 2% pension escalator effective with the installment next following the first anniversary of their retirement.

h-6. Firemen or policemen in active service on or after January 1, 1993, who become eligible to retire on a service retirement allowance under sub. 1-b or f on or after January 1, 1993, firemen or policemen who retire on a

duty disability retirement allowance of 75% of current annual salary for their position under sub. 3-c-1-a between January 1, 1993 and December 31, 1994 and thereafter convert to a service retirement allowance under sub. 3-c-3-c, policemen in active service on or after January 1, 1995 who separate from service with 25 years of creditable service as a policeman and elect a deferred retirement allowance under sub. 6-e, firemen or policemen who retire on a duty disability allowance of 75% of current salary for their position under sub. 3-c-1-a on or after January 1, 1995 and who are eligible to elect between a service retirement allowance and a duty disability allowance under sub. 3-c-3-f, firemen or policemen who participate in the combined fund and who separate from service on or after January 1, 2000, and elect a deferred retirement under sub. 6-b-2, d-2 or e, and firemen or policemen who participate in the combined fund and who separate from service on or after January 1, 2000 and elect an immediate allowance under sub. 6-b-3 or c shall have the monthly service retirement pension installment which they received in the preceding December increased by the cost of living increase as measured by the increase in the Consumer Price Index (All Urban Consumers - CPI-U) U.S. Cities Average as reported by the U.S. Department of Labor, Bureau of Labor Statistics, for the preceding calendar year, but in no event shall such increase be in an amount which exceeds 3% of such installment. For firemen or policemen who become eligible to retire on service retirement allowance between January 1, 1993 and December 31, 1994, and firemen or policemen who retire on a duty disability allowance between January 1, 1993 and December 31, 1994 and subsequently convert to service retirement allowance, the first increase in the monthly installment shall occur on March 1 of the calendar year following the first full calendar year of the member's service retirement or conversion to a service retirement and subsequent increases in the monthly installment shall occur in the installment next following each subsequent anniversary on March 1 of each calendar year thereafter. For firemen or policemen who retire or become eligible to retire on a service retirement allowance on or after January 1, 1995, policemen who separate from active service on or after January 1, 1995 and elect a deferred retirement allowance under sub. 6-f, firemen or policemen who retire on a duty disability allowance on or after January 1, 1995, and

firemen and policemen who participate in the combined fund and who separate from active service on or after January 1, 2000 and elect a deferred retirement under sub. 6-b-2, d-2 or e, or an immediate allowance under sub. 6-b-3 or c, the first increase shall occur in the monthly installment next following the first full year of the member's service retirement, deferred retirement, immediate allowance or election between a service retirement or duty disability retirement and subsequent increases in the monthly installment shall occur in the installment next following each annual anniversary thereafter. If a member who is eligible for an increase under this subd. selects a retirement option under sub. 7-b-1, b-2, b-3 or b-4 with a spouse survivor allowance payable to the member's surviving spouse after the member's death in a proportionate share to the member's reduced service retirement allowance, the spouse survivor allowance payable on death shall be computed based on the amount of the member's service retirement allowance including increases under this subd. at the date of death and the monthly survivor allowance installment shall be increased by the cost of living as calculated in the manner provided for the member under this subd. If the member dies after service retirement but prior to receiving an increase pursuant to this subd., the spouse survivor allowance shall be increased effective with the pension installment in which such member would have received an increase had the member lived. If the member dies after having received an increase prior to death under this subd., the spouse survivor allowance shall be increased effective with the pension installment in which the member would have received the next increase had the member lived. If the member has selected a retirement option under sub. 7-b-4 and dies in active service on or after January 1, 1993, the spouse survivor allowance shall be increased effective with the pension installment payable March 1 of the calendar year next following the first full calendar year after the member's death. After the first increase to the spouse survivor allowance monthly installment, there shall be an additional increase for the cost of living in the spouse survivor allowance calculated in the manner provided for the member under this subd. in each successive year effective with the pension installment on the anniversary of the previous increase to the survivor allowance. Except as otherwise specifically provided herein,

36-05-1-i Employees' Retirement System

this subd. shall not apply to firemen or policemen or the spouse survivors of firemen or policemen who receive a retirement allowance authorized under sub. 6-b-2, 6-b-3, 6-c or 6-d-2.

h-7. A fireman represented by Local 215, in active service on or after January 1, 1998, a policeman represented by the MPA, in active service on or after January 1, 1998, a policeman represented by the MPSO, in active service on or after January 1, 1999, or an unrepresented policeman and fireman in active service on or after January 1, 2000 (and his or her spouse survivor if the member is deceased), shall receive a minimum annual cost of living adjustment at the time of their annual cost of living adjustment under subd. 6 of not less than 2% if the member participates in the combined fund and retires on a service retirement allowance under par. b or f, or if the member participates in the combined fund and dies in active service after electing a protective survivor option with a spouse survivor receiving a proportional share of the member's pension. The minimum annual cost of living adjustment shall be calculated on the service retirement allowance or spouse survivor allowance as previously increased. (Par. h cr. File #891650, Jan. 16, 1990; eff. April 4, 1990. Par. h rn to h-1 File #900239, July 10, 1990; eff. Sept. 25, 1990. Par. h-1 am. File #940423, July 15, 1994; eff. Sept. 28, 1994. Par. h-1 am. File #950521, July 28, 1995; eff. Oct. 3, 1995. Par. h-1 am. File #950597, Sept. 27, 1995; eff. Dec. 13, 1995. Par. h-2 cr. File #900239, July 10, 1990; eff. Sept. 25, 1990. Par. h-2 rp. File #950521, July 28, 1995; eff. Oct. 3, 1995. Par. h-3 cr. File #900239, July 10, 1990; eff. Sept. 25, 1990. Par. h-3 am. File #911154, Oct. 15, 1991; eff. Dec. 31, 1991. Par. h-4 cr. File #921978, April 8, 1993; eff. June 16, 1993. Par. h-4 am. File #940667, July 29, 1994; eff. Oct. 17, 1994. Par. h-4 am. File 941981, April 25, 1995; eff. July 12, 1995. Par. h-4 am. File #950869, Oct. 17, 1995; eff. Jan. 2, 1996. Par. h-4 csra. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. h-5 cr. File #921978, April 8, 1993; eff. June 16, 1993. Par. h-5 csra, (h-5 consolidated as part of h-4) File #991585, April 11, 2001; eff. Jan. 19, 2001. Par. h-5 cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. h-6 cr. File #940423, July 15, 1994; eff. Sept. 29, 1994. Par. h-6 am. File #950521, July 28, 1995; eff. Oct. 3, 1995. Par. h-6 am. File #950597, Sept. 27, 1995; eff. Dec. 13, 1995. Par. h-6 am File #991585, April 11, 2000; eff. January 19, 2001. Par. h-7 cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. h-5 rn to h-5-a, File #090613, Sept. 22, 2009, eff. Dec. 9, 2009. Par. h-5-b cr. File #090613, Sept. 22, 2009, eff. Dec. 9, 2009. Par. h-5-b am. File #090951, Dec. 1, 2009, eff. Feb. 16, 2010. Par. h-5-b am. File #091068, Dec. 22, 2009; eff. March 10, 2010. Par. h-5-b am. File #091214, Jan. 20, 2010; eff. April 5,

2010. Par. h-5-b am. File #091308, Mar. 2, 2010; eff. May 18, 2010. Par. h-5-b am. File #091530, Mar. 24, 2010; eff. June 1, 2010. Par. h-5-b am. File #091609, May 25, 2010; eff. August 10, 2010. Par. h-5-b am. File #100173, June 15, 2010; eff. August 25, 2010. Par. h-5-b am. File #100241, July 7, 2010; eff. Sept. 22, 2010. Par. h-5-b am. File #100574, Sept. 21, 2010; eff. Dec. 6, 2010. Par. h-5-b am. File #101070, Jan. 19, 2011; eff. March 29, 2011. Par. h-5-b am. File #101418, April 12, 2011; eff. June 28, 2011. Par. h-5-a am File #121701, May 21, 2013; eff. Aug. 10, 2013. Par. h-5-b rn to c File #121701, May 21, 2013; eff. Aug. 10, 2013. Par. h-5-b cr. File #121701, May 21, 2013; eff. Aug. 10, 2013.)

i. Employees retired prior to January 1, 1993.

i-1. The benefits payable under this paragraph are not deferred compensation for services performed by retired members. Any provision of ch. 36 to the contrary notwithstanding, the benefits payable under this paragraph and the terms and conditions under which they are payable are neither contractually guaranteed by the city and the board nor vested in any beneficiary thereof. The city expressly reserves the unilateral right to amend or repeal this paragraph without notice and hearing to or consent of any beneficiary. Members and survivors who separated and received benefits under sub. 6-b-2, 6-b-3, c, d-2 or e shall not be eligible for benefits under this paragraph. This subd. shall not apply on or after January 1, 2000 to retired members and spouse survivors who participate in the combined fund.

i-1-a. Members who retired prior to October 1, 1987 on a service retirement allowance under par. b or f and members who retired on a duty disability allowance and converted to a service retirement allowance under sub. 3-b or 3-c-3 prior to October 1, 1987 shall be eligible for a catch-up adjustment to their service retirement allowance payable with the first installment next following January 1, 1996. Such adjustment shall be a percentage change to the retirement allowance equal to the greater of the total percentage change in the cost of living for each full calendar month between the eighth anniversary of the member's service retirement and October 1, 1995 or the total percentage change required to bring the member's allowance to 60% of the whole inflation adjusted value of the member's allowance at the time of retirement. The percentage change in the cost of living shall be measured by the increase in the Consumer Price Index (All Urban Consumers - CPI-U) U.S. Cities as reported by the U.S. Department of

Labor, Bureau of Labor Statistics. The whole inflation adjusted value of a pension at the time of retirement shall be the sum of the product of the service retirement allowance at the time of retirement multiplied by the total percentage change in the cost of living during each full calendar month between retirement and October 1, 1995 added to the member's service retirement allowance at the time of retirement. Beneficiaries other than spouses receiving survivor benefits or protective survivor benefits shall not be eligible for benefits under this subparagraph. If a member eligible for a service retirement allowance under par. b or f elected a protective survivor option, expressed as a percentage of the member's pension, and died while in active service prior to October 1, 1987, the surviving spouse under such option shall be eligible for a catch-up adjustment to their survivor allowance payable with the first installment next following January 1, 1996 in a percentage change to the survivor allowance equal to the greater of the total percentage change in the cost of living for each full calendar month between the eighth anniversary of the member's death and October 1, 1995 or the total percentage change required to bring the survivor allowance to 60% of the whole inflation adjusted value of the survivor allowance at the date of death. If a member, who retired prior to October 1, 1987 on a service retirement allowance under par. b or f, elected a spouse survivor option, expressed as a percentage of the member's pension, and died following retirement, but prior to October 1, 1995, the surviving spouse under such option shall be eligible for a catch-up adjustment to their survivor allowance payable with the first installment next following January 1, 1996 in a percentage change to the survivor allowance equal to the greater of the total percentage change in the cost of living for each full calendar month between the eighth anniversary of the member's retirement and October 1, 1995 or the total percentage change required to bring the survivor allowance to 60% of the whole inflation adjusted value of the spouse survivor allowance at the time of the member's retirement. If a member, retired prior to October 1, 1987 on a service retirement allowance under par. b or f, elected a spouse survivor option, expressed as a percentage of the member's pension and dies while eligible for catch-up under subpar. a, the surviving spouse under such option shall have the member's catch-up included in the member's allowance in calculating the spouse survivor allowance

expressed as a percentage of the member's allowance.

i-2-a. Members who retired prior to January 1, 1993 on a service retirement allowance under par. b or f and members who retired on a duty disability allowance and converted to a service retirement allowance under sub. 3-b or 3-c-3 prior to January 1, 1993 shall be eligible for a pension escalator to their service retirement allowance of up to 2% effective with the installment next following the later of the 8th annual anniversary of service retirement or January 1, 1996 and an additional pension escalator of up to 2% in each successive year effective on each subsequent anniversary of the first adjustment. The first escalator shall be computed on the service retirement allowance as previously adjusted under subd. 1-a. Each successive escalator shall be computed on the service retirement allowance as previously escalated. The payment of each pension escalator or successive escalator first payable in 1997 or in a year subsequent to 1997 shall be subject to the limitations of s. 36-08-2-a. Beneficiaries other than spouses receiving survivor benefits or protective survivor benefits under sub. 7-b-2 shall not be eligible for benefits under this subparagraph. If a member, who elected a spouse survivor option and retired prior to January 1, 1993 on a service retirement allowance under par. b or f, dies, a surviving spouse who is eligible for a spouse survivor allowance under sub. 7-b-2 shall be eligible for a spouse survivor pension escalator to their survivor allowance of up to 2% effective with the installment next following the later of the 8th anniversary of the member's service retirement or January 1, 1996. If a member elected a protective survivor option and died prior to January 1, 1993 while in active service, a surviving spouse who is eligible for a spouse survivor allowance under sub. 7-b-2 shall be eligible for a spouse survivor pension escalator to their spouse survivor allowance of up to 2% effective with the installment next following the later of the eighth anniversary of the member's death or January 1, 1996. A spouse receiving a spouse survivor pension escalator shall be eligible for an additional escalator of up to 2% in each successive year effective on each subsequent anniversary of the first escalator to the spouse survivor allowance. The first escalator shall be calculated on the spouse survivor allowance as previously adjusted under this subd. Each successive escalator to the

36-05-1-j Employees' Retirement System

spouse survivor allowance shall be computed on the spouse survivor allowance as previously escalated. The payment of each escalator or successive escalator first payable in 1997 or in a year subsequent to 1997 shall be subject to the limitations of s. 36-08-2-a. After January 1, 2000 this subpar. shall not apply to members, retired members or spouse survivors (if the member or retired member is deceased) who participate in the combined fund and spouse survivors of members and retired members who participate in the combined fund.

i-2-b. Effective January 1, 2000, the annual escalator payable under par. h-5-a shall be extended to a general city employee, fireman or policeman, retired on a service retirement allowance under par. b, d-3 or f, a general city employee, a fireman or policeman, retired on a duty disability retirement allowance who converted to a service retirement allowance or a general city employee, a fireman or policeman separated from service who retired on a deferred retirement allowance under sub. 6-b-2, d-2 or e or an immediate allowance under sub. 6-b-3 or c and their spouse survivor eligible to receive a proportionate share of the member's allowance if the member (or spouse survivor if the member is deceased) is a participant in the combined fund and the member is a general city employee retired on a service retirement allowance, duty disability retirement allowance or separated from service prior to January 1, 2000 or a fireman or policeman retired on a service retirement allowance, duty disability retirement allowance or separated from service prior to January 1, 1993. If a member eligible for an escalator under this subpar. was eligible for an annual escalator under subpar. a prior to January 1, 2000, the annual escalator payable under this subpar. shall be effective upon the anniversary of the escalator payable under subpar. a if such anniversary is different from the anniversary of the installment next following service retirement. If a member referred to above retires on a duty disability retirement allowance and converts to a service retirement allowance the conversion date shall be used for purposes of determining both the eligibility and the percentage increase of the annual escalator to which the member or spouse survivor is eligible. Effective January 1, 2000, the annual escalator payable under par. h-6 shall be extended to a fireman and policeman who retired on a duty disability retirement allowance of 75% of current salary for their position under sub. 3-c-1-a between October 17, 1992 and

December 31, 1994 if he or she is eligible to elect between a service retirement allowance and a duty disability allowance under sub. 3-c-f effective with the installment next following one year after eligibility for an election to convert to a service retirement. Effective January 1, 2000 the annual escalator payable under par. h-6 shall be extended to a fireman or policeman who separated from service between January 1, 1993 and December 31, 1999 and retired on a deferred retirement allowance under sub. 6-b-2 or 6-d-2 or separated from service between January 1, 1995 and December 31, 1999 and retired on a deferred retirement allowance under sub. 6-e or separated from service between January 1, 1993 and December 31, 1999 and retired on an immediate allowance under sub. 6-b-3 or c and his or her spouse survivor eligible to receive a proportionate share of the member's allowance if the member (or spouse survivor if the member is deceased) is a participant in the combined fund and the member separated from service prior to January 1, 2000. If a member who is eligible for an increase under this subpar. dies on or after January 1, 2000 his or her spouse's proportionate share of spouse survivor allowance shall be computed based on the amount of the deceased member's allowance including increases at the date of death and the spouse survivor shall be eligible for an annual escalator to his or her spouse survivor allowance at the same time and in the same percentages as the deceased member would have received had the deceased member continued to live. (*Par. i cr. File #942016, July 14, 1995; eff. Sept. 27, 1995. Par. i-1-0 am. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. i-1-a and b csrn. to i-1-a, File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. i-2-a and b csra. to i-2-a, File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. i-2-b cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. i-2-b am. File #121701, May 21, 2013; eff. Aug. 10, 2013.*)

j. Internal Revenue Code. In this paragraph, for purposes of testing under s. 415 of the Internal Revenue Code, the limitation year shall be the calendar year.

j-1. Requirements. Notwithstanding any other provisions of the retirement system to the contrary, the member contributions paid to and retirement benefits paid from the plan shall be limited to such extent as may be necessary to conform to the requirements of s. 415 of the Internal Revenue Code for a qualified pension plan.

j-2. Participation in Other Qualified Plans: Aggregation of Limits.

j-2-a. The s. 415(b) of the Internal Revenue Code limit with respect to any member who at any time has been a member in any other defined benefit plan as defined in s. 414(j) of the Internal Revenue Code maintained by the member's employer in this plan shall apply as if the total benefits payable under all such defined benefit plans in which the member has been a member were payable from one plan.

j-2-b. The s. 415(c) of the Internal Revenue Code limit with respect to any member who at any time has been a member in any other defined contribution plan as defined in s. 414(i) of the Internal Revenue Code maintained by the member's employer in this plan shall apply as if the total annual additions under all such defined contribution plans in which the member has been a member were payable from one plan.

j-3. Basic 415(b) Limitation.

j-3-a. Before January 1, 1995, a member may not receive an annual benefit that exceeds the limits specified in s. 415(b) of the Internal Revenue Code, subject to the applicable adjustments in that section. On and after January 1, 1995, a member may not receive an annual benefit that exceeds the dollar amount specified in s. 415(b)(1)(A) of the Internal Revenue Code, subject to the applicable adjustments in s. 415(b) of the Internal Revenue Code and subject to any additional limits that may be specified in the retirement system. In no event shall a member's annual benefit payable under the plan in any limitation year be greater than the limit applicable at the annuity starting date, as increased in subsequent years pursuant to s. 415(d) of the Internal Revenue Code and the regulations thereunder.

j-3-b. For purposes of s. 415(b) of the Internal Revenue Code, "annual benefit" means a benefit payable annually in the form of a straight life annuity, with no ancillary benefits, without regard to the benefit attributable to after-tax employee contributions, except pursuant to s. 415(n) of the Internal Revenue Code, and to rollover contributions as defined in s. 415(b)(2)(A) of the Internal Revenue Code. The "benefit attributable" shall be determined in accordance with U.S. treasury regulations.

j-3-c. The annual pension benefit payable to a member who has a freeze date specified in this paragraph shall not be less than the member's old law benefit. A member's old law benefit shall be the benefit the member was entitled to as of December 31, 1994 (the "freeze date") determined without regard to any changes in the terms and conditions of the retirement system after December 8, 1994.

j-4. Adjustments to Basic 415(b) Limitation for Form of Benefit.

j-4-a. If the benefit under the plan is other than the form specified in par. j-3, then the benefit shall be adjusted so that it is the equivalent of the annual benefit, using factors prescribed in U.S. treasury regulations.

j-4-b. If the form of benefit without regard to the automatic benefit increase feature is not a straight life annuity or a qualified joint and survivor annuity, then subpar. a is applied by either reducing the s. 415(b) of the Internal Revenue Code limit applicable at the annuity starting date or adjusting the form of benefit to an actuarially equivalent amount, determined using the assumptions specified in U.S. treasury regulation s. 1.415(b)-1(c)(2)(ii), that takes into account the additional benefits under the form of benefit as follows:

j-4-b-1 For a benefit paid in a form to which s. 417(e)(3) of the Internal Revenue Code does not apply (generally, a monthly benefit), the actuarially equivalent straight life annuity benefit that is the greater of:

j-4-b-1-a. The annual amount of the straight life annuity, if any, payable to the member under the plan commencing at the same annuity starting date as the form of benefit to the member; or

j-4-b-1-b. The annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the form of benefit payable to the member, computed using a 5% interest assumption, or the applicable statutory interest assumption; and

j-4-b-1-b-1. For years prior to January 1, 2009, the applicable mortality tables described in U.S. treasury regulation s. 1.417(e)-1(d)(2) (Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Ruling 2001-62); and

Employees' Retirement System 36-05-1-j-5

j-4-b-1-b-2. For years after December 31, 2008, the applicable mortality tables described in s. 417(e)(3)(B) of the Internal Revenue Code (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing s. 417(e)(3)(B) of the Internal Revenue Code); or

j-4-b-2. For a benefit paid in a form to which s. 417(e)(3) of the Internal Revenue Code applies (generally, a lump sum benefit), the actuarially equivalent straight life annuity benefit that is the greatest of:

j-4-b-2-a. The annual amount of the straight life annuity commencing at the annuity starting date that has the same actuarial present value as the particular form of benefit payable, computed using the interest rate and mortality table, or tabular factor, specified in the plan for actuarial experience; or

j-4-b-2-b. The annual amount of the straight life annuity commencing at the annuity starting date that has the same actuarial present value as the particular form of benefit payable, computed using a 5.5 percent interest assumption, or the applicable statutory interest assumption; and

j-4-b-2-b-1. For years prior to January 1, 2009, the applicable mortality tables for the distribution under U.S. treasury regulation s. 1.417(e)-1(d)(2) (the mortality table specified in Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Ruling 2001-62); and

j-4-b-2-b-2. For years after December 31, 2008, the applicable mortality tables described in s. 417(e)(3)(B) of the Internal Revenue Code (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing s. 417(e)(3)(B) of the Internal Revenue Code); or

j-4-b-2-c. The annual amount of the straight life annuity commencing at the annuity starting date that has the same actuarial present value as the particular form of benefit computed under U.S. treasury regulation s. 1.417(e)-1(d)(3); and

j-4-b-2-c-1. or years prior to January 1, 2009, the applicable mortality tables for the distribution under U.S. treasury regulation s. 1.417(e)-1(d)(2) (the mortality table specified in Revenue Ruling 2001-62 or any subsequent Revenue Ruling modifying the applicable provisions of Revenue Ruling 2001-62); and

j-4-b-2-c-2. For years after December 31, 2008, the applicable mortality tables described in s. 417(e)(3)(B) of the Internal Revenue Code (Notice 2008-85 or any subsequent Internal Revenue Service guidance implementing s. 417(e)(3)(B) of the Internal Revenue Code), divided by 1.05.

j-4-c. The actuary may adjust the 415(b) of the Internal Revenue Code limit at the annuity starting date in accordance with subpar. b-1 and 2.

j-5. Benefits For Which No Adjustment of the 415(b) Limit is Required.

For purposes of this section, the following benefits shall not be taken into account in adjusting these limits:

j-5-a. Any ancillary benefit which is not directly related to retirement income benefits.

j-5-b. That portion of any joint and survivor annuity that constitutes a qualified joint and survivor annuity.

j-5-c. Any other benefit not required under s. 415(b)(2) of the Internal Revenue Code and U.S. treasury regulations thereunder to be taken into account for purposes of the limitation of s. 415(b)(1) of the Internal Revenue Code.

j-6. Other Adjustments in 415(b) Limitation.

j-6-a. If the member's retirement benefits become payable before age 62, the limit prescribed by this paragraph shall be reduced in accordance with U.S. treasury regulations pursuant to the provisions of s. 415(b) of the Internal Revenue Code, so that such limit, as so reduced, equals an annual straight life benefit, when such retirement income benefit begins, which is equivalent to a \$160,000, as adjusted, annual benefit beginning at age 62.

j-6-b. If the member's benefit is based on at least 15 years of service as a full-time employee of any police or fire department or on 15 years of military service, the adjustments provided for in subpar. a shall not apply.

j-6-c. The reductions provided for in subpar. a shall not be applicable to pre-retirement disability benefits or pre-retirement death benefits.

j-7. Less than 10 Years of Participation or Service Adjustment for 415(b) Limitations. The maximum retirement benefits payable to any member who has completed less than 10 years of participation shall be the

amount determined under subd. 3, as adjusted under subd. 4 or subd. 6, multiplied by a fraction, the numerator of which is the number of the member's years of participation and the denominator of which is 10. The limit under subd. 8 concerning the \$10,000 limit shall be similarly reduced for any member who has accrued less than 10 years of service, except the fraction shall be determined with respect to years of service instead of years of participation. The reduction provided by this subdivision cannot reduce the maximum benefit below 10% of the limit determined without regard to this subdivision. The reduction provided for in this subdivision shall not be applicable to pre-retirement disability benefits or pre-retirement death benefits.

j-8. \$10,000 Limit. Notwithstanding the foregoing, the retirement benefit payable with respect to a member shall be deemed not to exceed the s. 415 of the Internal Revenue Code limit if the benefits payable, with respect to such member under this plan and under all other qualified defined benefit pension plans to which the member's employer contributes, do not exceed \$10,000 for the applicable limitation year and for any prior limitation year and the employer has not at any time maintained a qualified defined contribution plan in which the member participated.

j-9. Effect of COLA without a Lump Sum Component on 415(b) Testing. Effective on and after January 1, 2009, for purposes of applying the limits under s. 415(b) of the Internal Revenue Code (the "Limit") to a member with no lump sum benefit, all of the following shall apply:

j-9-a. A member's applicable Limit shall be applied to the member's annual benefit in the member's first limitation year without regard to any cost-of-living adjustments under pars. h and i.

j-9-b. To the extent that the member's annual benefit equals or exceeds the Limit, the member shall no longer be eligible for cost-of-living increases until such time as the benefit plus the accumulated increases are less than the Limit. Thereafter, in any subsequent limitation year, a member's annual benefit, including any cost-of-living increases under pars. h and i, shall be tested under the then-

applicable benefit Limit, including any adjustment to the s. 415(b)(1)(A) of the Internal Revenue Code dollar limit under s. 415(d) of the Internal Revenue Code, and the regulations thereunder.

j-10. Effect of COLA with a Lump Sum Component on 415(b) Testing. On and after January 1, 2009, with respect to a member who receives a portion of the member's annual benefit in a lump sum, a member's applicable Limit shall be applied taking into consideration cost-of-living increases as required by s. 415(b) of the Internal Revenue Code and applicable U.S. treasury regulations.

j-11. Repayments of Cashouts. Any repayment of contributions, including interest, to the plan with respect to an amount previously refunded upon a forfeiture of service credit under the plan or another governmental plan maintained by the retirement system, a retirement system sponsored by the state of Wisconsin or by a unit of local government in the state of Wisconsin shall not be taken into account for purposes of s. 415 of the Internal Revenue Code, in accordance with applicable U.S. treasury regulations.

j-12. Reduction of Benefits Priority. Reduction of benefits or contributions to all plans, where required, shall be accomplished by first reducing the member's benefit under any defined benefit plans in which the member participated, such reduction to be made first with respect to the plan in which the member most recently accrued benefits and thereafter in such priority as shall be determined by the plan and the plan administrators of such other plans, and next, by reducing or allocating excess forfeitures for defined contribution plans in which the member participated, such reduction to be made first with respect to the plan in which the member most recently accrued benefits and thereafter in such priority as shall be established by the plan and the plan administrators for such other plans provided, however, that necessary reductions may be made in a different manner and priority pursuant to the agreement of the plans and the plan administrators of all other plans covering such member.

j-13. Section 415(c) Limitations on Contributions and Other Additions.

36-05-1-j-13-a Employees' Retirement System

j-13-a. For purposes of this subdivision, effective January 1, 2002, unless otherwise provided, after-tax member contributions or other annual additions with respect to a member may not exceed the lesser of either:

j-13-a-1. \$40,000, as adjusted pursuant to s. 415(d) of the Internal Revenue Code; or

j-13-a-2. 100% of the member's compensation.

j-13-b. Annual additions are defined to mean the sum, for any year, of employer and member contributions to a defined contribution plan, post-tax member contributions to a defined benefit plan, except for purposes of service purchases, and forfeitures credited to a member's individual account. Member contributions are determined without regard to rollover contributions and without regard to employee contributions to a simplified employee pension which are excludable from gross income under s. 408(k)(6) of the Internal Revenue Code and to picked-up employee contributions that are paid to a defined benefit plan. The compensation limit referred to in subpar. a-2 shall not apply to any contribution for medical benefits, within the meaning of s. 419A(f)(2) of the Internal Revenue Code, after separation from service which is treated as an annual addition.

j-13-c. For purposes of applying s. 415(c) of the Internal Revenue Code and for no other purpose, the definition of "compensation", where applicable, shall be compensation actually paid or made available during a limitation year, except as noted below and as permitted by U.S. treasury regulation s. 1.415(c)-2, or successor regulation. However, member contributions picked up under s. 414(h) of the Internal Revenue Code shall not be treated as compensation.

j-13-d. "Compensation" shall be defined as wages within the meaning of s. 3401(a) of the Internal Revenue Code and all other payments of compensation to an employee by an employer for which the employer is required to furnish the employee a written statement under ss. 6041(d), 6051(a)(3) and 6052 of the Internal Revenue Code, and shall be determined without regard to any rules under s. 3401(a) of the Internal Revenue Code that limit the remuneration included in wages based on the nature or location of the employment or the services

performed, such as the exception for agricultural labor in s. 3401(a)(2) of the Internal Revenue Code. However, the following adjustments shall also apply:

j-13-d-1. For limitation years beginning on and after January 1, 2002, "compensation" shall also include amounts that would otherwise be included in compensation but for an election under ss. 125(a), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b) of the Internal Revenue Code. "Compensation" shall also include any elective amounts that are not includible in the gross income of the member by reason of s. 132(f)(4) of the Internal Revenue Code.

j-13-d-2. For limitation years beginning on and after January 1, 2009, "compensation" for the limitation year shall also include compensation paid by the later of 2½ months after a member's severance from employment or the end of the limitation year that includes the date of the member's severance from employment if any of the following are true:

j-13-d-2-a. The payment is regular compensation for services during the member's regular working hours, or compensation for services outside the member's regular working hours, such as overtime or shift differential, commissions, bonuses or other similar payments, and, absent a severance from employment, the payments would have been paid to the member while the member continued in employment with the employer; or

j-13-d-2-b. The payment is for unused accrued bona fide sick, vacation or other leave that the member would have been able to use if employment had continued; or

j-13-d-2-c. Payments pursuant to a nonqualified unfunded deferred compensation plan, but only if the payments would have been paid to the member at the same time if the member had continued employment with the employer and only to the extent that the payment is includible in the member's gross income.

j-13-d-3. Any payments not described in subpar. d-2 are not considered compensation if paid after severance from employment, even if they are paid within 2½ months following severance from employment, except for payments to the individual who does not currently perform services for the employer by reason of qualified military service, within the

meaning of s. 414(u)(1) of the Internal Revenue Code, to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service.

j-13-d-4. An employee who is in qualified military service, within the meaning of s. 414(u)(1) of the Internal Revenue Code, shall be treated as receiving compensation from the employer during such period of qualified military service equal to whichever of the following is applicable:

j-13-d-4-a. The compensation the employee would have received during such period if the employee were not in qualified military service, determined based on the rate of pay the employee would have received from the employer but for the absence during the period of qualified military service; or

j-13-d-4-b. If the compensation the employee would have received during such period was not reasonably certain, the employee's average compensation from the employer during the 12-month period immediately preceding the qualified military service, or, if shorter, the period of employment immediately preceding the qualified military service.

j-13-d-5. Back pay, within the meaning of U.S. treasury regulation s. 1.415(c)-2(g)(8), shall be treated as "compensation" for the limitation year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

j-13-e. If the annual additions for any member for a plan year exceed the limitation under s. 415(c) of the Internal Revenue Code, the excess annual addition shall be corrected as permitted under the Employee Plans Compliance Resolution System or similar Internal Revenue Service correction program.

j-13-f. For limitation years beginning on or after January 1, 2009, a member's compensation for purposes of this subdivision shall not exceed the annual limit under s. 401(a)(17) of the Internal Revenue Code.

(Par. j cr. File #060488, Sept. 26, 2006; eff. Dec. 12, 2006. Par. j rc. File #150113; June 2, 2015; eff. August 18, 2015.)

2. ORDINARY DISABILITY RETIREMENT ALLOWANCE. a. Years of Service. a-1. Upon the application for ordinary disability retirement made by a member in active service, or the head of the department or agency employing him where such member is prevented from filing because he is incapacitated, and who has had 10 or more years of creditable service such member may be retired by the board not less than 30 and not more than 90 days next following the date of filing such application for an ordinary disability retirement allowance, provided the medical council, after a medical examination of such member, shall certify that such member is mentally or physically incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that such member should be retired. *(Subd. 1 am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.)*

a-2. If, however, such member has less than 10 years of creditable service, he may apply for disability retirement allowance, but such allowance shall be limited in the duration of its payment to a period of time equal to 1/4 of the entire period of service rendered by such member. If a member granted a limited disability retirement allowance under this subsection is not restored to active service, there shall be refunded to him at the time of the termination of his retirement allowance a lump sum equal in amount to the difference between the amount of his accumulated contributions at the time of his retirement and the sum of the payments actually made to him during his disability retirement which is the actuarial equivalent of his accumulated contributions, conditioned as provided in sub. 6-a. *(Subd. 2 am Ch. Ord. 382, File #71-2300, Mar. 21, 1972.)*

a-3. Any pre-existing physical condition as determined from a medical examination conducted for the city in connection with the employment of a member shall be deemed a bar to coverage of any disability benefits under this act as a direct or indirect result of such disability. *(Subd. 3 cr. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.)*

36-05-2-b Employees' Retirement System

a-4. A fireman whose duty it is to provide emergency medical services and who was enrolled as a fireman on June 1, 1989, shall continue to be eligible for an ordinary disability retirement allowance under pars. a and b for a period of 5 years from the date of enrollment as a fireman and shall have all service in a position whose duty it is to provide emergency medical services included for the purpose of computation of creditable service under this par. and the computation of the entire period of service under par. b. (*Subd. 4 cr. File #890598, July 25, 1989; eff. Oct. 14, 1989.*)

b. Disability Allowance. The ordinary disability retirement allowance shall consist of 90% of the service retirement allowance based on the creditable service to the time of disability, with a minimum allowance of 25% of his final average salary, provided that no retirement allowance shall exceed 90% of the allowance the member would receive were his service continued to the minimum service retirement age. (*Par. b am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.*)

c. Firemen and Policemen. Firemen and policemen shall be entitled to ordinary disability benefits as stated hereafter:

c-1. Firemen and policemen who are retired on ordinary disability prior to January 1, 1971, shall be entitled to benefits provided in pars. a and b.

c-2. Firemen and policemen hired before January 1, 1971, but who were in active service on or after January 1, 1971, shall select either the benefits provided in pars. a and b, or the benefits provided under subd. 3.

c-3. The minimum ordinary disability retirement allowance shall consist of an amount equal to 25% of the member's final average salary provided he or she has 5 years of service as a fireman or policeman; for each year of service in excess of 5 years of such service as a fireman or policeman, he shall receive an additional 2% of his or her final average salary. The maximum ordinary disability retirement allowance which shall be payable to any fireman or policeman member on ordinary disability under this subsection shall be limited to 50% of such member's final average salary. Firemen or policemen shall receive a pro rata retirement allowance based upon this formula for service for any period less than a full year. (*Subd. 3 am. File #020471, July 16, 2002; eff. Oct. 1, 2002.*)

c-4. Firemen and policemen hired after January 1, 1971, shall be entitled to the benefits provided in subd. 3 and shall be entitled to no other selection. (*Subd. 4 cr. Ch. Ord. 394, File #72-1435, Nov. 14, 1972.*)

d. Death Prior to Retirement. In the event a policeman or general city employee who applies for an ordinary disability retirement allowance on or after January 1, 1985 or a fireman who applies for an ordinary disability retirement allowance on or after March 1, 1985, dies prior to retirement but after selecting an option under sub. 7, the application shall continue to be processed as though such member shall have continued to live and if such application is approved, the election of an optional benefit shall become effective on the date of the member's death. This paragraph shall not apply in the event of accidental death benefits payable under sub. 5. (*Par. d cr. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985.*)

e. Effective January 1, 2000, the annual escalator payable under sub. 1-h-5-a shall be extended to a general city employee who was enrolled as a member of the retirement system prior to January 1, 2014 and retires, or is retired before January 1, 2000 on an ordinary disability retirement allowance and a fireman or policeman who retired prior to January 1, 1993 and on an ordinary disability retirement allowance and his or her spouse survivor receiving a proportionate share of the member's pension if the member (or spouse survivor if the member is deceased) is a participant in the combined fund. Effective January 1, 2000, the annual escalator payable under sub. 1-h-6 shall be extended to a fireman or policeman who retires on or after January 1, 1993 on an ordinary disability retirement allowance and his or her spouse survivor receiving a proportionate share of the member's pension if the member (or spouse survivor if the member is deceased) is a participant in the combined fund. If a member who is eligible for an increase under this paragraph dies while on ordinary disability on or after January 1, 2000, his or her spouse's proportionate share spouse survivor allowance shall be computed based on the amount of the member's ordinary disability retirement allowance including increases at the date of death. The annual escalator shall be payable to the member or spouse survivor at same times and in the same percentages as the increases the member would have received had the

member retired on a service retirement allowance on the date of his or her ordinary disability retirement. (*Par. e cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. e am File #121701, May 21, 2013; eff. Aug. 10, 2013.*)

3. DUTY DISABILITY RETIREMENT ALLOWANCE. a. While in Active Service. Any member in active service who shall become permanently and totally incapacitated for duty as the natural and proximate result of an injury occurring at some definite time and place while in the actual performance of duty shall, upon filing a request for retirement with the board on a form provided by the board for that purpose, be entitled to a duty disability retirement allowance to begin not less than 30 nor more than 90 days after the filing of the application therefor, provided the medical council or medical panel after a medical examination of such member shall certify that such member is mentally or physically incapacitated for further duty as a result of such service injury and such incapacity is likely to be permanent and such member should be retired. No beneficiary entitled to a duty disability retirement allowance shall receive any allowance on account of ordinary disability. No person first employed by the city as a fireman or paramedic on or after December 1, 1983, shall be eligible to receive a duty disability retirement allowance as a result of an injury occurring during the period he or she is assigned to the Fire Academy or Medical College of Wisconsin for recruit training. No person first employed by the city as a policeman on or after August 1, 1985, shall be eligible to receive a duty disability retirement allowance as a result of an injury occurring prior to field training during the period he or she is assigned to the Police Academy for recruit training. No person first employed by the city as a police aide on or after July 1, 1985, shall be eligible to receive a duty disability retirement allowance as a result of an injury occurring while in the performance of duty. (*Par. a am. Ch. Ord. 552, File #85-118-a, July 16, 1985; eff. Sept. 30, 1985. Par. a am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Par. a am. File #881103, September 20, 1988; eff. Dec. 5, 1988.*)

b. Allowance. b-1. The duty disability retirement allowance shall equal the service retirement allowance if such member has attained the minimum service retirement age; otherwise it shall consist of an allowance which is the actuarial equivalent of his accumulated contributions, plus an additional retirement allowance equal to 75% of his final average

salary. (*Par. b am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972; Par. b renumbered b-1, File #921978, Apr. 8, 1993; eff. June 16, 1993.*)

b-2. If a general city employee is found to be eligible for a duty disability retirement allowance referred to in par. g-0 which is first effective prior to the member attaining age 55, such member shall mandatorily convert to a service retirement allowance upon attaining age 60. If a general city employee is found to be eligible for a duty disability retirement allowance referred to in par. g-0 which is first effective after the member attains the age of 55, such member shall mandatorily convert to a service retirement allowance after attaining age 60 or after the expiration of the maximum period under par. g-2, whichever is later. If the maximum period for a general city employee referred to in par. g-2 extends beyond age 60, such member shall be eligible to voluntarily convert to a service retirement allowance commencing at age 60. (*Subd. 2 cr. File #921978, Apr. 8, 1993; eff. June 16, 1993. Subd. 2 am. File #940667, July 29, 1994; eff. Oct. 17, 1994. Subd. 2 am. File #950869, October 17, 1995; eff. January 2, 1996.*)

b-3. Effective January 1, 2000, the annual escalator payable under sub. 1-h-5-a shall be extended to a general city employee who was enrolled as a member of the retirement system prior to January 1, 2014 and retires and is receiving a duty disability allowance and his or her spouse survivor receiving a proportionate share of the member's pension if the member (or spouse survivor if the member is deceased) participates in the combined fund. If a member who is eligible for an increase under this subsection dies while on duty disability on or after January 1, 2000, his or her spouse's proportionate share spouse survivor allowance shall be computed based on the amount of the member's duty disability retirement allowance including increases at the date of death. The annual increase shall be payable to the member or spouse survivor at the same times and in the same percentages as the increases the member would have received had the member retired on a service retirement allowance on the date of his or her duty disability retirement. (*Subd. 3 cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Subd. 3 am File #121701, May 21, 2013; eff. Aug. 10, 2013.*)

c. Firemen and Policemen Duty Disability. c-1. Medical Panel, etc. Firemen and policemen who are eligible for duty disability retirement allowance shall file a request therefor with the board on a form provided by it for that purpose; such disability shall be determined as follows:

36-05-3-c-1-a Employees' Retirement System

c-1-a. Recommendations. Except for policemen who become members after June 28, 2005, and firemen represented by Local 215, IAFF, who become members of the retirement system after December 13, 2005 and apply for duty disability retirement allowance based on a mental injury, such member shall be examined by a medical panel and such medical panel shall make the examination, determination and certification required under this act in accordance with the form prescribed by the board. If the panel recommends that such person is entitled to duty disability retirement allowance provided for in this section, the board shall thereupon grant such allowance. For policemen who become members of the retirement system after June 28, 2005, and firemen represented by Local 215, IAFF, who become members of the retirement system after December 13, 2005 and apply for a duty disability retirement allowance based on a mental injury, the application shall be referred to the medical council established under s. 36-15-12, in lieu of the medical panel, which medical council shall make the determination and certification required under this act. In any reexamination authorized by this act of such retired beneficiary, the beneficiary shall be referred to the medical council, in lieu of the medical panel, for reexamination and such medical council shall make the determination and certification required under this act. Notwithstanding the foregoing, an application for a duty disability retirement filed on or after January 1, 2016, by a policeman who is represented by the MPSO, or an application for a duty disability retirement filed on or after June 19, 2016, by a policeman who is represented by the MPA, or an application for a duty disability retirement filed on or after July 30, 2016, by a fireman represented by Local 215, IAFF, shall be referred to the medical council established under s. 36-15-12, in lieu of the medical panel, which medical council shall make the determination and certification required under this act, and any authorized reexamination of such beneficiary shall be referred to the medical council, which shall make the determination and certification required under this act. Except as otherwise provided in subd. 3-f and g, any fireman or policeman who shall become disabled as the direct result of injury incurred in the performance of one or more specific acts of duty shall have a right to receive duty disability benefit during the period of such disability of an

amount equal to 75% of the current annual salary for such position which he held at the time of such injury. Except as otherwise provided in subd. 3-f and g, the surviving spouse of such member after his or her death but only during the period prior to remarriage shall receive 70% of the amount of the duty disability which the member received at the time of his or her death, and such percentage shall thereafter be based upon the salary of the position of such member at the time of his or her death. Prior to such person attaining the minimum service retirement age, periodic medical examinations of such person shall be made at least once each year but the heads of the respective departments may direct more frequent examinations. Effective January 1, 2000, the annual escalator payable under sub. 1-h-5 shall be extended to the allowance received by the surviving spouse of a retired fireman or policeman who retired on a duty disability retirement allowance under this subpar. prior to January 1, 1993 and died while receiving a duty disability retirement allowance if the member (or the surviving spouse of the member is deceased) participates in the combined fund. Effective January 1, 2000, the annual escalator payable under sub. 1-h-6 shall be extended to the allowance received by the surviving spouse of a retired fireman or policeman who retired on a duty disability retirement allowance under this subpar. on or after January 1, 1993 and dies while receiving a duty disability retirement allowance if the member (or the surviving spouse of the member is deceased) participates in the combined fund. The annual escalator shall be payable to the surviving spouse at the same times and in the same percentages as the increases the member would have received had the member retired on a service retirement allowance on the date of his or her death. (*Subpar. a am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Subpar. a am. Ch. Ord. 565, File #861820, Feb. 24, 1987; eff. May 11, 1987. Subpar. a am. File #940423, July 15, 1994; eff. Sept. 28, 1994. Subpar. a am. File #991585, April 11, 2000; eff. Jan. 19, 2001. Subpar. a am. File #001071, Nov. 28, 2000; eff. Feb. 13, 2001. Subpar. a am. File #041649, April 12, 2005; eff. June 28, 2005. Subpar. a am. File #050475, Sept. 27, 2005; eff. Dec. 13, 2005. Subpar. a am. File #071497, April 9, 2008; eff. June 30, 2008. Subpar. a am. File #081272, Feb. 10, 2009; eff. Apr. 28, 2009. Subpar. a am. File #151113, Dec. 15, 2015; eff. Feb. 29, 2016. Subpar. a am. File #151274, Feb. 9, 2016; eff. April. 26, 2016. Subpar. a am. File #141568, Sept. 20, 2016; eff. Dec. 6, 2016.*)

Employees' Retirement System 36-05-3-c-1-b

c-1-b. Case Review. In the event a member receiving a duty disability retirement allowance is later determined to be fit for service he shall be restored to service in his department and he shall no longer be entitled to receive a duty disability retirement allowance. The board may at any time request information concerning such person or investigate his status or request a medical examination of such person. The provisions of ss. 36-07-2 and 3 and 36-12 shall apply in all respects to such person entitled to receive a duty disability retirement allowance. In the event however that such fireman or policeman who is eligible to recover duty disability has a disability involving the loss of use of both eyes or the full loss of use of one eye and one limb or the full loss of the use of 2 limbs or an equivalent disability that would impair the member's (retiree's) ability to earn a livelihood and such disability is determined by majority action of the medical panel or medical council, then in such event the disabled fireman or policeman shall receive a duty disability pension of 90% of his current salary, and the board may waive the annual medical examination by the said panel or medical council of physicians; but in lieu thereof the disabled fireman or policeman annually shall submit a report from his personal physician to the board. If such panel or medical council reaches a determination unfavorable to the fireman or policeman on duty disability he may after 6 months but not later than one year request a reexamination by the medical council, or the convening of a second 3-physician panel to be constituted in the same manner and for the same purpose as the initial panel but such request shall be in writing. If an unfavorable result is reached, the fireman or policeman may seek further review but not sooner than 12 months from the last determination. This benefit shall be in lieu of any other benefits provided in this act for duty disability allowances. (Subpar. b am. Ch. Ord. 565, File #86-1820, Feb. 24, 1987; eff. May 11, 1987. Su`1bpar. b am. File #041649, April 12, 2005; eff. June 28, 2005.)

c-1-c. Recomputation. Recomputation of the amount of disability benefits shall occur once whenever there is a salary adjustment in the salary for such position. Such adjustment shall thereupon become effective at once. If the position from which the member retired under a duty disability is eliminated, then the city service commission shall determine in what manner the current annual salary shall be established for such position for purposes of determining disability payments under this section.

c-1-d. Surviving Spouse and Child Benefits Related to 90% Duty Disability Allowance. The surviving spouse of a member receiving a duty disability allowance of 90% of current salary after his or her death but only during the period prior to remarriage shall receive 75% of the amount of duty disability which the member received at the time of his or her death and such percentage shall thereafter be based upon the salary of the position of such member at the time of his or her death. The period of time during which duty disability benefits shall be paid shall in no event be less than the time provided for under similar circumstances in this act prior to this amendment. Any such fireman or policeman shall also have a right to receive child's disability benefit of amounts of \$40 a month on account of each child less than 18 years of age; provided, the total amount of child's disability benefits which shall be granted or paid to any such fireman or policeman shall not exceed 20% of the salary as aforesaid to such fireman or policeman. Such benefit or benefits shall be paid to such disabled fireman or policeman periodically according to rules concerning such benefits to be adopted by the retirement board. (Subpar. d am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Subpar. d am. File #071497, April 9, 2008; eff. June 30, 2008.)

c-1-e. Maximum Allowance. Except for a policeman or a fireman receiving a duty disability allowance of 90% of current salary under this section, the duty disability allowance together with outside earnings shall not exceed 100% of the current annual salary, and in the event outside earnings together with the duty disability allowance exceed 100% the duty disability allowance shall be reduced in the amount that

36-05-3-c-2 Employees' Retirement System

such earnings together with the duty disability allowance exceed 100%, as provided in part 2 of charter ord. 416, File #73-1842, passed Oct. 8, 1974. (*Subpar. e am. Ch. Ord. 526, File #83-986, Sept. 27, 1983.*)

c-2. **Effective Date.** It is declared to be the intent of charter ord. 380, File #70-2025, passed by the common council on February 8, 1972, that persons who were on duty disability from and after January 1, 1971, but whose duty disability was terminated prior to the effective date of charter ord. 380 by returning to active employment shall be entitled to the benefits provided by charter ord. 380 for the period of time from January 1, 1971, to the time when they returned to such active employment predicated upon the computations set forth in charter ord. 380. All the conditions referred to in charter ord. 380 shall also be applicable to this charter ordinance. (*Ch. Ord. 386, File #70-2025-a May 26, 1972.*)

c-3. **Period of Eligibility.**

c-3-a. Policemen who are found to be eligible for a duty disability retirement allowance prior to November 1, 1976 and firemen who are found to be eligible for a duty disability retirement allowance prior to October 1, 1977, shall continue to receive such allowance for life during their period of eligibility.

c-3-b. Policemen who are found to be eligible for a duty disability retirement allowance on or after November 1, 1976 and firemen who are found to be eligible for a duty disability retirement allowance on or after October 1, 1977, shall continue to receive such allowance during their period of eligibility until they reach the first of the next month following age 63, at which time they shall commence to receive a service retirement allowance to be computed as provided in s. 36-04-3-a.

c-3-c. Firemen who are found to be eligible for a duty disability retirement allowance on or after March 1, 1984 and policemen who are found to be eligible for a duty disability retirement allowance based upon filing a request for retirement with the board on or after August 1, 1985, shall continue to receive such allowance during their period of eligibility until they reach the first of the next month following their minimum service retirement age as provided in sub. 1-b, at which time they shall commence to receive a service retirement allowance to be computed as provided in s. 36-04-3-a.

c-3-d. Firemen who are found to be eligible for a duty disability retirement allowance based upon filing a request for retirement with the board on or after February 22, 1988 and policemen who are not members of the Milwaukee Police Association bargaining unit and found to be eligible for a duty disability retirement allowance based upon filing a request for retirement with the board on or after January 1, 1988, shall continue to receive such allowance during their period of eligibility until they reach the first of the next month following their minimum service retirement age, as provided in sub. 1-b or their attainment of the age of 54 years and completion of 25 years of creditable service as a fireman or policeman, whichever shall come first, at which time they shall commence to receive a service retirement allowance to be computed as provided in s. 36-04-3-a.

c-3-e. Policemen found to be eligible for a duty disability retirement allowance based upon filing a request for retirement with the board on or after January 1, 1990 and firemen found to be eligible for a duty disability retirement allowance based upon filing a request for retirement with the board on or after December 17, 1989, shall continue to receive such allowance during their period of eligibility until they reach the first of the next month following their minimum service retirement age, as provided in sub. 1-b or their attainment of the age of 52 years and completion of 25 years of creditable service as a fireman or policeman, whichever shall come first, at which time they shall commence to receive a service retirement allowance to be computed as provided in s. 36-04-3-a.

c-3-f. Firemen or policemen who retire on a duty disability retirement allowance on or after October 17, 1992 shall continue to receive their allowance during their period of eligibility until they reach the first of the month next following their minimum service retirement age as provided in sub. 1-b or their attainment of age 52 and completion of 25 years of creditable service as a fireman or policeman, whichever shall come first, at which time they shall convert to a service retirement allowance if they do not irrevocably elect to continue to receive their duty disability retirement allowance as provided in this subd. The member shall make such

election in writing on a form prescribed by the board at any time within 6 months prior to the conversion date. If a member elects to continue to receive a duty disability allowance, the member shall receive an amount equal to the amount the member would have received had the member converted to service retirement allowance provided, however, the amount the member shall receive shall not be more than 75% of the current annual salary for the position held at the time of the member's injury nor less than 57% of a fireman or 60% in the case of a policeman of the current annual salary for the position held at the time of the member's injury. During 6 months prior to the conversion date, the member may also irrevocably elect a spouse survivor option under sub. 7-b-1, 7-b-2 or 7-b-3. If the member elects a spouse survivor option, the spouse survivor allowance shall be effective at the same time, calculated in the same manner and subject to the same terms and conditions as would have been the case had the member converted to a service retirement allowance and elected such option. This subd. shall not apply to members or the surviving spouses of members who are eligible to receive a duty disability retirement allowance of 90% of current salary for the position under subd. 1-b. Members who irrevocably elect to continue their duty disability retirement allowance under this subd. shall not be eligible to continue to receive an amount equal to 75% of current salary under subd. 1-a and their surviving spouses shall not be eligible to receive 70% of the amount received by the member under subd. 1-a.

c-3-g. Notwithstanding any provision of subd. b to f to the contrary, a policeman or fireman receiving a duty disability allowance of 90% of current salary under this section shall continue to receive such allowance for life during their period of eligibility for such 90% duty disability allowance and such fireman's or policeman's surviving spouse after the member's death and prior to remarriage shall continue to be eligible to receive 75% of the amount which the member received at death. (*Subd. 3 am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Subd. 3 am. File #872401, May 17, 1988; eff. Aug. 2, 1988. Subd. 3 am. File #872396, Sept. 20, 1988; eff. Dec. 5, 1988. Subd. 3 am. File #881667, Dec. 20, 1988; eff. March 13, 1989. Subd. 3 am. File #890633, July 25, 1989; eff. Oct. 14, 1989. Subd. 3 am. File #891650, Jan. 16, 1990; eff. April 4, 1990. Subd. 3 am. File #900239, July 10, 1990; eff. Sept. 25, 1990. Subd. 3 rc. File #901940, March 26, 1991; eff. June 11, 1991. Subd. 3-f ra. to 3-g File #940423, July 15, 1994; eff. Sept. 28, 1994. Subd. 3-f cr. File*

#940423, July 15, 1994; eff. Sept. 28, 1994. Subd. 3-f am. File #950521, July 28, 1995, Oct. 3, 1995. Subd. 3-f am. File #951195, Dec. 19, 1995; eff. March 13, 1996. Subd. 3-g am. File #950521, July 28, 1995; eff. Oct. 3, 1995.)

d. Special Fund. Duty disability retirement allowances for retirees who are not participants in the combined fund shall be paid specifically from a special fund created for that purpose and the city shall be liable for contributions to such fund in order that it may be adequate to meet the required payments. City agencies that are also covered by this act shall be required to contribute to such fund the cost of duty disability allowances for members in their employment who are entitled thereto. (*Par. d am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972. Par. d am. File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

e. Death Prior to Retirement. In the event a policeman who applies for a duty disability retirement allowance on or after January 1, 1985, or a fireman who applies for a duty disability retirement allowance on or after March 1, 1985, dies prior to retirement leaving a surviving spouse, the application shall continue to be processed as though the member shall have continued to live and if such application is approved, the surviving spouse's benefit shall become effective as of the date of the member's death. In the event a general city employee who applies for a duty disability retirement allowance on or after January 1, 1985, dies prior to retirement but after selecting an option under sub. 7, the application shall continue to be processed as though such member shall have continued to live and if such application is approved, the election of an optional benefit shall become effective on the date of the member's death. This paragraph shall not apply in the event accidental death benefits are payable under sub. 5. (*Par. e cr. Ch. Ord. 554, File #85-845, Oct 1, 1985, eff. Dec. 15, 1985.*)

g. Older Worker's Benefit Protection Act. Note: par. g repealed pursuant to File #000697, September 22, 2000, eff. December 11, 2000. Notwithstanding the repeal of par. g, its provisions continue to apply to a number of general city employees; the text of the repealed par. g follows:

g. Older Worker's Benefit Protection Act. General city employees hired on or after October 17, 1992, and general city employees hired prior to October 17, 1992, who elected an optional benefit under par. f and apply for a duty disability retirement allowance on or after January 1, 1993, will be eligible for a duty disability retirement allowance on the same terms as the duty disability retirement allowance which would otherwise apply to them except:

Employees' Retirement System 36-05-3-i

g-1. The amount of the member's benefit shall be 72% of final average salary. Effective with the installment next following the month such member attains age 62, the member's benefit shall be reduced by the amount of the service retirement allowance which would be payable upon voluntary conversion at age 62 under par. b-2.

g-2. If a member is between the ages of 55 and 59 at the time the benefit is first effective, the member shall continue to receive benefits during the period of eligibility until the member attains age 60 or the expiration of a maximum period of 46 months, whichever is later. If a member is between the ages of 60 and 65 at the time the benefit is first effective, the member shall continue to receive benefits during the period of eligibility until the expiration of a maximum period of 27 months. If a member has attained 65 years of age at the time the benefit is first effective, the member shall continue to receive benefits during the period of eligibility until the expiration of a maximum period of 16 months. (Par. g cr. File #921978, Apr. 8, 1993; eff. June 16, 1993. Par. g-0 am. File #940667, July 29, 1994; eff. Oct. 17, 1994. Par. g-0 am. File #950869, October 17, 1995; eff. January 2, 1996. Par. g rp File #000697, Sept. 22, 2000; eff. Dec. 11, 2000.)

i. General city employees who retire on a duty disability retirement allowance on or after January 1, 1995 (on or after August 16, 1994 for employees represented by the Milwaukee Building and Construction Trades Council, AFL-CIO), shall be eligible for and receive a duty disability retirement allowance equal to 75% of final average salary. General city employees who have not attained the age of 60 years at the time of such retirement shall continue to receive such allowance during their period of eligibility until they reach the first of the month next following age 65, at which time they shall convert to a service retirement allowance. General city employees who have attained the age of 60 years at the time of such retirement shall continue to receive such allowance during their period of eligibility for a period of 5 years, at which time they shall convert to a service retirement allowance. (Par. i cr. File #941981, April 25, 1995; eff. July 12, 1995; Par. i am. File #951195, December 19, 1995; eff. March 13, 1996. Par. i am. File #000697, Sept. 22, 2000; eff. Dec. 11, 2000.)

5. ACCIDENTAL DEATH BENEFIT.

a. Spouse or Child's Annuity. Upon receipt of proper proofs of the death of a member in active service containing evidence acceptable to the board that such death was the natural and proximate result of an accident occurring at some definite time and place while the member was in the actual performance of duty, the board, in lieu of the ordinary death benefit of a lump sum payment of 1/2 the final average salary of such deceased member, shall grant a pension of 60% of the final average salary of such deceased member and the return of accumulated contributions of such member to: (Par. a-0 am. Ch. Ord. 370, File #71-239, May 24, 1971; Par. a-0 am. Ch. Ord. 379, File #69-2460-f, Feb. 8, 1972.)

a-1. His widow or her widower. Effective January 1, 2000, the annual escalator payable under sub. 1-h-5-a shall be extended to such widow or widower of a general city employee who was enrolled as a member of the retirement system prior to January 1, 2014 and died at any time or of a fireman or policeman who died prior to January 1, 1993 if the member (or widow or widower if the member is deceased) participates in the combined fund. Effective January 1, 2000, the annual escalator payable under sub. 1-h-6 shall be extended to such widow or widower if a fireman or policeman who dies on or after January 1, 1993 if the member (or widow or widower if the member is deceased) participates in the combined fund. The annual escalator shall be payable to the widow or widower at the same times and in the same percentages as the increases the member would have received had the member retired on a service retirement allowance on the date of his or her death. (Par. a-1 am. Ch. Ord. 370, File #71-239, May 24, 1971. Par. a-1 am. Ch. Ord. 379, File #69-2460-f, Feb. 8, 1972. Par. a-1 am. File 950294, June 27, 1995; eff. Sept. 13, 1995. Par. a-1 am. File #990234, June 2, 1999; eff. Aug. 18, 1999. Par. a-1 am. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. a-1 am. File #121701, May 21, 2013; eff. Aug. 10, 2013.)

a-2. If there be no widow or widower, or if the widow or widower dies before the youngest surviving unmarried child of such deceased member attains the age of 21, then to his or her child or children under said age, divided in such manner as the board in its

discretion shall determine, to continue until there are no surviving unmarried children of such deceased member under said age; or (Par. a-2 am. Ch. Ord. 370, File #71-239, May 24, 1971. Par. a-2 am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972. Par. a-2 am, File 950294, June 27, 1995; eff. Sept. 13, 1995. Par. a-2 am. File #950562, Sept. 27, 1995; eff. Dec. 13, 1995)

a-3. If there be no widow or widower or unmarried children as indicated in subd. 2 surviving such deceased member, then to his or her dependent father or mother, as the board in its discretion shall direct, to continue for life. For purposes of determining the eligibility of dependents of deceased members for benefits hereunder, "dependency" shall mean that the deceased member shall have contributed 50% or more of the support of such parents during the 3 years preceding his or her death.

(Par. a-3 am. Ch. Ord. 370, File #71-239, May 24, 1971. Par. a-3 am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972. Par. a-3 am, File 950294, June 27, 1995; eff. Sept. 13, 1995.)

b. When No Dependents. Whenever it shall appear to the satisfaction of the board that relatives, named in par. a-3 are not dependent upon the deceased, then in such instances if the beneficiary is not eligible for the death benefit provided for in sub. 10 because the time of employment was less than that required to receive payment under that section, then the ordinary death benefit shall be payable. (Par. b am. Ch. Ord. 467, File #78-825, Oct. 3, 1978.)

c. When Beneficiary Not Eligible. Whenever a beneficiary is not eligible for the benefit under this subsection, then the death benefits under sub. 10 shall be paid. (Par. c am. Ch. Ord. 467, File #78-825, Oct. 3, 1978.)

6. SEPARATION BENEFITS. a-1.

Return of Accumulated Contribution. Should a member cease to be an employee except by death or retirement under the provisions of this act, he or she shall be paid his or her accumulated contributions as they were at date of separation from service, upon filing with the board a request for such return of contributions on a form provided by the board for that purpose, except that this provision will not apply to a member enrolled after December 31, 1970, until he or she has completed 8 years of creditable service or 4 years of creditable

Employees' Retirement System 36-05-6-b

service if the member separates from service as a general city employee, and will not apply to a policeman enrolled after June 30, 1983, or a fireman or paramedic enrolled after October 31, 1983, unless he or she has completed 10 years of creditable service. However, with respect to the 1% contribution made by policemen, this provision shall not be applicable and as to such 1%, such policemen shall have the withdrawal rights without change. The separation benefits provided for in this paragraph as to policemen shall be effective from and after July 1, 1972, and policemen entering this system prior to such date shall be governed by the separation benefits as the same were prior to the enactment of ch. ord. 365, File #70-2387, approved by the common council on February 17, 1971. (*Par. a am. Ch. Ord. 530, File #82-2109-b, Jan. 24, 1984. Par. a-1-0 am., par. a rn to a-1, File #091068, Dec. 22, 2009; eff. March 10, 2010. Par. a-1 am. File #130184, File #130184, June 11, 2013; eff. August 27, 2013.*)

a-2 Return of Member-Paid Accumulated Contribution. The retirement system shall return to members who separate from service prior to vesting the contributions made by the members under s. 36-08-7-a, b or c. A member may elect to withdraw his or her contribution either after separation or upon termination of membership under s. 36-03-5. Upon filing with the board a request for return of member-paid contribution, on a form provided by the board, the member shall be paid his or her contribution and the regular interest credited on the contribution as it was at the date of separation and $\frac{1}{2}$ the regular interest credited to the account thereafter. A member who withdraws his or her contribution shall not be eligible for any benefits under this chapter and his or her membership shall be terminated. In the event the member dies after separation, the contribution, if not previously paid, shall be paid with the credited interest to the member's estate or designated beneficiary. (*Par. a-2 cr, File #091068, Dec. 22, 2009; eff. March 10, 2010; Par. a-2 am. File #110740, Nov. 7, 2014; eff. Jan. 26, 2015.*)

b. Involuntary Separation. A member who is removed or otherwise involuntarily separated from service for any cause, may elect: (*Par. b am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.*)

b-1. To withdraw his accumulated contributions, as provided in par. a; or (*am. Ch. Ord. 332, File #67-355-a July 25, 1967.*)

b-2. To leave his accumulated contributions in the fund until such member attains the minimum service retirement age, at which time he shall be entitled to a retirement allowance calculated in the same manner as provided in sub. 1, providing his retirement allowance at the above mentioned age equals or exceeds \$25 per month. During the interim between such member's separation from service and the effective date of his retirement, the member's account shall be annually credited with interest at a rate not exceeding the regular interest rate and his retirement allowance shall be calculated accordingly; or

b-3. To receive a retirement allowance beginning immediately that is the actuarial equivalent of the retirement allowance payable under subd. 2, provided the retirement allowance equals or exceeds \$25 or more. (*Subd. 3 am File #020598, July 27, 2004; eff. Oct. 12, 2004.*)

b-4. In the event a member who has exercised the option provided in subd. 2 returns to active service prior to attaining the minimum service retirement age, he shall again become an active member of the retirement system, and the credits for service which he had at the time of such separation shall be restored to him. Upon his subsequent retirement, he shall be credited with his service as a member subsequent to his last restoration to membership and shall receive a retirement allowance computed as if he were a new member and, in addition, he shall receive an allowance for service prior to his reinstatement computed on the formula in effect at the time he first left such service.

b-5. Should a beneficiary receiving a retirement allowance under the provisions of subd. 3 be restored to active service, his or her allowance shall cease, and he or she shall again become a member of the retirement system and the credit for service which he or she had at the time of such separation shall be restored to him or her. In the event of subsequent separation, death or retirement, the benefits to be paid shall

be reduced by the actuarial equivalent of the retirement allowance under subd. 3 which has not been repaid with interest to the date of repayment. (Subd. 5 am. File #941491, Feb. 14, 1995; eff. May 2, 1995.)

b-6. Upon the death of a person before the effective date of his deferred retirement allowance, as provided in subd. 2, there shall be paid to his estate or to such person as he has nominated by written designation, duly executed and filed with the board, a death benefit equal to his accumulated contributions, conditioned as provided in par. a.

b-7. If a member authorized to make an election under this paragraph does not make an election within a time specified by the board, the board may by rule direct the election be made on the member's behalf. (*Subd. 7 cr. File #880375, June 28, 1988; eff. Sept. 13, 1988.*)

c. Voluntary separation, age 55. A member who separates from service for any cause who has at least 15 years of creditable service and who has attained age 55 shall have the same option as given a member under par. b, except, that if he elects to receive an immediate allowance as provided under par. b-3, he shall be required to file his application at least 30 days prior to the time his retirement shall be deemed effective for the purpose of receiving an immediate allowance. Should a member separated from service elect to retire under par. b-3 and subsequently be engaged in a gainful occupation prior to attaining the minimum service retirement age paying more than the difference between his final average salary at the time of retirement and his retirement allowance, he shall be required to submit such information as the board shall require and his allowance shall be reduced by the amount of such excess. (*Par. c am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.*)

d. Deferred Retirement. A member who separates from service for any cause and who has a minimum of 4 years of creditable service may elect one of the following options:

d-1. To withdraw his accumulated contributions, as provided for in par. a; or

d-2. To leave accumulated contributions in the fund until the member shall attain the minimum service retirement age, at which time the member shall be entitled to a retirement allowance which shall be calculated in the same manner as specified in sub. 1; provided, however, that the member has a minimum of 4 years of creditable service and provided the member's allowance is equal to or

exceeds the sum of \$25 per month. During the interim of a member's separation from service and the effective date of retirement, the member's account shall annually be credited with interest at a rate not exceeding the regular interest rate and the retirement allowance shall be calculated accordingly. If a member who separated from service and left his or her accumulated contributions in the fund subsequently wishes to withdraw the accumulated contributions prior to retirement, the member shall then be entitled to receive the accumulated contributions credited to the account to the date of separation from service, conditioned as provided in par. a, together with 1/2 the interest credited to the account subsequent thereto, but the member shall have no right to any retirement allowance. Should a member who has elected a deferred retirement subsequently return to service prior to attaining the minimum service retirement age, the member shall again become an active member of this retirement system and the credits for service which he or she had at the time of such separation shall be restored to the member. Upon subsequent retirement the member shall be credited with his or her service as a member subsequent to his or her last restoration to membership and the member shall receive an allowance as if the member were a new member; and in addition the member shall receive an allowance in respect of service prior to his or her last restoration to service computed on the formula in effect at the time he or she first left such service, provided the member has not previously withdrawn contributions as provided under par. b-1. Upon the member's death prior to the time that the member would otherwise be eligible to receive a retirement allowance, there shall be paid to the member's estate or to the member's beneficiary nominated by written designation duly executed and filed with the board prior to the member's death, a death benefit equal to the member's accumulated contributions, conditioned as provided in par. a. Any member separating from service, as hereinbefore provided for, and desiring to avail himself or herself of the rights under this paragraph shall notify the board in writing within 30 days following the date of separation from service. A general city employee, policeman or fireman who separates from service on or after January 1, 1993, and elects this option may elect to defer commencement of the deferred retirement allowance to a date no later than April 1 of the calendar year following the

36-05-7 Employees' Retirement System

calendar year in which the member attains age 70-1/2 provided, however, that such election must be made no later than 30 days prior to the previously scheduled date for commencement of the receipt of such deferred retirement allowance.

d-3. If a member authorized to make an election under subd. 2 does not make an election within a time specified by the board, the board may by rule direct the election be made on the member's behalf.

(Subd. 2 am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972; Subd. 2 am. File #921978, Apr. 8, 1993; eff. June 16, 1993; Subd. 2 am. File #940423, July 15, 1994; eff. Sept. 28, 1994. Subd. 2 am. File #950521, July 28, 1995; eff. Oct. 3, 1995. Subd. 3 cr. File #020475, July 16, 2002, eff. Oct. 1, 2002. Subd. 2 am. File #061416, March 22, 2007; eff. June 11, 2007.)

e. Firemen or Policemen, Deferred Retirement. A member who is a fireman or policeman may elect a deferred retirement allowance prior to reaching age 52, provided he has had 25 years of creditable service as such fireman or policeman by notifying the board in writing of his election to do so, and he shall then be entitled to receive his deferred retirement allowance commencing the first of the month following his 52nd birthday; such allowance shall be determined in accordance with sub. 1. *(Par. e cr. Ch. Ord. 370, File #71-239, May 24, 1971. Par. e am. Ch. Ord. 379, File #69-2460-f Feb. 8, 1972.)*

f. When on Leave. Should any member who has separated from service and elected a separation benefit under pars. b-2, c or d-2 subsequently return to city employment for less than 6 months, he shall not be eligible for additional creditable service for such service, and contributions deducted from the member's compensation during such period shall be returned to him and such service shall not terminate the retirement status of the member. *(Par. f cr. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.)*

g. Less Than One Year's Leave. Should any member who elects a separation benefit under pars. b-2, c or d-2 and subsequently returns to city employment after a lapse of less than one year from the date he left city employment and who remains in city employment until retired for service or disability, he will have his ultimate benefit based on his total creditable service with the city, excluding that period during which he was absent. *(Par. g cr. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.)*

7. OPTIONAL BENEFITS. a. Death Within 30 Days After Retirement. No election of an optional benefit, except under par. b-4, shall be effective in the event the member dies within 30 days after retirement, and the member shall be considered as an active member at the time of death unless the member elected an optional benefit under par. b-4. This paragraph shall not apply to general city employees who retire on a service retirement allowance on or after February 1, 1983, or on an ordinary or duty disability retirement allowance on or after January 1, 1985, to firemen who retire on a service retirement allowance or on an ordinary or duty disability retirement allowance on or after March 1, 1985, or to policemen who retire on a service retirement allowance or on an ordinary or duty disability retirement allowance on or after January 1, 1985.

b. Retirement Options. Until the effective date of retirement, any member may elect to convert the retirement allowance into a reduced retirement allowance that is the actuarial equivalent of the retirement allowance otherwise payable as follows:

b-1. "OPTION 2". A reduced retirement allowance payable during the member's life, with the provision that after the member's death it shall continue during the life of and shall be paid to such person as the member shall have nominated by written designation duly executed and filed with the board at the time of retirement.

b-2. "OPTION 3". A reduced retirement allowance payable during the member's life, with the provision that after the member's death an allowance of 1/2 of the member's reduced allowance shall be continued during the life of and shall be paid to such person as the member shall have nominated by written designation duly executed and filed with the board at the time of retirement. The retirement allowance because of the election of an option which provides that 1/2 of the member's allowance shall be paid to the member's spouse, shall be limited, however, to a reduction which is not in excess of 5% of the retirement allowance which the member would have received had the member elected no option; it being intended that the election of this option when the beneficiary is the member's spouse shall not reduce the member's maximum retirement allowance in excess of 5% thereof. If a member who has elected a spouse survivorship option under this paragraph receives an adjustment under sub. 1-h-4 prior to

death, the 50% survivorship allowance shall be computed based on the member's service retirement allowance including adjustments at the date of death.

b-3. "OPTION 4." A reduced retirement allowance payable during the member's life, with some other benefit payable to a designated beneficiary or for the benefit of a designated beneficiary after the member's death, provided the succeeding benefits are payable over a period not extending beyond the life of the designated beneficiary or over a period not extending beyond the life expectancy of the designated beneficiary, subject to the provisions of par. e.

b-4. Protective Survivorship Option.

Note to s. 36-05-7-b-4. Any Provision of ch. 36 notwithstanding, general city employees in active service who have selected their spouse as their designated beneficiary under a protective survivorship option under s. 36-05-7-b-4 prior to January 19, 2001 shall be permitted to reselect a retirement option during the 90-day period preceding the effective date of their retirement. (Part 46-1, File #991585, April 11, 2000; eff. Jan. 19, 2001.)

b-4-a. Any member eligible for normal service retirement under this act, except policemen who attain eligibility for normal service retirement under sub. 1-f on or after January 1, 1985, and firemen who attain eligibility for normal service retirement under sub. 1-f on or after March 1, 1985, may elect a protective survivorship option without a reduction because of such election by selecting an option under this subdivision in the manner hereinafter set forth, which option shall then become effective at his or her death, with the same force and effect as if such member had retired under such option immediately prior to his or her death. Any policeman who attains 25 years of creditable service as a policeman under this act on or after January 1, 1985, any fireman who attains 25 years of creditable service as a fireman under this act on or after March 1, 1985, and any fireman eligible for a service retirement allowance under sub. 1-f after attaining the age of 49 years and 22 years of creditable service, may elect a protective survivorship option without a reduction because of such election by selecting an option under this subdivision in the manner hereinafter set forth, which option shall then become effective at or after his or her death with the same force and effect as if such member had retired under such option immediately prior to his or her death, provided

sub. 5 is inapplicable. Such option shall operate as do other options selected under the provisions of this section. A member in order to be eligible for the election of such option based on eligibility for normal service retirement shall be required to make his or her election in writing on a form prescribed by the board within 6 months prior to the date when he or she shall first become eligible for normal service retirement. A fireman eligible for election of such option based on 22 years of creditable service shall be required to make his or her election within 6 months of attaining 22 years of creditable service. A policeman or fireman eligible for election of such option based on 25 years of creditable service shall be required to make his or her election within 6 months of attaining 25 years of creditable service. A policeman who is in the Milwaukee Police Association bargaining unit on or after November 3, 1988, a policeman not in the Milwaukee Police Association bargaining unit who was in the Milwaukee Police Association bargaining unit between November 3, 1988, and December 31, 1988, a policeman who is not in the Milwaukee Police Association bargaining unit on or after July 25, 1989, and a fireman in active service on or after January 16, 1990, shall be permitted to make a new election within 6 months of marriage or remarriage. If a fireman or policeman has a spouse at the time he or she becomes eligible to make an election under this subd., such fireman or policeman shall be deemed to have elected the option specified in subd. 1; namely, "option 2", the option which provides a 100% survivor option to the member's beneficiary and to have named his or her spouse as the designated survivor, unless, at the time he or she becomes eligible to make an election under this subd., he or she elects a different option within the time allotted. If a member marries, is divorced or retires, the member shall be permitted to reselect an option under subd. 7-b. The election shall be irrevocable and shall continue after retirement. The option shall be automatically revoked in the event the joint annuitant predeceases the member before retirement; or if the member is legally divorced from the joint annuitant before retirement when such election shall be canceled upon written notice from the member to the board requesting such cancellation. The benefit payable shall be the actuarial equivalent of the benefits otherwise payable. For firemen and policemen eligible for the option provided for by this subdivision based on attaining the minimum

36-05-7-c Employees' Retirement System

service retirement age, the option shall be effective 30 days after written election thereof is made by the member. For firemen and policemen eligible for the option provided in this subdivision, the option shall be effective on the date of death in the event the member has attained the minimum service retirement age or on the date the member would have attained the minimum service retirement age in the event the member has not attained such age on the date of death. The election of a survivorship option heretofore made shall be deemed to have been made under the provisions of this subdivision as amended.

b-4-b. The election of a protective survivorship option permitted and provided for in this subdivision and made either prior to or after October 14, 1989, wherein such member elected "Option 3", namely, the option which provides a 50% survivorship allowance to the member's spouse, automatically includes such member's right to and results in such member's maximum retirement allowance being reduced only by an amount which is not in excess of 5% of the maximum retirement allowance to which such member would be entitled except for the member's election of "Option 3"; the 5% limitation of the reduction of the member's retirement allowance referred to herein is that limitation stated in subd. 2.

c. Notwithstanding any other provision of sub. 7, on or after January 1, 1989, a member may not elect an option in which the present value of the allowance payable to the member over the member's life expectancy does not exceed the present value of the succeeding benefit. Effective for members electing an option on or after January 1, 1995, this par. does not apply when the member elects an option with the member's spouse as the designated survivor.

d. Disposition of Final Pro-Rated Payment. d-1. In this paragraph, "final pro-rated payment" means that portion of a benefit that has been earned by a beneficiary prior to the death of a beneficiary but had not been paid to the beneficiary prior to his or her death.

d-2. Upon the death of a member who has not elected any survivorship option under this subsection, the member's final pro-rated payment shall be paid to the member's estate, unless the member has named a person or trust to receive the member's final pro-rated payment on a form approved by the board for that purpose.

d-3. Upon the death of a member who has elected any survivorship option under this subsection, the member's final pro-rated payment shall be paid to the member's survivor. If the survivor predeceases the member, the member may name a person or trust to receive the member's final pro-rated payment on a form approved by the board for that purpose.

d-4. Upon the death of a survivor, the survivor's final pro-rated payment shall be paid to the survivor's estate, unless the survivor has named a person or trust to receive the survivor's final pro-rated payment on a form approved by the board for that purpose.

e. The following provisions will apply to any distribution of a member's interest and will take precedence over any conflicting provisions of this chapter.

e-1. This paragraph is not intended to provide an optional form of distribution or commencement date not otherwise permitted under this chapter unless the timing or amount of payment to be made under applicable provisions of this chapter, without regard to this paragraph, would be later than the latest commencement date or less than the required minimum provided under this paragraph.

e-2. Distributions to a member shall commence no later than April 1 of the calendar year following the later of the calendar year the member retires or attains age 70-1/2.

e-3. All distributions required under this paragraph shall be determined and made in accordance with sec. 401(a)(9) of the Internal Revenue Code, as hereafter amended, and the regulations hereunder, including the minimum distribution incidental benefit requirements of 26 Code of Federal Regulations sec. 1.401(a)(9)-6, Q and A-2; provided, however, if a distribution option provided by this chapter on April 17, 2002 is inconsistent with the requirements of 26 Code of Federal Regulations sec. 1.401(a)(9)-6, but is consistent with a good faith interpretation of sec. 401(a)(9) of the Internal Revenue Code, without regard to such regulations, such distribution option will not cause this chapter to fail to satisfy the requirements of sec. 401(a)(9) of the Internal Revenue Code.

e-4. Distribution of benefits, if not made in a single sum, shall be made over one of the following periods, or a combination thereof:

e-4-a. The life of the member.

e-4-b. The lives of the member and a designated beneficiary.

e-4-c. A period not extending beyond the life expectancy of the member.

e-4-d. A period not extending beyond the life expectancy of the member and a designated beneficiary.

e-5. If the distribution of the member's interest has begun in accordance with subd. 4, and the member dies before his or her entire interest has been distributed to the member, the remaining portion of such interest shall be distributed at least as rapidly as under the method of distribution used as of the date of death of the member.

e-6. If the member dies before distribution commences, the member's entire interest will be distributed no later than December 31 of the calendar year containing the 5th anniversary of the death of the member except to the extent an election is made to receive the distributions in accordance with the following:

e-6-a. Payments of any portion of such interest to or for the life expectancy of a beneficiary may be made over the life or life expectancy of such beneficiary commencing no later than December 31 of the calendar year containing the first anniversary of the member's death.

e-6-b. Payments of any portion of such interest to the member's surviving spouse are not required to begin earlier than December 31 of the calendar year in which the member would have attained age 70-1/2 or, if later, December 31 of the calendar year following the calendar year of the member's death. If the spouse dies before payments begin, subsequent distributions are required under this subdivision as if the spouse was the member.

e-6-c. Such election must be made by the member (or the member's beneficiary, if the member dies without having made such an election) on or before the earlier of the date by which distributions must commence absent an election and the date distributions must commence assuming such election has been made.

e-7. For the purposes of this paragraph, distribution of a member's interest is considered to begin on the date that distributions must commence to the member (or if subd. 6-b applies, the date distribution is required to begin to the surviving spouse pursuant to subd. 6). If distribution in the form of an annuity irrevocably commences to the member before distributions

must commence, distribution is considered to commence on the date it actually commences.

e-8. Any amount paid to a child of the member will be treated as if it had been paid to the surviving spouse when the child reaches the age of majority.

e-9. For the purposes of this paragraph any distribution under the incidental death benefit requirements of sec. 401(a)(9) of the Internal Revenue Code shall be treated as a distribution required under sec. 401(a)(9) of the Internal Revenue Code. (*Sub. 7-a am. Ch. Ord. 552, File #85-118-a, July 16, 1985; eff. Sept. 30, 1985. Sub. 7-b-6-a am. Ch. Ord. 552, File #85-118-a, July 16, 1985; eff. Sept. 30, 1985. Sub. 7-a am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Sub. 7-b-6-a am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Sub. 7-b-6-a am. File #881667, Dec. 20, 1988; eff. March 13, 1989. Sub. 7 rc. File #890633, July 25, 1989; eff. Oct. 14, 1989. Sub. 7-b-4-a am. File #891171, Sept. 28, 1989; eff. Dec. 17, 1989. Sub. 7-b-4-a am. File #891650, Jan. 16, 1990; eff. April 4, 1990. Sub. 7-b-4-b (Note), File #901684, July 28, 1992; eff. Sept. 30, 1992. Sub. 7-b-2 am. File #921978, April 8, 1993; eff. June 16, 1993. Sub. 7-b-4-a am. File #941981, April 25, 1995; eff. July 12, 1995. Sub. 7-b-4-a am. File #950597, Sept. 27, 1995; eff. Dec. 13, 1995. Sub. 7-c am. File #960457, July 12, 1996; eff. Sept. 30, 1996. Sub. 7-d cr. File #060064, May 31, 2006; eff. Aug. 16, 2006. Sub. 7-b-3 am. File #060488, Sept. 26, 2006; eff. Dec. 12, 2006. Sub. 7-e cr. File #060488, Sept. 26, 2006; eff. Dec. 12, 2006. Sub. 7-b-4-a am. File # 090049, May 27, 2009; eff. August 12, 2009. Sub. 7-b-4-a am. File #111504; Mar. 20, 2012; eff. June 5, 2012.*)

8. SURVIVORSHIP BENEFITS.

a. Firemen or Policemen, Death While in Active Service. a-1. In addition to other benefits provided for in the employees' retirement act, a fireman or policeman in active service prior to January 1, 2000, who is not a participant in the combined fund and who shall die prior to the time of his retirement from active service and who has had at least 30 days of creditable service prior to the time of his death, shall be covered by the provisions of this subsection. In such instance, the widow and other dependents hereinafter specified of such member, meeting the conditions herein set forth, shall be entitled to survivorship benefits which shall commence immediately upon the death of such member. (*Par. a-1 am. File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

36-05-8-b Employees' Retirement System

a-2. Any fireman or policeman who is not a participant in the combined fund and who retires after July 1, 1967, because of an approved disability shall be eligible to participate in survivorship benefits provided for herein if such member continues to make his same contribution as required by this section. It is intended that if such member retired under an approved disability and because thereof is no longer a member, he shall nevertheless be considered as a member for the purposes of the benefits provided for under the survivorship provisions until he shall reach the minimum service retirement age established by this chapter. (*Par. a-2 am. File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

b. Dependents. The survivorship benefits granted hereunder shall be as follows:

b-1. If such member shall die leaving surviving a widow or widower without children, such widow or widower shall be entitled to receive as a survivorship benefit the sum of \$115 per month, which shall commence at the time that such widow or widower shall reach the age of 62 except that the widow or widower of a member employed as a policeman on or after November 3, 1974 or employed as a fireman on or after April 6, 1975 shall be entitled to receive the aforementioned survivorship benefit commencing at the time such widow or widower shall reach the age of 57. (*Subd. 1 am. File #892368, April 9, 1990; eff. June 26, 1990.*)

b-2. If such member shall leave surviving a widow or widower with one or more children of the member, and such children are under the age of 18 years, the widow or widower shall receive for herself or himself and for such children a survivorship benefit in a sum not to exceed \$230 per month, which shall be payable to her or him as long as such children are under the age of 18 years. In the event all of her or his children reach the age of 18 years or over, the survivorship benefits herein provided for shall cease until or unless the widow or widower shall have reached the age of 62 years, except that the widow or widower of such a member employed as a policeman on or after November 3, 1974, or employed as a fireman on or after April 6, 1975, shall be entitled to receive the aforementioned survivorship benefit commencing at the time such widow or widower shall reach the age of 57. (*Subd. 2 am. File #892368, April 9, 1990; eff. June 26, 1990.*)

b-3. If such member shall die without leaving a widow or widower, but he or she shall have a child under the age of 18 years, such

child shall be entitled to receive a survivorship benefit in the amount of \$115 per month as long as said child shall be under the age of 18 years. (*Subd. 3 am. File #892368, April 9, 1990; eff. June 26, 1990.*)

b-4. If such member shall die and leave surviving him 2 or more children under the age of 18 years and no widow or widower, then as long as said children shall be under the age of 18 years they shall receive \$230 per month as survivorship benefits. However, in the event that such children reach the age of 18 years and only one child is under such age, then the remaining child shall be entitled to receive as survivorship benefits the sum of \$115 per month, which, however, shall terminate upon such child reaching the age of 18 years. The board shall have the right to determine the allocation of the amounts herein paid to children under the age of 18 years if they are part of the same family unit and if in the board's judgment an equitable allocation of survivorship benefits payable is both justifiable and practical. The provisions of subds. 2, 3 and 4 shall not apply to children who are adopted following the death of such member. (*Subd. 4 am. File #892368, April 9, 1990; eff. June 26, 1990.*)

b-5. In order for a widow or widower to be eligible for survivorship benefits herein provided, such widow or widower must have been married to a member covered by the provisions of this subsection for a period of at least 30 days prior to the date of death; a child of such member in order to be entitled to the benefits hereunder must be unmarried or under a disability which commenced prior to the attainment of age 18. (*Subd. 5 am. File #892368, April 9, 1990; eff. June 26, 1990.*)

b-6. In the event such member shall die and shall not leave surviving either a widow or widower or child or children eligible to the survivorship benefits, then in such event a dependent father or mother shall be entitled to receive as a survivorship benefit the amount of \$115 per month which shall be payable to each of the dependent parents (father and/or mother, as the case may be); provided, however, such surviving dependent shall establish to the satisfaction of the board that the dependency actually existed during the life of such member and that such surviving dependent received at least 1/2 of his or her support from such deceased member. In order to be eligible hereunder for survivorship benefits, such dependent parent must at the time of receiving such survivorship allowance have reached the

age of 65 years. The board may request such additional proof from time to time as it may consider appropriate in order to establish that the dependency continues. (*Subd. 6 am. File #892368, April 9, 1990; eff. June 26, 1990.*)

b-7. In the event a widow or widower of such member entitled to receive survivorship benefits hereunder shall remarry, then whatever benefits she or he is entitled to shall immediately cease. However, the benefits which are paid on behalf of any child under the age of 18 years shall continue as long as such minor children shall not have reached the age of 18 years. The board may require proof in such form as it determines applicable to demonstrate that such widow or widower has not remarried. (*Subd. 7 am. File #892368, April 9, 1990; eff. June 26, 1990.*)

b-9. In the instance of a widow or widower, or in the instance of minor children, being entitled to receive survivorship benefits hereunder, such survivorship benefits shall be paid in accordance with the provisions of this subsection. The death benefit provided for in sub. 10 shall be paid in addition to any survivorship benefits to which such persons are eligible. The provisions of this subdivision shall be deemed applicable to deaths having occurred among firemen and policemen who elected to come under the provisions of ch. ord. 238, File #57-3152, passed Mar. 18, 1958. (*Subd. 9 am. Ch. Ord. 467, File #78-825, Oct. 3, 1978.*)

b-10. It is intended that the increased benefits of \$230 per month or \$115 per month herein provided for are being granted because there is no added cost, but if the experience is adverse the benefits are to be reduced so as not to increase costs. (*Subd. 10 rc. Ch. Ord. 379, File #69-2460-f, Feb. 8, 1972.*)

b-11. The increase in benefits granted through amendment to this subsection is predicated upon the condition that if such increased benefits at any time hereafter make it necessary to provide additional funds in order that the survivorship benefits may be paid, then the members covered by this section shall be required to pay such additional contributions as may be determined to be necessary by the actuary, and the city shall match such increased contributions. Whenever the actuary certifies that increased contributions are required by both the members and the city, such contributions shall become effective immediately following the actuarial certification. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

b-12. For beneficiaries of policemen whose date of death occurs on or after October 5, 1973, and for beneficiaries of firemen whose date of death occurs on or after July 28, 1974, survivorship benefits payable in the amount of \$115 per month shall be increased to \$140 per month and payable in the amount of \$230 per month shall be increased to \$280 per month under the terms and conditions set forth in subd. 11. For beneficiaries of firemen whose date of death occurs on or after March 1, 1979, survivorship benefits payable in the amount of \$140 per month shall be increased to \$175 per month and payable in the amount of \$280 per month shall be increased to \$350 per month under the terms and conditions set forth in subd. 11. For beneficiaries of firemen whose date of death occurs on or after March 1, 1981, survivorship benefits payable in the amount of \$175 per month shall be increased to \$200 per month, and payable in the amount of \$350 per month shall be increased to \$400 per month under the terms and conditions set forth in subd. 11. For beneficiaries of policemen whose date of death occurs on or after September 29, 1981, survivorship benefits payable in the amount of \$140 per month shall be increased to \$200 per month and payable in the amount of \$280 per month shall be increased to \$400 per month under the terms and conditions set forth in subd. 11. For beneficiaries of firemen whose date of death occurs on or after March 1, 1984, and policemen whose date of death occurs on or after January 1, 1985, survivorship benefits payable in the amount of \$200 per month shall be increased to \$300 per month, and payable in the amount of \$400 per month shall be increased to \$600 per month under the terms and conditions set forth in subd. 10. Effective with the installment next following January 1, 2000 for beneficiaries who began receiving survivorship benefits before January 1, 2000 or who are eligible to receive survivorship benefits in the future due to a death occurring prior to January 1 2000, and who participate in the combined fund, survivorship benefits shall be increased to \$300 per month for widows or widowers age 57 without children dependent parents and an eligible single child (no widow or widower) and \$600 per month (for widows or widowers with eligible children and 2 eligible children, no widow or widower). (*Subd. 12 am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Subd. 12 am. File #991585, April 18, 2000; eff. Jan. 19, 2001. Subd. 12 am. File # 020342, June 25, 2002; eff. Sept. 11, 2002.*)

36-05-9 Employees' Retirement System

[Note: Positions in the fire department which subd. 12 applies to can be found in Parts 3 to 5 of Ch. Ord. 539, File #83-2362-a, passed July 27, 1984.]

b-13. Any other provision of this subsection notwithstanding, survivorship benefits shall not be paid to beneficiaries of firemen or policemen who participate in the combined fund and die on or after January 1, 2000. (*Subd. 13 cr. File #991585, April 18, 2000; eff. Jan. 19, 2001.*)

c. Payments. The payments of all benefits to any members or their beneficiaries entitled to such payments under this subsection and the maintenance of the reserves required therefore are specifically exempt from the provisions of s. 36-13-4 and the benefit contract contained in s. 36-13-2, and the conditions applicable to such survivorship benefits may be modified. In the event that social security coverage is ultimately provided to firemen and policemen under federal enactment, then the provisions of this subsection as to survivorship benefits shall thereafter be without force and effect. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

d. Firemen's and Policemen's Survivorship Fund. There is created a fund known as the firemen and policemen's survivorship fund. Into such fund there shall be paid by a member who is a fireman or policeman covered by this act 0.87% of his or her annual salary, limited, however, to the sum of \$6,000 for the purpose of computing the member's contribution. The city shall contribute an equal sum into such fund. The proceeds of such fund shall be used solely and exclusively for paying survivorship benefits herein provided for. All contributions made by each employee to the firemen and policemen's survivorship fund shall remain in such fund and shall not be returned to such member in the event of separation from the city's service. In the event that social security is provided to firemen and policemen covered by this act, then the balances in such fund over and above any and all liabilities created or existing shall be used for the payment of social security taxes of the members who may thereafter participate in such a plan. Effective January 1, 2000, no contributions shall be required on behalf of active or retired firemen and policemen who are members of the combined fund and any amounts contributed by members of the combined fund after January 1, 2000 shall be set aside and returned. (*Par. d am. Ch. Ord.*

337, File #67-3079, Feb. 20, 1968. Par. d am File #991585, April 11, 2000; eff. Jan. 19, 2001.)

e. Survivorship Rates. Survivorship benefits which result because of a death of a member covered by the provisions of this subsection shall be paid for at the following rate:

e-1. Survivorship benefits of \$150 per month for a family, or \$75 per month for one person are applicable with respect to the death of a member occurring from and after May 27, 1958 to April 13, 1963.

e-2. Benefits of \$175 per month for a family, or \$87.50 per month for one person are applicable with respect to the death of any member occurring from and after April 14, 1963, to December 23, 1966.

e-3. Benefits of \$200 per month for a family or \$100 per month for one person are applicable with respect to the death of a member occurring from and after December 24, 1966 and shall be applicable to December 31, 1970. Benefits of \$230 per month for a family or \$115 per month for one person are applicable with respect to the death of a member occurring from December 31, 1970 and thereafter. (*Par. e cr. Ch. Ord. 379, File #69-2460-f, Feb. 8, 1972. Par. e-3 am. Ch. Ord. 402, File #69-2460-2k, July 24, 1973.*)

f. Entrants After May 27, 1958. All firemen and policemen who enter into city service after May 27, 1958, shall be covered under this subsection as a condition of employment.

g. Withdrawal. No member shall be permitted to withdraw from coverage under the survivorship provisions of this subsection while he is a member of the fire or police departments and is covered by the employees' retirement act. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

j. Board to Adopt Rules. The board in consultation with the legal advisor for the employees' retirement system is authorized to adopt such rules and regulations as may be required in order to effectively carry out this subsection and a liberal construction shall be accorded such provisions in order to carry out the purposes and intent of this subsection. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

9. BASIS OF COMPUTATION OF DISABILITY AND SEPARATION BENEFITS. Any ordinary or duty disability retirement allowance, or separation benefits shall be determined in the manner set forth in this act but effect shall be given to the applicable provisions

of charter ord. 344. (*Sub. 9 cr. Ch. Ord. 350, File #68-2747, April 15, 1969.*)

10. ORDINARY DEATH BENEFIT.

a. Beneficiary. Upon the receipt of proper proofs of death of a member in active service which is not the result of an accident in the actual performance of duty as defined in sub. 5, his or her accumulated contributions shall be paid to such person, or such trustee, if any, as he or she has nominated by written designation duly executed and filed with the board prior to his or her death, otherwise to his or her estate, and if such member has completed one or more years of creditable service there shall be paid in addition a lump sum benefit of 1/2 the final average salary of such deceased member. Such person designated by the member may elect to receive the amount payable as follows:

a-1. A single lump sum payment; or

a-2. Monthly payments in equal installments until the principal amount and interest have been exhausted; or

a-3. An allowance payable in equal monthly installments, the amount of such allowance to be the actuarial equivalent of the benefits otherwise payable at the time of the member's death on the basis of the age of the beneficiary at that time; provided that the monthly payments be no less than \$25 per month.

b. Death of Beneficiary. Should a beneficiary who elected payments under par. a-2 or 3 die before receiving allowance payments equal in total to the lump sum amount otherwise payable under par. a-1, the balance, if any, shall be paid to such person whom the beneficiary shall nominate by written designation duly acknowledged and filed with the board.

c. Death While on Leave. Any member who dies while on a leave of absence which was granted or extended for a period of more than 3 months and which leave of absence was taken for any reason other than sickness, military service, lay-off between seasons, lack of work, lack of funds, or for educational purposes, the leave for which is not more than one year, shall not be considered in active service and no ordinary death benefit shall be payable to his beneficiary or to his estate.

d. Death Prior to Retirement. In the event a policeman or general city employee who applies for an ordinary disability retirement allowance under sub. 2 or a duty disability retirement allowance under sub. 3 on or after January 1, 1985, or a fireman who applies for

ordinary disability retirement allowance under sub. 2 or a duty disability retirement allowance under sub. 3 on or after March 1, 1985, dies prior to retirement with benefits payable to a surviving spouse or other beneficiary under sub. 2-d or sub. 3-e, the member shall not be considered in active service, and no ordinary death benefits shall be payable to his or her beneficiary or to his or her estate. (*Sub. 4 am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972. Sub. 4 rn. to sub. 10, Ch. Ord. 417, File #74-365, Feb. 11, 1975. Sub. 10-b am. Ch. Ord. 467, File #78-825, Oct. 3, 1978 Sub. 10-d cr. Cr. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985. Sub. 10-a-0 am. File #020474, July 16, 2002; eff. Oct. 1, 2002.*)

11. LUMP SUM BONUS.

a. The following persons shall be eligible for a lump sum bonus if they participate in the combined fund: a member in active service as of January 1, 2000; a spouse survivor (under a protective survivorship option) of a member in active service as of January 1, 2000 if the member dies prior to retirement; an accidental death surviving spouse beneficiary of a member in active service as of January 1, 2000 if the member dies prior to retirement; a retired member, spouse survivor or accidental death surviving spouse beneficiary who is receiving a retirement or accidental death benefit allowance as of January 1, 2000; or a member separated from service prior to January 1, 2000 who is eligible for a deferred retirement allowance commencing on or after January 1, 2000. The bonus shall be paid to active members and members eligible for deferred retirement allowance at the time of commencement of their retirement allowance and to spouse survivors and accidental death surviving spouse beneficiaries of members in active service as of January 1, 2000 at the time of commencement of their spouse survivor allowance or accidental death benefit allowance. The bonus for those receiving a retirement or survivor allowance or accidental death benefit allowance as of January 1, 2000, shall be paid as soon as administratively feasible after January 1, 2000, and shall be 5% of the last full monthly installment payable prior to January 1, 2000, or if no full monthly installment was payable prior to January 1, 2000, the first full monthly installment payable immediately following January 1, 2000, multiplied by 12 times the appropriate lump sum factor. The bonus for members in active service as of January 1, 2000, members separated from service prior to January 1, 2000, who are eligible for a deferred

36-05-11-b Employees' Retirement System

retirement allowance commencing on or after January 1, 2000, spouse survivors of members in active service as of January 1, 2000 and accidental death beneficiaries of members in active service as of January 1, 2000, shall be 5% of the accrued annual retirement benefit (without a reduction on account of an election under sub. 7, or adjustment for cost of living), 5% of the accrued annual spouse survivor allowance (without an adjustment for cost of living) or 5% of the accrued annual accidental death benefit allowance (without adjustment for cost of living) multiplied by the appropriate lump sum factor. The appropriate lump sum factors are as follows:

Attained		Attained		Attained	
Age	Factor	Age	Factor	Age	Factor
15	12.1075	44	11.3842	73	7.5404
16	12.0994	45	11.3235	74	7.3474
17	12.0906	46	11.2586	75	7.1531
18	12.0810	47	11.1891	76	6.9565
19	12.0706	48	11.1151	77	6.7563
20	12.0593	49	11.0365	78	6.5512
21	12.0481	50	10.9531	79	6.3413
22	12.0364	51	10.8647	80	6.1274
23	12.0242	52	10.7711	81	5.9115
24	12.0116	53	10.6720	82	5.6961
25	11.9984	54	10.5674	83	5.4845
26	11.9847	55	10.4570	84	5.2783
27	11.9692	56	10.3406	85	5.0788
28	11.9516	57	10.2182	86	4.8870
29	11.9320	58	10.0896	87	4.7030
30	11.9106	59	9.9551	88	4.5257
31	11.8873	60	9.8147	89	4.3527
32	11.8625	61	9.6685	90	4.1814
33	11.8361	62	9.5166	91	4.0088
34	11.8077	63	9.3591	92	3.8326
35	11.7774	64	9.1961	93	3.6518
36	11.7448	65	9.0280	94	3.4698
37	11.7099	66	8.8553	95	3.2898
38	11.6724	67	8.6779	96	3.1157
39	11.6322	68	8.4955	97	2.9496
40	11.5891	69	8.3084	98	2.7901
41	11.5430	70	8.1178	99	2.6289
42	11.4937	71	7.9253	100	2.4623
43	11.4408	72	7.7327		

b. Firemen and Policemen Survivorship Fund Dissolution Bonus. The following persons shall be eligible for an additional lump sum bonus if they participate in the combined fund: a fireman in active service as of January 1, 2000; a fireman retired on a disability retirement allowance as of January 1, 2000 who is an active member in good standing of the firemen and policemen's survivorship fund as of January 1, 2000; a spouse survivor (under a protective survivorship option) of a fireman in active service as of January 1, 2000 if the member dies prior to retirement; or an accidental death surviving spouse beneficiary of a fireman or policeman in active service as of January 1, 2000 if the member dies prior to retirement. A policeman in active service as of January 1, 2000 who is a participant in the combined fund, a policeman retired on a disability retirement allowance as of January 1, 2000 who is a participant in the combined fund or a spouse survivor (under a protective survivorship option) of a policeman in active service as of January 1, 2000 who is a participant in the combined fund (if the member dies prior to retirement) shall be eligible for an additional lump sum bonus if the policeman is an active member in good standing of the firemen and policemen's survivorship fund as of January 1, 2000 and is ineligible for additional service credit under s. 36-04-4-b. The bonus for members other than members who either are retired on a disability allowance as of January 1, 2000 or retire on a disability allowance thereafter shall be paid at the time of commencement of their service retirement allowance, spouse survivor allowance or accidental death benefit allowance. The bonus for members who retire before or after January 1, 2000 on a disability retirement allowance shall be payable at the time of the installment next following attainment of their conversion age. If a member is retired on a disability retirement allowance and is ineligible for conversion to a service retirement allowance, the bonus shall be payable in the installment next following the attainment of age 63 or January 1, 2000 whichever shall come last. The bonus for active members shall be 8.6% of the accrued annual service retirement allowance (without reduction on account of an election under sub. 7, or adjustment for cost of living) multiplied by the appropriate lump sum factor as set forth in par.

a. The bonus for spouse survivors (under a protective survivorship option) shall be 8.6% of the accrued annual spouse survivor allowance (without adjustment for cost of living) multiplied by the appropriate lump sum factor as set forth in par. a. The bonus for an accidental death surviving spouse beneficiary shall be 8.6% of the accrued annual accidental death benefit allowance (without adjustment for cost of living) multiplied by the appropriate lump sum factor as set forth in par. a. The bonus for retired members on a disability retirement allowance who are eligible to convert to a service retirement allowance shall be 8.6% of their accrued service retirement allowance (without adjustment for cost of living) at a conversion age multiplied by the appropriate factor as set forth in par. a. The bonus for retired members on a disability retirement allowance who are ineligible for conversion shall be 8.6% of the annual service retirement allowance at age 63 (without adjustment for cost of living) multiplied by the appropriate lump sum factor as set forth in par. a. If a member retired on a disability retirement allowance who is ineligible for conversion to a service retirement allowance is older than age 63 as of January 1, 2000 the bonus shall be 8.6% of the member's disability retirement allowance payable for the year immediately prior to January 1, 2000 multiplied by the appropriate factor as set forth in par. a. This par. shall not apply to a retirement allowance authorized by s. 36-05-6-b-2, 6-b-3, 6-c or 6-d-2.

c. **Military Service Credit Bonus.** Each member who served and was honorably discharged from the military service prior to first being enrolled in the retirement system and who retired on a service retirement allowance prior to January 1, 2000 shall be eligible for a military service credit bonus if he or she is a participant in the combined fund and is ineligible for military service credit under s. 36-04-1-c. The bonus shall be computed by multiplying the sum of \$1,000,000 by a fraction, the numerator of which is the member's eligible active military service credit and the denominator of which is the total eligible active military service credit of all retirees eligible under this paragraph. Military

service shall have the same meaning as under sec. 36-04-1-c. To be eligible for inclusion in the calculation a period of active service must be a period of not less than 90 consecutive days spent in active military service. One year of military service shall be credited for 3 years of eligible military service, however, the maximum military service credit taken into account for purposes of calculating this bonus shall not exceed one year. The maximum military service credit bonus shall not exceed the amount of the full monthly installment payable for the month immediately prior to January 1, 2000 or if no monthly installment was payable prior to January 1, 2000, the first full monthly installment payable after January 1, 2000. The retirement system shall determine the appropriate military documentation for crediting such military service. In order to be eligible for a military service credit bonus, each retired member must apply to the retirement system no later than 6 months following a final and binding determination by a court of competent jurisdiction that this ordinance is legal and enforceable **[reference is to charter ordinance file number 000792, passed Oct. 10, 2000, eff. Jan. 19, 2001].**

d. **Retiree Special Bonus.** Every retiree, spouse survivor and accidental death beneficiary who participates in the combined fund and who is receiving a retirement allowance or accidental death benefit as of January 1, 2000 shall be eligible to receive a lump sum payment. The bonus shall be paid as soon as administratively feasible after January 1, 2000 and shall be equal to the full monthly installment payable for the month immediately prior to January 1, 2000, or if no monthly installment was payable prior to January 1, 2000, the first full monthly installment payable after January 1, 2000, multiplied by the following multiplier factor:

36-05-12 Employees' Retirement System

Status at Retirement or Death	Year of Retirement or Death	Multiplier
General City	1997-1999	2
	1996	3
	1995	4
	1994	5
	1993	6½
	1992 and prior	8
Firemen and Policemen	all years	8

If a retiree or spouse survivor eligible to receive a lump sum payment under this par. has received an overpayment of catch-up or COLA payable under s. 36-05-1-i in 1996 or 1997, then, in lieu of the repayment of such overpayment through an adjustment of future benefit payments prescribed in this section, such retiree or spouse survivor shall repay all or a portion of such overpayment by offsetting dollar for dollar the lump sum payable under this section by the amount of the overpayment or 3 times the monthly installment identified in this section whichever is less. If a retiree who died prior to January 1, 2000, elected a spouse survivor who is eligible to receive a lump sum payable under this section the overpayment to such retiree in an amount not to exceed the lesser of the amount of overpayment to such retiree or 3 monthly installment identified in this section (excluding overpayments) payable to the retiree immediately prior to his or her death, shall be set off dollar for dollar against the lump sum payable to the spouse survivor under this section. If the amount of the overpayment exceeds the amount of the dollar for dollar set off applied under this section the excess of the amount of the overpayment over the amount set off shall become an obligation of, and paid from, the combined fund. If a retiree died prior to January 1, 2000, and either did not elect a spouse survivor who is eligible to receive a lump sum payable under this section or elected a spouse survivor who predeceased the retiree the amount of the overpayment to such retiree shall become an obligation of, and paid from, the combined fund. Notwithstanding the foregoing,

the amount set off against the spouse survivor on account of overpayments received by the deceased member, the spouse survivor, or both, shall not exceed 3 times the full monthly installment payable to the spouse survivor for the month immediately prior to January 1, 2000 or if no full monthly installment was payable for the month immediately prior to January 1, 2000, the first full monthly installment payable after January 1, 2000.

e. Designated Beneficiary. A participant in the combined fund eligible to receive a lump sum bonus payment under this subsection shall be permitted to elect a designated beneficiary to receive such payment in lieu of the participant's estate, if the participant dies prior to the payment being made. (*Sub. 11 cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Sub. 11 am. File #00484, July 11, 2000; eff. Jan. 19, 2001. Sub. 11-b am. File #000792, Oct. 10, 2000; eff. Jan. 19, 2001. Sub. 11-c am. File # 00792, Oct. 10, 2000; eff. Jan. 19, 2001. Sub. 11-d am. File #000792, Oct. 10, 2000; eff. Jan. 19, 2001. Sub 11-e cr. File # 020891, Oct. 15, 2002; eff. Jan 2, 2003.*)

12. HEART ACT AND CODE SECTIONS 401(a)(37) AND 414(u).

a. Effective December 12, 1994, notwithstanding any other provision of the retirement system law, contributions, benefits and service credit with respect to qualified military service are governed by s. 414(u) of the Internal Revenue Code and the Uniformed Services Employment and Reemployment Rights Act of 1994.

b. Effective with respect to deaths occurring on or after January 1, 2007, while a member is performing qualified military service, as defined in ch. 43 of title 38, United States Code, to the extent required by s. 401(a)(37) of the Internal Revenue Code, survivors of a member in a state or local retirement or pension system, are entitled to any additional benefits that the system would provide if the member had resumed employment and then died, such as accelerated vesting or survivor benefits that are contingent on the member's death while employed. In any event, a deceased member's

period of qualified military service shall be counted for vesting purposes. This shall not include eligibility for a benefit under sub. 5.

c. Beginning January 1, 2009, to the extent required by s. 414(u)(12) of the Internal Revenue Code, an individual receiving differential wage payments, as defined under s. 3401(h)(2) of the Internal Revenue Code, from an employer shall be treated as employed by that employer, and the differential wage payments shall be treated as compensation for purposes of applying the limits on annual additions under s. 415(c) of the Internal Revenue Code. This provision shall be applied to all similarly-situated individuals in a reasonably equivalent manner. (Sub. 12 cr. File #150113, June 2, 2015; eff. August 18, 2015.)

36-055. Election of Survivorship Benefits.

1. FIREMEN TO MAKE WRITTEN REQUEST. A member who is a fireman as defined in s. 36-02 and who was employed as a firefighter, motor pump operator, fire lieutenant or fire captain on July 28, 1974, but was not eligible for survivorship benefits under s. 36-05-8, as amended, may within 30 days following July 21, 1975 but not later than such date, make and execute an irrevocable written election to be covered by the survivorship benefits provided for under such section, said election shall be in writing on a form prescribed for such purposes by the annuity and pension board and be signed by the employee.

2. CONTRIBUTION. Upon receipt of the properly executed election for eligibility for survivorship benefits under s. 36-05-08 by the board within the time prescribed and upon the employee and the city each contributing \$530.70 to the firemen and policemen's survivorship fund, the employee eligible to make such election shall be entitled to survivorship benefits under s. 36-05-8, as amended, in the same amounts and under the same conditions as firemen currently eligible for such benefits. The \$530.70 payment herein required may be paid in not more than 52 installments to be determined by the annuity and pension board prior to filing of application for eligibility hereunder.

3. SURVIVOR. The survivor of a member of the employees' retirement system who was a fireman as defined in s. 36-02 employed by the city as a firefighter, motor pump operator, fire lieutenant or fire captain on July 28, 1974, and who died between July 28, 1974, and the effective date of this section [July 21, 1975] but not later than such date, without being eligible for survivorship benefits under s. 36-05-8, as amended, may make a written election within 30 days following the effective date of this section to receive the survivorship benefits provided for by s. 36-05-8, as amended. Such benefits shall be payable retroactively to the date of death in the same amount and under the same conditions as for survivors of firemen currently eligible for such benefits upon the city and the survivor each contributing the sum of \$504.43 to the firemen and policemen's survivorship fund. Said election shall be in writing on a form prescribed for such purpose by the annuity and pension board and be signed by the survivor. The \$504.43 payment herein required may be paid in not more than 12 monthly installments to be determined by the annuity and pension board, within 30 days following July 21, 1975. (*Section 36-055 cr. Ch. Ord. 419, File #75-68, May 6, 1975; eff. July 21, 1975.*)

36-06. Coordinated Plan. 1. ESTABLISHED. A coordinated plan is established within the present retirement system as of January 1, 1958, which shall be governed by the provisions of the employees' retirement act, except as hereinafter provided, and which shall provide for participation in old age, survivors, disability and health insurance benefits derived under the social security act. (Sub. 1 am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.)

2. MEMBERSHIP. Membership in the coordinated plan shall include those members of the employees' retirement system who elect such coverage and are covered by the provisions of the social security act. Such coordinated plan members shall consist of all future employees who shall enter upon membership of the retirement system on and after January 1, 1958, the effective date of the social security agreement extending coverage under the social security act to members of the retirement system, except employees in positions to which such coverage is not extended. (*Sub. 2 am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.*)

36-06-4 Employees' Retirement System

4. CONTRACTUAL RIGHTS MAINTAINED. The contractual rights which are vested and provided for under the employees' retirement act, including the provision therein with respect to deferred pay, shall in all respects apply and be in effect with respect to the coordinated plan. None of such rights shall be disturbed or impaired, except that contributions required of the employee and employer to such coordinated plan may be adjusted in accordance with the provisions of the coordinated plan, and a deduction in benefits or allowances granted under the employees' retirement act subsequent to the effective date of the coordinated plan may be made in order to carry out the provisions of such coordinated plan. The benefits or allowances under the coordinated plan may be subsequently amended only in the particulars required because of amendments to the social security act, it being expressly understood that a participating employee in such coordinated plan shall in no manner whatsoever, except as provided in this subsection at the time of its enactment, have his rights, benefits or privileges cancelled, impaired or abrogated; and any employee eligible to participate in such coordinated plan shall have a vested right upon a contractual basis to obtain the rights, benefits and privileges which are accorded and granted by the employees' retirement act under the coordinated plan. Such rights, benefits and privileges herein referred to and existing upon a contractual and vested basis are predicated upon a consideration for services rendered and to be rendered by such employee and deferred pay as provided in s. 36-13-4; and as a consideration of the employment, such benefits, rights and privileges shall neither be abrogated nor impaired, except only as is required by virtue of amendments to the social security act which affect the provisions of the coordinated plan. Contractual rights hereunder shall be applicable also to any member who entered the system after January 1, 1958. (*Sub. 4 am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.*)

5. PROVISIONS OF COORDINATED PLAN DETAILED. a. Benefits. The benefits of the coordinated plan shall be those set forth in s. 36-05 with the following exceptions:

a-1. Optional benefits. Any optional benefit payable prior to the payment of a social security benefit shall be based on the actuarial equivalent of the retirement allowance otherwise payable, taking into account the reduction in the retirement allowance after the social security benefit becomes payable.

a-2. Adjustment of retirement allowances for social security benefits. Until the effective date of any service retirement, any coordinated plan member may elect to convert the allowance otherwise payable on his account after retirement into a retirement allowance of equivalent actuarial value of such amount that, with his social security benefit he will receive, so far as possible, approximately the same amount per year before and after the commencement of such benefit. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

b. Contributions. b-1. Coordinated plan members' contributions. The contributions required of the coordinated plan member shall be those set forth in s. 36-08-7. This section shall be operative with the first pay period for 1969. (*Subd. 1 am. Ch. Ord. 382 File #71-2300, Mar. 21, 1972.*)

b-2. Employer's contribution under coordinated plan. The contributions required by the employer under the coordinated plan may be adjusted as is required under s. 36-08-6. (*Subd. 2 am. Ch. Ord. 382 File #71-2300, Mar. 21, 1972.*)

b-3. Retroactive taxes under federal insurance contributions act. The proper cityofficers and the annuity and pension board are authorized to pay from the annuity savings fund an amount equal to the taxes under the federal insurance contributions act payable by a coordinated plan member for the period beginning January 1, 1956, to the date of transfer. Such amount shall be deducted from the amount credited to such member in the annuity savings fund and the execution of the consent agreement as hereinafter provided for shall evidence authority granted by such member for such deduction. (*Subd. 3 am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

6. CONSENT AGREEMENT. Members of the employees' retirement system who elect to participate under the coordinated plan shall execute a consent agreement. (Sub. 6 am. Ch. Ord. 332, File #67-355-a, July 25, 1967.)

7. AUTHORITY TO ACT UNDER COORDINATED PLAN AGREEMENT. The common council may by resolution within the limitation provided for in this subsection authorize the manner and method of making deductions from wages and for making payments and designate the officer or officers of the city who shall be required to make such deductions and payments. (Sub. 7 am. Ch. Ord. 382 File #71-2300, Mar. 21, 1972.)

9. LIMITATIONS OF PAYMENT UNDER COORDINATED PLAN. In applying the provisions of this section relating to the coordinated plan, it is expressly provided that no member participating in the coordinated plan and who shall retire during the period from June 29, 1975 to December 28, 1975, shall receive by way of retirement allowances, together with social security benefits, an aggregate sum in excess of 82% of his or her final average salary, and in the event that the amount which such member would receive under the coordinated plan, including social security benefits, paid to him or her, not including social security benefits paid in respect of such member's dependents, exceeds such amount, then the retirement allowance shall be reduced to an amount which, when added to social security benefits as herein set forth, shall not in the aggregate exceed 82% of his or her final average salary. It is expressly provided, however, that additional contributions made by an employee who shall retire after June 29, 1975 under s. 36-08-7-f shall be excluded in determining the 82% limitation provided for herein. It is further expressly provided that no member participating in the coordinated plan and who shall retire from and after December 28, 1975, shall receive by way of retirement allowances, together with social security benefits, an aggregate sum in excess of 85% of his or her final average salary, and in the event that the amount which such member would receive under the coordinated plan, including social security benefits paid to him or her, not including social security benefits paid in respect

of such member's dependents, exceeds such amount, then the retirement allowance shall be reduced to an amount which, when added to social security benefits as herein set forth, shall not in the aggregate exceed 85% of his or her final average salary. It is expressly provided, however, that additional contributions made by an employee who shall retire after December 28, 1975, under s. 36-08-7-f shall be excluded in determining the 85% limitation provided for herein. Commencing with duty disability payments occurring on or after January 1, 1995, in applying the provisions of this subsection the maximum duty disability allowance payable to a member participating in the coordinated plan under s. 36-05-3 together with the member's social security benefit shall be limited to an aggregate sum of 100% of the member's final average salary, provided the disability pension is not fixed. (Sub. 9 am. Ch. Ord. 423, File #74-675-d, July 15, 1975. Sub. 9 am. File #940937, Oct. 18, 1994; eff. Jan. 3, 1995.)

10. CONSTRUCTION AND APPLICATION OF COORDINATED PLAN PROVISIONS.

a. The provisions of this section shall be construed and applied in such a manner so that the same shall be consistent with and in conformity to the provisions of the federal laws and regulations relating to Title II of Federal Old Age, Survivors, and Disability and Health Insurance Benefits act, and the effective date referred to shall be deemed to be January 1, 1958 the date when an agreement extending coverage under the social security act to members of the employees' retirement system was executed. (*Par. a am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.*)

c. In construing or applying the provisions of this section referring to the attainment of age 65 for social security benefits or allowances, such age shall apply except, however, that if the social security act is amended to provide for a different age for eligibility for full benefits or allowances, then such age for eligibility for full benefits as provided for in the social security act as amended shall be applicable in applying provisions of the coordinated plan.

36- Employes' Retirement System

[This page blank]

d. It is expressly provided that any person who participates in the coordinated plan shall be required as a condition of his participation in such plan to make available to the annuity and pension board of the employees' retirement system such information concerning social security benefits as the board shall deem pertinent. (*Par. d am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

e. From and after December 31, 1966, there shall be no reduction in nor shall there be any offset to, the retirement allowance of any member of the coordinated plan who retires at any time subsequent to December 31, 1966, because of his receipt or eligibility to receive social security allowances or benefits. As to a member in the coordinated plan, who retires between January 1, 1966, and December 31, 1966, both dates inclusive, and who is eligible to receive or receives social security benefits, there shall be no reduction nor offset in his retirement allowance after December 31, 1966. This amendment has no application whatever to provisions of the employees' retirement act pertaining to the 82% maximum for those members who shall retire during the period from June 29, 1975 to December 28, 1975, and to the 85% maximum for those members who shall retire after December 28, 1975, as set forth in sub. 9. It is the intentment of this subsection that the retirement allowance of any member in the coordinated plan who retires on January 1, 1967, or any time thereafter, shall not be reduced nor shall it be offset in any manner because such member is or becomes eligible to receive or does receive Social Security benefits and that the social security offset hereinbefore provided for in the employees' retirement act is eliminated, further as to those members of the coordinated plan who retire at any time subsequent to December 31, 1965, but prior to January 1, 1967, no offset shall be applied effective January 1, 1967. (*Par. e am. Ch. Ord. 423, File #74-675-d, July 15, 1975.*)

f. Notwithstanding sub. 9, general members in the coordinated plan who retire on or after January 1, 1989, shall not receive a reduction in their service retirement allowance on account of social security benefits. Members in the coordinated plan who retire on or after January 1, 1989, shall not receive by way of a service retirement allowance, exclusive of social security benefits, a sum in excess of 70% of final average salary provided, however, that the application of this limitation shall not operate to

diminish that portion of a member's retirement allowance attributable to creditable service earned through December 30, 1988. (*Par. f. cr. File #891171, Sept. 28, 1989; eff. Dec. 17, 1989.*)

12. BOARD TO CERTIFY NUMBER OF TRANSFERS. The board shall certify to the director of the public employes social security fund, the number of persons who have qualified to be covered by each modification to be submitted to implement this section. (*Sub. 12 am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

36-07. Re-examination of Disability Beneficiaries. 1. PERIODIC MEDICAL EXAMINATIONS. Once each year during the first 5 years following retirement of any disability beneficiary and once in every 3 year period thereafter, the board may require such beneficiary, if he has not attained the minimum service retirement age, to submit to a medical examination by a physician or physicians of or appointed by the medical council or the board. Should any such beneficiary refuse in any such year or period to undergo at least one such medical examination, his allowance may be discontinued until he consents to the examination; and should the refusal continue for one year, all rights in and to the allowance may be revoked by the board, in which event there shall be refunded to him at the time of the termination of his allowance a lump sum equal in amount to the difference between the amount of his accumulated contributions at the time of his retirement and the sum of the payments actually made to him during his disability retirement that is the actuarial equivalent of his accumulated contributions at retirement. However, the refund herein provided for shall only be payable if such member is eligible therefor under s. 36-05-6. (*Sub. 1 am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.*)

2. ADJUSTMENT OF ALLOWANCE.

a. In the event the board shall determine, based upon information received by it from the medical council or from other sources, that a disability beneficiary is able to engage in a gainful occupation which pays more than the difference between the current salary for the position held by such person at the time of retirement and the retirement allowance granted to him, in such instance the pension of such person shall be reduced by the amount of such excess earnings. If the earning capacity of

36-08 Employees' Retirement System

such person be later changed, then the amount of his pension may be modified, provided the new pension shall at no time exceed the amount of the pension granted at the time of his retirement. This provision shall not apply in the instance of a disability beneficiary having attained the age for service retirement.

b. Any person who was a member of the employees' retirement system and who had retired on a disability pension prior to the enactment of par. a, ch. ord. 307 passed July 14, 1964, which was granted under the provisions of this act, shall have his disability pension computed as provided for in s. 36-07-2-a of ch. ord. 338 commencing from and after January 1, 1968. (*Sub. 2 rn. to sub. 2-a, Ch. 338, File #63-2069-c, March 7, 1968. Sub 2-b cr. Ch. Ord. 338, File #63-2069-c, Mar. 7, 1968.*)

3. MEMBERSHIP RESTORED.

Should any disability beneficiary be restored to active service prior to attaining the minimum service retirement age, or should any disability beneficiary other than a fireman retired on ordinary disability, or a policeman retired on duty disability and appointed to a position in active service pursuant to s. 62.51, Wis. Stats., on or after May 3, 1988, be at any time in active service prior to attaining the minimum service retirement age, the disability retirement allowance shall cease, and he or she shall again become a member of the retirement system. Should a fireman retired on ordinary disability apply for and accept employment with the city or a city agency prior to attaining the minimum service retirement age, his or her disability retirement allowance shall cease and he or she shall become a member upon completion of a probationary period. Should a policeman retired on duty disability be appointed to a position in active service pursuant to s. 62.51, Wis. Stats., on or after May 3, 1988, payment of the duty disability retirement allowance shall be suspended during the period in which the person holds office pursuant to s. 62.51, Wis. Stats.; and thereafter, notwithstanding s. 36-05-3-c-1, the person shall receive a duty disability allowance during the period of the disability in an amount equal to 75% of the annual salary at the time of appointment pursuant to s. 62.51, Wis. Stats., for the position which the person held at the time of injury, increased by the percentage of across-the board management pay increases occurring after appointment pursuant to s. 62.51, Wis. Stats. For a person restored to membership under this subsection, any prior service certificate on the basis of which an

allowance was computed at the time of disability retirement shall be restored to full force and effect, and in addition, upon his subsequent retirement the person shall be credited with all his or her membership service on the basis of which the allowance was computed at the time of disability retirement, and all service credit to which, the person is entitled under s. 36-04-3. (Sub. 3 am. Ch. Ord. 559, File #85-737-d, April 15, 1986; eff. June 30, 1986. Sub. 3 am. File #880374, June 7, 1988; eff. Aug. 22, 1988. Sub. 3 am. File #881667, Dec. 20, 1988; eff. March 13, 1989.)

[Note: This subsection shall apply to policemen retiring on a normal service retirement allowance on or after January 1, 1987. (*File #881667, Dec. 20, 1988; eff. March 13, 1989.*)]

36-08. Method of Financing. 1. FUNDS. The assets of the retirement system shall be credited according to the purpose for which they are held in one of 4 funds as follows:

2. RETIREMENT FUND.

a. Contributions. The retirement fund shall be the fund into which all member and city or city agency contributions, made with respect to members, retired members, survivors, and beneficiaries who are not participants in the combined fund, together with investment income attributable to the retirement fund shall be paid except as hereinafter otherwise provided. There shall also be paid into the retirement fund all other amounts received by the board with respect to members, retired members, survivors, and beneficiaries who are not participants in the combined fund as directed by it. All retirement allowances, death benefits, separation benefits and other benefits except as hereinafter otherwise provided shall be paid from the retirement fund for members, retired members, survivors, and beneficiaries who are not participants in the combined fund. (*Par. a-1 cr. File #942016, July 14, 1995; eff. Sept. 27, 1995. Par. a am. File #970387, Oct. 14, 1997, eff. Dec. 17, 1997. Par. a am. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. a-1 rp File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

b. Duty Disability Fund. The actuary for the board shall each year determine what funds are required to provide duty disability benefits under s. 36-05-3 and heart and lung law benefits under s. 891.45, Wis. Stats. with respect to members, retired members, survivors and beneficiaries who are not participants in the combined fund. He or she shall certify the

contributions required of the city and the city agencies to pay for the duty disability benefits for firemen and policemen and general employees with respect to members, retired members, survivors and beneficiaries who are not participants in the combined fund; and also the contributions required of the city to pay benefits which arise and are allowed under the heart and lung law in excess of any disability and/or death benefits otherwise payable under the system. Benefits arising under the heart and lung law with respect to members, retired members, survivors and beneficiaries who are not participants in the combined fund shall be paid only from a fund established for such purpose and such heart and lung benefits shall not be paid out of any other funds of the retirement system. Effective January 1, 2000, there shall no longer be separate determinations each year relative to the funds required to provide duty disability retirement benefits for participants in the combined fund. (Par. b am. File #950929, Nov. 10, 1995; eff. Jan. 31, 1996. Par. b am File #991585, April 11, 2000. eff. Jan. 19, 2001.)

c. Duty Disability, Special Fund. The actuary shall annually determine the funds necessary to provide all duty disability benefits under s. 36-05 with respect to members, retired members, survivors and beneficiaries who are not participants in the combined fund. He or she shall certify the contributions required of the city and the city agencies to provide such benefits. Benefits arising under s. 36-05-3-c with respect to members, retired members, survivors and beneficiaries who are not participants in the combined fund shall be paid only from a fund established for such purpose and such benefits shall not be paid from any other funds of the retirement system. It shall be a violation of law to do so. There shall not be a separate contribution under this par. for participants in the combined fund. Effective February 1, 1996, the duty disability, special fund shall be merged with the retirement fund for members first enrolled on or after February 1, 1996. Thereafter, there shall no longer be separate determinations each year of the funds necessary to provide all necessary duty disability benefits under s. 36-05 for members first enrolled on or after February 1, 1996 and benefits for members first enrolled on or after February 1, 1996 arising under s. 36-05-3-c shall be paid from the retirement fund. Effective January 1, 2000 the retirement system shall transfer into the combined fund: (1) the liabilities of the duty disability special fund

attributable to participants in the combined fund, (2) the proportionate share of the market value of assets in the duty disability special fund which is calculated by multiplying the market value of assets in the duty disability special fund by a fraction the numerator of is the liabilities of the duty disability special fund attributable to participants in the combined fund and the denominator of which is the total liabilities of the duty disability special fund. (Par. c, cr., Ch. Ord. 382, File #71-2300, Mar. 21, 1972. Par. c, am. File 950929, Nov. 10, 1995; eff. Jan. 31, 1996. Par. c am. File #991585, April 11, 2000; eff. Jan. 19, 2001.)

3. EXPENSE FUND. The expense fund shall be the fund to which shall be credited all money deposited in accordance with s. 36-09-6 to pay the expenses necessary in connection with the administration and operation of the retirement system and from which payments are made for those administrative expenses. For purposes of this section, investment expenses shall include all fees and costs associated with investment of the retirement system assets, including fees for investment managers, investment advisors and investment consultants, and the costs of buying and selling securities or other investments.

a. Annually, the board shall estimate the amount of money which shall be deemed necessary to provide for the expense of operation of the retirement system. On or before the second Tuesday in May of each year the board shall file with the mayor a detailed statement of all estimated expenses which are to be incurred during the ensuing calendar year. Such statement shall be reviewed and approved as are all other budgetary requests under ch. 18. The board may authorize the payment of expenses from the combined fund, which were not contemplated at the time the annual budget was approved, if the payment of such expenses is authorized by a resolution adopted by a three-quarter vote of the members-elect of the city common council.

b. Excess revenue deposited in the expense fund in accordance with s. 36-09-6 shall be available for expenditure by the employees retirement system without budgetary authorization provided that such expenditure shall be approved in advance by the board and such expenditure for the prior year shall be reported to the mayor at the time the board files a detailed statement of all estimated expenses which are to be incurred during the ensuing calendar year. Excess revenue from security

36-08-4 Employees' Retirement System

ending deposited in the expense fund which is not expended by the close of the calendar year next following the calendar year in which it is deposited shall be transferred to the retirement fund established under sub. 2.

(Sub. 3 am. Ch. Ord. 477, File #79-693, July 24, 1979. Sub. 3 am. File #930242, July 6, 1993; eff. Sept. 21, 1993., Sub. 3 rc. File #970387, Oct. 14, 1997; eff. Dec. 17, 1997. Sub. 3 am. File #991585, April 18, 2000; eff. Jan. 19, 2001. Sub. 3-0 and a am. File #991585, April 11, 2000; eff. Jan. 19, 2001. Sub 3 am. File #021328, Jan. 22, 2003; eff. April 9, 2003.)

4. FIREMEN AND POLICEMEN'S SURVIVORSHIP FUND. The firemen and policemen's survivorship fund shall be the fund in which shall be accumulated all reserves from contributions by members and the city for the payment of survivorship benefits for members, retired members survivors and beneficiaries who are not participants in the combined fund as provided for in this act. The funds for firemen and policemen's survivorship benefits may be invested as provided in s. 36-09. Effective January 1, 2000 the firemen and policemen's survivorship fund shall no longer be in existence for firemen and policemen and firemen and policemen retired on a disability allowance who participate in the combined fund. *(Sub. 4 am. File #991585, April 11, 2000; eff. Jan. 19, 2001.)*

5. INVESTMENT FUND ACCOUNT.

a. The board shall maintain as part of its accounts a separate and independent account known as the investment fund account. All gains realized by the board upon the sale, redemption or other disposition of securities during a calendar year shall be credited to such fund, and all investment expenses and losses sustained by the board through the sale, redemption or disposition of securities except sales of bonds referred to in par. b during a calendar year shall be charged against such fund. The board shall have approval over investment expenditure arrangements but shall file with the mayor a detailed statement of all estimated investment expenses which are to be incurred during the ensuing calendar year, similar to the expenses to be paid from the expense fund in sub. 3. Any remaining balance in such fund at the close of the calendar year shall be allocated to the various other funds established under this section based upon the weighted average fund balances at cost for the year for such funds. *(Par. a rc., Ch. Ord. 499, File #80-1509, Jan. 20, 1981; Par. a-1 rc. File #970387, Oct. 14, 1997; eff. Dec. 17, 1997.)*

b. The board shall maintain as part of its accounts an account known as unamortized losses on sale of bonds for reinvestment. This account shall be charged with all losses sustained by such board upon the sale of bonds effected by investment counsel without prior approval of such board, but only upon written recommendation from investment counsel including a report that the proceeds from other securities purchased with the proceeds of such sale will produce or exceed recovery of the loss over the remaining life of the bonds sold, or 10 years, whichever period is the shorter. The investment counsel shall be liable to the fund for any imprudence in making such sales without prior approval of the board. Based on the period during which the losses were determined to be recovered, such amortization annually shall be charged against investment income before determining net income realized from investments. This paragraph shall not apply to sales of bonds occurring on or after January 1, 1983. *(Par. b am. Ch. Ord. 518, File #82-968, Oct. 19, 1982.)*

6. CITY CONTRIBUTIONS.

Contributions by the city and city agencies shall be made as follows:

a. Retirement Fund. On account of members, retired members, survivors, and beneficiaries who are not participants in the combined fund, there shall be paid annually into the retirement fund by the city and city agencies for the preceding fiscal year an amount equal to the "normal contribution" as that term is defined in subd. 1, plus the amount required to bring the expected actuarial funded status of the retirement fund, as of the date the contribution is payable, to a percentage in excess of 100%.

a-1. The normal contribution for the retirement fund for the preceding fiscal year shall be the growth in actuarial accrued liability expected as a result of service in that year for all members participating in the retirement fund reduced, but not below zero, by member contributions expected to be deposited in the retirement fund under sub. 7. The actuarial accrued liability as of the valuation date shall be the portion of the total liabilities of the retirement fund that is based on service earned as of the valuation date by each active member, beneficiary and separated vested member who has not withdrawn accumulated contributions. The normal contribution shall be determined separately in respect of firemen and policemen. The determination of the normal contribution shall be based on such interest,

mortality, separation, morbidity and retirement tables as have been adopted by the board. The normal contribution shall be determined by the actuary after each valuation. (*Subd. 1 am Ch. Ord. 489, File #80-225, June 17, 1980. Subd. 1 am. File #921978, Apr. 8, 1993; eff. June 16, 1993. Par. a rc. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. a-1 am. File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

a-2. Any difference between the actuarial accrued liability as defined in subd. 1, and the sum of the actuarially determined value of the assets of the retirement fund plus any unamortized bases established under this par. in prior valuations, shall be amortized over a period which will not exceed 30 years from the valuation date on which such difference is established; provided that as part of the valuation next following a fiscal year in which the city and city agency contributions are zero due to application of the 100% funded status limitation of this par. the actuary may eliminate any previously established amortization schedules and bases and shall recalculate a new "fresh-start" amortization schedule. Future payroll growth may be taken into account in the amortization process. (*Subd. 2 rc. File #942017, July 14, 1995; eff. Sept. 27, 1995. Subd. 2 rc. File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

b. Firemen and Policemen's Survivorship Fund. There shall be paid annually into the firemen and policemen's survivorship fund the amount required under s. 36-05-8-d. Notwithstanding the foregoing, effective January 1, 2000 no contributions shall be made to the firemen and policemen's survivorship fund by or on behalf of participants in the combined fund. (*Par. b am. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par c rp. File # 991585, April 11, 2000; eff. Jan. 19, 2001. Par. d cr. File #942017, July 14, 1995; eff. Sept. 27, 1995.) Pars. c and d rp. File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

e. On or before September 1 in each year, the board shall certify to the common council or other governing body, and city agencies, the amounts which will become due and payable during the year next following to each of the funds of the retirement system. The amount so ascertained shall be included by the common council or other governing body and city agencies in their budgets and shall be appropriated and paid to the retirement system by the city and city agencies in January of the fiscal year next following. (*Par. d rn. to e File #942017, July 14, 1995; eff. Sept. 27, 1995.*)

f. In order to meet the requirements of this act, the common council or other governing body or city agency is authorized to levy a tax annually, which tax shall be in addition to all other taxes such common council or other governing body or city agency has been authorized to levy upon all taxable property, real and personal. Such tax shall be levied and collected at the same time and in the same manner as other city or city agency taxes are levied and collected according to law. (*Par. e rn to f File #942017, July 14, 1995; eff. Sept. 27, 1995.*)

g. Such city agencies not authorized by law to levy a tax upon taxable property shall upon the direction of the board include the necessary amounts so needed in their respective budgets. (*Par. f rn. to g File #942017, July 14, 1995; eff. Sept. 27, 1995.*)

h. Combined Fund.

h-1. Beginning with the contribution due on January 31, 2014, on account of members, retired members, survivors and beneficiaries who are participants in the combined fund, the city and city agencies shall pay annually into the combined fund for the preceding year an amount equal to the product of the actuarial contribution rate applied to the sum of the covered compensation. The actuarial contribution shall be based on separately calculated rates for policemen, firemen, and general city employees and shall be applicable for a 5-year period. The actuary shall, consistent with actuarial standards of practice, set the actuarial contribution rate at a percentage sufficient to fund the entire amount of the employers' share of the normal cost, to amortize any unfunded past service liability and to maintain the solvency of the combined fund to meet benefit obligations for retired lives.

h-2. Commencing with the contribution due on January 31, 2019, the actuary shall reset the actuarial contribution rate every 5 years in conjunction with a 5-year experience review of the employees' retirement system. The actuary shall, consistent with standards of actuarial practice, base the reset rate on the current interest, mortality, separation, morbidity and retirement tables as adopted by the board.

h-3. The actuary shall submit the annual contribution amounts payable each year based on the actuarial contribution rate to the board no later than August 15. (*Par. h cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. h-2 am. File #091274, March 2, 2010; eff. May 18, 2010. Par. h rc File #121417, April 30, 2013; eff. July 16, 2013.*)

36-08-7 Employees' Retirement System

7. MEMBER CONTRIBUTIONS.

Member contributions to the system shall be deposited in the member's account as follows:

a. Members who are not firemen, policemen or elected officials shall contribute or have contributed on their behalf, 5.5% of the members' earnable compensation. Subsequent to and commencing with the first pay period of 1970, the city shall contribute on behalf of a general city employee 5.5% of such member's earnable compensation. Members employed by city agencies participating in the system shall contribute 5.5% of their earnable compensation less any contribution made on their behalf as determined by the governing bodies of such agencies. Notwithstanding the foregoing, subsequent to and commencing with the first pay period following the effective date of this charter ordinance, all members who are not firemen, policemen or elected officials and were enrolled as members of the retirement system prior to January 1, 2014, shall contribute 5.5% of their earnable compensation. General city employees who enroll as members in the retirement system on or after January 1, 2014, shall contribute 4% of their earnable compensation. (*Par. a rc., Ch. Ord. 375, File #71-1754, Dec. 7, 1971. Par. a ra. to a-1, File #090613, Sept. 22, 2009; eff. Dec. 9, 2009. Par. a-1 am. File #121701, May 21, 2013; eff. Aug. 10, 2013; Par. a-1 am. File #110740, Nov. 7, 2014; eff. 1/26/2015.*) (*Par. a-2 cr, File #090613, Sept. 22, 2009; eff. Dec. 9, 2009. Par. a-2 am. File #090951 Dec. 1, 2009; eff. Feb. 16, 2010. Par. a-2 am. File #091068, Dec. 22, 2009; eff. March 10, 2010. Par. a-2 am. File #091214, Jan. 20, 2010; eff. April 5, 2010. Par. a-2 am. File #091308, March 2, 2010; eff. May 18, 2010. Par. a-2 am. File #091530, March 24, 2010; eff. June 1, 2010. Par. a-2 am. File #091609, May 25, 2010; eff. August 10, 2010. Par. a-2 am. File #100173, June 15, 2010; eff. August 25, 2010. Par. a-2 am. File #100241, July 7, 2010; eff. Sept. 22, 2010. Par. a-2 am. File #100574, Sept. 21, 2010; eff. Dec. 6, 2010. Par. a-2 am. File #101070, Jan. 19, 2011; eff. March 29, 2011. Par. a-2 am. File #101418, April 12, 2011; eff. June 28, 2011. Par. a-2 am. File #101246, July 26, 2011; eff. Oct. 11, 2011. Par. a-1 ra. File #110740, Nov. 7, 2014; eff. Jan. 26, 2015*) (*Par. a-3 cr. File #121701, May 21, 2013; eff. Aug. 10, 2013. Pars. a-2 & 3 rp. File #110740, Nov. 7, 2014; eff. Jan. 26, 2015.*)

b. Except for members of the system, who are initially employed as firemen or policemen on or after October 3, 2011, the employer shall have the obligation to contribute the percentages set forth in this section.

Members who are firemen shall have contributed for them by the employer 7% of such firemen's earnable compensation. Members who are policemen shall have contributed by the employer, commencing with the 1st pay period of 1971, 6% of such policemen's earnable compensation; policemen shall contribute 1% of their earnable compensation. Members who are policemen shall have contributed by the employer commencing with the first pay period of 1990, 7% less \$1 of such policemen's earnable compensation. Commencing in 1990, policemen, excluding sergeant of police, detective lieutenant and ranks above same, shall contribute \$1 of their longevity in rank pay, if any, payable at the close of the year. Notwithstanding the foregoing, commencing with the 1st pay period of 2016, policemen who were enrolled as members in the retirement system before October 3, 2011, shall contribute 7% of their earnable compensation. Notwithstanding the foregoing, commencing with the 1st pay period of 2015 until the 1st pay period of 2016, firemen who were enrolled as members in the retirement system before October 3, 2011, shall contribute 3.5% of their earnable compensation; thereafter, commencing with the 1st pay period of 2016, these firemen shall contribute 7% of their earnable compensation. Members of the system who are initially employed as firemen or policemen on or after October 3, 2011, shall contribute 7% of their earnable compensation. (*Par. b am. Ch. Ord. 556, File #85-769, Dec. 4, 1985; eff. Feb. 17, 1986. Par. b am. File #890633, July 25, 1989; eff. Oct. 14, 1989. Par. b, am. File #910901, Sept. 24, 1991; Dec. 10, 1991. Par. b am. File #110347, July 26, 2011; eff. Oct. 11, 2011. Par. b am. File #151113, Dec. 15, 2015; eff. Feb. 29, 2016. Par. b am. File #141569, May 24, 2016; eff. Aug. 10, 2016. Par. b am. File #160124, July 26, 2016; eff. Oct. 11, 2016. Par. b am. File #141568, Sept. 20, 2016; eff. Dec. 6, 2016.*)

c. Members who are elected officials shall contribute or have contributed on their behalf 7% of the members' earnable compensation, and in respect to such members subsequent to and commencing with the 1st pay period of 1971 the city shall contribute 7% of earnable compensation. Notwithstanding the foregoing, subsequent to and commencing with the first pay period following the effective date of this charter ordinance, elected officials who were enrolled in the retirement system prior to January 1, 2014, and whose accrual rate is 2.5% under s. 36-05-1-g, shall contribute 7% of their earnable compensation and elected officials who were enrolled as members in the retirement system prior to January 1, 2014, and

whose accrual rate is 2% under s. 36-05-1-g, shall contribute 5.5% of their earnable compensation. Elected officials who enroll as members in the retirement system on or after January 1, 2014, shall contribute 4% of their earnable compensation. *(Par. c rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. Par. c am. File #121701, May 21, 2013; eff. Aug. 10, 2013.; par. c am. File #110740, Nov. 7, 2014; eff. Jan. 26, 2015.)*

d. The board shall certify the percentage of earnable compensation of each member to be contributed for a member on each payroll. In determining the amount earnable by a member in a payroll period, the board may consider the rate of compensation payable to such member on the first day of the payroll period as continuing throughout such payroll period, and it may omit contributions for any period less than a full payroll period if an employee was not a member on the first day of the payroll period. *(Par. d rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)*

e. The contributions provided for herein shall be made notwithstanding that the minimum compensation provided for by law for any member shall be reduced thereby. Every member shall be deemed to consent and agree to the contributions provided for herein and shall receipt for his full salary or compensation and payment of salary or compensation less said contributions shall be a full and complete discharge and acquittance of all claims and demands whatsoever for the services rendered by such person during the period covered by such payment, except as to the benefits provided under this act. The city and city agencies shall transmit the amounts contributed and said amounts shall be paid into the retirement fund for participants in the retirement fund, or the combined fund for participants in the combined fund and shall be credited, together with regular interest thereon to the individual account of the member. Effective January 1, 2000, individual accounts, including interest credited annually thereto, for participants in the combined fund shall be transferred from the retirement fund to the combined fund. *(Par. e rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. Par. e am File #991585, April 11, 2000; eff. Jan. 19, 2001.)*

f. In addition to the contributions credited to the member's account as hereinbefore provided, any member may deposit with the system an additional amount, such additional amount in any year not to exceed the amount of the deposit as hereinbefore provided in respect of the member. In respect of such additional contribution, an additional retirement

allowance, death benefit or separation benefit shall be paid that is the actuarial equivalent of such additional accumulated contributions. Such additional amounts so deposited, improved with interest at a rate not exceeding the regular interest rate shall be returnable to the member in cash upon application to the board, or as an additional allowance of equivalent actuarial value at the time of retirement. If such additional amounts are withdrawn at any time prior to the retirement, the member shall not thereafter be eligible to make additional contributions. *(Par. f rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)*

g. Any member covered by the social security act from whose compensation the city is required to make deductions in order to pay taxes or contributions, shall be required to reimburse the city for that part of the social security taxes or contributions which would ordinarily be deductible from compensation paid to such member. If he fails so to do, the board shall deduct from the member's account the amount due the city for such social security taxes or contributions paid before turning over any amounts to such member or to a beneficiary in the instance where the beneficiary would be entitled to the proceeds from such member's account. *(Par. g rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)*

h. If the employer shall pay a part or all of the member contribution to the fund which formerly was deducted from the member's salary or compensation then in such instance no deduction shall be made from the member's salary or compensation for that amount paid by the employer in lieu of the member's contribution, and such contribution shall be credited to the member's account. *(Par. h rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)*

i. The member's account shall consist of those member contributions deposited in accordance with pars. a, b, c, and f and reduced in accordance with par. g together with regular interest thereon. *(Par. i rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)*

j. Notwithstanding anything herein contained to the contrary, in the event the contributions required under pars. a, b, or c are not made by or on behalf of a member, or in the event contributions with or without regular interest or a portion thereof have been returned to a member or paid on his behalf to another party, such member's account shall be reduced accordingly and the benefits otherwise provided under the system shall be reduced by the actuarial equivalent of such payment or

36-08-7-k Employees' Retirement System

contributions not paid by or on behalf of the member. (*Par. j rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.*)

k. Whenever a member's account is less than \$5 upon death or separation from service, his or her membership and account in this system shall be terminated and the amount shall be credited to the retirement fund (or combined fund in the case of participants in the combined fund); however, if a valid claim for the amount is filed by the member or a person legally entitled to the sum, the same shall be refunded. (*Par. k rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. Par. k am. File #991585, April 11, 2000; eff. Jan. 19, 2001.*)

L. In addition to any other member contributions under sub. b, effective Pay Period 1 through Pay Period 26, 1993 and December 31, 1995 through December 28, 1996 for firemen, and effective Pay Period 1, 1993 through December 30, 1995 for policemen, each fireman or policeman in active service and each fireman or policeman, other than a fireman or policeman eligible under s. 36-05-3-c-1-b, who retires on a duty disability retirement allowance on or after January 1, 1993 shall contribute 1% of the member's earnable compensation or 1% of the member's duty disability retirement allowance toward the cost of the benefit provided for under s. 36-05-1-h-6. Effective Pay Period 1, 1994 through December 30, 1995, each fireman, other than a fireman eligible under sec. 36-05-3-c-1-b, in active service and each fireman who retires on a duty disability retirement allowance on or after January 1, 1993 shall contribute 2% of the member's earnable compensation or 2% of the member's duty disability retirement allowance toward the cost of the benefit provided for under s. 36-05-1-h-6. A fireman who retires on a duty disability retirement allowance shall cease to make this contribution at the time the member makes an irrevocable election to continue duty disability or converts to normal service retirement under s. 36-05-3-c-3-f. (*Par. L cr. File #940423, July 15, 1994; eff. Sept. 28, 1994. Par. L am. File #950521, July 28, 1995; eff. Oct. 3, 1995. Par. L rc. File #950597, Sept. 27, 1995; eff. Dec. 13, 1995.*)

m. During the 8-year period immediately following their enrollment, general city employees who are enrolled as members on or after January 1, 2000 shall contribute to the combined fund a sum expressed as 1.6% of the members' pensionable earnings if they participate in the combined fund. If a member who makes contributions under this paragraph separates from service without a vested pension

or withdraws his or her accumulated contributions, amounts contributed under this paragraph shall be returned to the contributor without interest. This subsection shall not apply to general city employees including elected officials, required to contribute a member contribution under par. a or c. (*Par. m cr. File #991585, April 11, 2000; eff. January 19, 2001. Par. m am. File #090613, Sept. 22, 2009; eff. Dec. 9, 2009. Par. m am. File #090951, Dec. 1, 2009; eff. Feb. 16, 2010. Par. m am. File #091068, Dec. 22, 2009; eff. March 10, 2010. Par. m am. File #091214, Jan. 20, 2010; eff. April 5, 2010. Par. m am. File #091308, March 2, 2010; eff. May 18, 2010. Par. m am. File #091530, March 24, 2010; eff. June 1, 2010. Par. m am. File #091609, May 25, 2010; eff. August 10, 2010. Par. m am. File #100173, June 15, 2010; eff. August 25, 2010. Par. m am. File #100241, July 7, 2010; eff. Sept. 22, 2010. Par. m am. File #100574, Sept. 21, 2010; eff. Dec. 6, 2010. Par. m am. File #101070, Jan. 19, 2011; eff. March 29, 2011. Par. m am. File #101418, April 12, 2011; eff. June 28, 2011. Par. m am. File #110174, June 14, 2011; eff. Aug. 30, 2011. Par. m am. File #121701, May 21, 2013; eff. Aug. 10, 2013. Par. m am. File #110740, Nov. 7, 2014; eff. Jan. 26, 2015.*)

n. If a general city employee who enrolled as a member on or after January 1, 2000 separates from service without having contributed the full amount of the contribution required under par. m, and if the employee does not voluntarily pay the amount owed, then the board shall collect the amount as far as practicable by deducting from any benefit payment an amount sufficient to collect the amount owed over the remaining life expectancy of the member. If the benefit is to be paid in a lump sum, the amount owed shall be deducted from the lump sum. If the benefit is to be paid monthly, the monthly payments shall be actuarially reduced over the remaining life of the member to an amount that will collect the amount owed and the loss caused by late payment. (*Par. n cr. File #051397, Feb. 28, 2006; eff. May 16, 2006.*)

o. Pre-Tax Deduction. All member contributions made under pars. a, b and c, except the policemen's \$1 contribution, shall be implemented pursuant to the provisions of Internal Revenue Code Section 414(h) (2) by means of direct payment by the city or city agency to the combined fund. The city or city agency shall fund the cost of member contributions under pars. a and c and for members initially employed as firemen or policemen on or after October 3, 2011, as provided in par. b by means of a pre-tax salary deduction from the salary of employees on whose

behalf such payments are made. Members shall not have the option of choosing to receive the contributed amounts directly instead of having them paid to the combined fund. (*Par. o cr. File #091068, Dec. 22, 2009; eff. March 10, 2010. Par. o am. File #110201, June 14, 2011; eff. Aug. 30, 2011. Par. o am. File #110740, Nov. 7, 2014; eff. Jan. 26, 2015.*)

8. EMPLOYERS' RESERVE FUND. Effective January 1, 2000 there shall be created a fund to be known as the employers' reserve fund for the exclusive purpose of holding voluntary employer contributions made by the city and city agencies. The retirement system shall establish separate accounts within the fund for the city and each city agency. Earnings on funds on deposit in each account shall be credited annually as part of the annual valuation. The city's funds in the employers' reserve fund shall be invested in a manner consistent with guidelines approved by the common council. The administrative functions shall be the responsibility of the committee on finance and personnel. The city shall bear any incremental costs associated with the administration or investment of the city funds. Absent any investment guidelines approved by the common council, earnings shall be credited based on the earnings of the retirement system as a whole. The reserve shall be funded by voluntary contributions from the city and city agencies and also by the amount transferred from the firemen and policemen's survivorship fund. The reserve shall be used to offset against contributions required under subs. 6 and 7 in accordance with directives contained within a formal resolution adopted by the city or city agencies and for no other purposes. No funds may be transferred from the combined fund or the retirement fund to the employers' reserve fund. (*Sub. 8 cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Sub. 8 am. File #100502, Oct. 12, 2010; eff. Dec. 28, 2010*)

9. COMBINED FUND. a. Creation. Effective January 1, 2000, there shall be created a fund to be known as the combined fund into which all member contributions, city contributions and city agency contributions, shall be paid on account of members, retired members and beneficiaries participating in the combined fund, together with interest earnings attributable to assets of the combined

fund. There shall be paid annually into the combined fund by the city and city agencies for the preceding fiscal year the actuarial contribution under sub. 6-h-1 for members who participate in the combined fund. All members of the retirement system first enrolled after June 27, 2000 shall participate in the combined fund. Members and retired members (or their survivors and beneficiaries if the member is deceased) enrolled in the retirement system prior to June 28, 2000 may execute a consent form to participate in the combined fund in which case they shall participate in the combined fund effective January 1, 2000. Other members, retired members, survivors and beneficiaries shall participate in the combined fund effective January 1, 2000 only after there is a final determination by a court of competent jurisdiction that such participation does not violate their individual rights. If a member is a participant in the combined fund the member's survivors and beneficiaries shall be designated as participants in the combined fund by virtue of the members' participation in the combined fund. All retirement allowances, disability benefits, separation benefits and other benefits payable to combined fund participants shall be paid from the combined fund effective January 1, 2000 or upon enrollment in the retirement system if participants are first enrolled in the retirement system after January 1, 2000. Effective January 1, 2000, all expenses in connection with the administration and operation of the retirement system defined as those described in the letter dated April 29, 1999 (and attachments), attached to the file [**#991585, April 11, 2000; eff. Jan. 19, 2001**], including investment related expenses, computerization related expenses and indirect related expenses (overhead) shall be paid from the combined fund created under this subsection.

b. Outstanding debts. Any provision of ch. 36 notwithstanding, all outstanding judgment debts or contributions of the city or any city agency for unpaid contributions to the separate funds under s. 36-08 or the merged fund (merged special disability fund and retirement fund for members enrolled after February 1, 1996, but before January 19, 2001; incurred prior to January 1, 2000, including special disability fund obligations of the city for

36-09 Employees' Retirement System

the years 1996 through 1999, performance fee obligations of the city for the year 1997, investment expense obligations of the city and city agencies for the years 1998 and 1999 and merged fund obligations of the city and city agencies for the years 1997 through 1999 and interest owing thereunder shall become obligations of, and paid from, the combined fund. (*Sub. 9 cr. File #991585, April 11, 2000; eff. Jan. 19, 2001. Par. a am. File #121417, April 30, 2013; eff. July 16, 2013.*)

36-09. Management of Funds. The funds of the retirement system, which, when taken in the aggregate shall constitute a special trust fund to be held in reserve as provided in this act for the payment of benefits, shall be managed as follows:

1. INVESTMENT OF FUNDS. The board shall be the trustee of the several funds of the system and shall contract for investment management services. No one shall be selected as investment manager who does not have 5 years continuous experience acting as investment manager or investment adviser in recognized fields of investments for retirement systems of comparable stature. The board shall exercise prudence in selecting the investment manager, but the exercise of prudence by the board shall not relieve the board from all liability and responsibility with respect to investment of the funds of the system. The board shall reserve the right to terminate any contract for investment management services upon reasonable notice.

a. The several funds of the system shall be invested in accordance with the requirements of ss. 40.03(1)(n) and 62.63 (3), Wis. Stats. Not more than 25% of the assets of the system as measured by their cost as set forth in the last official report shall be invested in accordance with s. 40.03(1)(n), Wis. Stats. Not more than 70% of total assets as measured by their cost shall be invested in stocks of corporations.

b. The board shall establish written objectives and guidelines which shall govern the investment manager selected by the board. The investment manager shall have authority to purchase legal investments and to sell or exchange legal investments in accordance with the written objectives and guidelines established by the board for this purpose. The board shall evaluate the performance of the investment manager on a systematic and regularly

scheduled basis. The board shall have the full power at its sole discretion to contract for an independent performance evaluation of the investment manager.

c. All investments shall be made by the investment manager and nothing contained herein shall prohibit the board from retaining 2 or more investment managers to perform the duties and assume the responsibilities herein provided for and the board may determine the amount of the whole fund to be allocated for investment purposes among such investment managers where more than one investment manager has been selected. However, any investment manager selected shall be required as a condition of his or her selection to meet and satisfy all of the requirements and qualifications specified herein and provided for, for investment manager.

d. Prudent Investor Rule. Except as otherwise specifically provided in this chapter, the board and a person under contract to the employees' retirement system who invests and manages trust assets owes a duty to comply with the prudent investor rule.

d-1. Standard of Care; Portfolio Strategy; Risk and Return Objectives. The board and a person under contract to the employees' retirement system to invest and manage trust assets shall invest and manage assets as a prudent investor would by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the board and such person shall exercise reasonable care, skill and caution. Investment and management decisions respecting individual investment assets must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust. A reasonable effort shall be made to verify facts relevant to the investment and management of trust assets. Assets may be invested in any kind of property or type of investment consistent with the standards of this subd. A board member or a person under contract to the employees' retirement system who invests and manages trust assets who has special skills or expertise or is named in reliance upon his or her representation that he or she has special skills or expertise has a duty to use those special skills or expertise.

d-2. **Diversification.** The board and person under contract to the employees' retirement system to invest and manage trust assets shall diversify the investment of the trust unless the board reasonably determines that because of the special circumstances, the purposes of the trust are better served without diversifying.

d-3. **Loyalty.** The board and a person under contract with the employees' retirement system to invest and manage trust assets shall invest and manage the trust assets solely in the interests of the beneficiaries.

d-4. **Investment Costs.** In investing and managing trust assets, the board and a person under contract to the employees' retirement system to invest and manage trust assets may only incur costs that are appropriate and reasonable in relation to the assets for the purposes of the trust and the skills of the trustee.

d-5. **Delegation.** The board has a duty to personally perform the responsibilities of trusteeship except as those responsibilities are by this section delegated to others or except as a prudent person might delegate those responsibilities to others. In deciding whether and to whom and in what manner to delegate fiduciary authority in the administration of the trust and thereafter supervising agents, the board is under a duty to the beneficiaries to exercise fiduciary discretion and to act as a prudent person would in similar circumstances. In performing a delegated function, a person under contract to the employees' retirement system to invest or manage funds owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation. The board shall not be liable to the beneficiaries or to the trust for the decisions or actions of a person to whom a function was delegated provided that the board shall have used reasonable care, skill and caution in selecting the person; establishing the scope and terms of the delegation consistent with the purposes and terms of the trust; and periodically reviewing the person's actions in order to monitor performance in compliance with the terms of delegation.

d-6. **Reviewing Compliance.** Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of the decision or action and not by hindsight.

d-7. The text and comments to the Uniform Prudent Investor Act promulgated by the National Conference of Commissioners on Uniform State Laws (1994) and the Restatement

of Trusts 3d: Prudent Investor Rule (1992) are interpretive of the provisions of this par.

d-8. Nothing in this par. prevents the board and the employees' retirement system from requiring indemnification or insurance from a contractor, nor does anything in this par. preclude the board and the employees' retirement system from obtaining indemnification or insurance for their activities.

2. TRANSFERS OF PROPERTY; REINVESTMENT OF FUNDS. The board shall have full power to make all transfers and conveyances of any securities or property in which it may from time to time invest and reinvest the several funds of the system or any part thereof, and no purchaser or purchasers shall be responsible for the application of the purchase money or other avails received by or for said board.

3. INTEREST. The board annually shall credit regular interest to the members' accounts and on the mean amount for the preceding year in each of the other funds with the exception of the expense fund. The amounts so allowed shall be due and payable to said funds, and shall be annually credited thereto by the board from interest and other earnings on the moneys of the retirement system. Any additional amount required to meet the interest on the funds of the retirement system shall be paid by the city and city agencies, and any excess of earnings over such amount required shall be deductible from the amounts to be contributed by the city and city agencies except for the firemen and policemen's survivorship fund. Regular interest shall mean such rate, compounded annually, as shall be determined by the board on the basis of interest earnings of the system for the preceding year and of the probable earnings to be made, in the judgment of the board, during the immediate future such rate to be limited to a minimum of 3% and a maximum of 4%.

4. INTEREST IN OR USE OF FUND. Except as herein provided no member of the board and no employee of the board shall have any interest, direct or indirect, in the gains or profits of any investment made by the board. No member of the board or employee thereof shall directly or indirectly, for himself or as an agent, in any manner use the funds or deposits of the retirement system except to make such current and necessary payments as are authorized by the board; nor shall any member or employee of the board become an endorser or surety or

36-09-5 Employees' Retirement System

In any manner an obligor for moneys loaned by or borrowed from the board.

5. EFFECTIVE DATE. Wherever used in this act the term "effective date of the retirement system" shall be construed to mean January 1, 1938, and the term "effective date of the act" shall refer to the effective date when the legislature made such provision effective in the event of legislation enacted by the Wisconsin legislature, and in the event of a charter ordinance the effective date when such amendment came into effect as a result of common council enactment of the charter ordinance.

6. POWERS AND PRIVILEGES OF RETIREMENT SYSTEM. The retirement system shall have all of the powers and privileges of a corporation, as enumerated in chs. 180 and 182, Wis. Stats., including the power to contract with its members, and shall be known as the "employees' retirement system of the City of Milwaukee," and by such name shall all of its business be transacted. All of its funds shall be invested, or held in the name of the employees' retirement system, except that investment in loans, securities or other investments may be in the name of or transferred to nominees of one or more banks or trust companies under a custodial agreement between the board and each such bank or trust company. The custodial agreement may provide that loans, securities or other investments in the name of or transferred to nominees of one or more banks or trust companies may be loaned by the custodian with suitable collateral in an amount not less than 102% of market value. All its cash and securities and other property shall be held in trust for the purpose for which received. Revenue from security lending shall be used to offset custodial fees and any excess revenue from security lending shall be deposited in the expense fund established under s. 36-08-3. Any incorrect spelling of name of the system shall not be deemed to invalidate any document or affect any transaction of the system and for purposes of action under this act shall be without consequence or effect.

7. LIMITATIONS. All funds of the system shall be invested prudently and in accordance with the requirements of the law and of this act and no funds whatsoever of the pension system may be either pledged, deposited, or used in any form or in any manner whatsoever to provide either credits or support or act as deposit for or be used as collateral for any banking, financing, borrowing or other

related transaction whatsoever. The board may contract for investment or custodial services or both with a state investment board or with a nationally recognized banking or investment institution. It is intended that this provision shall be given its most liberal construction which will prevent and preclude the use of funds for the purposes heretofore enumerated. This provision is deemed to be contractual and a vested right of each and every member and beneficiary of the system.

8. COMPLIANCE FOR GROUP TRUST PARTICIPATION. a. The board may, unless restricted by law, transfer all or any portion of the assets of the retirement system to a collective or common group trust, as permitted under Revenue Ruling 81-100, Revenue Ruling 2011-1, and Revenue Ruling 2014-24 ,or subsequent guidance, that is operated or maintained exclusively for the commingling and collective investment of monies, provided that the funds in the group trust consist exclusively of trust assets held under plans qualified under s. 401(a) of the Internal Revenue Code, individual retirement accounts that are exempt under s. 408(e) of the Internal Revenue Code, eligible governmental plans that meet the requirements of s. 457(b) of the Internal Revenue Code, and governmental plans under s. 401(a)(24) of the Internal Revenue Code. For this purpose, a trust includes a custodial account or separate tax-favored account maintained by an insurance company that is treated as a trust under s. 401(f) or s. 457(g)(3) of the Internal Revenue Code.

b. Any collective or common group trust to which assets of the retirement system are transferred pursuant to par. a shall be adopted by the board as part of the retirement system by executing appropriate participation, adoption agreements, or trust agreements with the group trust's trustee.

c. The separate account maintained by the group trust for the retirement system pursuant to par. a shall not be used for, or diverted to, any purpose other than for the exclusive benefit of the members and beneficiaries of the retirement system.

d. For purposes of valuation, the value of the separate account maintained by the group trust for the retirement system shall be the fair market value of the portion of the group trust held for the retirement system, determined in accordance with generally recognized valuation procedures.

(S. 36-09 am. Ch. Ord. 332, File #67-355-a, July 25, 1967. 36-09-0 am. Ch. Ord. 368, File #70-2757, April 13, 1971. 36-09-1 rc. Ch. Ord. 448, File #77-152, July 26, 1977. 36-09-1-0 am. File #912350, April 15, 1992; eff. July 9, 1992. 36-09-1-a am. File #891732, Jan. 16, 1990; eff. April 4, 1990. 36-09-1-a am. File #950077, July 14, 1995; eff. Sept. 27, 1995. 36-09-1-c am. File #950077, July 14, 1995; eff. Sept. 27, 1995. 36-09-1-d cr. File #950077, July 14, 1995; eff. Sept. 27, 1995. 36-09-3 am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. 36-09-6 am. Ch. Ord. 537, File #83-2361, June 12, 1984. 36-09-6 am. File #930242, July 6, 1993; eff. Sept. 21, 1993. 36-09-7 cr. Ch. Ord. 361, File #69-990, Nov. 11, 1969. 36-09-8 cr., File #150113, June 2, 2015; eff. August 18, 2015.)

36-10. Exemption from Taxation, Execution and Assignment. 1. All moneys and assets of any retirement system of any city of the first class and all benefits and allowances and every portion thereof, both before and after payment to any beneficiary, granted under any such retirement system shall be exempt from any state, county, or municipal tax or from attachment or garnishment process, and shall not be seized, taken, detained, or levied upon by virtue of any execution, or any process or proceeding whatsoever issued out of or by any court of this state, for the payment and ratification in whole or in part of any debt, claim, damage, demand, or judgment against any member of or beneficiary under any such retirement system, and no member of or beneficiary under any such retirement system shall have any right to assign his benefit or allowance, or any part thereof, either by way of mortgage or otherwise; however, this prohibition shall not apply to assignments made for the payment of insurance premiums. The exemption from taxation contained herein shall not apply with respect to any tax on income.

2. a. Notwithstanding sub. 1, and for purposes of compliance with section 401(a)(31) of the Internal Revenue Code, this section applies notwithstanding any contrary provision or retirement law that would otherwise limit an election by a distributee, as defined in par. b, to make a rollover. A distributee may elect, at the time and in the manner prescribed by the board, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

b. For purposes of this subsection:

b-1. "Direct rollover" means a payment by the plan to the eligible retirement plan specified by the distributee.

b-2. "Distributee" means a member. It also includes the member's surviving spouse. Effective January 1, 2010, a distributee further includes a nonspouse beneficiary who is a designated beneficiary as defined by section 401(a)(9)(E) of the Internal Revenue Code. However, a nonspouse beneficiary may only make a direct rollover to an individual retirement account or individual retirement annuity established for the purpose of receiving the distribution, and the account or annuity will be treated as an "inherited" individual retirement account or annuity.

b-3. "Eligible retirement plan" means any of the following that accepts the distributee's eligible rollover distribution:

b-3-a. Effective January 1, 2002, an individual retirement account described in s. 408(a) of the Internal Revenue Code.

b-3-b. Effective January 1, 2002, an individual retirement annuity described in s. 408(b) of the Internal Revenue Code.

b-3-c. Effective January 1, 2002, an annuity plan described in s. 403(a) of the Internal Revenue Code.

b-3-d. A qualified trust described in s. 401(a) of the Internal Revenue Code.

b-3-e. Effective January 1, 2002, an annuity contract described in s. 403(b) of the Internal Revenue Code.

b-3-f. Effective January 1, 2002, a plan eligible under s. 457(b) of the Internal Revenue Code that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or a political subdivision of a state that agrees to separately account for amounts transferred into that plan from the retirement system.

b-3-g. Effective January 1, 2008, a Roth IRA described in s. 408A of the Internal Revenue Code.

b-4. "Eligible rollover distribution" means any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or the life expectancy) of the distributee or the joint

36-10-3 Employees' Retirement System

lives, or joint life expectancies, of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Internal Revenue Code; the portion of any distribution that is not includible in gross income; and any other distribution which the Internal Revenue Service does not consider eligible for rollover treatment, such as certain corrective distributions necessary to comply with the provisions of section 415 of the Internal Revenue Code or any distribution that is reasonably expected to total less than \$200 during the year. Effective January 1, 2002, the definition of eligible rollover distribution also includes a distribution to a surviving spouse. Also effective January 1, 2002, a portion of a distribution will not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions that are not includible in gross income. However, such portion may be transferred only:

b-4-a. To an individual retirement account or annuity described in section 408(a) or (b) of the Internal Revenue Code or to a qualified defined contribution plan described in section 401(a) of the Internal Revenue Code that agrees to separately account for amounts so transferred (and earnings thereon), including separately accounting for the portion of the distribution that is includible in gross income and the portion of the distribution that is not so includible;

b-4-b. On or after January 1, 2007, to a qualified defined benefit plan described in section 401(a) of the Internal Revenue Code or to an annuity contract described in section 403(b) of the Internal Revenue Code, that agrees to separately account for amounts so transferred (and earnings thereon), including separately accounting for the portion of the distribution that is includible in gross income and the portion of the distribution that is not so includible; or

b-4-c. On or after January 1, 2008, to a Roth IRA described in section 408A of the Internal Revenue Code.

3. If on or after March 28, 2005, the retirement system provides for mandatory distribution of eligible rollover distributions with a present value greater than \$1,000, and if a member does not elect to have such distribution paid directly to an eligible retirement plan specified by the member in a direct rollover or to receive the distribution directly, the system will

pay the distribution in a direct rollover to an individual retirement plan designated by the board of trustees in accordance with section 401(a)(31)(B) of the Internal Revenue Code and IRS Notice 2005-5.

4. Notwithstanding sub. 1., a beneficiary who is a public safety officer as defined in s. 1204(9)(A) of the Omnibus Crime Control and Safe Streets Act of 1968, has separated from service with all participating employers due to disability or the attainment of normal retirement age and is entitled to a service retirement allowance or a disability retirement allowance, may elect that an amount be deducted from his or her benefit payments to pay the premiums for coverage of the beneficiary, the beneficiary's spouse or the beneficiary's dependents (as defined in s. 152 of the Internal Revenue Code) under an accident or health insurance plan or qualified long-term care insurance contract (as defined in s. 7702B(b) of the Internal Revenue Code). The employees' retirement system shall pay any amounts withheld from a beneficiary's benefit payments under this subsection directly to the provider of the accident or health insurance plan or qualified long-term care insurance contract under such plan or contract. The beneficiary shall designate the annual amount to be deducted from his or her benefit payments, which amount shall not exceed the lesser of either \$3,000, reduced by any amounts deducted from the beneficiary's benefit for this purpose under any other eligible retirement plan as defined in s. 402(c)(8)(B) of the Internal Revenue Code, or the amount required to pay such premiums. Elections pursuant to this subsection shall be made in a time, manner, and subject to any limitations established by the annuity and pension board and may only be changed in accordance with rules established by the board. (S. 36-10 cr. File #67-355-a, July 25, 1967; 36-10 rn. 36-10-1, File #921973, April 8, 1993; eff. June 28, 1993. 36-10-2 cr. File #921973, April 8, 1993; eff. June 28, 1993. 36-10-3 cr. File #921973, April 8, 1993; eff. June 28, 1993. 36-10-2 am. File #031148, Dec. 19, 2003; eff. March 13, 2004. 36-10-3 am. File #031148, Dec. 19, 2003; eff. March 13, 2004. 36-10-2 am. File #051174, Jan. 18, 2006; eff. April 5, 2006. 36-10-4 cr. File #061555, April 17, 2007; eff. July 3, 2007. 36-10-4 am. File #070201, May 30, 2007; eff. Aug. 15, 2007. 36-10-2 am. File #091068, Dec. 22, 2009; eff. March 10, 2010. 36-10-2 & 3 rc File #111058, Dec. 20, 2011; eff. March 13, 2012. 36-10-2-b-3 rc File #150113, June 6, 2015; eff. August 18, 2015.)

36-11. Protection Against Fraud and Elimination of Errors. 1. PROTECTION AGAINST FRAUD. Any person who shall knowingly make any false statement or shall falsify or permit to be falsified any record or records of this retirement system in any attempt to defraud such system as a result of such act shall be guilty of a misdemeanor, and shall be punishable therefore under the laws of the state of Wisconsin.

2. ELIMINATION OF ERRORS. Should any change or error in the records result in any member or beneficiary receiving from the retirement system more or less than he or she would have been entitled to receive had the records been correct, the board shall correct such error, and as far as practicable shall adjust the payments in such manner that the actuarial equivalent of the benefit to which such member or beneficiary was correctly entitled shall be paid. (s. 36-11 am. Ch. Ord. 332 File #67-355-a, July 25, 1967. s. 36-11 rc. File #020065, May 14, 2002; eff. July 31, 2002.)

36-12. Limitations on Payment of Benefit. Any amounts which may be paid or payable under the provisions of any state worker's compensation, or similar law, to a member or to the dependents of a member on account of any disability shall be offset against and payment in lieu of any benefits payable out of funds provided by the city under the provisions of this act on account of the same disability. Within 30 days of notification by the board, any member may elect to offset the full amount of a lump sum award of amounts payable in fulfillment of the obligation to offset amounts payable. In case the present value of the total commuted benefits under said worker's compensation or similar law is less than the reserve on the benefits otherwise payable from funds provided by the city under this act, then the present value of the commuted payments shall be deducted from the reserve and such benefits as may be provided by the reserve so reduced shall be payable under the provisions of this act. Upon recommendation of the actuary, the board may approve separate tables for purposes of computing present values under this section. The board may permit a member whose retirement allowance is being offset by amounts payable to satisfy the offset with a lump sum payment, provided that any costs of the actuary in calculating the amount of the lump sum

payment are paid by the member. Within 30 days of notification by the board, any member who received an award of amounts payable on or before January 1, 1995 shall have the option of electing to pay the present value of such award or of electing to have the offset recalculated using separate tables developed for this purpose. Notwithstanding the foregoing, amounts paid or payable as social security disability benefits shall not be offset against the benefits payable by the city under the provisions of this act on account of the same disability to members in the coordinated plan. (S. 36-12 am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971. 36-12 am. File #941597, Feb. 14, 1995; eff. May 2, 1995. 36-12 am. File #950767, Oct. 17, 1995; eff. Jan. 2, 1996. 36-12 am. File #121025, Nov. 27, 2012; eff. Feb. 12, 2013.)

36-13. Contractual Benefits; Miscellaneous Provisions. 1. LEGISLATIVE POLICY. Employees have been attracted to and have remained in the public service in cities of the first class despite the prevailing higher wages in other employments because of the deferred compensation for their services promised to them in the form of retirement annuities and death benefits in the retirement system to which they have been admitted as contributing members. The purpose of this act is to strengthen the public service in cities of the first class by establishing the security of such retirement and death benefits.

2. CONTRACTS TO ASSURE BENEFITS. The benefits of members, whether employees in service or retired as beneficiaries, and of beneficiaries of deceased members in the retirement system created by chapter 396, laws of 1937, as amended, shall be assured by benefit contracts as herein provided.

a. Every such member and beneficiary shall be deemed to have accepted the provisions of this act and shall thereby have a benefit contract in said retirement system of which he is such member or beneficiary as of July 30, 1947, unless, within period of 30 days thereafter, he files with the board administering the system a written notice electing that this subsection shall not apply to him. The annuities and all other benefits in the amounts and upon the terms and conditions and in all other respects as provided under this act and as amended shall be obligations of such benefit contract on the part of the city and of the board administering the system and each member and beneficiary having such a benefit contract shall

36-13-2-b Employees' Retirement System

have a vested right to such annuities and other benefits and they shall not be diminished or impaired by subsequent legislation or by any other means without his consent.

b. The board administering the system may issue to each member and beneficiary who shall have a benefit contract under this act a written or printed contract but the contract shall be in full force and effect whether or not any written or printed evidence thereof shall be so issued.

c. Any person who shall become a member of this retirement system after July 30, 1947, except persons who shall become members of this retirement system on or after March 1, 1985, as a result of being employed as firemen, and persons who shall become members of this retirement system on or after August 1, 1985, as a result of being employed as policemen, shall have a similar benefit contract and vested right in the annuities and all other benefits in the amounts and on the terms and conditions and in all other respects as provided in the law under which the retirement system was established as such law shall have been amended and be in effect at the date of commencement of his membership and as subsequently amended. Every person who shall become a member of this retirement system on or after March 1, 1985, as a result of being employed as a fireman, and every person who shall become a member of this retirement system on or after August 1, 1985, as a result of being employed as a policeman shall have a similar benefit contract and vested right in the annuities and all other benefits in the amounts and on the terms and conditions and in all other respects as provided in the law under which the retirement system was established as such law shall have been amended and be in effect at the date of the commencement of his membership. *(Par. c am. Ch. Ord. 552, File #85-118-a, July 16, 1985; eff. Sept. 30, 1985. Par. c am. Ch. Ord. 565, File #86-1820, Feb. 24, 1987; eff. May 11, 1987.)*

d. Contributions which are made to this fund under this act by the city or by an agency which is covered by this act, as contributions for members of this system shall not in any manner whatsoever affect, alter or impair any member's rights, benefits, or allowances, to which such member under this act is or may be entitled; neither shall the fact that such contributions are made, grant or confer upon such city or agency covered by this act,

any additional rights, interest or authority in such contributions so made or in the management or supervision of this system or in the fund thereof. Contractual and vested rights, benefits or allowances which either have been or are declared and expressed in this act continue without impairment or reduction in any manner whatsoever, and such rights, benefits or allowances shall not be or are not in any manner affected, modified or diminished as a result of such contributions made by the city or an agency covered by this act; nor can such rights, benefits or allowances be altered, modified or impaired so that any diminution occurs in any member's rights, benefits or allowances. *(Par. d cr. Ch. Ord. 370, File #74-239, May 24, 1971.)*

e. No rights, benefits or allowances whatsoever created under or pursuant to the provisions of the employees' retirement act or as amended heretofore or hereafter, nor creditable, nor prior service, nor credits granted, either recognized or allowed to such member, or retired member or beneficiary, nor any rights or benefits allowed or allowances granted by virtue of any minimum or maximum retirement provisions or requirements, nor any minimum or maximum retirement provisions of this act shall in any manner whatsoever, or in any form, either be altered, modified, reduced, changed, cancelled, revoked or impaired, now or hereafter to the disadvantage or loss of such member or retired member or beneficiary as to his pension rights, payments or retirement allowances, and no action shall be taken nor provision enacted which in any manner diminishes, reduces or denies to such member or retired member or beneficiary any of his or her retirement allowances, benefits or rights derived from or under any section of this act or rule promulgated by the board as authorized by this act or as heretofore provided. No application nor interpretation of the provisions of this act or rule of the board shall be either effected, instituted or promulgated retroactively or applied in such a manner as to such member, retired member or beneficiary so that it results in any form, in the diminution, loss or partial loss or reduction of any credit, benefit or retirement allowance to which such person was or is entitled because of prior interpretation or application of the provisions of this act or rule whether general or specific. The protection, safeguarding and the security of the rights, benefits and allowances expressed in this subsection are and shall be

deemed fully vested, contractual and binding upon the employer and guaranteed by it. No act, action or delinquency of a member of this system shall in any manner defeat or prevent him or his beneficiary from receiving the full benefits or allowances to which he was entitled up to the time of the occurrence of such act, action or delinquency and any provision of this act which is in conflict therewith is deemed superseded and repealed and to be without force and effect. This paragraph shall not apply to persons who shall become members of this retirement system on or after March 1, 1985, as a result of being employed as firemen, or persons who become members of this retirement system on or after August 1, 1985, as a result of being employed as a policeman. (Par. e am. Ch. Ord. 552, File #85-118-a, July 16, 1985; eff. Sept. 30, 1985. Par. e am. Ch. Ord. 554, File #85-845, Oct. 1, 1985; eff. Dec. 15, 1985.)

f. Any provision of ch. 36 notwithstanding, the granting of a benefit to any member, retired member, survivor or beneficiary participating in the retirement system to the exclusion of a member, retired member, survivor or beneficiary participating in the combined fund shall not be deemed in violation of the rights of such other member, retired member, survivor or beneficiary participating in the combined fund who is not granted such benefit, even if funded by the existing assets of the retirement system and/or future earnings. (Par f. cr. File #991585, April 11, 2000; eff. Jan. 19, 2001.)

g. Every member, retired member, survivor and beneficiary who participates in the combined fund shall have a vested and contractual right to the benefits in the amount and on the terms and conditions as provided in the law on the date the combined fund is created. (Par g. cr. File #991585, April 11, 2000; eff. Jan. 19, 2001.)

h. Notwithstanding any other provision of this chapter, the contractual rights of members enrolled on or after November 23, 2011, shall be governed by this paragraph. The right of the city on its own behalf, or on behalf of a city agency, to amend or repeal all or part of this chapter by enactment of ordinance is reserved to the city and the city agency. Members shall have no right to further accrual of benefits or rights for service rendered after the effective date of any ordinance repealing or altering the ordinance that authorizes the benefit

or right. Benefits accrued and rights earned by a member under this chapter for service rendered prior to the effective date of any ordinance shall be due as a contractual and vested right and shall not be abrogated or altered by any subsequent legislation. No alteration of an ordinance shall abrogate any rights or benefits earned but not exercised before the effective date of an ordinance altering or abrogating the right or benefit. This paragraph shall not apply to members of a certified collective bargaining unit with a labor contract while it is in force and in effect that contains provisions inconsistent with this paragraph. (Par h. cr. File #110348, Sept. 20, 2011; eff. Dec. 7, 2011.)

4. GUARANTY AND SUPERVISION.

a. The creation and maintenance of reserves in the retirement fund, the maintenance of annuity reserves and pension reserves as provided for, and regular interest creditable as provided for to the various funds, shall be mandatory and shall be obligations of the city and city agencies whose employees are under this act. (Par. a am. Ch. Ord. 382, File #71-2300, Mar. 21, 1972.)

b. The payment of all pensions, annuities, retirement allowances, refunds and other benefits granted under the provisions of this act shall be deemed deferred pay of such member, and the payment of all pensions, annuities, retirement allowances, refunds and other benefits granted under the provisions of this act and all expenses in connection with the administration and operation of the retirement system are made obligations of the city and city agencies.

c. The legal title to the funds created by this act shall be in the retirement system and shall be held by it in trust for the purposes for which they were contributed under this act and no amendment to the act shall reduce the benefits of any member below those which can be provided by the reserves of the system held in his account, nor shall the reserves held in his account, nor shall the reserves held on account of any member be diluted by the addition of new members or annuitants receiving benefits of any members.

36-13-5 Employees' Retirement System

d. The various funds of the employees' retirement system shall be subject to periodic audit examination, and each 5 years there shall be valuation of the system by the board's actuary as provided in s. 36-15-14. (Par. d am. Ch. Ord. 372, File #71-797, July 30, 1971. Par. d am. File #100788, Nov. 23, 2010; eff. Feb. 10, 2011.)

5. TRANSFER AND CREDITS.

a. Creditable Service. Any person who is a member of either the county or city of Milwaukee retirement system who within 60 days after termination of employment transfers from employment in either the county or city, as the case may be, without receiving any withdrawal benefits from either the city or county retirement system, shall be entitled to receive a service retirement allowance which shall be computed in the following manner, except as otherwise noted in pars. b and c: (Par. a-0 am. Ch. Ord. 553, File #85-643, July 30, 1985; eff. Oct. 15, 1985. Par. a-0 am. Ch. Ord. 560, File #86-807, Sept. 23, 1986; eff. Dec. 18, 1986. Par. a-0 am. File #892334, April 9, 1990; eff. June 26, 1990.)

a-1. The formula of the retirement system to which he has transferred in effect at the time of his retirement shall be used.

a-2. The final average salary of such person in the retirement system to which he has transferred shall be the base to which is applied the formula.

a-3. The aggregate creditable service including all service credit shall be the number of years or fraction of years of such service allowable under the respective provisions of both the county or city retirement system, as the case may be, together with the years of service or part thereof in the retirement system to which such person transferred.

a-4. The retirement system from which such person transferred shall contribute toward the service retirement allowance computed as hereinbefore set forth as follows: Such contribution shall be prorated on the basis of the total service earned by virtue of the service in the system from which the member transferred to the total service as provided for in subd. 3. (Subd. 4 am. Ch. Ord. 560, File #86-807, Sept. 23, 1986; eff. Dec. 8, 1986.)

a-5. In the event an entire department or a substantial number of employees in a department are transferred from city to county, or vice versa, then under such circumstances the method of contribution by the retirement system from which such employee transferred shall be handled at the time of transfer on a

basis satisfactory to both systems and the method of contribution by the respective pension systems may be altered in that event, but this shall not affect the other provisions hereof.

b. Transfer From County. Any person who is transferred from the county system to the city system under this section and whose retirement occurs within 5 years of the date of transfer shall receive an allowance on account of his service prior to the date of transfer which shall not be greater than the allowance he would have received on account of his service to the date of transfer if he had remained a member of the system from which he transferred. He shall also be entitled to and receive an allowance on account of his service subsequent to such transfer. (Par. b am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)

c. Transfer To County. When any person who has been a member of the city system transfers to the county system and at the time of such transfer to that system, such member has less than one year of creditable service, his membership in the city system shall be terminated as of the date of transfer, and there shall be refunded to such person all sums contributed by him to the fund during the period of time he was in active city service.

d. Payments and Accounts. The liability of the city system for such credits and payments because of former members of the city system who shall have become members of the county system shall be taken into account by the board in its valuations and determinations of contributions to be made to the funds of the city system.

e. Transfer of Credits. Whenever any city employee who is a member of this system or any other system to which the city is a contributor desires to change his city employment, and such city employment is approved by the proper city officers, the credits which such person has accrued from the pension system from which he is transferring shall be transferred in full to this system, and such person shall be granted under this system credits in the same manner as if he had been a member of this system from the inception of his city service. An actuarial determination shall be made of any deficiency of credits, and the city and the employee shall be required to contribute to this system any difference in amount which shall be found by the actuarial determination to be required in order to make such person's account actuarially sound.

f. Termination of Membership. Any time after December 1, 1961, when an employee of the city, who is also a member of this system, transfers to employment in the county or becomes a member of the employees' retirement system of Milwaukee county because of court reorganization as provided for by state act, he may withdraw his contributions from this system provided that such member shall execute a waiver and release and such other forms as shall be determined by the board, and, following the return of contributions to such employee, his membership shall be terminated and such employee shall have no right or interest whatsoever in any pension, annuity or benefit of the system nor any other right or privilege whatsoever as a result of his membership in this system. Such election shall also terminate any right or interest of such member to any transfer by the city or by this system of accruals, credits, rights or benefits to any other retirement system, and such employee shall be deemed to waive any rights as to membership or restoration thereof in this system for the period of time prior to refund of his contributions.

g. Any member of the city or county employees' retirement system, who separated from service after having elected deferred retirement benefits, who thereafter became a member under the other system within 60 days of separation from the first system and who separated from the other system without having first received benefits from the first system, shall have service under both systems included for purposes of determining final average salary for retirement allowance purposes under each system and shall have creditable service under the first system included in determining whether the vesting requirements for retirement purposes of the other system have been met. This paragraph shall be the exclusive reciprocity for all members separating from the first system on or after June 1, 1991. *(Par. g cr. File #911897, passed Feb. 11, 1992. This file provided that par. g would become effective when Milwaukee county passed an ordinance identical in all respects to par. g. On June 27, 1995, the common council passed File #950326, effective Sept. 13, 1995, which repealed the contingency placed on par. g with respect to Milwaukee county action.)*

h. When Member of State Retirement System. Whenever the state of Wisconsin retirement system certifies that a member of this retirement system has service credit as a member of the retirement system of the State of Wisconsin, he shall receive credit therefor in computing his retirement allowance at a specific rate of 1.6% of his final average salary for each year or part thereof. The retirement allowance upon his retirement under the provisions of this act shall be reduced by the maximum amount which such member is entitled to receive as a retirement allowance from the state retirement system. If the member is not entitled to receive a retirement allowance from the state retirement system because of an election he has made on or after March 11, 1977, his retirement allowance shall nevertheless be reduced by the maximum amount to which he would have been entitled from the state retirement system had such election not been made. *(Par. g am. Ch. Ord. 439, File #76-164, Dec. 23, 1976. Par. g rn. to h, File #911897, Feb. 11, 1992; eff. Apr. 13, 1992.)*

i. Applicability. The board shall adopt rules for the application of par. g respecting treatment of interrupted service, computation of offset and service credit not in excess of creditable service in this system. *(Par. h cr. Ch. Ord. 361, File #69-990, Nov. 11, 1969. Par. h rn. to i, File #911897, Feb. 11, 1992; eff. Apr. 13, 1992.)*

6. GUARDIAN FOR MEMBER. Whenever a guardian has been appointed for a member by a court of record and a certified copy of the order appointing the guardian has been filed with the secretary of the board, such guardian may file an application for retirement and also elect the option and may designate the beneficiary when authorized by such court so to do.

7. DEATH BENEFIT PAYMENTS TO BENEFICIARIES RESIDING IN FOREIGN COUNTRIES. In the event that a member designates a beneficiary who is both a resident and a citizen of a foreign country to receive a death benefit and contributions made by such member, the board shall determine whether such benefit shall be paid to the beneficiary or instead be made payable to the estate of such deceased member. No death benefit shall be payable on account of the death of such

36-14 Employees' Retirement System

member and only the member's contributions shall be paid to the beneficiary or the estate of the member, unless the board shall determine otherwise. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

36-14. Home Rule. For the purpose of giving to cities of the first class the largest measure of self-government with respect to pension, annuity and retirement systems compatible with the constitution and general law, it is hereby declared to be the legislative policy that all future amendments and alterations to this act are matters of local affair and government and shall not be construed as an enactment of statewide concern. Cities of the first class are hereby empowered to amend or alter the provisions of this act in the manner prescribed by s. 66.0101, Wis. Stats., provided that no such amendment or alteration shall modify the annuities, benefits or other rights of any persons who are members of the system prior to the effective date of such amendment or alteration. (*am. Ch. Ord. 332, File #67-355-a, July 25, 1967.*)

36-15. Administration. 1. ANNUITY AND PENSION BOARD. a. Retirement System and Group Life Insurance. The general administration and responsibility for the proper operation of the retirement system and for making effective the provisions of this act are hereby vested in an annuity and pension board which shall be organized immediately after the first 4 members provided for in this section have qualified and taken the oath of office. In addition to all other duties and responsibilities assigned to the board by the provisions of the employees' retirement act, the board shall be responsible for administering the city's group life insurance program, retiree health benefits and retiree dental COBRA benefits as provided for in ordinance adopted by the common council. (Par. a am. File #990253, June 2, 1999; eff. Aug. 18, 1999.)

b. Emergency Powers. It is expressly provided that in the event of a national emergency declared by the president of the United States or a national emergency resulting from aerial attack on the area surrounding or on the city of Milwaukee, and a quorum of the board is not available to direct activities of the board, or no member of the board is available or present to authorize continuation of the board's

operations, including maintaining and safeguarding of records, receipts and disbursements, expenditure of funds, and safeguarding of investments and securities, then in such event the secretary of the board shall have full authority to discharge the duties and responsibilities of such board, as is provided for in this act, and shall be further empowered to bind the board; provided further, that in the event the secretary of the board is incapacitated, then the assistant secretary shall function in his stead and in the manner hereinbefore provided. However, any vacancies on the board shall be filled as soon as possible.

c. Firemen's Pension Fund of the Former Town of Lake. At any time after May 12, 1964, when the board of trustees of the city of Milwaukee firemen's pension fund of the former Town of Lake certifies to the city clerk of Milwaukee that less than 3 active members remain in such fund, all of the duties and responsibilities devolving upon the board of trustees of the city of Milwaukee firemen's pension fund of the former Town of Lake shall be transferred to and assumed by the annuity and pension board of the employees' retirement system. In the event that such transfer occurs as herein provided for all funds of the city of Milwaukee firemen pension fund of the former Town of Lake shall at the effective date of transfer be turned over to the annuity and pension board of the employees' retirement system. Such funds so transferred shall be maintained separately and apart from any other funds under the direction, supervision and control of the annuity and pension board of the employees' retirement system and shall be used solely for the purposes of administering the city of Milwaukee firemen's pension fund of the former Town of Lake as provided for by law. Payments out of such fund shall be made upon direction of the annuity and pension board of the employees' retirement system. All receipts of such fund shall be under the supervision, direction and control of the annuity and pension board of the employees' retirement system, it being the intent of this subsection that whatever duties and responsibilities relating to the administration of the fund of the city of Milwaukee firemen's pension fund of the former Town of Lake are to be assumed and performed by the annuity and pension board of the employees' retirement system from and after the transfer of such fund.

d. The annuity and pension board is authorized to perform administrative work necessary to implement the provisions of s. 34-06, provided it is compensated by the city for the actual cost of the work performed.

(Par. d cr. File #041513, March 16, 2005; eff. May 31, 2005.)

e. **Policemen's Annuity and Benefit Fund.**

e-1. The annuity and pension board is authorized to exercise all powers and duties vested in the policemen's annuity and benefit fund board of trustees by ch. 35.

e-2. The annuity and pension board is authorized to invest the assets of the policemen's annuity and benefit fund provided it accounts for the assets separately from the assets of the combined fund.

e-3. All cost and expenses incurred by the annuity and pension board to manage, administer, or operate the policemen's annuity and benefit fund shall be paid by the city of Milwaukee.

e-4. The city of Milwaukee shall indemnify and hold harmless the board members, officers, directors and employees of the annuity and pension board and the employees' retirement system from any liability, damages, or injury arising out of the management, administration, investment or operation of the policemen's annuity and benefit fund.

e-6. The annuity and pension board annually shall conduct a meeting, or direct its staff to conduct a meeting, to report on the status of the fund and answer any inquiries of retirees or widows. The annuity and pension board shall give all retirees and widows at least 30 days' notice of the time and location of the meeting. *(Par. e cr. File #050744, Oct. 18, 2005; eff. Jan. 3, 2006. Par e-5 rp. File #151869, June 14, 2016; eff. August 30, 2016.)*

2. MEMBERSHIP. The membership of the board shall consist of the following:

a-1. Three members to be appointed by the president of the common council subject to the confirmation of such common council for a term of 4 years.

a-2. Commencing in 1997, when terms expire for members appointed by the common council president, members shall be appointed for terms expiring the 3rd Tuesday of April 2000. Thereafter the common council president shall appoint members for a term of 2 years within 60 days of the commencement of a new common council term, and then within 60 days following 2 years of the commencement of a common council term. If a vacancy occurs in a board position, the president shall appoint within 60 days after the vacancy occurs.

b. The city comptroller ex-officio.

c. Three employee members who shall be members of the retirement system and who shall be elected by the members of the retirement system for a term of 4 years according to such rules and regulations as the board shall adopt to govern such election.

d. One member to be elected by the vote of persons who had been members but who have retired from the retirement system and receive a retirement allowance, to serve for a term of 4 years. The election of such person shall be conducted in the same manner as is the election of an employee member under par. c except, however, that only retirees as herein described shall be allowed to vote in such election. Nothing herein contained shall preclude any member elected to the board from succeeding himself or herself. *(Sub. 2 am. Ch. Ord. 486, File #79-869-a, Mar. 13, 1980. Sub. 2-a ra. to 2-a-1 File #960237, June 4, 1996; eff. Aug. 20, 1996. Sub. 2-a-2 cr. File #960237, June 4, 1996; eff. Aug. 20, 1996. Sub. 2-c am. File #960237, June 4, 1996; eff. Aug. 20, 1996. Sub. 2-d am. File #960237, June 4, 1996; eff. Aug. 20, 1996. Sub 2-a-3 cr. File #131162, Dec. 17, 2013; eff. March 10, 2014. Sub 2-c-0 am. File #131162, Dec. 17, 2013; eff. March 10, 2014. Sub 2-c-1 to 3 cr. File #131162, Dec. 17, 2013; eff. March 10, 2014. Sub 2-a-3 rp. File #181603, Feb. 26, 2019; eff. April 29, 2019. Sub 2-c-0 am. File #181603; Feb. 26, 2019; eff. April 29, 2019. Sub 2-c-1 to 3 rp. File #181603, Feb. 26, 2019; eff. April 29, 2019.)*

36-15-3 Employees' Retirement System

3. VACANCY. If a vacancy occurs in the office of a board member, the vacancy shall be filled for the unexpired term in the same manner as the office was previously filled.

4. OATH OF OFFICE. Each member of the board shall, within 10 days after his appointment or election, take an oath of office that, so far as it devolves upon him, he will diligently and honestly administer the affairs of the board and that he will not knowingly violate or willingly permit to be violated any of the provisions of law applicable to the retirement system.

5. DECISION VOTE. Each member of the board shall be entitled to one vote in the board. A majority of members present shall be necessary for a decision by the members of the board at any meeting of the board. (Sub. 5, am. Ch. Ord. 544, File #84-1168, Dec. 11, 1984.)

6. RULES AND REGULATIONS. Subject to the limitations of this act and with the advice of the city attorney the board shall, from time to time, establish rules and regulations for the administration of the funds created by this act, for the transaction of its business and in order to carry out the provisions of this act. All rules and regulations promulgated by the board shall be filed with the city clerk within 30 days after they have been approved by the board and revocation of such rules or amendments thereto shall be filed in the same manner.

7. OFFICERS AND EMPLOYEES; EXPENSES. The board shall elect from its membership a chairman and vice chairman and shall by a majority vote of all its members appoint a secretary, who may be, but need not be, one of its members. It shall appoint an executive director and shall engage such actuarial and other service as shall be required to transact the business of the retirement system. The compensation of all persons engaged by the board and all other expenses of the board necessary for the operation of the retirement system shall be paid at such rates and in such amounts as the board shall approve. (Sub. 7 rn. to 7-0, File #950077, July 14, 1995; eff. Sept. 27, 1995.)

a. It shall be the duty of the secretary and executive director of the retirement system to maintain records respecting the amount of system funds invested in common stocks and preferred stocks and such secretary and executive director shall function under direction

of the annuity and pension board and shall be appointed by such board under civil service procedure with civil service status; the incumbent secretary and executive director shall have civil service status with the enactment of this section. In the event of a vacancy in the office of secretary and executive director, such office shall be filled by the board under civil service procedures and thereafter such secretary and executive director shall have civil service status, subject to the rules and regulations thereof. An executive director hired pursuant to an exemption granted by the board of city service commissioners shall continue to serve unless dismissal is approved by 6 board members voting in open session. (Par. a cr. File #950077, July 14, 1995; eff. Sept. 27, 1995. Par. a am. File #131162, Dec. 17, 2013; eff. March 10, 2014. Par. a am. File #181603, Feb. 26, 2019; eff. April 29, 2019.)

b. The assistant secretary and executive director shall fulfill the duties of the secretary and executive director in his or her absence for any reason, and in the event a vacancy shall occur in the office of assistant secretary and executive director the position shall be filled by the board under civil service procedures, and he or she shall have civil service status under the rules and regulations applicable thereto. (Par. b cr. File #950077, July 14, 1995; eff. Sept. 27, 1995.)

8. DATA REQUIRED. The board shall keep in convenient form such data as shall be necessary for actuarial valuation of the various funds of the retirement system, and for checking the experience of the system.

9. RECORDS. The board shall keep a record of all its proceedings which shall be open to public inspection. It shall publish annually a report showing the fiscal transactions of the retirement system for the preceding year, the amount of the assets of the system and the financial condition of the system as disclosed by an actuarial valuation of the retirement system. The board shall by resolution determine which of its records are obsolete or no longer required and direct the secretary of such board to destroy those records; provided, however, that no records shall be destroyed unless the secretary shall certify that it is no longer required in the conduct of the board's business or essential to the safeguarding of records with respect to members' or retired members' rights or benefits,

and provided further that in no event shall any record be destroyed until it has been in existence for more than 7 years.

10. LEGAL ADVISOR. The city attorney shall be the legal advisor of the board.

11. CUSTODIAN OF FUNDS. The city treasurer shall be the custodian of the several funds of the retirement system and shall give up such bond for the proper performance of his duties as is required by the board. All payments from said funds shall be made by him only upon vouchers signed by 2 persons designated by the board. A duly attested copy of a resolution of the board designating such persons and bearing on its face specimen signatures of such person shall be filed with the treasurer as his authority for making payments upon such vouchers. No payment shall be made unless it has been authorized by the board. Nothing contained herein shall preclude the board from providing for custody by an appropriate entity of its funds and securities in the manner in which it deems prudent. *(Sub. 11 am. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)*

12. MEDICAL COUNCIL. The board shall designate a medical council to be composed of 3 physicians. If required, other physicians may be employed to report on special cases. The medical council shall arrange for and pass upon all medical examinations required by the retirement system, shall investigate all essential statements and certificates by or on behalf of a member in connection with an application for disability retirement, and shall report in writing to the board its conclusion and recommendations upon all the matters referred to it. Nothing contained in this subsection shall prevent the making of a certification by the medical panel of physicians of either the fire department or police department with respect to the operation of s. 36-05-3-c.

13. ACTUARY. The board shall designate an actuary who shall be the technical advisor of the board on matters regarding the operation of the funds created by the provisions of this act, and shall perform such other duties as are required in connection therewith.

14. PERIODIC VALUATIONS; TABLES AND RATES THEREON. At least once in each 5-year period the actuary shall make an actuarial investigation into the mortality, service and compensation experience of the members and beneficiaries of the retirement system, and shall make a valuation of the assets and liabilities of the funds of the system, and taking into account the results of such investigation and valuation, the board shall adopt for the retirement system such mortality, service and other tables as shall be deemed necessary. *(Sub. 14 rc. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.)*

15. ANNUAL VALUATIONS. a. On the basis of such tables as the board shall adopt, the actuary shall make an annual valuation of the assets and liabilities of the funds of the retirement system. This annual valuation shall comply with Actuarial Standards of Practice and shall contain a certification from the board's actuary to that effect. For the purposes of the annual valuation, the actuary shall employ the individual entry-age normal actuarial cost method. *(Par. a ra. File #091274, Mar. 2, 2010; eff. May 18, 2010. Par. a am. File #170935, Nov. 28, 2017; eff. Feb. 13, 2018)*

b. Beginning with the valuation that determines employer contributions due and payable January 31, 2011, the actuary shall employ a 5-year asset smoothing period. The actuary shall calculate amortization of unfunded liability based on a level percentage of payroll amortization. The actuary shall apply a closed layered amortization method with amortization payments for each base increasing by 2% per year. The outstanding balance of the unfunded actuarial accrued liability as of January 1, 2018, shall be amortized over a fixed 25-year period. At each subsequent valuation date, any changes to the unfunded actuarial accrued liability arising from actuarial gains or losses shall be amortized over a fixed 15-year period, and any changes to the unfunded actuarial accrued liability arising from changes in assumptions, methods or plan provisions shall be amortized over a fixed 25-year period. Beginning with the valuation that determines employer contributions due and

36-15-16 Employees' Retirement System

payable January 31, 2011, the board shall provide a copy of the final annual valuation, as certified by the board, to the mayor and the common council no later than August 15. No changes shall be made to this paragraph without an affirmative vote of the board of at least 5 of its members, and written certification from the board's actuary that such changes comply with Actuarial Standards of Practice. (*Par. b cr. File #091274, Mar. 2, 2010; eff. May 18, 2010. Par. b am. File #131162 Dec. 17, 2013; eff. March 10, 2014. Par. b am. File # 170935, Nov. 28, 2017; eff. Feb. 13, 2018. Par. b am. File #181603, Feb. 26, 2019; eff. April 29, 2019.*)

16. EXECUTION OF DOCUMENTS.

Whenever any document, record or paper requires the signatures of either the chairman of the board or the secretary or both, or the vice chairman in the absence of the chairman, such officers may execute the aforesaid documents on behalf of the board and the employees' retirement system by identifying themselves in the case of the chairman or vice chairman of the board as president or vice president of the employees' retirement system and in the instance of the secretary of the board as secretary of the employees' retirement system, and the executions made with that identification shall in all respects be deemed the execution for and on behalf of the board and of the employees' retirement system.

17. CONTRACT FOR FUND ADMINISTRATION. The board is authorized notwithstanding any other provision to the contrary, to enter into contracts with established trust companies who have been engaged in such trust business extensively for at least 25 years continuously or other similar established companies able to demonstrate sufficient fiscal experience and expertise and administrative capacity to undertake operations, investments and custody of pension and retirement funds and to exercise a trustee relationship over the fund so as to accept total responsibility, obligation, administration, investment and custodial services and serve as trustee of this fund. When such services are contracted for as provided for herein, members of the board shall be thereupon released from their obligations or liability under this act with respect to all functions, duties, responsibilities and obligations

which are undertaken by contract by such trust entity. The provisions of this subsection are vested and contractual as to members and beneficiaries of this fund. Contracts entered into pursuant to this subsection shall neither be impaired, abrogated or suspended during their duration by any collateral, indirect or direct procedures or actions and the rights herein provided for which are designated to protect the members and the beneficiaries of the fund and the integrity of such fund are in all respects vested, contractual and binding and shall not be altered, modified or impaired by subsequent action. (*Sub. 17 cr. Ch. Ord. 375, File #71-1754, Dec. 7, 1971.*)

18. REVIEW. Any person, aggrieved within the meaning of ch. 68, Wis. Stats., by a determination of the board reviewable under ch. 68, Wis. Stats., may have such determination reviewed in accordance with the procedures established under ss. 68.08 to 68.13, Wis. Stats. (*Sub. 18 cr. Ch. Ord. 478, File #78-2302, Oct. 23, 1979.*)

[Pages 367 to 446 are blank]

STATE OF WISCONSIN CIRCUIT COURT MILWAUKEE COUNTY

In re Global Pension Settlement Litigation,

Case No. 00-CV-003439
Declaratory Judgment 30701
(Judge Malmstadt)

IMPORTANT!
NOTICE OF PENDENCY OF CLASS ACTION

TO: ALL MEMBERS, RETIRED MEMBERS AND BENEFICIARIES OF
THE MILWAUKEE EMPLOYEES' RETIREMENT SYSTEM ("MERS").

NOTICE IS HEREBY GIVEN that the plaintiffs named below have filed an action in the Milwaukee County Circuit Court ("the Lawsuit") on behalf of themselves and all members, retired members and beneficiaries of MERS who have consented or who will consent to the global pension settlement. The Lawsuit has been filed against the MERS and the Annuity and Pension Board ("the Board" or "the MERS Board").

The purpose of this Notice is to inform you of the Court's Order dated July 14, 2000 certifying a plaintiff class in the Lawsuit under the provisions of Wisconsin law. Notice is further given as follows:

1. ***The Lawsuit.*** The plaintiffs' complaint was filed on April 28, 2000. The complaint seeks Court approval of City of Milwaukee Charter Ordinance No. 991585, which provides additional pension benefits to consenting MERS members. In exchange for the improved benefits, the Ordinance also provides for dismissal of several pending lawsuits and makes several structural changes to the retirement system; the changes include dissolution of the Firemen and Policemen's Survivorship Fund and the merger of various funds of MERS into a single Combined Fund. Plaintiffs seek relief in the form of a declaratory judgment that the Charter Ordinance is legal and enforceable. Plaintiffs also seek an order which would direct the MERS Board to implement the Ordinance for the benefit of all consenting members, retired members and beneficiaries. The Board, in response, seeks relief in the form of instructions from the Court regarding the legality, enforceability and implementation of the Charter Ordinance.

2. **Purpose of Notice.** This Notice is not to be construed as an expression of opinion by the Court as to the merits of the respective claims or defenses raised in the Lawsuit. This Notice is sent to advise you of the pendency of the Lawsuit and of the rights you may have with respect to the Lawsuit.

3. **Consent Form.** You must return the enclosed consent form. Failure to return this form may result in a denial of additional pension benefits.

(a) **Consent.** If you "**Consent**" to the global pension settlement (as explained in the accompanying Consent Form), you will automatically be considered members of the plaintiff class. Members of the plaintiff class will be entitled to share in the benefits of any judgment in the Lawsuit favorable to the class, namely, implementation of the Ordinance with its pension benefit increases and improvements – but they will also be bound by a Court judgment unfavorable to the class. Because the Lawsuit involves a common fund and because the plaintiffs seek a final, binding declaratory judgment ruling from the Court, members **cannot exclude themselves** from this Lawsuit and start their own lawsuit.

(b) **Object.** If you "**Object**" to the global pension settlement (as explained in the accompanying Consent Form) you will retain the pension benefits provided to you under the current system. You will not participate in the Combined Fund or receive the additional benefits provided under the Global Pension Settlement, unless you are ordered to participate by the Court. Members who object will be bound by any Court judgment in the Lawsuit. Because the Lawsuit involves a common fund and because the plaintiffs seek a final, binding declaratory judgment ruling from the Court, members **cannot exclude themselves** from this Lawsuit and start their own lawsuit.

4. **Intervention.** You may seek to formally intervene in the Lawsuit if you wish to advance your position or to make sure that a particular viewpoint is set forth. In order to seek leave to intervene, a written motion must be filed by **September 1, 2000**, by notice and motion addressed to Clerk of Court, Milwaukee County Circuit Court, 901 North Ninth Street, Milwaukee, WI 53233.

5. **Plaintiff Representatives.** The named plaintiffs in the Lawsuit include:

Milwaukee Police Association and
Bradley Debraska, President

Milwaukee Police Supervisors Organization and
Jerald Filut, President

Milwaukee Professional Fire Fighters Association,
Local 215, IAFF, AFL-CIO and Greg Gracz,
President

District Council 48 of American Federation of State,
County and Municipal Employees and Robert Klaus,
Staff Representative

District Council 48 AFSCME, Local 366, District
Council 48 of American Federation of State, County
and Municipal Employees Local 1053

District Council AFSCME, Local 587, District
Council 48 of American Federation of State, County
and Municipal Employees Local 1616 and 1616-
888J

Milwaukee Teachers' Education Association and Cheryl Barczak, Assistant Executive Director	Service Employees' International Union, Local 150
International Union of Operating Engineers, Local 950	International Union of Operating Engineers, Local 139
Plumbers' Local 75	International Brotherhood of Electrical Workers, Local 195
International Union of Operating Engineers, Local 317	Public Employees' Union, Local 61 and Leonard Streich
International Brotherhood of Electrical Workers, Local 494	American Federation of Teachers, Local 212
International Brotherhood of Electrical Workers, Local 715	International Association of Machinists and Aerospace Workers United, Lodge 66
International Association of Machinists and Aerospace Workers, Local 510	Association of Law Enforcement Allied Services Personnel, Local 218
Milwaukee Building & Construction Trade Council	Milwaukee & Southeast Wisconsin District Council
Staff Nurses' Council	Technicians Engineers & Architects of Milwaukee
Association of Scientific Personnel	Association of Municipal Attorneys
Administrators Supervisors Council	City of Milwaukee
The Association of Retired Employees of the City of Milwaukee and Marvin Steffen, President	Milwaukee Exposition and Convention Center and Arena Board
Milwaukee Metropolitan Sewerage District	Redevelopment Authority of the City of Milwaukee
Housing Authority of the City of Milwaukee	Milwaukee Area Technical College District Board
Milwaukee Board of School Directors	James A. McCann

6. ***Plaintiffs' Attorneys and Class Counsel.*** Counsel for the plaintiffs in the Lawsuit are listed below. Those attorneys whose names appear in bold print have been appointed class counsel for the plaintiffs:

Grant F. Langley, City Attorney
Thomas E. Hayes, Special
Deputy City Attorney
Milwaukee City Attorney's Office
200 East Wells Street
Suite 800
Milwaukee, WI 53202-3515
Attorneys for Plaintiff, City of Milwaukee

Gerardo H. Gonzalez, Esq.
Gonzalez, Saggio,
Birdsall & Harlan, L.L.P.
225 East Michigan Street, Suite 408
Milwaukee, WI 53202-4900
Attorney for Plaintiff, City of Milwaukee

Scott W. Hansen, Esq.
Bruce T. Block, Esq.
Richard P. Carr, Esq.
Reinhart, Boerner, Van Deuren,
Norris & Rieselbach, s.c.
1000 North Water Street, Suite 2100
P.O. Box 514000
Milwaukee, WI 53203-3400
Attorneys for Plaintiff, City of Milwaukee

Michael J. McCabe, Director Legal Services
Harold B. Jackson, Jr., Senior Staff Attorney
Milwaukee Metropolitan Sewerage District
260 West Seeboth Street
Milwaukee, WI 53201
Attorneys for Plaintiff, Milwaukee
Metropolitan Sewerage District

Charles P. Stevens, Esq.
Michael Best & Friedrich
100 East Wisconsin Avenue, Suite 3300
Milwaukee, WI 53202
Attorney for Plaintiff,
Wisconsin Center District

William J. Roden, Vice President and General
Counsel
Milwaukee Area Technical College
700 West State Street, Room 278
Milwaukee, WI 53233-1443
Attorney for Plaintiff, Milwaukee Area
Technical College District

John F. Fuchs, Esq.
Marcia A. Snow, Esq.
Fuchs, Snow & DeStefanis, S.C.
620 North Mayfair Road
Milwaukee, WI 53226-4253
Attorneys for Plaintiffs, Milwaukee Police
Association, Bradley DeBraska, Milwaukee Police
Supervisors Organization, and Jerald Filut

Timothy E. Hawks, Esq.
Jeffrey P. Sweetland, Esq.
**Shneidman, Myers, Dowling,
Blumenfield, Ehlke, Hawks & Domer**
700 West Michigan Street, Suite 500
P.O. Box 442
Milwaukee, WI 53201-0442
Attorneys for Plaintiffs, Milwaukee Professional
Fire Fighters Association, Local 215, IAFF, AFL-
CIO and Greg Gracz; Association of Law
Enforcement Allied Services Personnel, Local 218;
International Union of Operating Engineers, Locals
317 and 950; and Administrators Supervisors
Council, Local 107

Eugene O. Duffy, Esq.
O'Neil, Cannon & Hollman, S.C.
111 East Wisconsin Avenue, Suite 1400
Milwaukee, WI 53202-4807
Attorney for Plaintiffs Association of Retired
Employees of the City of Milwaukee and Marvin
Steffen; and James A. McCann

Alvin R. Ugent, Esq.
Matthew J. Miszewski, Esq.
Podell, Ugent, Haney & Miszewski, S.C.
611 North Broadway, Suite 200
Milwaukee, WI 53202-5004
Attorneys for Plaintiffs District Council 48,
Association of Federal, State, County and Municipal
Employees and Robert Klaus; and AFSCME,
Locals 366, 587, 1053 and 1616 and 1616-888J

Barbara Zack Quindel, Esq.
Perry, Shapiro, Quindel, Saks & Lerner, S.C.
823 North Cass Street
Milwaukee, WI 53203-3405
Attorney for Plaintiffs Milwaukee Teachers'
Education Association and Cheryl Barczak;
and Technicians Engineers and Architects
of Milwaukee

Bruce M. Davey, Esq.
Lawton & Cates, S.C.
10 East Doty Avenue, Suite 400
P.O. Box 2965
Madison, WI 53701-2965
Attorney for Plaintiff International
Brotherhood of Electrical Workers, Local 715

Nola J. Hitchcock Cross, Esq.
Murray & Cross
845 North 11th Street
Milwaukee, WI 53233
Attorney for Plaintiffs International
Brotherhood of Electrical Workers, Local 195,
Staff Nurses' Council and Association of
Scientific Personnel

Dale D. Pierson, Esq.
Baum, Sigman, Auerbach,
Pierson & Neuman, Ltd.
200 West Adams St.
Chicago, IL 60606
Attorney for Plaintiff International
Union of Operating Engineers, Local 139

William A. Padway, Esq.
State Bar ID No. 1016852
Padway & Padway, Ltd.
606 West Wisconsin Avenue
20th Floor
Milwaukee, WI 53203
Attorney for Plaintiff Public
Employees' Union, No. 61

Marianne Goldstein Robbins, Esq.
Previant, Goldberg, Uelmen,
Gratz, Miller & Brueggeman, S.C.
1555 North RiverCenter Drive, Suite 202
P.O. Box 12993
Milwaukee, WI 53212
Attorney for Plaintiffs International Association of
Machinists & Aerospace Workers, Local 510;
International Association of Machinists &
Aerospace Workers United, Lodge 66; International
Brotherhood of Electrical Workers, Local 494;
Milwaukee Building & Construction Trade Council;
Milwaukee & Southern Wisconsin District Council
of Carpenters; Plumbers Union, Local 75; and
Service Employees' International Union, Local 150

7. ***Defendants' Counsel.*** Counsel for the defendants in the Lawsuit are as follows:

James W. Greer, Esq.
Whyte Hirschboeck Dudek S.C.
111 East Wisconsin Avenue, Suite 2100
Milwaukee, WI 53202-4894
Attorney for Defendants, Milwaukee
Employees' Retirement System and Annuity
and Pension Board

James H. Hall, Jr., Esq.
Hall, Charne, Burce & Olson S.C.
324 East Wisconsin Avenue, Suite 1200
Milwaukee, WI 53202-4309
Attorney for Defendants, Milwaukee
Employees' Retirement System and Annuity
and Pension Board

Note: Communications and questions concerning the Lawsuit or this Notice should be sent to counsel for plaintiffs or to counsel for defendants. They should ***not*** be addressed to the Court or to the Clerk of the Milwaukee County Circuit Court.

8. ***Guardian ad Litem.*** The court has appointed Leonard V. Brady as Guardian *ad Litem* to protect the interests of incapacitated members or the estates of deceased members. Mr. Brady may be contacted at 1216 West Walnut Street, Milwaukee, WI 53212.

9. ***Background Information.*** Background information relating to the Lawsuit, the global settlement, and pension benefit improvements and changes may be found in the following documents:

- City of Milwaukee Charter Ordinance No. 991585.
- The Memorandum of Understanding ("MOU"), signed by the named plaintiffs.
- The complaint, answer and other pleadings in the Lawsuit.

10. ***Location of Information.*** You may inspect copies of the above documents at the following locations:

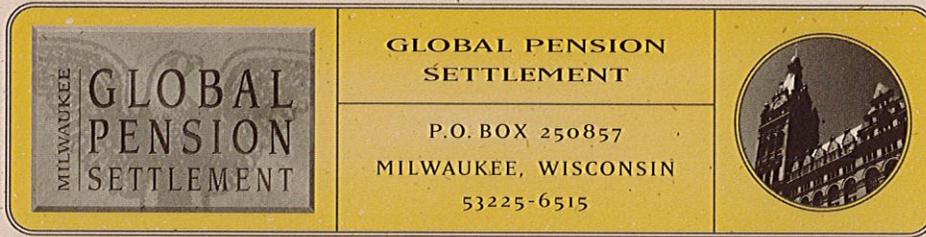
- Office of the Milwaukee City Clerk, 200 East Wells Street, Milwaukee, Wisconsin.
- Office of the Clerk of Milwaukee County Circuit Court, 901 North Ninth Street, Milwaukee, Wisconsin.
- Reinhart, Boerner, Van Deuren, Norris & Rieselbach, s.c., 1000 North Water Street, Suite 2100, Milwaukee, Wisconsin
- Whyte Hirschboeck Dudek S.C., 111 East Wisconsin Ave., Suite 2100, Milwaukee, Wisconsin.
- The City of Milwaukee Web Site:
<http://www.ci.mil.wi.us>.
(The Web Site includes under the “What’s New” heading various Court approved documents. The Web Site also has responses to frequently asked questions, which have not been reviewed or approved by the Court.)

11. ***“800” Number Telephone Information.*** An “800” (or 888) telephone line has been set up to provide information to members. The telephone number is ***888-410-4344***. You may call this telephone number and leave a recorded message, which will be responded to by a representative of the plaintiffs.

12. ***Explanatory and Consent Materials.*** Along with this Notice of Pendency of Class Action, you have received certain explanatory materials and a consent form. These materials have been approved by the Court.

Dated this ____ day of July, 2000.

Hon. Michael Malmstadt
Judge, Milwaukee County Circuit Court



Dear Member of the Milwaukee Employees' Retirement System:

This folder contains important information about the Milwaukee Global Pension Settlement and how it will affect your pension benefits. All of the undersigned groups are plaintiffs in the class action lawsuit seeking Court approval of the Pension Settlement.

As part of the Pension Settlement, all members of the Retirement System will receive a 5% bonus as well as other major pension improvements. The City of Milwaukee, in return, will have the benefit of having a variety of funds within the Retirement System consolidated into a single "Combined Fund," out of which all benefits and expenses will be paid.

We urge you to read this information carefully, and to return the enclosed consent form by **August 21, 2000**.

Milwaukee Police Association and
Bradley Debraska, President

Milwaukee Professional Fire Fighters
Association, Local 215, IAFF, AFL-CIO and
Greg Gracz, President

District Council 48 AFSCME, Local 366, District
Council 48 of American Federation of State,
County and Municipal Employees Local 1053

Milwaukee Teachers' Education Association and
Cheryl Barczak, Assistant Executive Director

International Union of Operating Engineers,
Local 950

Plumbers' Local 75

International Union of Operating Engineers,
Local 317

International Brotherhood of Electrical Workers,
Local 494

International Brotherhood of Electrical Workers,
Local 715

International Association of Machinists and
Aerospace Workers, Local 510

Milwaukee Building & Construction Trade
Council

Milwaukee Police Supervisors Organization and
Jerald Filut, President

District Council 48 of American Federation of
State, County and Municipal Employees and
Robert Klaus, Staff Representative

District Council AFSCME, Local 587, District
Council 48 of American Federation of State,
County and Municipal Employees Local 1616
and 1616-888J

Service Employees' International Union,
Local 150

International Union of Operating Engineers,
Local 139

International Brotherhood of Electrical Workers,
Local 195

Public Employees' Union, Local 61 and
Leonard Streich

American Federation of Teachers, Local 212

International Association of Machinists and
Aerospace Workers United, Lodge 66

Association of Law Enforcement Allied Services
Personnel, Local 218

Milwaukee & Southeast Wisconsin District
Council

Staff Nurses' Council

Association of Scientific Personnel

Administrators Supervisors Council

The Association of Retired Employees of the City
of Milwaukee and Marvin Steffen, President

Milwaukee Metropolitan Sewerage District

Housing Authority of the City of Milwaukee

Milwaukee Board of School Directors

Technicians Engineers & Architects of Milwaukee

Association of Municipal Attorneys

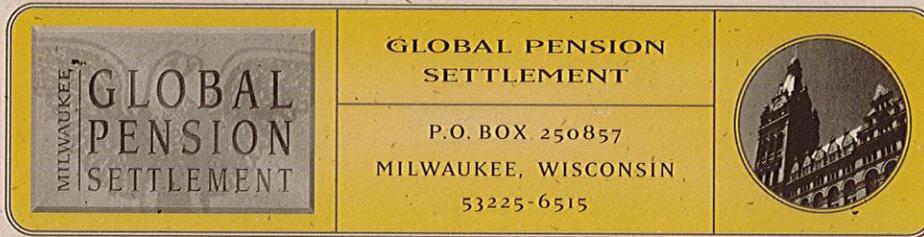
City of Milwaukee

Milwaukee Exposition and Convention Center
and Arena Board

Redevelopment Authority of the City of
Milwaukee

Milwaukee Area Technical College District Board

James A. McCann



This is an important document that has been approved by the Court to help you understand this lawsuit and how it will affect your pension rights. You should read this document completely before signing the accompanying consent form, and should seek legal advice if you have any questions. Copies of the charter ordinance, court papers and other documents referred to are on file for your viewing at the following locations:

Clerk's Office, City of Milwaukee
Room 205, City Hall
200 East Wells Street
Milwaukee, WI 53202

Office of the Clerk of Court
Milwaukee County Circuit Court
901 North Ninth Street
Milwaukee, WI 53233

Whyte Hirschboeck Dudek S.C.
111 East Wisconsin Avenue
Suite 2100
Milwaukee, WI 53202

Reinhart, Boerner, Van Deuren,
Norris & Rieselbach, S.C.
1000 North Water Street
Suite 2100
Milwaukee, WI 53202

Additional information is also available on the City of Milwaukee's Web Site: <http://www.ci.mil.wi.us> under the "What's New" heading. The Web Site includes Court approved documents such as the charter ordinance, this document, the consent form, the Court's scheduling order and other explanatory information. The Site also includes answers to frequently asked questions, which have not been reviewed or approved by the Court.

Or

Call the following toll-free information line if you have any questions:

1-888-410-4344

**QUESTIONS AND ANSWERS CONCERNING THE
MILWAUKEE GLOBAL PENSION SETTLEMENT**

ITEM	PAGE
1. WHY DID I RECEIVE THESE DOCUMENTS?	2
2. WHY WAS THIS LAWSUIT FILED?	2
3. WHY DOES THERE NEED TO BE A "GLOBAL SETTLEMENT" FOR ME TO RECEIVE ADDITIONAL PENSION BENEFITS?	2
4. CAN THE ADDITIONAL PENSION BENEFITS PROVIDED UNDER THE NEW CHARTER ORDINANCE BE CHANGED IN THE FUTURE?	3
5. HOW WILL THE NEW CHARTER ORDINANCE AFFECT THE FUNDING STRUCTURE OF THE RETIREMENT SYSTEM?	3
• THE CURRENT RETIREMENT SYSTEM FUNDS	4
• THE NEW RETIREMENT SYSTEM FUND ("COMBINED FUND")	5
6. HOW WILL THE NEW CHARTER ORDINANCE AFFECT RETIREMENT SYSTEM MEMBERS' RIGHTS IN THE ASSETS OF THE SYSTEM?	6
7. WHAT IS THE EFFECT OF CONSENTING TO THE GLOBAL SETTLEMENT?	6
8. WHAT IS THE EFFECT OF OBJECTING TO THE GLOBAL SETTLEMENT?	6
9. HOW MAY MEMBERS WHO ARE MINORS OR INCOMPETENT EXERCISE THEIR CONSENT OR OBJECTION TO THE GLOBAL SETTLEMENT?	7
10. WHAT ARE THE ADDITIONAL PENSION BENEFITS FOR THOSE WHO PARTICIPATE IN THE GLOBAL SETTLEMENT?	7

SUMMARY OF BENEFITS	8
A. MILWAUKEE GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JANUARY 1, 2000 (REPRESENTED AND NON-REPRESENTED)	9
B. MILWAUKEE POLICE OFFICERS IN ACTIVE SERVICE AS OF JANUARY 1, 2000	10
C. MILWAUKEE FIRE FIGHTERS IN ACTIVE SERVICE AS OF JANUARY 1, 2000	13
D. RETIRED AND INACTIVE RETIREMENT SYSTEM MEMBERS AS OF JANUARY 1, 2000	16
E. MILWAUKEE GENERAL CITY EMPLOYEES HIRED ON OR AFTER JANUARY 1, 2000 (REPRESENTED AND NON-REPRESENTED)	18
F. MILWAUKEE POLICE OFFICERS HIRED ON OR AFTER JANUARY 1, 2000	19
G. MILWAUKEE FIRE FIGHTERS HIRED ON OR AFTER JANUARY 1, 2000	20
HOW TO CALCULATE THE 5% LUMP SUM BONUS	21

1. WHY DID I RECEIVE THESE DOCUMENTS?

The documents you received concern your rights as a member of the Milwaukee Employees' Retirement System (referred to in this document as the "Retirement System"). The Retirement System provides pension and other benefits to City of Milwaukee (and certain School Board and other City agency) employees, and the beneficiaries of such employees. As a member of the Retirement System, you have certain rights in the assets of the System that are the subject of a lawsuit that has been filed. The documents you received are meant to explain this lawsuit and the decision you must make about whether to consent to receive certain benefit improvements in exchange for waiving certain rights.

2. WHY WAS THIS LAWSUIT FILED?

This lawsuit was filed to gain court approval of a recently passed City Charter Ordinance that provides improved pension benefits to members of the Retirement System in exchange for their participation in a newly structured system. The terms of this new City Charter Ordinance were negotiated between the City of Milwaukee, City agencies (Milwaukee Public Schools, Milwaukee Metropolitan Sewerage District, Milwaukee Area Technical College, Wisconsin Center District, Redevelopment Authority and Housing Authority) and 29 employee unions and representatives of the Association of Retired Employees of the City of Milwaukee. The Memorandum of Understanding between these parties is commonly referred to as the "Global Settlement."

The City of Milwaukee, the City Agencies and the 29 employee unions and representatives of the Association of Retired Employees have together filed this lawsuit to obtain court approval of the process for seeking consent to the proposed benefit improvements and restructuring of the Retirement System **and** directing the Annuity and Pension Board to implement the Global Settlement.

3. WHY DOES THERE NEED TO BE A "GLOBAL SETTLEMENT" FOR ME TO RECEIVE ADDITIONAL PENSION BENEFITS?

A "Global Settlement" between the City and representatives of the Retirement System's members is necessary in order to use surplus assets of the Retirement System to pay for pension improvements and to fund certain structural changes requested by the City.

Currently the Retirement System has funds in excess of its obligations. In other words, the Retirement System can pay all present and future pensions and other retirement benefits owed to its members under the current law and still have assets left over. Although there is an asset surplus in the Retirement System, members are not entitled to receive additional benefits under the current pension plan. Your pension benefits are set by the formula in the current pension charter ordinance, regardless of how much may have been contributed to the Retirement System over the years or how overfunded the System may be. Members receive increases in their benefits only if the City legislates an increase, usually as the result of collective bargaining agreements between the unions representing active workers and the City.

The City was unwilling to legislate pension improvements without being able to make certain

structural changes to the Retirement System. The changes the City wants to make would allow for one, combined fund to pay for all member benefits and for the costs of administering and operating the Retirement System. Recent court decisions denied the City the right to make structural changes unilaterally. Thus, the City and employee and retiree representatives negotiated an agreement about the way the System might be restructured in order to use some of the surplus to pay for pension benefit improvements. The "Global Settlement" accomplished this through an agreement that allows pension improvements to be paid for out of the surplus for those members who participate in the restructured fund, known as the Combined Fund.

4. CAN THE ADDITIONAL PENSION BENEFITS PROVIDED UNDER THE NEW CHARTER ORDINANCE BE CHANGED IN THE FUTURE?

The pension improvements under the new Charter Ordinance which effectuates the Global Settlement, as described above, are contractual benefits that cannot be reduced or impaired in the future, either by the City unilaterally or through negotiation, without your express consent. However, benefit increases can be negotiated or awarded to participants in the Combined Fund in the future without violating the rights of any member of the Combined Fund. Every participant in the Combined Fund will have a contractual and vested right to the benefits in the amount and on the terms and conditions as provided in the law on the date the Combined Fund is created.

5. HOW WILL THE NEW CHARTER ORDINANCE AFFECT THE FUNDING STRUCTURE OF THE RETIREMENT SYSTEM?

If the court approves the new Charter Ordinance, the structure of the Retirement System will change for those members who participate in the Global Settlement. In order to understand how the Ordinance will affect the funding structure of the Retirement System for consenting members, you must have a basic understanding of how the current System is structured and how current benefits are funded. At present, three types of annual contributions fund pension and retirement benefits for Retirement System members: 1) fixed employer contributions made on behalf of the employee; 2) fixed employee contributions, and; 3) actuarially determined employer contributions.

Fixed Employer Contributions Made On Behalf Of The Employee: The City and City Agencies contribute a fixed amount of their employees' compensation to the Retirement System on the employees' behalf. This amount ranges from 5.5% to 7% of active employee compensation. These employer contributions remain the same regardless of whether the Retirement System is overfunded or underfunded, and will continue to be made regardless of whether or not you consent to the changes proposed in the new Charter Ordinance.

Fixed Employee Contributions: Prior to January 1, 2000, Police Officers and Fire Fighters contributed 0.87% of their compensation to the Firemen and Policemen's Survivorship Fund. In addition, active Police Officers contribute an extra \$1.00 annually. Fixed employee contributions also remain the same regardless of whether the Retirement System is overfunded or underfunded. With the exception of the Firemen and Policemen's Survivorship Fund contributions, these contributions will continue to be made whether the

Retirement System is overfunded or underfunded, and will continue to be made even if you consent to the new Charter Ordinance.

Actuarially Determined Employer Contributions: The actuary employed by the Retirement System Annuity and Pension Board determines what additional contribution is due from the City and City Agencies to fund the total amount of present and future benefits owed Retirement System members (the "accrued liability"). The calculation of the amount of accrued liability is based upon actuarial assumptions (e.g.: (a) future salary increases; (b) retirement ages; (c) mortality; and, (d) disability, etc.). If the actuary determines that the Retirement System is underfunded (i.e., the actuarially accrued liability exceeds the actuarial value of System's assets), the City and City Agencies must contribute the amount of money the Actuary certifies will maintain an appropriate funding level and reserves for the System. Thus, unlike the fixed employer and employee contributions described above, actuarially determined employer contributions vary based upon the current funding status of the Retirement System. If there is an excess of assets over liabilities in any fund at the time of the annual valuation, the surplus is used to reduce the employer's contribution to that fund.

Retirement System assets are held in six separate funds to be used for the purposes for which they were contributed. The following is a brief description of these funds:

THE CURRENT RETIREMENT SYSTEM FUNDS

- **The Retirement Fund.** The bulk of member and City or City Agency contributions, plus investment income, are held in the Retirement Fund. This fund currently pays all benefits with the exception of duty disability benefits, heart and lung benefits, and fire fighter and police officer survivorship benefits.
- **The Combined Retirement and Special Disability Fund.** This fund was created effective January 31, 1996 to pay all benefits for only those persons who became members of the Retirement System on or after January 31, 1996.
- **The Expense Fund.** All employer contributions for the expenses to administer and operate the Retirement System are held in the Expense Fund.
- **The Heart and Lung Fund.** This fund pays heart and lung benefits for City fire fighters on duty disability.
- **The Special Duty Disability Fund.** This fund pays duty disability benefits for general City employees, fire and police.
- **The Firemen and Policemen's Survivorship Fund.** This fund pays fire and police survivorship benefits.

THE NEW RETIREMENT SYSTEM FUND

Members, retired members, spouse survivors and beneficiaries who participate in the Global Settlement, as well as new employees hired after the effective date of the Charter Ordinance, will be part of a new **“Combined Fund.”** The Combined Fund will pay all benefits to those who participate in this fund. The liabilities for benefits of Combined Fund participants, and their proportionate share of the surplus assets of the System, will be segregated from those of Retirement System members who do not participate in the Global Settlement. Accumulated member contributions for participants in the Combined Fund will be transferred to the Combined Fund. The assets in the Combined Fund will be used to pay for:

- The annual cost to administer and operate the Retirement System. These costs, estimated at less than one percent of the current Fund assets, were previously the obligation of the City, and City Agencies.
- The cost of all future benefits for participants in the Combined Fund and the cost of additional pension benefits provided by the Global Settlement under the new Charter Ordinance.
- The Fund will also pick up any additional future benefits bargained for active members by their collective bargaining representatives (or granted by the City with respect to non-represented active members). The City and City Agencies will continue to be obligated to fully fund all pension benefits, regardless of the status of the assets in the Combined Fund.
- The cost of outstanding legal judgments rendered against the City;
 - Attorneys’ fees, expert fees and costs for the parties to the Global Settlement and litigation, subject to Court approval;
 - Unpaid employer contributions owed to the separate funds accrued prior to the Global Settlement;
 - The cost of all of the above items (within this bullet) is estimated at less than one percent of the current Fund assets.
- Actuarially Determined Employer Contributions.
- The Firemen and Policemen’s Survivorship Fund will be closed to participants in the Combined Fund under the new Charter Ordinance. The Survivorship Fund assets will be used to pay a bonus to eligible Survivorship Fund members. A total of \$10 million will be set aside from the Survivorship Fund to: (a) pay each surviving former member of the Survivorship Fund an average of \$500; and (b) fund an employer reserve fund within the Retirement System.

No other types of payments can be made from the Combined Fund, including its surplus.

6. HOW WILL THE NEW CHARTER ORDINANCE AFFECT RETIREMENT SYSTEM MEMBERS' RIGHTS IN THE ASSETS OF THE SYSTEM?

Members of the Retirement System have a property interest in the assets of the System, and that will not change. Recent court decisions have addressed the rights created by this property interest. The Courts ruled that certain unilateral actions taken by the City to restructure the Retirement System were unlawful without the affected members' consent. Thus, in order to restructure the Retirement System in a way necessary to induce the City to legislate improved benefits, members must consent to the proposed restructuring changes.

7. WHAT IS THE EFFECT OF CONSENTING TO THE GLOBAL SETTLEMENT?

In order to address your rights as determined by the Courts, the City and City Agencies, together with representatives of the 29 unions and the Association of Retired Employees who created the Global Settlement seek your consent to restructure the Retirement System as described under Question No. 5. Two things must happen in order to implement the Global Settlement: 1) 90% of Retirement System members, representing 90% of the System's assets, must consent to participate in the Global Settlement (unless this requirement is waived by the City); and, 2) the Court must approve the settlement. If either of the above two conditions don't happen, Retirement System members will not receive the proposed additional benefits and no changes will occur to the structure of the System, regardless of whether you consent to the Global Settlement or not. If you consent to the Global Settlement and both of the above conditions are met, you will receive additional pension benefits and will become a member of the Combined Fund. **Therefore, due to the 90% participation requirement, it is imperative that you check the "Consent" box on the consent form if you want to participate in the Global Settlement and receive improved pension benefits.**

Your consent is specifically limited to the restructuring described as part of the Global Settlement. You are NOT giving up your property interest in the surplus assets, but only allowing some of the surplus assets to be used for the purposes outlined above. The City will continue to be responsible for assuring the financial integrity of the Retirement System and its reserves. Moreover, your consent does not affect your other vested rights in the System. You continue to be protected from any reductions or impairments of your vested rights with respect to your pension benefits.

8. WHAT IS THE EFFECT OF OBJECTING TO THE GLOBAL SETTLEMENT?

If you object to the Global Settlement, you must check the "Object" box on the consent form. If you object to participating in the Global Settlement, and the conditions for implementing the Global Settlement are met, there are two possible consequences: 1) You will not receive the additional benefits. Your current pension benefits will remain the same as will the current structure of the system, and the liabilities for your benefits and your proportionate share of the surplus assets of the system will be segregated from those of Retirement System members who participate in the Global Settlement; *or* 2) The Court may require you to be treated in the same way as those who agreed to participate in the Global Settlement, in which case, you will receive additional benefits and you will become a member of a Combined Fund, despite your lack of consent. As it is not known at this time how the Court will rule with respect to objectors, the only way to ensure that you will receive the additional benefits if the Global Settlement is implemented is to check the "Consent" box on the consent form.

9. HOW MAY MEMBERS WHO ARE MINORS OR INCOMPETENT EXERCISE THEIR CONSENT OR OBJECTION TO THE GLOBAL SETTLEMENT?

The consent form that accompanies this document has a signature line for a person executing the form on behalf of a member who is a minor or incompetent. Under such circumstances, the person with the legal authority to execute the consent form on behalf of a member must check either the "Consent" or "Object" box, sign the form, print their name and indicate the legal capacity that authorizes them to execute the form. The consent form must be returned by the due date **with a copy of the document(s) giving the signator the legal authority to execute the form on behalf of the member.**

10. WHAT ARE THE ADDITIONAL PENSION BENEFITS FOR THOSE WHO PARTICIPATE IN THE GLOBAL SETTLEMENT?

The new Charter Ordinance would provide additional pension benefits for all Retirement System members **who participate in the restructured System.** However, these pension benefit increases will only be paid if the Court rules that the Charter Ordinance is legal and enforceable and at least 90% of Retirement System members, representing 90% of the assets of the Retirement System, give their consent to the changes proposed by the new Ordinance (except if the City agrees to waive this requirement). Unless the Court orders objecting members to participate in the settlement, pension benefits and the structure of the Retirement System will remain the same as they are currently for members who **object** to the changes proposed by the new Ordinance.

A summary of proposed additional benefits for consenting members is set forth on the pages which follow this section. **This is intended as a summary of benefits only.**

ACTIVE MEMBER OR RETIREE MEMBER GROUP

A. MILWAUKEE GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JANUARY 1, 2000 (REPRESENTED AND NON-REPRESENTED)	9
B. MILWAUKEE POLICE OFFICERS IN ACTIVE SERVICE AS OF JANUARY 1, 2000	10
C. MILWAUKEE FIRE FIGHTERS IN ACTIVE SERVICE AS OF JANUARY 1, 2000	13
D. RETIRED AND INACTIVE RETIREMENT SYSTEM MEMBERS AS OF JANUARY 1, 2000	16
E. MILWAUKEE GENERAL CITY EMPLOYEES HIRED ON OR AFTER JANUARY 1, 2000 (REPRESENTED AND NON-REPRESENTED)	18
F. MILWAUKEE POLICE OFFICERS HIRED ON OR AFTER JANUARY 1, 2000	19
G. MILWAUKEE FIRE FIGHTERS HIRED ON OR AFTER JANUARY 1, 2000	20

**A. PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE GENERAL CITY
EMPLOYEES IN ACTIVE SERVICE AS OF JANUARY 1, 2000
(REPRESENTED AND NON-REPRESENTED)**

• **5% Bonus.** General City Employees in active service as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement. This 5% bonus would also be payable upon death on or after January 1, 2000 to the member's spouse duty death beneficiary or spouse survivor (under a protective survivorship option). The bonus equals 5% of the member's accrued benefit at retirement (unreduced annual allowance without reduction for survivorship option) or 5% of the accrued duty death benefit or spouse survivor accrued benefit, converted to a present value. The bonus amount can be calculated using the table attached hereto on page 21.

• **Cost of Living Adjustment (COLA) Improvements.** General City Employees in active service on or after January 1, 2000 shall be eligible to receive a 1.5% annual COLA, first payable on the installment next following the second, third and fourth anniversary of the member's retirement or duty death and 2% annually, first payable on the installment next following the fifth, sixth, seventh and every succeeding anniversary thereafter of the member's retirement or duty death.

• **COLA Expanded to Excluded Groups.** The same annual, compounded COLA improvements available to General City employees in active service on or after January 1, 2000, shall be expanded to the following groups:

1. Deferred retirees, early retirees, duty disability retirees and ordinary disability retirees, first payable two years after retirement.
2. Those receiving a spouse survivor benefit under options 2, 3 and 4 (expressed as a percentage of the member's pension), first payable two years after the member's retirement or death.
3. A spouse as a duty death beneficiary, first payable two years after the member's death.

• **Military Service Credit.** Each active member who retires on a service retirement between January 1, 1999 and December 31, 2002, will receive one year of creditable service for each three-year period served in active duty in the military prior to being hired as a general City employee, provided the member was honorably discharged. This additional service credit shall be pro-rated for periods of military service less than three years. The maximum additional creditable years of service to be awarded under this section shall be three years. This additional service credit will be counted in determining the amount of retirement benefit, but will not be counted in establishing eligibility to receive a benefit.

• **Reselection of Protective Survivorship Option (PSO).** Members who selected a PSO with a spouse survivorship option shall be permitted to reselect their spouse survivor option during a 90-day period prior to retirement.

**B. PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE POLICE OFFICERS
IN ACTIVE SERVICE AS OF JANUARY 1, 2000**

- **25 & Out.** Unreduced service retirement at 25 years of actual creditable service as a police officer or fire fighter, including police aide time. This benefit to be effective January 1, 1998 for the MPA and January 1, 1999 for the MPSO. (Health insurance for those who qualify for this benefit is strictly a contractual benefit, not a pension benefit, and is to be based upon the contractual unused/accumulated sick leave formula).

- **5% Bonus.** Police officers in active service as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement. This 5% bonus would also be payable upon death on or after January 1, 2000 to the member's surviving spouse duty death beneficiary or spouse survivor (under a protective survivorship option.) The bonus equals 5% of the member's accrued benefit at retirement (unreduced annual allowance), converted to a present value, or 5% of the surviving spouse's duty death benefit or spouse survivor's accrued benefit converted to a present value. The bonus amount can be calculated using the table attached hereto on page 21.

- **Additional Service Credits.** Police officers in active service as of January 1, 2000 shall be awarded an additional 1.5 years of creditable service after completing 25 years of actual creditable service or attaining age 57. The additional creditable service shall be used in calculating the amount of a member's service retirement, and included in the member's pension in calculating the amount of a spouse survivor benefit, but shall not be included for purposes of establishing eligibility for service retirement. The pension increase earned as a result of the additional creditable service shall not be subject to the 90% cap.

- **Cost of Living Adjustment (COLA) Guaranteed for Service Retirement.** An annual, compounded COLA equal to the Consumer Price Index (CPI), but not less than 2% nor greater than 3%, for service retirement, first payable one year after retirement and each subsequent year thereafter for MPA members who retire on service retirement on or after January 1, 1998, for MPSO members who retire on service retirement on or after January 1, 1999, and for unrepresented members who retire after January 1, 2000. Spouse survivors of MPA members who retire on service retirement or die in active service (after having selected a protective survivorship option) on or after January 1, 1998, MPSO members who retire on service retirement or die in active service (after having selected a protective survivorship option) on or after January 1, 1999, and unrepresented members who retire on a service retirement allowance or die in active service on or after January 1, 2000 (after having selected a protective survivorship option), shall also receive an annual, compounded COLA equal to CPI, but not less than 2% nor greater than 3%. (**Note:** The Consumer Price Index, or CPI, is the most widely used measure of inflation of the United States. It is compiled by the Bureau of Labor Statistics. The CPI is used, among other things, in calculating cost-of-living adjustments for Social Security recipients and federal/military retirees.)

• **COLA Expanded to Excluded Groups.** An annual, compounded COLA equal to CPI, but not to exceed 3%, is expanded to the following:

1. Deferred retirees, early retirees and ordinary disability retirees, first payable one year after retirement.
2. Those who receive a spouse survivor benefit under Options 2, 3 or 4 (when expressed as a percentage of member's pension), first payable one year after the retiree's death.
3. Those who receive a spouse beneficiary benefit as a result of duty death, first payable one year after the member's death.
4. Those who receive a spouse beneficiary benefit payable as a result of the death of a retiree while on duty disability, first payable one year after the retiree's death.

• **Military Service Credit.** Each MPA member who retires on a service retirement between January 1, 1998 and December 31, 2002, and each MPSO member who retires on a service retirement between January 1, 1999 and December 31, 2002, will receive one year of creditable service for each three-year period served in active duty in the military prior to being hired as a City police officer, provided the member was honorably discharged. This additional service credit shall be pro-rated for periods of military service of less than three years. The maximum additional creditable years of service to be awarded under this section shall be three years. This additional service credit will be counted in determining the amount of retirement benefit, but will not be counted in establishing eligibility to receive a benefit.

• **Survivorship Fund Bonus and Dissolution.** If 100% of the active members of the Firemen and Policemen's Survivorship Fund consent to the dissolution of the fund (unless the City waives this requirement), the following shall occur:

1. Beneficiaries of deceased MPA and MPSO members who are receiving payment from the Firemen and Policemen's Survivorship Fund (the "Survivorship Fund") as of December 31, 1999, or who are eligible to receive payment from the Survivorship Fund in the future due to the death of a MPA or MPSO member prior to January 1, 2000, shall receive the maximum benefit of \$300/\$600 per month, effective January 1, 2000, or as soon thereafter as payments from the Survivorship Fund are to begin.
2. Active members of the Survivorship Fund (eligible for the benefit) as of January 1, 2000 shall, if they apply for a service retirement, be awarded a Survivorship Fund Dissolution Bonus of 2.0 additional years of creditable service after completing 25 years of actual creditable service as defined in Chapter 36 of the Milwaukee City Charter, or attaining age 57. The additional creditable service shall be used in calculating the amount of the member's service retirement, but shall not be included for purposes of establishing eligibility for service retirement. The Survivorship Fund Dissolution Bonus shall not be subject to the 90% cap.

3. Each duty disability member of the Survivorship Fund as of January 1, 2000, and each active member of the Survivorship Fund who retires on duty disability, shall receive a Survivorship Fund bonus of additional service credit or 8.6% of the accrued benefit (the member's unreduced allowance) converted to a present value, using the factors indicated in the Charter Ordinance (see the Charter Ordinance on file, or visit the City's Website to get the appropriate factor) as follows:

75% Duty Disability with a Conversion to a Service Retirement: 2.0 additional years of creditable service to be used in computing the Service Retirement Allowance upon conversion. The Survivorship Fund Dissolution Bonus shall not be subject to the 90% cap.

75% Duty Disability with a Conversion Age (Extended Life Benefit): 8.6% lump sum bonus based upon a hypothetical conversion benefit payable at the conversion age.

75% Duty Disability without a Conversion Age (Lifetime Benefit): 8.6% lump sum bonus based upon a hypothetical conversion benefit calculated and paid at age 63. If the member is older than age 63 on 1/1/2000, the lump sum bonus shall be 8.6% of the current duty disability benefit and shall be payable as soon as administratively feasible following Court approval.

90% Duty Disability: 8.6% lump sum bonus based upon a hypothetical conversion benefit calculated and paid at age 63. If the member is older than age 63 on 1/1/2000, the lump sum bonus shall be 8.6% of the current duty disability benefit and shall be payable as soon as administratively feasible following Court approval.

4. If an active member of the Survivorship Fund as of January 1, 2000, dies prior to retirement, the spouse survivor (under a protective survivorship option) or the duty death beneficiary, shall be eligible for a lump sum bonus equal to 8.6% of the accrued spouse benefit.

**C. PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE FIRE FIGHTERS
IN ACTIVE SERVICE AS OF JANUARY 1, 2000**

- **22/49.** Effective January 1, 2000, members who have attained age 49 and who have completed 22 years of creditable service as a fire fighter or police officer shall be eligible for unreduced normal service retirement. (Health insurance for those who qualify for this benefit is strictly a contractual benefit, not a pension benefit, and is to be based upon the contractual unused/accumulated sick leave formula).

- **5% Bonus.** Fire fighters in active service as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement. This 5% bonus would also be payable upon death on or after January 1, 2000 to the member's spouse duty death beneficiary and spouse survivor (under a protective survivorship option). The bonus equals 5% of the member's accrued benefit (unreduced annual allowance) at retirement, converted to a present value, or 5% of the surviving spouse's duty death benefit or spouse survivor's accrued benefit converted to a present value. The bonus can be calculated using the table attached hereto on page 21.

- **Additional Service Credits.** Fire fighters in active service as of January 1, 2000 shall be awarded an additional 1.5 years of creditable service after completing 20 years of actual creditable service. Employees retiring from the System with less than 20 years of creditable service will receive a pro rata adjustment. The additional creditable service shall be used in calculating the amount of a member's service retirement, and in the member's pension, in calculating the amount of the spouse survivor's benefit, but shall not be included for purposes of establishing eligibility for service retirement or in calculating the amount of a deferred retirement pension. The pension increase earned as a result of the additional creditable service shall not be subject to the 90% cap.

- **Cost of Living Adjustment (COLA) Guaranteed for Service Retirement.** LOCAL 215 members in active service on or after January 1, 1998, who thereafter retire on a service retirement allowance, and unrepresented members who retire after January 1, 2000, shall receive an annual, compounded COLA equal to the Consumer Price Index (CPI), but not less than 2% nor greater than 3%, first payable one year after retirement and each subsequent year thereafter. Spouse survivors of LOCAL 215 members who retire on service retirement or die in active service on or after January 1, 1998, and unrepresented members who retire on service retirement or die in active service after January 1, 2000, shall also receive an annual, compounded COLA equal to CPI, but not less than 2% nor greater than 3%. (Note: The Consumer Price Index, or CPI, is the most widely used measure of inflation of the United States. It is compiled by the Bureau of Labor Statistics. The CPI is used, among other things, in calculating cost-of-living adjustments for Social Security recipients and federal/military retirees.)

- **COLA Expanded to Excluded Groups.** An annual, compounded COLA equal to CPI, but not to exceed 3% is expanded to the following:

1. Deferred retirees, early retirees and ordinary disability retirees, first payable one year after retirement.

2. Those receiving a spouse survivor benefit under Options 2, 3 or 4 (when expressed as a percentage of member's pension), first payable one year after the retiree's death.
3. Those receiving a spouse beneficiary benefit as a result of a duty death, first payable one year after the member's death.
4. Those receiving a spouse beneficiary benefit payable as a result of the death of a retiree while on duty disability, first payable one year after the retiree's death.

• **Military Service Credit.** Each LOCAL 215 member who retires on a service retirement between January 1, 1998 and December 31, 2002, will receive one year of creditable service for each three-year period served in active duty in the military prior to being hired as a City fire fighter, provided the member was honorably discharged. This additional service credit shall be pro-rated for periods of military service of less than three years. The maximum additional creditable years of service to be awarded under this section shall be three years. This additional service credit will be counted in determining the amount of retirement benefits, but will not be counted in determining eligibility to receive benefits.

• **Survivorship Fund Bonus and Dissolution.** If 100% of the active members of the Firemen and Policemen's Survivorship Fund consent to the dissolution of the fund (unless the City waives this requirement), the following shall occur:

1. Beneficiaries of deceased LOCAL 215 members who are receiving payment from the Firemen and Policemen's Survivorship Fund (the "Survivorship Fund") as of December 31, 1999, or who are eligible to receive payment from the Survivorship Fund in the future due to the death of a LOCAL 215 member prior to January 1, 2000, shall receive the maximum benefit of \$300/\$600 per month, effective January 1, 2000, or as soon thereafter as payments from the Survivorship Fund are to begin.
2. Fire fighters in active service who are active members of the Survivorship Fund (eligible for the benefit) as of January 1, 2000 shall be awarded a Survivorship Fund Dissolution Bonus of a one-time 8.6% bonus payable in a single lump sum upon retirement. A surviving spouse duty death beneficiary or spouse survivor (under a protective survivorship option) of a fire fighter in active service as of January 1, 2000, shall also be awarded a dissolution bonus if the member dies prior to retirement. The bonus equals 8.6% of the member's accrued benefit (unreduced annual allowance) at retirement, converted to a present value. The bonus for the spouse survivor or surviving spouse death benefit beneficiary shall equal 8.6% of the accrued spouse benefit converted to a present value. The present value will be calculated using the factors indicated in the Charter Ordinance (see the Charter Ordinance on file, or visit the City's Website to get the appropriate factor).
3. Each duty disability member of the Survivorship Fund as of January 1, 2000, and each active member of the Survivorship Fund who retires on duty disability shall receive an 8.6% lump sum bonus converted to a present value using the factors indicated in the Charter Ordinance (see the Charter Ordinance on file, or visit the City's Website to get the appropriate factor) as follows:

75% Duty Disability with a Conversion to a Service Retirement: 8.6% lump sum bonus based upon the conversion benefit and payable at conversion to Service Retirement.

75% Duty Disability with a Conversion Age (Extended Life Benefit): 8.6% lump sum bonus based upon a hypothetical conversion benefit payable at the conversion age.

75% Duty Disability without a Conversion Age (Lifetime Benefit): 8.6% lump sum bonus based upon a hypothetical conversion benefit calculated and paid at age 63. If the member is older than age 63 on 1/1/2000, the lump sum bonus shall be 8.6% of the current duty disability benefit and shall be payable as soon as administratively feasible following Court approval.

90% Duty Disability: 8.6% lump sum bonus based upon a hypothetical conversion benefit calculated and paid at age 63. If the member is older than age 63 on 1/1/2000, the lump sum bonus shall be 8.6% of the current duty disability benefit and shall be payable as soon as administratively feasible following Court approval.

**D. PROPOSED BENEFIT IMPROVEMENTS FOR RETIRED AND INACTIVE
RETIREMENT SYSTEM MEMBERS AS OF JANUARY 1, 2000**

(Including Police and Fire Fighters)

• **Lump-sum Payment.** Current recipients as of January 1, 2000, who are retirees, spouse survivors or accidental death beneficiaries shall be eligible to receive a lump-sum payment calculated based upon the full monthly installment payable for the month immediately prior to January 1, 2000, or if no full monthly installment is payable prior to January 1, 2000, the first full monthly installment payable after January 1, 2000, multiplied according to the following table:

<u>Year of Retirement or Member's Duty Death</u>	<u>Multiplier Factor</u>
General City, 1997 – 1999	2 times monthly installment
General City, 1996	3 times monthly installment
General City, 1995	4 times monthly installment
General City, 1994	5 times monthly installment
General City, 1993	6-1/2 times monthly installment
General City, 1992 and prior	8 times monthly installment
Fire and Police Retirees	8 times monthly installment

• **5% Bonus.** Current recipients who are retirees, spouse survivors or duty death beneficiaries shall receive a one-time 5% bonus payable in a lump sum, to be paid as soon as administratively feasible. The bonus equals 12 times 5% of the last full monthly installment payable immediately prior to January 1, 2000, or if no monthly installment was payable prior to January 1, 2000, the first full monthly installment payable immediately after January 1, 2000, converted to a present value. Separated members eligible for deferred retirement shall receive a one time 5% bonus payable in a lump sum at the time of retirement. The bonus equals 5% of the member's accrued benefit at retirement (unreduced allowance without reduction for survivorship option), converted to a present value. The bonus amount can be calculated using the table attached hereto on page 21.

• **Catch-up and Cost of Living Adjustment (COLA) Overpayments.** Catch-up and COLA overpayments made to retirees in 1996 and 1997 shall be offset, dollar for dollar, against the lump sum payment set forth above. However, the amount of this offset will not exceed the equivalent of 3 monthly installments. Catch-up and COLA overpayments made to spouse survivors in 1996 and 1997 shall be offset, dollar for dollar, against the lump sum payment set forth above. However, the amount of this offset will not exceed the equivalent of 3 monthly installments. **There will be no reduction in current benefits. Overpayments to retirees and spouse survivors not offset by 3 monthly installments shall be forgiven and no further repayment will be required.**

• **COLA Improvements.** Commencing with the first installment after January 1, 2000, those pre-October 1, 1987 protective retiree recipients, their spouse survivor recipients and general City and spouse survivors and pre-October 1, 1987 protective spouse beneficiary recipients who never before received a COLA shall receive a COLA benefit equal to 1.5% annually, first payable two years after member's retirement or death, and 2% annually, first payable five years after member's retirement or death. The COLA benefit for those who are currently receiving a COLA shall remain the same.

• **COLA Guaranteed.** An annual COLA for all those eligible to receive the benefit shall be guaranteed. The Retired Life Account and the COLA adjustment reserve within the old Retirement Fund will be eliminated from the Combined Fund.

• **COLA Expanded to Excluded Groups.** Commencing with the first installment after January 1, 2000, an annual, compounded COLA benefit equal to 1.5% annually, first payable two years after the member's retirement or death, and 2% annually, first payable five years after the member's retirement or death will be expanded prospectively to deferred retirees, early retirees, general City duty disability retirees and ordinary disability retirees. An annual compounded COLA benefit equal to 1.5% annually, first payable two years after the member's retirement or death, and 2% annually, first payable five years after the member's retirement or death will also be expanded prospectively commencing with the first installment after January 1, 2000 to spouse survivors under options 2, 3 and 4 (expressed as a percentage of member's pension). Commencing with the first installment after January 1, 2000, an annual, compounded COLA benefit equal to 1.5% annually, first payable two years after the member's retirement or death, and 2% annually, first payable five years after the member's retirement or death will be expanded prospectively to spouse beneficiaries as a result of duty death and spouse beneficiaries as a result of a retiree's death while on duty disability.

• **Military Service Credit Bonus.** Each retired member who served and was honorably discharged from the military service prior to first being enrolled in the retirement system and who retired on a service retirement allowance prior to January 1, 2000, shall be eligible for a military service credit bonus to be computed by multiplying the sum of \$1,000,000.00 by a fraction, the numerator of which is the member's eligible active military service credit and the denominator of which is the total eligible active military service credit of all retirees eligible under this paragraph. Each retired member shall be credited with one year of military service credit for each three-year period in active duty in the military prior to being enrolled in the retirement system, provided the retired member was honorably discharged from the military service. This military service credit shall be prorated for a period of military service of less than three years. The maximum additional military service credit shall not exceed one year. The maximum military service credit bonus for a retired member shall not exceed the amount of the monthly installment received by the retired member immediately prior to January 1, 2000. Military service shall mean all times after January 1, 1938 in the service of the armed forces of the United States of America. A retiree shall be eligible for credit for each 90 consecutive days of active duty as defined in 10 U.S.C. § 101(d)(1). The Retirement System shall determine the appropriate military documentation for crediting military service. **In order to be eligible for a military service credit bonus, each retired member must apply to the Retirement System no later than January 1, 2001.**

• **Survivorship Fund Dissolution Bonus For Inactive Former Members.** Each surviving former member of the Firemen and Policemen's Survivorship Fund as of January 1, 2000, shall receive a distribution (estimated to be, on average, \$500 per eligible retired member) calculated by multiplying the amount set aside for former members of the Fund by a fraction, the numerator of which is the former member's years of service as a City fire fighter or police officer, and the denominator of which is the total years of service as a City fire fighter or police officer of all living former members of the fund who are participating in the Combined Fund as of January 1, 2000.

**E. PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE GENERAL CITY
EMPLOYEES HIRED ON OR AFTER JANUARY 1, 2000
(REPRESENTED AND NON-REPRESENTED)**

• **Cost of Living Adjustment (COLA) Improvements.** General City Employees first employed on or after January 1, 2000 shall be eligible for a 1.5% annual COLA, first payable on the installment next following the second, third and fourth anniversary of the member's retirement and 2% annually, first payable on the installment next following the fifth and each successive anniversary of the member's retirement. Such General City Employees shall make a bi-weekly employee payroll contribution of 1.6% of the employee's pensionable earnings to pay for their COLA improvements during the first eight years of their employment. If an employee who makes a contribution under this provision separates from service without a vested pension or withdraws his or her accumulated contribution, all amounts credited shall be returned to the contributor without interest.

• **COLA Expanded to Excluded Groups.** The same annual, compounded COLA improvements available to General City Employees hired after January 1, 2000, shall be expanded to the following groups:

1. Deferred retirees, early retirees, duty disability retirees and ordinary disability retirees, first payable two years after retirement.
2. Those receiving a spouse survivor benefit under options 2, 3 and 4 (expressed as a percentage of the member's pension), first payable two years after the member's retirement or death.
3. A spouse beneficiary as a result of duty death, first payable two years after the member's death.

**F. PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE POLICE OFFICERS
HIRED ON OR AFTER JANUARY 1, 2000**

- **25 & Out.** Police officers hired on or after January 1, 2000 who attain 25 years of actual creditable service as a police officer or fire fighter, including police aide time, shall be eligible for unreduced normal service retirement. (Health insurance for those who qualify for this benefit is strictly a contractual benefit, not a pension benefit, and is to be based upon the contractual unused/accumulated sick leave formula).

- **Cost of Living Adjustment (COLA) Guaranteed for Service Retirement.** An annual, compounded COLA equal to the Consumer Price Index (CPI), but not less than 2% nor greater than 3%, for service retirement, first payable one year after retirement and each subsequent year thereafter. Spouse survivors of members who retire on service retirement on or after January 1, 2000 or die in active service (after having selected a protective survivorship option) shall also receive an annual, compounded COLA equal to CPI, but not less than 2% nor greater than 3%. (Note: The Consumer Price Index, or CPI, is the most widely used measure of inflation of the United States. It is compiled by the Bureau of Labor Statistics. The CPI is used, among other things, in calculating cost-of-living adjustments for Social Security recipients and federal/military retirees.)

- **COLA Expanded to Excluded Groups.** An annual, compounded COLA benefit equal to CPI, but not to exceed 3%, is expanded to the following:
 1. Deferred retirees, early retirees and ordinary disability retirees, first payable one year after retirement.
 2. Those receiving a spouse survivor benefit under Options 2, 3 or 4 (when expressed as a percentage of member's pension), first payable one year after the retiree's death.
 3. Those receiving a spouse beneficiary benefit as a result of a duty death, first payable one year after the member's death.
 4. Those receiving a spouse beneficiary benefit payable as a result of a retiree's death while on duty disability, first payable one year after the retiree's death.

**G. PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE FIRE FIGHTERS
HIRED ON OR AFTER JANUARY 1, 2000**

• **22/49.** LOCAL 215 members hired on or after January 1, 2000, who attain age 49 and who have completed 22 years of creditable service as a fire fighter or police officer shall be eligible for unreduced normal service retirement. (Health insurance for those who qualify for this benefit is strictly a contractual benefit, not a pension benefit, and is to be based upon contractual unused/accumulated sick leave formula).

• **Cost of Living Adjustment (COLA) Guaranteed for Service Retirement.** LOCAL 215 members hired on or after January 1, 2000, who thereafter retire on service retirement shall be eligible to receive an annual, compounded COLA equal to the Consumer Price Index (CPI), but not less than 2% nor greater than 3%, first payable one year after retirement and each subsequent year thereafter. Spouse survivors of LOCAL 215 members who retire on service retirement on or after January 1, 2000, or die in active service (after having selected a protective survivorship option), shall also receive an annual, compounded COLA equal to CPI, but not less than 2% nor greater than 3%. (**Note:** The Consumer Price Index, or CPI, is the most widely used measure of inflation of the United States. It is compiled by the Bureau of Labor Statistics. The CPI is used, among other things, in calculating cost-of-living adjustments for Social Security recipients and federal/military retirees.)

• **COLA Expanded to Excluded Groups.** An annual, compounded COLA benefit equal to CPI, but not to exceed 3%, is expanded to the following:

1. Deferred retirees, early retirees and ordinary disability retirees, first payable one year after retirement.
2. Those receiving a spouse survivor benefit under Options 2, 3 or 4 (when expressed as a percentage of member's pension), first payable one year after the retiree's death.
3. Those receiving a spouse beneficiary benefit as a result of a duty death, first payable one year after the member's death.
4. Those receiving a spouse beneficiary benefit payable as a result of a death while on duty disability, first payable one year after the retiree's death.

ACTIVE EMPLOYEES AS OF JANUARY 1, 2000
HOW TO CALCULATE THE 5% LUMP SUM BONUS

Scenario: A general City employee expecting to retire at age 55 after 30 years of service, with \$29,000, \$30,000 & \$31,000 as the three highest years of earnable compensation. (See the Charter Ordinance for ages 15 to 44.)

Step 1: Determine Your Expected Final Average Salary (FAS):

FAS = highest three years (earnable compensation) of creditable service
 FAS = (\$29,000 + \$30,000 + \$31,000) = \$90,000
 \$90,000/3 = \$30,000

Step 2: Calculate Your Service Retirement Benefit (SRB):

SRB = multiplier x FAS x number of years of creditable service
 For general city employees, the multiplier = .02.
 For protective employees, the multiplier = .025 and an additional 1.5 years of service credit is added. (MPA and MPSO members eligible to receive 2 years service credit as part of the dissolution of the Firemen and Policemen's Survivorship Fund should include an additional two years in the calculation.)
 SRB = .02 (the multiplier) x \$30,000 (from step 1) x 30 (years of service) = \$18,000

Step 3: Calculate the 5% Bonus as an Equivalent Annual Single Life Annuity (SLA):

SLA = .05 x SRB
 SLA = .05 x \$18,000 = \$900

Step 4: Determine the 5% Lump Sum Bonus

Bonus = SLA x lump sum factor (from the Sample Calculations Table). Select factor from table that corresponds to your expected age at retirement. Use annual factor figure.
 Bonus = \$900 (SLA from step 3) x 10.4570 (lump sum factor at age 55) = \$9,411
5% BONUS = \$9,411

Age	If Annual	If Monthly	Age	If Annual	If Monthly
45	11.3235	135.8824	73	7.5404	90.4847
46	11.2586	135.1028	74	7.3474	88.1692
47	11.1891	134.2696	75	7.1531	85.8373
48	11.1151	133.3817	76	6.9565	83.4775
49	11.0365	132.4378	77	6.7563	81.0760
50	10.9531	131.4366	78	6.5512	78.6144
51	10.8647	130.3760	79	6.3413	76.0950
52	10.7711	129.2527	80	6.1274	73.5290
53	10.6720	128.0645	81	5.9115	70.9382
54	10.5674	126.8088	82	5.6961	68.3528
55	10.4570	125.4839	83	5.4845	65.8141
56	10.3406	124.0872	84	5.2783	63.3396
57	10.2182	122.6179	85	5.0788	60.9450
58	10.0896	121.0757	86	4.8870	58.6441
59	9.9551	119.4612	87	4.7030	56.4354
60	9.8147	117.7760	88	4.5257	54.3080
61	9.6685	116.0216	89	4.3527	52.2326
62	9.5166	114.1991	90	4.1814	50.1772
63	9.3591	112.3090	91	4.0088	48.1058
64	9.1961	110.3526	92	3.8326	45.9910
65	9.0280	108.3364	93	3.6518	43.8211
66	8.8553	106.2638	94	3.4698	41.6378
67	8.6779	104.1346	95	3.2898	39.4776
68	8.4955	101.9454	96	3.1157	37.3878
69	8.3084	99.7006	97	2.9496	35.3952
70	8.1178	97.4131	98	2.7901	33.4813
71	7.9253	95.1036	99	2.6289	31.5467
72	7.7327	92.7919	100	2.4623	29.5480

Note: The 5% benefit can also be calculated using the monthly service retirement benefit. To do this, divide the results of step 3 by 12 and use the lump sum factor listed under the monthly column.

**Factors based on blended 50%/50% male and female post-retirement mortality assumption as described in Buck Consultants' January 1, 1998 Actuarial Valuation of the City of Milwaukee Employees' Retirement System and 8.50% interest.*

RETIRED AND INACTIVE MERS MEMBERS AS OF JAN. 1, 2000
(INCLUDING POLICE AND FIRE FIGHTERS)

GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JAN. 1, 2000

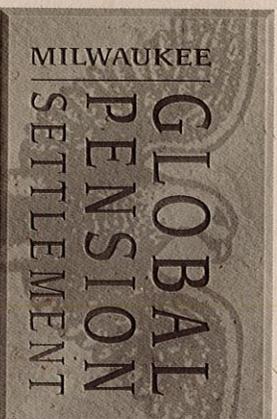
POLICE OFFICERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

FIRE FIGHTERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

GENERAL CITY EMPLOYEES HIRED ON OR AFTER JAN. 1, 2000

POLICE OFFICERS HIRED ON OR AFTER JAN. 1, 2000

FIRE FIGHTERS HIRED ON OR AFTER JAN. 1, 2000



SUMMARY OF PROPOSED PENSION BENEFITS

RETIRED AND INACTIVE MEMBERS AS OF JAN. 1, 2000
(INCLUDING POLICE AND FIRE FIGHTERS)

GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JAN. 1, 2000

POLICE OFFICERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

FIRE FIGHTERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

GENERAL CITY EMPLOYEES HIRED ON OR AFTER JAN. 1, 2000

POLICE OFFICERS HIRED ON OR AFTER JAN. 1, 2000

FIRE FIGHTERS HIRED ON OR AFTER JAN. 1, 2000

**PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE FIRE FIGHTERS
HIRED ON OR AFTER JANUARY 1, 2000**

22/49. LOCAL 215 members hired on or after January 1, 2000, who attain age 49 and who have completed 22 years of creditable service as a fire fighter or police officer shall be eligible for unreduced normal service retirement. (Health insurance for those who qualify for this benefit is strictly a contractual benefit, not a pension benefit, and is to be based upon contractual unused/accumulated sick leave formula).

Cost of Living Adjustment (COLA) Guaranteed for Service Retirement. LOCAL 215 members hired on or after January 1, 2000, who thereafter retire on service retirement shall be eligible to receive an annual, compounded COLA equal to the Consumer Price Index (CPI), but not less than 2% nor greater than 3%, first payable one year after retirement and each subsequent year thereafter. Spouse survivors of LOCAL 215 members who retire on service retirement on or after January 1, 2000, or die in active service (after having selected a protective survivorship option), shall also receive an annual, compounded COLA equal to CPI, but not less than 2% nor greater than 3%. (Note: The Consumer Price Index, or CPI, is the most widely used measure of inflation in the United States. It is compiled by the Bureau of Labor Statistics. The CPI is used, among other things, in calculating cost-of-living adjustments for Social Security recipients and federal/military retirees.)

COLA Expanded to Excluded Groups. An annual, compounded COLA benefit equal to CPI, but not to exceed 3%, is expanded to the following:

1. Deferred retirees, early retirees and ordinary disability retirees, first payable one year after retirement.
2. Those receiving a spouse survivor benefit under Options 2, 3 or 4 (when expressed as a percentage of member's pension), first payable one year after the retiree's death.
3. Those receiving a spouse beneficiary benefit as a result of a duty death, first payable one year after the member's death.
4. Those receiving a spouse beneficiary benefit payable as a result of a death while on duty disability, first payable one year after the retiree's death.

RETIRED AND INACTIVE MEMBERS AS OF JAN. 1, 2000
(INCLUDING POLICE AND FIRE FIGHTERS)

GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JAN. 1, 2000

POLICE OFFICERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

FIRE FIGHTERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

GENERAL CITY EMPLOYEES HIRED ON OR AFTER JAN. 1, 2000

POLICE OFFICERS HIRED ON OR AFTER JAN. 1, 2000

**PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE POLICE OFFICERS HIRED
ON OR AFTER JANUARY 1, 2000**

25 & Out. Police officers hired on or after January 1, 2000 who attain 25 years of actual creditable service as a police officer or fire fighter, including police aide time, shall be eligible for unreduced normal service retirement. (Health insurance for those who qualify for this benefit is strictly a contractual benefit, not a pension benefit, and is to be based upon the contractual unused/accumulated sick leave formula).

Cost of Living Adjustment (COLA) Guaranteed for Service Retirement. An annual, compounded COLA equal to the Consumer Price Index (CPI), but not less than 2% nor greater than 3%, for service retirement, first payable one year after retirement and each subsequent year thereafter. Spouse survivors of members who retire on service retirement on or after January 1, 2000 or die in active service (after having selected a protective survivorship option) shall also receive an annual, compounded COLA equal to CPI, but not less than 2% nor greater than 3%. (**Note:** The Consumer Price Index, or CPI, is the most widely used measure of inflation in the United States. It is compiled by the Bureau of Labor Statistics. The CPI is used, among other things, in calculating cost-of-living adjustments for Social Security recipients and federal/military retirees.)

COLA Expanded to Excluded Groups. An annual, compounded COLA benefit equal to CPI, but not to exceed 3%, is expanded to the following:

1. Deferred retirees, early retirees and ordinary disability retirees, first payable one year after retirement.
2. Those receiving a spouse survivor benefit under Options 2, 3 or 4 (when expressed as a percentage of member's pension), first payable one year after the retiree's death.
3. Those receiving a spouse beneficiary benefit as a result of a duty death, first payable one year after the member's death.
4. Those receiving a spouse beneficiary benefit payable as a result of a retiree's death while on duty disability, first payable one year after the retiree's death.

RETIRED AND INACTIVE MEMBERS AS OF JAN. 1, 2000
(INCLUDING POLICE AND FIRE FIGHTERS)

GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JAN. 1, 2000

POLICE OFFICERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

FIRE FIGHTERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

GENERAL CITY EMPLOYEES HIRED ON OR AFTER JAN. 1, 2000

**PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE GENERAL CITY EMPLOYEES
HIRED ON OR AFTER JANUARY 1, 2000
(REPRESENTED AND NON-REPRESENTED)**

Cost of Living Adjustment (COLA) Improvements. General City Employees first employed on or after January 1, 2000 shall be eligible for a 1.5% annual COLA, first payable on the installment next following the second, third and fourth anniversary of the member's retirement and 2% annually, first payable on the installment next following the fifth and each successive anniversary of the member's retirement. Such General City Employees shall make a bi-weekly employee payroll contribution of 1.6% of the employee's pensionable earnings to pay for their COLA improvements during the first eight years of their employment. If an employee who makes a contribution under this provision separates from service without a vested pension or withdraws his or her accumulated contribution, all amounts credited shall be returned to the contributor without interest.

COLA Expanded to Excluded Groups. The same annual, compounded COLA improvements available to General City Employees hired after January 1, 2000, shall be expanded to the following groups:

1. Deferred retirees, early retirees, duty disability retirees and ordinary disability retirees, first payable two years after retirement.
2. Those receiving a spouse survivor benefit under options 2, 3 and 4 (expressed as a percentage of the member's pension), first payable two years after the member's retirement or death.
3. A spouse beneficiary as a result of duty death, first payable two years after the member's death.

**PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE FIRE FIGHTERS
IN ACTIVE SERVICE AS OF JANUARY 1, 2000**

22/49. Effective January 1, 2000, members who have attained age 49 and who have completed 22 years of creditable service as a fire fighter or police officer shall be eligible for unreduced normal service retirement. (Health insurance for those who qualify for this benefit is strictly a contractual benefit, not a pension benefit, and is to be based upon the contractual unused/accumulated sick leave formula).

5% Bonus. Fire fighters in active service as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement. This 5% bonus would also be payable upon death on or after January 1, 2000 to the member's spouse duty death beneficiary and spouse survivor (under a protective survivorship option). The bonus equals 5% of the member's accrued benefit (unreduced annual allowance) at retirement, converted to a present value, or 5% of the surviving spouse's duty death benefit or spouse survivor's accrued benefit converted to a present value. The bonus can be calculated using the table on page 21 of the Q&A document.

Additional Service Credits. Fire fighters in active service as of January 1, 2000 shall be awarded an additional 1.5 years of creditable service after completing 20 years of actual creditable service. Employees retiring from the System with less than 20 years of creditable service will receive a pro rata adjustment. The additional creditable service shall be used in calculating the amount of a member's service retirement, and in the member's pension, in calculating the amount of the spouse survivor's benefit, but shall not be included for purposes of establishing eligibility for service retirement or in calculating the amount of a deferred retirement pension. The pension increase earned as a result of the additional creditable service shall not be subject to the 90% cap.

Cost of Living Adjustment (COLA) Guaranteed for Service Retirement. LOCAL 215 members in active service on or after January 1, 1998, who thereafter retire on a service retirement allowance, and unrepresented members who retire after January 1, 2000, shall receive an annual, compounded COLA equal to the Consumer Price Index (CPI), but not less than 2% nor greater than 3%, first payable one year after retirement and each subsequent year thereafter. Spouse survivors of LOCAL 215 members who retire on service retirement or die in active service on or after January 1, 1998, and unrepresented members who retire on service retirement or die in active service after January 1, 2000, shall also receive an annual, compounded COLA equal to CPI, but not less than 2% nor greater than 3%. (**Note:** The Consumer Price Index, or CPI, is the most widely used measure of inflation in the United States. It is compiled by the Bureau of Labor Statistics. The CPI is used, among other things, in calculating cost-of-living adjustments for Social Security recipients and federal/military retirees.)

RETIREMENT AND INACTIVE MEMBERS AS OF JAN. 1, 2000
(INCLUDING POLICE AND FIRE FIGHTERS)

GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JAN. 1, 2000

POLICE OFFICERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

FIRE FIGHTERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

COLA Expanded to Excluded Groups. An annual, compounded COLA equal to CPI, but not to exceed 3% is expanded to the following:

1. Deferred retirees, early retirees and ordinary disability retirees, first payable one year after retirement.
2. Those receiving a spouse survivor benefit under Options 2, 3 or 4 (when expressed as a percentage of member's pension), first payable one year after the retiree's death.
3. Those receiving a spouse beneficiary benefit as a result of a duty death, first payable one year after the member's death.
4. Those receiving a spouse beneficiary benefit payable as a result of the death of a retiree while on duty disability, first payable one year after the retiree's death.

Military Service Credit. Each LOCAL 215 member who retires on a service retirement between January 1, 1998 and December 31, 2002, will receive one year of creditable service for each three-year period served in active duty in the military prior to being hired as a City fire fighter, provided the member was honorably discharged. This additional service credit shall be pro-rated for periods of military service of less than three years. The maximum additional creditable years of service to be awarded under this section shall be three years. This additional service credit will be counted in determining the amount of retirement benefits, but will not be counted in determining eligibility to receive benefits.

Survivorship Fund Bonus and Dissolution. If 100% of the active members of the Firemen and Policemen's Survivorship Fund consent to the dissolution of the fund (unless the City waives this requirement), the following shall occur:

1. Beneficiaries of deceased LOCAL 215 members who are receiving payment from the Firemen and Policemen's Survivorship Fund (the "Survivorship Fund") as of December 31, 1999, or who are eligible to receive payment from the Survivorship Fund in the future due to the death of a LOCAL 215 member prior to January 1, 2000, shall receive the maximum benefit of \$300/\$600 per month, effective January 1, 2000, or as soon thereafter as payments from the Survivorship Fund are to begin.
2. Fire fighters in active service who are active members of the Survivorship Fund (eligible for the benefit) as of January 1, 2000 shall be awarded a Survivorship Fund Dissolution Bonus of a one-time 8.6% bonus payable in a single lump sum upon retirement. A surviving spouse duty death beneficiary or spouse survivor (under a protective survivorship option) of a fire fighter in active service as of January 1, 2000, shall also be awarded a dissolution bonus if the member dies prior to retirement. The bonus equals 8.6% of the member's accrued benefit (unreduced annual allowance) at retirement, converted to a present value. The bonus for the spouse survivor or surviving spouse death benefit beneficiary

RETIRED AND INACTIVE MEMBERS AS OF JAN. 1, 2000
(INCLUDING POLICE AND FIRE FIGHTERS)

GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JAN. 1, 2000

POLICE OFFICERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

shall equal 8.6% of the accrued spouse benefit converted to a present value. The present value will be calculated using the factors indicated in the Charter Ordinance (see the Charter Ordinance on file, or visit the City's Website to get the appropriate factor).

3. Each duty disability member of the Survivorship Fund as of January 1, 2000, and each active member of the Survivorship Fund who retires on duty disability, shall receive an 8.6% lump sum bonus converted to a present value using the factors indicated in the Charter Ordinance (see the Charter Ordinance on file, or visit the City's Website to get the appropriate factor) as follows:

75% Duty Disability with a Conversion to a Service Retirement: 8.6% lump sum bonus based upon the conversion benefit and payable at conversion to Service Retirement.

75% Duty Disability with a Conversion Age (Extended Life Benefit): 8.6% lump sum bonus based upon a hypothetical conversion benefit payable at the conversion age.

75% Duty Disability without a Conversion Age (Lifetime Benefit): 8.6% lump sum bonus based upon a hypothetical conversion benefit calculated and paid at age 63. If the member is older than age 63 on 1/1/2000, the lump sum bonus shall be 8.6% of the current duty disability benefit and shall be payable as soon as administratively feasible following Court approval.

90% Duty Disability: 8.6% lump sum bonus based upon a hypothetical conversion benefit calculated and paid at age 63. If the member is older than age 63 on 1/1/2000, the lump sum bonus shall be 8.6% of the current duty disability benefit and shall be payable as soon as administratively feasible following Court approval.

**PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE POLICE OFFICERS
IN ACTIVE SERVICE AS OF JANUARY 1, 2000**

25 & Out. Unreduced service retirement at 25 years of actual creditable service as a police officer or fire fighter, including police aide time. This benefit to be effective January 1, 1998 for the MPA and January 1, 1999 for the MPSO. (Health insurance for those who qualify for this benefit is strictly a contractual benefit, not a pension benefit, and is to be based upon the contractual unused/accumulated sick leave formula).

5% Bonus. Police officers in active service as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement. This 5% bonus would also be payable upon death on or after January 1, 2000 to the member's surviving spouse duty death beneficiary or spouse survivor (under a protective survivorship option.) The bonus equals 5% of the member's accrued benefit at retirement (unreduced annual allowance), converted to a present value, or 5% of the surviving spouse's duty death benefit or spouse survivor's accrued benefit converted to a present value. The bonus amount can be calculated using the table on page 21 of the Q&A document.

Additional Service Credits. Police officers in active service as of January 1, 2000 shall be awarded an additional 1.5 years of creditable service after completing 25 years of actual creditable service or attaining age 57. The additional creditable service shall be used in calculating the amount of a member's service retirement, and included in the member's pension in calculating the amount of a spouse survivor benefit, but shall not be included for purposes of establishing eligibility for service retirement. The pension increase earned as a result of the additional creditable service shall not be subject to the 90% cap.

Cost of Living Adjustment (COLA) Guaranteed for Service Retirement. An annual, compounded COLA equal to the Consumer Price Index (CPI), but not less than 2% nor greater than 3%, for service retirement, first payable one year after retirement and each subsequent year thereafter for MPA members who retire on service retirement on or after January 1, 1998, for MPSO members who retire on service retirement on or after January 1, 1999, and for unrepresented members who retire after January 1, 2000. Spouse survivors of MPA members who retire on service retirement or die in active service (after having selected a protective survivorship option) on or after January 1, 1998, MPSO members who retire on service retirement or die in active service (after having selected a protective survivorship option) on or after January 1, 1999, and unrepresented members who retire on a service retirement allowance or die in active service on or after January 1, 2000 (after having selected a protective survivorship option), shall also receive an annual, compounded COLA equal to CPI, but not less than 2% nor greater than 3%. (Note: The Consumer Price Index, or CPI, is the most widely used measure of inflation of the United States. It is compiled by the Bureau of Labor Statistics. The CPI is used, among other things, in calculating cost-of-living adjustments for Social Security recipients and federal/military retirees.)

GENERAL CITY EMPLOYEES IN ACTIVE SERVICE AS OF JAN. 1, 2000
POLICE OFFICERS IN ACTIVE SERVICE AS OF JAN. 1, 2000

RETIRED AND INACTIVE MEMBERS AS OF JAN. 1, 2000
(INCLUDING POLICE AND FIRE FIGHTERS)

COLA Expanded to Excluded Groups. An annual, compounded COLA equal to CPI, but not to exceed 3%, is expanded to the following:

1. Deferred retirees, early retirees and ordinary disability retirees, first payable one year after retirement.
2. Those who receive a spouse survivor benefit under Options 2, 3 or 4 (when expressed as a percentage of member's pension), first payable one year after the retiree's death.
3. Those who receive a spouse beneficiary benefit as a result of duty death, first payable one year after the member's death.
4. Those who receive a spouse beneficiary benefit payable as a result of the death of a retiree while on duty disability, first payable one year after the retiree's death.

Military Service Credit. Each MPA member who retires on a service retirement between January 1, 1998 and December 31, 2002, and each MPSO member who retires on a service retirement between January 1, 1999 and December 31, 2002, will receive one year of creditable service for each three-year period served in active duty in the military prior to being hired as a City police officer, provided the member was honorably discharged. This additional service credit shall be pro-rated for periods of military service of less than three years. The maximum additional creditable years of service to be awarded under this section shall be three years. This additional service credit will be counted in determining the amount of retirement benefit, but will not be counted in establishing eligibility to receive a benefit.

Survivorship Fund Bonus and Dissolution. If 100% of the active members of the Firemen and Policemen's Survivorship Fund consent to the dissolution of the fund (unless the City waives this requirement), the following shall occur:

1. Beneficiaries of deceased MPA and MPSO members who are receiving payment from the Firemen and Policemen's Survivorship Fund (the "Survivorship Fund") as of December 31, 1999, or who are eligible to receive payment from the Survivorship Fund in the future due to the death of a MPA or MPSO member prior to January 1, 2000, shall receive the maximum benefit of \$300/\$600 per month, effective January 1, 2000, or as soon thereafter as payments from the Survivorship Fund are to begin.
2. Active members of the Survivorship Fund (eligible for the benefit) as of January 1, 2000 shall, if they apply for a service retirement, be awarded a Survivorship Fund Dissolution Bonus of 2.0 additional years of creditable service after completing 25 years of actual creditable service as defined in Chapter 36 of the Milwaukee City Charter, or attaining age 57. The additional creditable service shall be used in calculating the amount of the member's service retirement, but shall not be included for purposes of establishing eligibility for service retirement. The Survivorship Fund Dissolution Bonus shall not be subject to the 90% cap.

3. Each duty disability member of the Survivorship Fund as of January 1, 2000, and each active member of the Survivorship Fund who retires on duty disability, shall receive a Survivorship Fund bonus of additional service credit or 8.6% of the accrued benefit (the member's unreduced allowance) converted to a present value, using the factors indicated in the Charter Ordinance (see the Charter Ordinance on file, or visit the City's Website to get the appropriate factor) as follows:

75% Duty Disability with a Conversion to a Service Retirement: 2.0 additional years of creditable service to be used in computing the Service Retirement Allowance upon conversion. The Survivorship Fund Dissolution Bonus shall not be subject to the 90% cap.

75% Duty Disability with a Conversion Age (Extended Life Benefit): 8.6% lump sum bonus based upon a hypothetical conversion benefit payable at the conversion age.

75% Duty Disability without a Conversion Age (Lifetime Benefit): 8.6% lump sum bonus based upon a hypothetical conversion benefit calculated and paid at age 63. If the member is older than age 63 on 1/1/2000, the lump sum bonus shall be 8.6% of the current duty disability benefit and shall be payable as soon as administratively feasible following Court approval.

90% Duty Disability: 8.6% lump sum bonus based upon a hypothetical conversion benefit calculated and paid at age 63. If the member is older than age 63 on 1/1/2000, the lump sum bonus shall be 8.6% of the current duty disability benefit and shall be payable as soon as administratively feasible following Court approval.

4. If an active member of the Survivorship Fund as of January 1, 2000, dies prior to retirement, the spouse survivor (under a protective survivorship option) or the duty death beneficiary, shall be eligible for a lump sum bonus equal to 8.6% of the accrued spouse benefit.

**PROPOSED BENEFIT IMPROVEMENTS FOR MILWAUKEE GENERAL CITY EMPLOYEES
IN ACTIVE SERVICE AS OF JANUARY 1, 2000
(REPRESENTED AND NON-REPRESENTED)**

5% Bonus. General City Employees in active service as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement. This 5% bonus would also be payable upon death on or after January 1, 2000 to the member's spouse duty death beneficiary or spouse survivor (under a protective survivorship option). The bonus equals 5% of the member's accrued benefit at retirement (unreduced annual allowance without reduction for survivorship option) or 5% of the accrued duty death benefit or spouse survivor accrued benefit, converted to a present value. The bonus amount can be calculated using the table on page 21 of the Q&A document.

Cost of Living Adjustment (COLA) Improvements. General City Employees in active service on or after January 1, 2000 shall be eligible to receive a 1.5% annual COLA, first payable on the installment next following the second, third and fourth anniversary of the member's retirement or duty death and 2% annually, first payable on the installment next following the fifth, sixth, seventh and every succeeding anniversary thereafter of the member's retirement or duty death.

COLA Expanded to Excluded Groups. The same annual, compounded COLA improvements available to General City Employees in active service on or after January 1, 2000, shall be expanded to the following groups:

1. Deferred retirees, early retirees, duty disability retirees and ordinary disability retirees, first payable two years after retirement.
2. Those receiving a spouse survivor benefit under options 2, 3 and 4 (expressed as a percentage of the member's pension), first payable two years after the member's retirement or death.
3. A spouse as a duty death beneficiary, first payable two years after the member's death.

Military Service Credit. Each active member who retires on a service retirement between January 1, 1999 and December 31, 2002, will receive one year of creditable service for each three-year period served in active duty in the military prior to being hired as a General City Employee, provided the member was honorably discharged. This additional service credit shall be pro-rated for periods of military service less than three years. The maximum additional creditable years of service to be awarded under this section shall be three years. This additional service credit will be counted in determining the amount of retirement benefit, but will not be counted in establishing eligibility to receive a benefit.

Reselection of Protective Survivorship Option (PSO). Members who selected a PSO with a spouse survivorship option shall be permitted to reselect their spouse survivor option during a 90-day period prior to retirement.

**PROPOSED BENEFIT IMPROVEMENTS FOR RETIRED AND INACTIVE RETIREMENT SYSTEM MEMBERS
(INCLUDING POLICE AND FIRE FIGHTERS)**

Lump-sum Payment. Current recipients as of January 1, 2000, who are retirees, spouse survivors or accidental death beneficiaries shall be eligible to receive a lump-sum payment calculated based upon the full monthly installment payable for the month immediately prior to January 1, 2000, or if no full monthly installment is payable prior to January 1, 2000, the first full monthly installment payable after January 1, 2000, multiplied according to the following table:

Year of Retirement or Member's Duty Death	Multiplier Factor
General City, 1997 - 1999	2 times monthly installment
General City, 1996	3 times monthly installment
General City, 1995	4 times monthly installment
General City, 1994	5 times monthly installment
General City, 1993	6½ times monthly installment
General City, 1992 and prior	8 times monthly installment
Fire and Police Retirees	8 times monthly installment

5% Bonus. Current recipients who are retirees, spouse survivors or duty death beneficiaries shall receive a one-time 5% bonus payable in a lump sum, to be paid as soon as administratively feasible. The bonus equals 12 times 5% of the last full monthly installment payable immediately prior to January 1, 2000, or if no monthly installment was payable prior to January 1, 2000, the first full monthly installment payable immediately after January 1, 2000, converted to a present value. Separated members eligible for deferred retirement shall receive a one time 5% bonus payable in a lump sum at the time of retirement. The bonus equals 5% of the member's accrued benefit at retirement (unreduced allowance without reduction for survivorship option), converted to a present value. The bonus amount can be calculated using the table on page 21 of the Q&A document.

Catch-up and COLA Overpayments. Catch-up and COLA overpayments made to retirees in 1996 and 1997 shall be offset, dollar for dollar, against the lump sum payment set forth above. However, the amount of this offset will not exceed the equivalent of 3 monthly installments. Catch-up and COLA overpayments made to spouse survivors in 1996 and 1997 shall be offset, dollar for dollar, against the lump sum payment set forth above. However, the amount of this offset will not exceed the equivalent of 3 monthly installments. **There will be no reduction in current benefits. Overpayments to retirees and spouse survivors not offset by 3 monthly installments shall be forgiven and no further repayment will be required.**

**RETIRED AND INACTIVE MEMBERS AS OF JAN. 1, 2000
(INCLUDING POLICE AND FIRE FIGHTERS)**

Cost of Living Adjustment (COLA) Improvements. Commencing with the first installment after January 1, 2000, those pre-October 1, 1987 protective retiree recipients, their spouse survivor recipients and general City and spouse survivors and pre-October 1, 1987 protective spouse beneficiary recipients who never before received a COLA shall receive a COLA benefit equal to 1.5% annually, first payable two years after member's retirement or death, and 2% annually, first payable five years after member's retirement or death. The COLA benefit for those who are currently receiving a COLA shall remain the same.

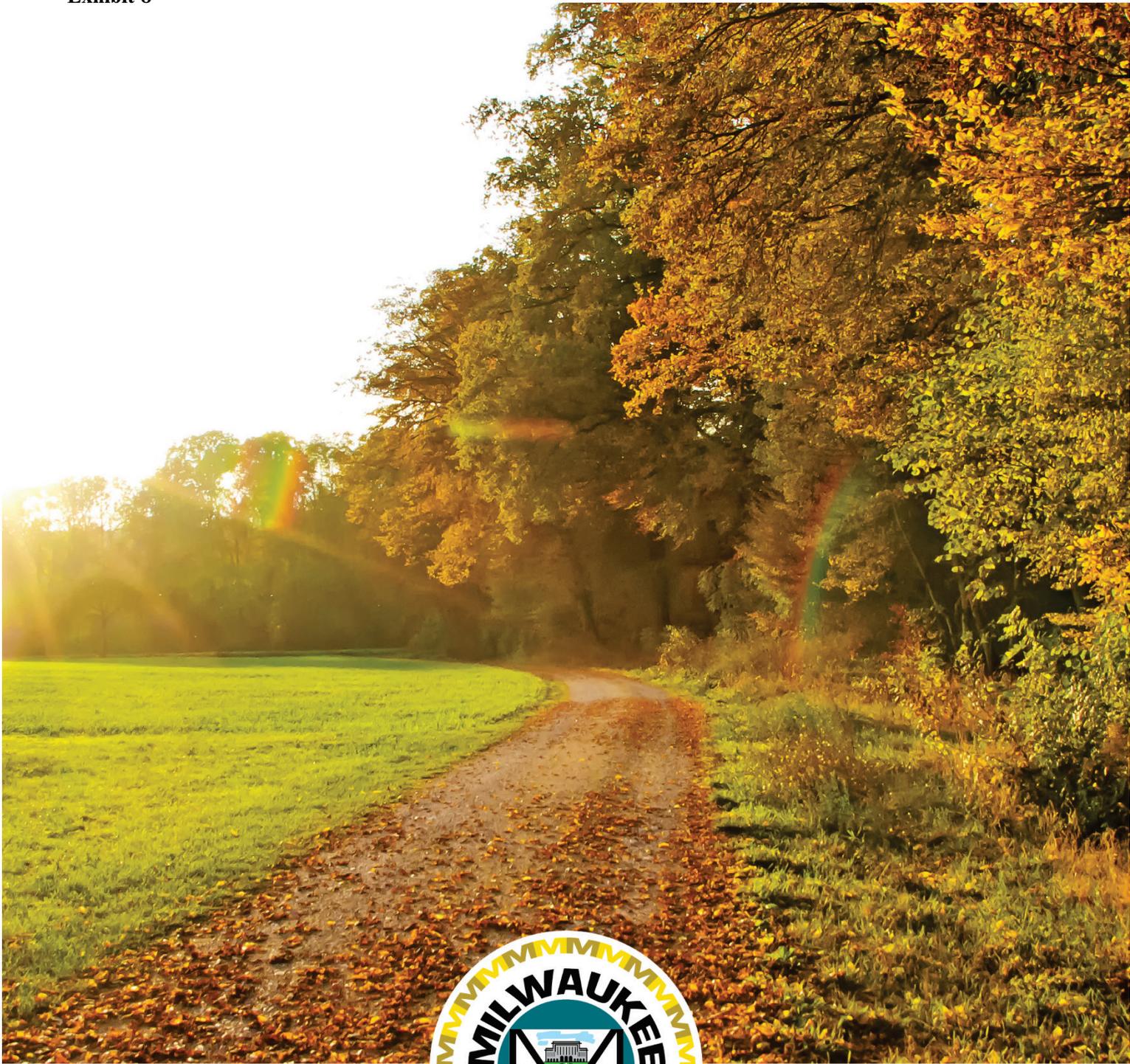
COLA Guaranteed. An annual COLA for all those eligible to receive the benefit shall be guaranteed. The Retired Life Account and the COLA adjustment reserve within the old Retirement Fund will be eliminated from the Combined Fund.

COLA Expanded to Excluded Groups. Commencing with the first installment after January 1, 2000, an annual, compounded COLA benefit equal to 1.5% annually, first payable two years after the member's retirement or death, and 2% annually, first payable five years after the member's retirement or death will be expanded prospectively to deferred retirees, early retirees, general City duty disability retirees and ordinary disability retirees. An annual compounded COLA benefit equal to 1.5% annually, first payable two years after the member's retirement or death, and 2% annually, first payable five years after the member's retirement or death will also be expanded prospectively commencing with the first installment after January 1, 2000 to spouse survivors under options 2, 3 and 4 (expressed as a percentage of member's pension). Commencing with the first installment after January 1, 2000, an annual, compounded COLA benefit equal to 1.5% annually, first payable two years after the member's retirement or death, and 2% annually, first payable five years after the member's retirement or death will be expanded prospectively to spouse beneficiaries as a result of duty death and spouse beneficiaries as a result of a retiree's death while on duty disability.

Military Service Credit Bonus. Each retired member who served and was honorably discharged from the military service prior to first being enrolled in the retirement system and who retired on a service retirement allowance prior to January 1, 2000, shall be eligible for a military service credit bonus to be computed by multiplying the sum of \$1,000,000.00 by a fraction, the numerator of which is the member's eligible active military service credit and the denominator of which is the total eligible active military service credit of all retirees eligible under this paragraph. Each retired member shall be credited with one year of military service credit for each three-year period in active duty in the military prior to being enrolled in the retirement system, provided the retired member was honorably discharged from the military service. This military service credit shall be prorated for a period of military service of less than three years. The maximum additional military service credit shall not exceed one year. The maximum military service credit bonus for a retired member shall not exceed the amount of the monthly installment received by the retired member

immediately prior to January 1, 2000. Military service shall mean all times after January 1, 1938 in the service of the armed forces of the United States of America. A retiree shall be eligible for credit for each 90 consecutive days of active duty as defined in 10 U.S.C. § 101(d)(1). The Retirement System shall determine the appropriate military documentation for crediting military service. **In order to be eligible for a military service credit bonus, each retired member must apply to the Retirement System no later than January 1, 2001.**

Survivorship Fund Dissolution Bonus For Inactive Former Members. Each surviving former member of the Firemen and Policemen's Survivorship Fund as of January 1, 2000, shall receive a distribution (estimated to be, on average, \$500 per eligible retired member) calculated by multiplying the amount set aside for former members of the Fund by a fraction, the numerator of which is the former member's years of service as a City fire fighter or police officer, and the denominator of which is the total years of service as a City fire fighter or police officer of all living former members of the fund who are participating in the Combined Fund as of January 1, 2000.



Retirement Sustainability Taskforce
REPORT & RECOMMENDATIONS

NOVEMBER 2018

Retirement Sustainability Taskforce

REPORT & RECOMMENDATIONS

November 2018

This report was prepared by the Wisconsin Policy Forum with the assistance of The Pew Charitable Trusts as part of their respective roles in facilitating and providing technical assistance to the Retirement Sustainability Taskforce. The recommendations contained herein are those of the Taskforce and not the report authors.

Table of Contents

Executive Summary	3
Introduction	7
Background	8
Current State of the Milwaukee County ERS.....	8
The National Landscape.....	10
Types of alternative plans	11
Wisconsin Retirement System option (defined benefit approach).....	13
Partial freeze vs. soft freeze.....	14
Financial Impacts of Soft Freeze Transition to WRS.....	14
Financial Impacts of Partial Freeze Transition to WRS.....	17
Summary	18
Defined contribution option	19
Hybrid option	23
Summary	27
Pension Debt.....	28
Increase the Employee Contribution.....	30
Reducing or Adopting a WRS Style of COLA	31
Change the Assumed Rate of Investment Return	32
Change the Amortization Period	33
Summary	34
Evaluation of Options.....	35
Alternative Plan Designs.....	35
Evaluation of Unfunded Liability Reduction Options	37
Reform Package.....	39
RST Recommendations	40
Motions Adopted at July 24, 2018 Meeting.....	40
Motions Adopted at August 28, 2018 Meeting.....	41
Full Package of Motions	42
Final Package of Motions Adopted at November 8, 2018 Meeting	44
Appendix I: List of RST Members	46
Appendix II: Stress Testing Guidelines.....	47

Executive Summary

Milwaukee County's Retirement Sustainability Taskforce (RST) was created by County Executive Chris Abele in the spring of 2017 to study modifications to the County's pension system that would "ensure retirement security for future retirees and long-term fiscal sustainability for the County." The RST met 14 times from August 2017 through November 2018, including for a public hearing in October 2018.

The RST consists of 20 members from both the County and the State of Wisconsin, as well as representatives from the Milwaukee business and civic communities. Meetings were facilitated by the Wisconsin Policy Forum, while technical assistance was provided by members of the Pew Charitable Trusts' public sector retirement systems project. Also, while not a voting member of the RST, Milwaukee County Department of Administrative Services Director Teig Whaley-Smith guided the project team and was a key participant at RST meetings.

Current State of the Milwaukee County ERS

Early meetings of the RST were dedicated to understanding the challenges facing the Employees Retirement System (ERS) and how those challenges, in turn, impacted Milwaukee County as a whole. Important facts and insights derived from those early meetings include the following:

- **The ERS had an unfunded liability of \$515.9 million as of January 1, 2017, and a funded ratio of 77.1%.** In other words, the actuarial value of ERS' assets (\$1.74 billion) equaled 77.1% of its actuarial accrued liability (\$2.26 billion) with regard to benefits owed to active and retired employees.
- **ERS' funded ratio has declined over time despite increasing contributions.** In 2000, ERS enjoyed a funded ratio that exceeded 100% (i.e. its assets exceeded its actuarial accrued liability) and its employer contribution was near zero. However, a variety of factors have caused the funded status to drop below 80% while employer contributions increased to more than \$80 million annually by 2015.
- **The County's ERS employer contribution is projected to continue to grow.** For 2018, the County's net contribution to the ERS – consisting of an employer contribution recommended by the plan actuary plus debt service on pension obligation bonds (POBs) – was projected to be about \$94 million. As of August 2017, that contribution was projected to grow to \$102 million by 2023.
- **Employee contributions to ERS also will continue to rise if no action is taken.** As contributions continue to rise, the cost borne by active employees will similarly increase. According to Pew, the general employee contribution rate could increase from 6.5% of salary in 2017 to more than 9.7% within the next two decades.
- **Administration of the ERS is exceedingly complicated.** ERS benefits vary widely by individual retiree depending on year of hire, collective bargaining unit, changes made during the individual's employment with the County, and how individuals elect to receive their benefit. In fact, County officials report there are more than 2,300 variations for the calculation of benefits for items such as vesting period, retirement age, multiplier, determination of final average salary, etc.

Plan Redesign Options Considered by the RST

The RST considered three plan redesign options: a shift to the Wisconsin Retirement System (WRS); a transfer to a defined contribution approach; and a hybrid approach. Like ERS, WRS is a defined benefit plan, which means the employer promises a specific amount of monthly retirement income based on a formula that calculates a benefit based on the employee's salary and years of service. Under a defined contribution approach, the County would provide employees with an individual retirement account that would grow through investment of accumulated employer and employee contributions. A hybrid approach would combine elements of both a defined benefit and defined contribution plan.

In analyzing the impacts of a shift to any of these alternate approaches, Pew first examined a "soft freeze" approach. A soft freeze refers to an approach in which an existing defined benefit plan is closed to new hires, who instead accrue benefits under a new plan. Meanwhile, active participants in the defined benefit plan continue to accrue benefits under that plan and continue to pay an employee contribution (if one is required). The task force also considered a "partial freeze" approach, in which current employees would be transferred into the new system for their *future* service, but provisions would be put in place to avoid any unintended consequences for participants.

- **Shift to WRS:** Overall, Pew pointed to some clear benefits for the County from either a soft freeze or partial freeze transition to WRS. For example, such a move would reduce long-term risk and provide a more robust retirement benefit for new employees (and particularly for short- and medium-term workers who may not spend their entire career working for the County). Furthermore, the shift to WRS would achieve the goal of transitioning Milwaukee County over time from directly running a pension plan. However, Pew also estimates this approach would increase employer costs through 2046 if investments perform at the assumed rate of return.
- **Defined Contribution:** A key question for Milwaukee County in considering moving to a DC plan design would be the level of employer contribution, which would in turn significantly affect the total cost for employers and benefit for employees. In all cases, a DC approach would provide a less certain benefit for employees that would depend on investment performance, and much greater certainty for the County given the fixed employer cost. Also, in many cases, the DC approach would provide a reduced benefit for career employees but the potential for higher replacement income for short- and medium-term employees.
- **Hybrid:** The hybrid option was found to keep costs approximately the same but provide the County with greater predictability with regard to its employer contribution. This approach would lead to greater risk and volatility for career employees than a pure defined benefit approach, but it would hold potential to produce a better retirement benefit for medium- and short-term workers.

Pension Debt

Throughout consideration of different retirement options, it became clear that the RST also would need to consider options to address ERS's current unfunded liabilities. ***Because of already promised benefits, it was determined that no new plan design would have an appreciable impact on Milwaukee County's employer costs through at least 2037.***

As a result of that important determination, the RST asked Pew to model four options that have been considered elsewhere to adjust employer cost and risk: increase employee contributions; reduce the annual COLA for retirees' pension payments or adopt an approach similar to WRS; adjust the assumed rate of return for ERS assets; and increase the amortization period for ERS assets and liabilities

The analysis of those four options yielded one with considerable potential: reducing the 2% COLA granted to retirees or modifying it to be consistent with the WRS approach. This approach holds potential to produce annual reductions in the employer contribution of \$10 million to \$20 million, while helping to balance the costs of addressing the unfunded liability between taxpayers, employees, and retirees. On the negative side, modifications could have a detrimental impact on retirees who rely on a COLA to ensure an appropriate level of retirement income.

Evaluation of Options

The RST decided to narrow its consideration to three plan design alternatives: WRS option, Defined contribution option 1B (4.5% employer contribution rate and 7.2% general employee contribution rate), and a risk-managed hybrid.

For its consideration of these alternatives, the RST reached consensus that nine criteria would be used for evaluation purposes, including how any changes would affect costs for employers and employees; how a new plan design would change the fiscal health and risk of the system; how any new employee benefit would affect retention, recruitment, and retirement security; and what impact a new design would have on ease of administration. The RST's deliberations found that the WRS option ranked highest, particularly with regard to existing employee retention, new employee recruitment, risk reduction, and ease of administration.

The RST also used the nine criteria to consider each of the pension debt reduction options. The option of reducing the COLA or modifying it to reflect the WRS approach ranked highest because of its potential to lower both annual employer and employee contributions, as well as to reduce the overall size of the unfunded liability and reduce risk.

Following the RST's review of plan design and pension debt reduction options, Pew modeled an example reform "package" consisting of a soft freeze transition to WRS, a full 2% COLA reduction, a reduction in the discount rate to 7%, and a 9% cap on employee contributions. It was acknowledged that effectuating such a cap may require a change in State law, however.

RST Recommendations

RST members unanimously approved a package of four motions (though with three abstentions). Two of the motions involved changes to plan design and future benefits, while two reflect the RST's reflections on financial and operational practices going forward. The proposed benefit changes are summarized as follows:

- New hires would be moved to WRS and receive benefits through that system. ERS would be closed to new entrants.
- Non-vested employees would potentially be moved to WRS as well and vested Milwaukee County workers could potentially receive future service through WRS.

- Employee contribution rates would be subject to a maximum level (though this may require a change in State law).
- COLA reductions/modifications would be applied to reduce the unfunded liability and share costs.
- The WRS rules, or something similar, would be considered in identifying how to reinstate COLAs when full funding is reached and provide both risk sharing as well as sharing of gains.

Motion #1

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors analyze options for reducing the COLA – including potential legal considerations – as a means of reducing the unfunded liability and ensuring that future costs are spread equitably among retirees, past and current employees, and County residents and taxpayers. In doing so, any changes to the COLA should consider recruitment, retention, and fairness to retirees. The County should consider options that include those implemented by other public plans, as well as an approach that mirrors that used by the WRS, maintaining the COLA at a sustainable amount, and revisiting the COLA during each annual budget for review as part of the County’s obligation to the public.

Motion #2

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors pursue an approach that would close the ERS to new employees and – subject to legal analysis - have all new employees become members of the Wisconsin Retirement System. The treatment of non-vested active employees and future service of active employees should be further analyzed by both the County and WRS. Such analysis shall include determination that no adverse financial impacts shall accrue to WRS. The analysis should also explore whether it is reasonable to allow active employees the choice to stay in ERS for future years of service or to join WRS for future years of service.

Furthermore, the task force recommends that any approach that would involve a “soft freeze” with regard to a shift to WRS include a cap on the active employee contribution rate to ERS.

Motion #3

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors require and provide funding for regular financial monitoring and stress testing per guidelines recommended by Pew, and that ERS and the County consider other financial and operational best practices.

Motion #4

The RST recommends that the County Executive, County Board, and ERS (a) maintain a maximum 20-year amortization period; (b) reasonably lower the assumed rate of return to a number recommended by the plan actuaries; and c) prioritize the allocation of resources to appropriately address ERS’ unfunded liability, which includes allocating any net savings produced by the RST’s recommendations to reduce the unfunded liability.

Introduction

Milwaukee County Executive Chris Abele created a Retirement Sustainability Taskforce (RST) in the spring of 2017. Its stated objective was to study “pension system modifications that ensure retirement security for future retirees and long-term fiscal sustainability for the County.”¹ The RST met 14 times from August 2017 through November 2018, including a public hearing in October 2018. All meeting minutes and presentations can be found at the RST website.²

The RST consists of 20 members, including Milwaukee County employees, retirees, non-elected officials (e.g. Corporation Counsel), and elected officials (County Executive, Comptroller, and a member of the Board of Supervisors). It also includes representatives from the Milwaukee business and civic communities and Wisconsin state government, including two members of the Wisconsin Legislature. A full list of the RST membership can be found in **Appendix I**.

Meetings were facilitated by the Wisconsin Policy Forum (WPF), a nonpartisan, nonprofit, independent policy research organization. In addition, third party technical assistance was provided by members of the Pew Charitable Trusts’ public sector retirement systems project.³ Also, while not a voting member of the RST, Milwaukee County Department of Administrative Services (DAS) Director Teig Whaley-Smith guided the project team and was a key participant at RST meetings.

The first three RST meetings were dedicated to background on the Milwaukee County Employees Retirement System (ERS) and its fiscal status and challenges; Milwaukee County’s general fiscal status and challenges; and how ERS compares to the Wisconsin Retirement System (WRS) and other public pension systems nationally in terms of its policies, practices, and fiscal condition.

The next several meetings considered alternative plan design options. Based on a previous decision by the County to explore shifting County employees to the WRS, the WRS option was one of the primary alternative plan design options considered. In addition, the RST considered several defined contribution plan options as well as hybrid defined contribution/defined benefit option.

Given a key early finding that the alternative plan design options would not have a significant impact in reducing the ERS’ sizable unfunded liability, the RST also devoted one meeting to other options for managing the existing liability. The RST then wrapped up its work with several meetings devoted to evaluating and developing recommendations on plan design, dealing with the existing unfunded liability, and disclosure.

This report summarizes the RST’s findings and recommendations. It is structured to reflect the progression of the RST meetings, with a Background section focusing on the condition of ERS and how it compares to other public pension systems in Wisconsin and nationally; subsequent sections describing Pew’s analysis of three potential alternative plan design options, as well as options to manage ERS’ liabilities; and two final sections discussing the RST’s deliberations and recommendations.

¹ Milwaukee County website, <https://county.milwaukee.gov/EN/County-Executive/Priorities/Financial-Sustainability/Retirement-Sustainability-Taskforce>.

² Ibid.

³ Additional information on the two organizations can be found on their respective websites: www.wispolicyforum.org and www.pewtrusts.org

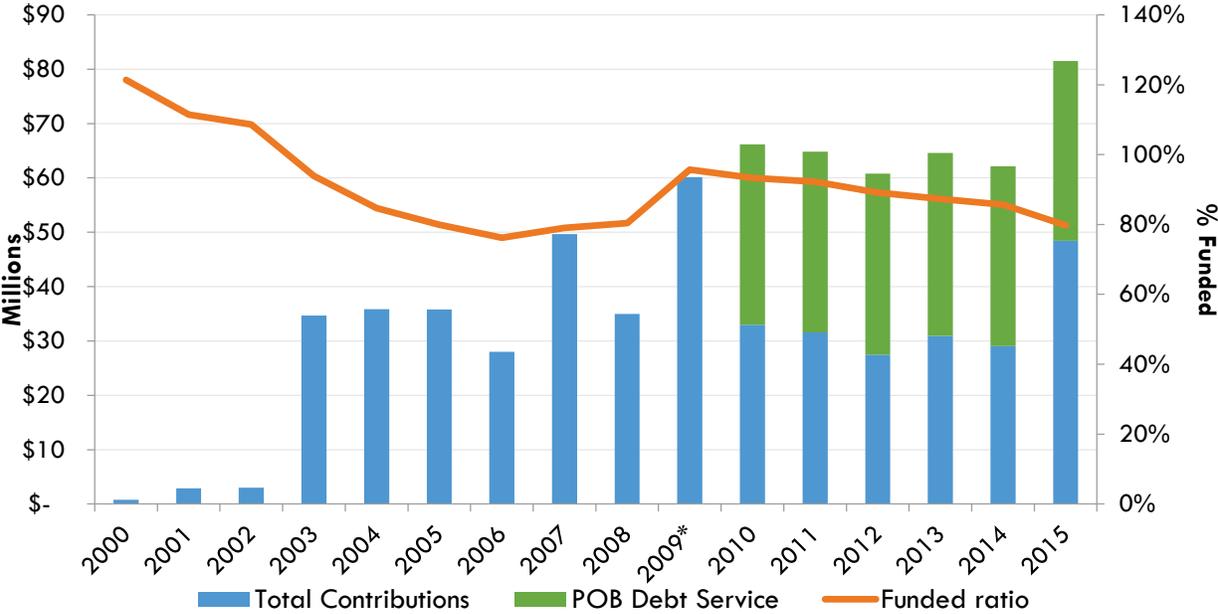
Background

Current State of the Milwaukee County ERS

Early meetings of the RST were dedicated to understanding the challenges facing the ERS and how those challenges, in turn, impacted Milwaukee County as a whole. Important facts and insights derived from those early meetings include the following:

- The ERS had an unfunded liability of \$515.9 million as of January 1, 2017, and a funded ratio of 77.1%.** In other words, the actuarial value of ERS’ assets (\$1.74 billion) equaled 77.1% of its actuarial accrued liability (\$2.26 billion) with regard to benefits owed to active and retired employees. A subsequent actuarial valuation released in May 2018 showed that the unfunded liability had grown to \$568.0 million and the funded ratio had decreased to 75.4%. A key contributor to those changes was a decrease from 8.0% to 7.75% in the assumed rate of investment return on ERS assets as of January 1, 2018.
- ERS’ funded ratio has declined over time despite increasing contributions.** In 2000, ERS enjoyed a funded ratio that exceeded 100% (i.e. its assets exceeded its actuarial accrued liability) and its employer contribution was near zero (**Chart 1**). However, a variety of factors – including lower-than-anticipated investment returns, benefit add-ons, and others that will be detailed in this report – have caused the funded status to decline below 80% while total contributions (including pension obligation bond debt payments) increased to more than \$80 million annually by 2015.

Chart 1: ERS Contributions and Funded Ratio Over Time
 Funded status declined while required contributions increased and fluctuated dramatically



Note: 2009 contribution excludes \$397.8 M pension obligation bond proceeds
Source: ERS Annual Reports and Actuarial Valuations

- **The County's ERS employer contribution is projected to continue to grow.** Each year, ERS' actuary recommends a contribution from the County that reflects the projected cost of benefit payments and administration in the following year (the "normal cost") plus a payment toward the actuarial unfunded liability. For 2018, per the County budget, that amount was projected to be \$72.7 million. The County's annual debt service payment of \$33.2 million for pension obligation bonds (POBs) issued in 2008 also needs to be added, which brought the total 2018 contribution to nearly \$106 million. Per Wisconsin statute, employees must pay a portion of the required County contribution based on a formula that involves the normal cost and unfunded liability; for 2018, that amount was projected to be about \$12 million, which means the County's net ERS contribution in 2018 will be about \$94 million. As of August 2017, that contribution was projected to grow to \$102 million by 2023.
- **Employee contributions to ERS also will continue to rise if no action is taken.** As contributions continue to rise, the cost borne by active employees will similarly increase. According to Pew, the general employee contribution rate could increase from 6.5% of salary in 2017 to more than 9.7% within the next two decades, assuming expected investment returns materialize; under a low-investment return scenario (average of 5.5%), the average employee contribution would exceed 11.8% within the next two decades. In both cases, the contribution rate for public safety employees would be higher.
- **ERS' ratio of benefit payments to contributions warns of challenges ahead.** Pew's analysis of ERS' fiscal condition found that its operating cash flow in 2015 was negative 8%, meaning that the gap between money coming in from employer and employee contributions and money going out in benefit payments represented 8% of total plan assets. This result means that if investment returns were less than 8%, assets would decline that year; actual returns in 2015 were 6.6% and assets did indeed decline. The cash flow ratio for ERS was lower than all states in 2015 and lower than all but two of 33 cities whose pension plans are included in Pew's data. A cash flow of negative 3% is the average for public sector retirement plans in Pew's database. Pew attributes this finding, in part, to a declining county workforce. In fact, at 34%, ERS has the lowest percentage of active employees as a share of plan membership compared to other states, and second lowest compared to Pew's list of cities.
- **ERS' assumed rate of investment return is on the high side when compared to other public pension plans.** ERS currently uses an assumed annual rate of return on plan investments of 7.75%, though it plans to reduce the assumed rate to 7.5% as of January 1, 2020. According to Pew, the average assumed rate of return for the 50 state plans is 7.4%. Also, by comparison, the State of Wisconsin uses an assumption of 7.2% while the City of Milwaukee's assumption is 8.0%.
- **Administration of the ERS is exceedingly complicated.** ERS benefits vary widely by individual retiree depending on year of hire, collective bargaining unit, changes made during the individual's employment with the County, and how individuals elect to receive their benefit (i.e. some who are eligible for a backdrop may choose to take it and some may not). In fact, County officials report there are more than 2,300 variations for the calculation of benefits for items such as vesting period, retirement age, multiplier, determination of final average salary, etc.

The National Landscape

Early meetings of the RST used information developed by Pew on the condition of other public pension systems to place ERS' challenges in context. The presentations included an overview of reforms adopted by other public pension plans to illustrate the variety of potential approaches. This scan of the national landscape revealed the following:

- **ERS is far from the only public pension plan facing financial challenges.** According to Pew, when aggregating state pension plans among the 50 states, the gap between total pension fund liabilities and total pension fund assets grew from zero in 2001 to more than \$1 trillion in 2015. Also, ERS' funded status was higher than those of 33 states in 2015; and higher than 27 of 33 cities included in Pew's database in 2014.
- **In response to funding challenges, most states have sought to reform their pension systems.** Pew reports that 49 states implemented some type of reform between 2009 and 2015, with many of those reforms involving changes in plan provisions only for new workers. Pew also reports that 30 states reduced cost-of-living adjustments (COLAs) for active and/or retired members and 37 states increased employee contributions for either current or new members.
- **States are adopting tools like stress testing to help them better measure and manage pension cost uncertainty.** Pew notes that state and local pension funds are more vulnerable than ever to the fiscal impact of an economic downturn and that stress testing can help policymakers understand and plan for cost uncertainty. As reported by Pew at the November meeting, six states have adopted a stress test reporting requirement, and that number has since increased to seven after New Jersey approved stress testing legislation in early 2018.
- **A growing number of states have implemented alternatives to traditional defined benefit retirement plans.** According to Pew, 23 states have adopted alternative public sector retirement plans (**Figure 1**), and 16 of those states now use the alternative approach as their mandatory or default option for new hires.

Defined contribution (DC) plan

Definition: A plan that provides employees with an individual retirement account that grows through investment of accumulated employer and employee contributions. Final benefit will depend on investment performance.

Key advantages: Employer faces predictable cost; provides portability for employees, who can take their DC account with them should they move to a different employer.

Key disadvantages: Can expose employee to high degree of investment risk; retirement benefit is uncertain.

Hybrid or Risk Managed Hybrid plan

Definition: A side-by-side hybrid plan combines a defined benefit based on the employee's final average salary and years of service with a separate defined contribution savings account. A risk managed hybrid plan uses a side-by-side hybrid with a formal mechanism for distributing unexpected costs in the defined benefit between employers and employees.

Key advantages: The reduced defined benefit lowers employer risk while maintaining some level of guaranteed benefit; meanwhile, the DC account ensures that short- and medium-term workers can accrue retirement savings.

Key disadvantages: Both employer and employee still face some investment risk (though the risk-managed hybrid approach lessens that risk for the employer); plan participants (particularly long-term) may not experience the same level of retirement benefit as they do under a DB plan since the DC portion of their benefit is no longer guaranteed.

At its December 12, 2017 meeting, based on discussion of these three plan types, the RST decided it would first consider a possible shift of ERS active participants and/or new employees to the Wisconsin Retirement System (WRS), which is a defined benefit plan; and then consider a possible defined contribution option. The committee also decided that it would determine whether to consider a hybrid approach after its deliberation of the first two options.

Wisconsin Retirement System option (defined benefit approach)

WRS is the state's defined benefit pension plan that serves not only employees of the state of Wisconsin, but also employees of all municipal and county governments (with the exception of Milwaukee County and the City of Milwaukee); technical colleges; and school districts. WRS is widely known as one of the healthiest public pension plans in the country; in fact, according to Pew, it had the second-highest funded ratio among the 50 states in 2015 at just under 100%.

In terms of plan provisions, there are many similarities between ERS and WRS. Both apply a 1.6% multiplier to the average salary over the participant's last three years of service to calculate pension benefits; both require an employee contribution that will cover half of the cost of active employee benefits, and both require five years for vesting. However, there are also important differences, most notably with regard to a money purchase benefit offered by WRS as well as employee risk sharing (both of which will be discussed in greater detail below). A summary comparison of the two systems' plan provisions for general workers is shown in **Table 1**.

Table 1: Plan Provisions for General Workers

	Milwaukee Co. Employees Retirement System (ERS) (Employees hired on or after August 1, 2011)	Wisconsin Retirement System (WRS)
Multiplier	1.6%	1.6%
COLA	2% simple COLA	Annuity adjustments are based on investment performance and other factors*
Employee Contribution (DB)	6.5% [†]	6.8% [†]
Vesting	5 years	5 years
Money purchase benefit	None	Yes, with 100% employer match [‡]
Normal Retirement	Age 64; 55 with 30 years of service	Age 65 & any years of service, or 57 & 30 years of service
Final Average Salary (FAS)	3 year average	3 year average
Social Security?	Yes	Yes
Risk-Sharing	Employees are required to contribute half of the gross normal cost and half of the amortization payment for the active employee share of the unfunded liability.	Employees contribute approximately 50% of the total contribution rate. The annuity adjustment is based primarily on the investment returns of the plan's trust funds. Actuarial factors, such as mortality rates, also affect annuity adjustments.

Notes

[†] Rates for 2016; future rates based on actuarial analysis. Participants in ERS and WRS pay half of the normal cost and half of the active UAAL amortization.

[‡] WRS calculates the retirement annuity using two methods: the formula method, which factors in years of service, age, salary, and a benefit multiplier; and a separate money purchase method, which is calculated by multiplying a member's total employee contributions, an equal amount of employer contributions, and accrued interest by an actuarial factor based on age and benefit effective date. Retirees receive whichever produces the higher amount.

Another important distinction not shown in the chart is WRS' relative lack of administrative complexity when compared to ERS. A May 2017 memo produced by the County's "Workgroup on WRS Feasibility" noted that WRS only has four variations of retirees for whom different benefit levels need to be calculated, as compared to more than 2,300 variations in ERS.⁴ Beyond the plan design differences, the management of WRS has allowed the system to maintain consistently high funding levels.

Partial freeze vs. soft freeze

In analyzing the impacts of a shift from ERS to WRS, the consultants from Pew first examined a "soft freeze" approach. A soft freeze refers to an approach in which an existing defined benefit plan is closed to new hires, who instead accrue benefits under a new plan. Meanwhile, active participants in the defined benefit plan continue to accrue benefits under that plan and continue to pay an employee contribution (if one is required).

Conversely, under a "hard freeze," both active participants and new employees accrue future benefits under a new plan. The previously earned benefits of active participants remain in the closed plan and are paid out when they retire or leave, but those benefits do not grow with additional years of service and the employee no longer contributes to the closed plan.

Under the soft freeze approach, ERS would be closed to new employees, who would instead be enrolled in WRS. They would receive a defined benefit pension based on their final average salary, years of service, and pension multiplier in accordance with WRS' parameters. In addition, they would pay the same employee contribution as other WRS members (which, similar to ERS, is equal to half of the normal cost and half of the contribution required for the unfunded liability). Active participants would remain in ERS and would pay their traditional employee contribution.

Under a hard freeze, active employees would transition to WRS for their future years of service and would make future employee contributions only to WRS. As Pew considered how to model the hard freeze approach, however, it became apparent that certain provisions would effectively result in substantial benefit reductions for a subset of employees. For example, someone with four years of service in ERS at the time of the freeze who then worked four additional years in WRS would fail to reach vesting in either plan and receive no employer benefit despite eight years of service.

As a result, the task force instead considered a "partial freeze" in which current employees would be transferred into the new system, but provisions would be put in place to avoid any unintended consequences for participants.

Financial Impacts of Soft Freeze Transition to WRS

At the January 23, 2018 RST meeting, Pew laid out estimated financial impacts associated with transferring new Milwaukee County employees to WRS under a soft freeze scenario. As shown in **Chart 2**, looking out through 2046, the County's annual employer contribution to ERS would be reduced by virtue of transitioning new employees to WRS. However, the need to make an employer

⁴ May 22, 2017 memo entitled "Steps Necessary for County to Join WRS" from Workgroup on WRS Feasibility.

contribution to both ERS and WRS results in a projected combined employer contribution that would exceed the baseline contribution to ERS under a status quo approach.⁵

At a subsequent meeting, Pew estimated that the total additional employer contribution from 2017 through 2046 would have been \$201 million had the County made the transition that year (equivalent to about 2% of payroll over the next 30 years). Of that amount, more than three quarters (\$158 million) was attributed to a higher normal cost resulting from WRS' higher level of benefit; and \$15 million was estimated to be caused by lower employee contributions, since employees in WRS would not contribute to paying down ERS's debt. The remainder was attributed to a variety of lesser factors.

Chart 2: Expected Employer Costs for ERS and WRS Combined



Notes:

Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions and WRS plan assumptions.

This estimated increased employer contribution assumes that both ERS and WRS meet investment return estimates contained in plan assumptions.⁶ However, unlike ERS, WRS contains risk sharing elements that are designed to share the negative impacts of lower-than-anticipated investment returns between employers and retirees. Specifically, WRS ties cost-of-living adjustments and other elements of the benefit provided to retirees to investment performance, thus reducing the risk to the system that a large unfunded liability will materialize. According to Pew, while the benefit of such risk reduction does not show up in a 30-year projection of comparative costs since legacy benefits will

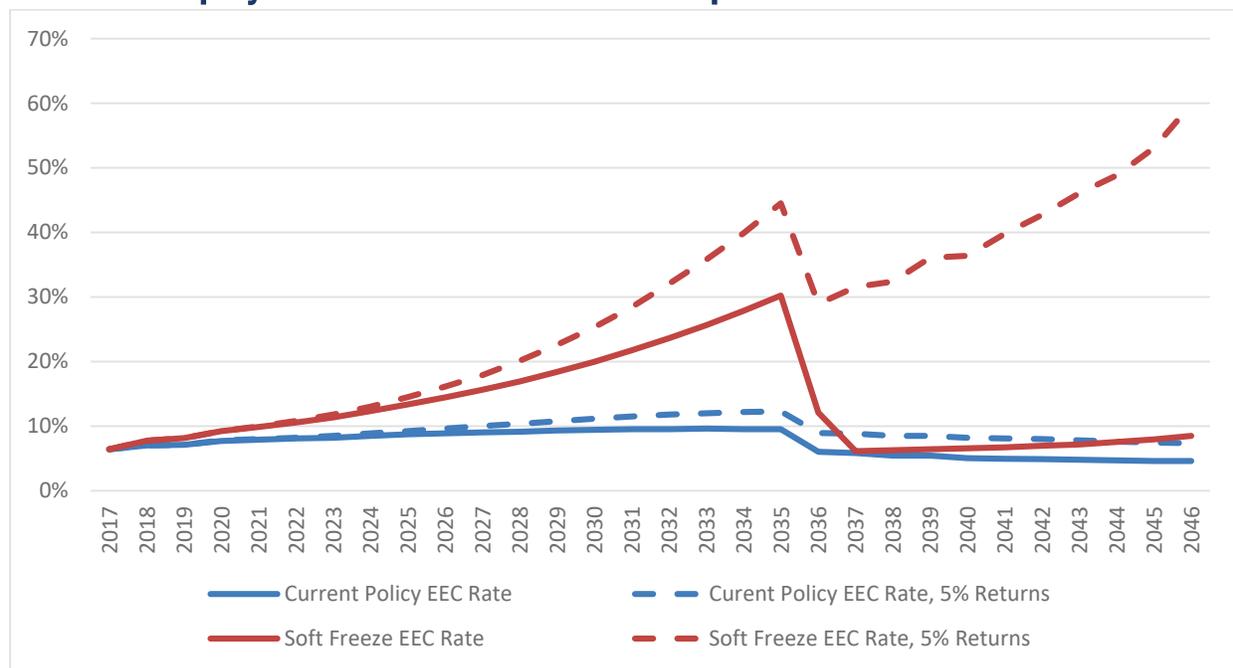
⁵ Chart 2 reflects an updated financial analysis presented by Pew at the RST's February 27, 2018 meeting that included data shared by the ERS actuary; the overall finding that a soft freeze transition to WRS would produce an added employer cost for the County was unchanged.

⁶ Pew assumed a 7.5% investment return for ERS, which will be the assumed rate of return as of 2020; and a 7.2% rate of return for WRS, which is its existing assumed rate of return.

drive County costs over that time period, over the long term it is anticipated that a switch to WRS would reduce overall risk for Milwaukee County.

Pew’s analysis also considered the impact of a soft freeze transition to WRS on *employee* contributions. It found that, because there would be a shrinking number of active employees enrolled in ERS over time (as new employees enrolled in WRS and existing employees retired), those remaining employees would need to pay an increasingly large employee contribution to support ERS’ unfunded liability and meet the 50% statutory match between the employer and employees. As shown in **Chart 3**, this “last man standing” issue could cause the employee contribution to spike to 30% by the early 2030s if projected investment returns are realized, or to nearly 45% under a 5% investment return scenario. In either case, these employee contribution rates would pose a significant obstacle to employee recruitment and retention.

Chart 3: Employee Contribution Rates Can Spike in Soft Freeze



Notes:

Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions and WRS plan assumptions.

Finally, Pew’s analysis considered the pros and cons of a soft freeze transition to WRS from the perspective of retirement security for participants. The Pew presentation suggested that retirement security should be considered using three factors:

- **Potential replacement income.** What percentage of career-end take-home pay is replaced by retirement income?
- **Value of lifetime benefits.** What is the total amount of government sponsored retirement income an employee can expect to receive over a lifetime?
- **Retirement savings rate.** What percentage of salary is available to a worker who leaves public service before reaching retirement age eligibility?

The analysis found that potential replacement income would be similar for employees enrolled in WRS versus ERS, while the value of lifetime benefits under the WRS scenario would be higher. Also, because of WRS' money purchase benefit, that plan offered a clear advantage in terms of the retirement savings rate for workers who leave service before reaching their retirement age.

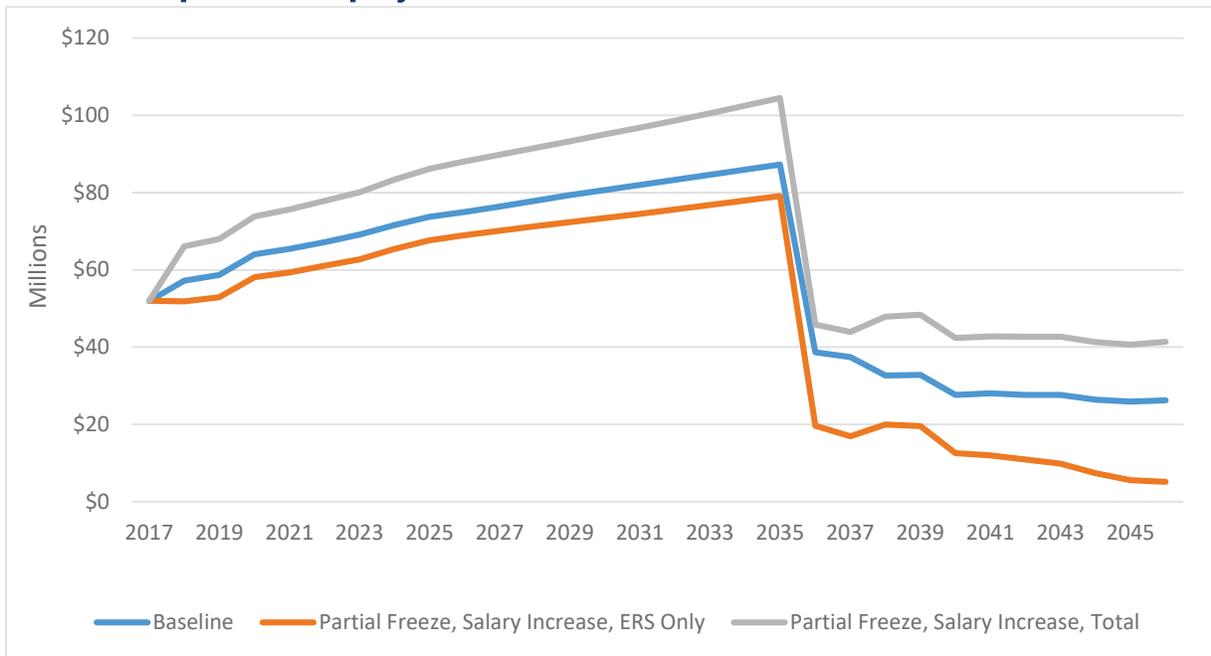
Under a money purchase option, WRS will match the accumulated employee contributions (including interest) with employer contributions and convert that amount into an annuity. WRS allows participants to receive the higher of the benefit under the final average salary formula or the money purchase benefit. For a short- and medium-term worker, that option often is far more beneficial than the final average salary calculation. Pew pointed out that the money purchase benefit attached to the WRS plan design is one reason it has a higher expected normal cost than the ERS benefit.

Financial Impacts of Partial Freeze Transition to WRS

At the February 27, 2018 RST meeting, Pew presented financial modeling associated with a partial freeze approach. Under that approach, it was assumed that active employees vested in ERS would stop accruing pension benefits under that plan, and instead would accrue future benefits as members of WRS. There would be no vesting period for those employees. Meanwhile, for purposes of calculating their pension benefit under ERS, the Pew modeling analyzed one alternative in which the salaries of those employees would be credited with no wage growth, and another in which all salary increases were included in the calculation.

A critical factor in calculating the financial impact of a partial freeze transition was the assumption that active vested employees no longer would make an employee contribution to ERS; as enrollees in WRS for their future service, they instead would be making their employee contribution to that system. As a result of that assumption, Pew estimated the County would experience additional higher normal costs and a net reduction in employee contributions into ERS through 2046, and that over the 2017-2046 period, the partial freeze option would cost the County about \$180 million more than the soft freeze approach. **Chart 4** shows the projected financial impacts under an assumption that future salary increases would be included in the calculation of the ERS benefit for active employees.

Chart 4: Expected Employer Costs Under Partial Freeze



Notes:

Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions. Updated using additional data from Segal.

Summary

Overall, Pew pointed to some clear benefits for the County from either a soft freeze or partial freeze transition to WRS. For example, such a move would reduce long-term risk and provide a more robust retirement benefit for new employees (and particularly for short- and medium-term workers who may not spend their entire career working for the County). Furthermore, the shift to WRS would achieve the goal of transitioning Milwaukee County over time from directly running a pension plan. That was deemed important given the additional costs facing the County from policy choices about assumptions, contribution policies, and benefit increases, as well as the administrative challenges from ERS’ complex plan provisions.

However, Pew also estimates that this approach would increase employer costs through 2046 if investments perform at the assumed rate of return. The soft freeze approach was estimated to add about \$200 million in employer contribution costs over a 30-year period (equivalent to about 2% of payroll), while the partial freeze approach was estimated to add \$380 million (equivalent to about 3.9% of payroll).

That finding demonstrated that the bulk of the pension costs for Milwaukee County are for existing liabilities to current employees and retirees. Consequently, as noted by Pew, new plan design will not eliminate the need to have a credible plan to pay for existing promises. Also, the WRS soft freeze approach would cause employee contributions to grow to unacceptably high levels, which means that some change in state law to cap those contributions may be required if that solution ultimately is adopted by the County.

Defined contribution option

As previously discussed, under a defined contribution (DC) plan, employers and employees contribute to individual retirement accounts for each participant. Benefits at retirement are based on accumulated contributions along with investment gains on those savings.

At the March 29, 2018 RST meeting, Pew emphasized that in designing and implementing a DC plan, policymakers should strive to ensure that it require sufficient employer and employee contributions that will result in adequate retirement savings; offer limited but low-fee and appropriate investment options; and provide appropriate distribution options. With these principles in mind, Pew modeled four DC plan alternatives, which are summarized in **Table 2**.

Table 2: DC Plans to Model

Varied Employer Contributions to the DC, Employee Contributions Fixed at 2019 Rate

Option	Employer Contribution Rate	Employee Contribution Rate (General/Public Safety)	Description
1A	1.8%	7.2%/8.5%	Employer contribution calculated to match 2019 employer normal cost rate
1B	4.5%	7.2%/8.5%	Employer contribution calculated to match 2019 employer normal cost rate if there was no unfunded liability
2	5%	7.2%/8.5%	Employer contribution calculated as the amount expected to match the replacement income for a career worker.
3	7%	7.2%/8.5%	Employer contribution equal to the median employer contribution to public sector DC plans. Note that these are typically optional plans. Median employee contributions are 3%

In addition to presenting four DC plan options, Pew considered a soft freeze option, under which the DC plan would take effect only for new employees; a partial freeze option, under which the DC plan would cover both new employees and future service for existing employees, though also with an assumption that future salary growth would be counted for purposes of calculating the ERS benefit for those employees; and a second partial freeze option, under which future salary increases would not be included.

As shown in **Table 3**, three of the four DC plan models would result in increased employer costs across both soft freeze and partial freeze options, with only the model that included a relatively small employer contribution (1.8%) producing an estimated savings. For the purposes of modeling, it was assumed an employee contribution rate of 7.2% for general employees and 8.5% for public safety workers would be required (consistent with the 2019 employee contribution rates in ERS).

Table 3: Total Employer Contribution for Each Option, 2017-2046

	Employer Costs	Baseline	1A, With Risk Share	1B, Without Risk Share	2, Match Annuity Benefit	3, Median Public Pension Plan
Soft Freeze	Total	\$1,723	\$1,571	\$1,773	\$1,810	\$1,960
	Defined Benefit Costs	\$1,723	\$1,399	\$1,399	\$1,399	\$1,399
	Defined Contribution Costs	\$0	\$172	\$373.6	\$411.0	\$560.4
Partial Freeze, Salary Increase [†]	Total	\$1,723	\$1,629	\$1,886	\$1,933	\$2,123
	Defined Benefit Costs	\$1,723	\$1,411	\$1,411	\$1,411	\$1,411
	Defined Contribution Costs	\$0	\$218	\$474	\$522	\$712
Partial Freeze, No Salary Increase	Total	\$1,723	\$1,559	\$1,815	\$1,862	\$2,052
	Defined Benefit Costs	\$1,723	\$1,340	\$1,340	\$1,340	\$1,340
	Defined Contribution Costs	\$0	\$218	\$474	\$522	\$712

Notes

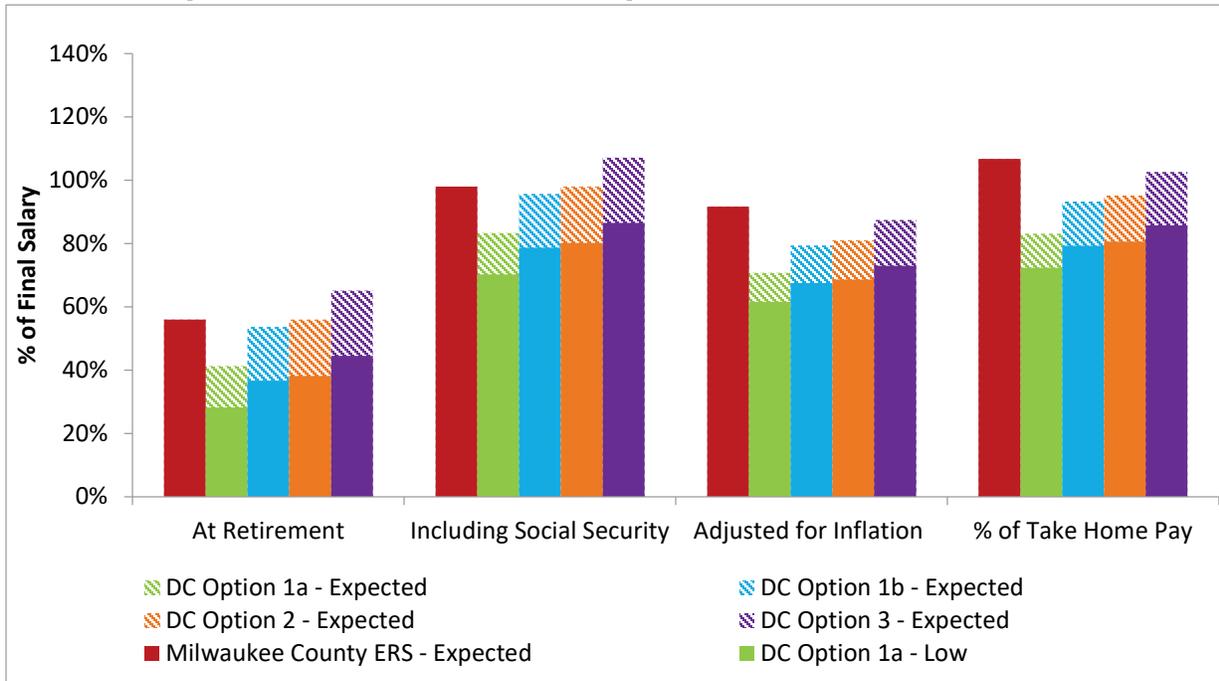
These figures assume an extra half percent in DC employer contributions to replace death and disability benefits.

[†]The partial freeze assumes that salary growth, retirement eligibility, vesting, and inflation growth would be carried over from the defined benefit system to the defined contribution system for purposes of determining the ultimate defined benefit at retirement.

Pew also considered how the four DC plan models compared to the ERS defined benefit option in terms of providing appropriate replacement income for participants upon their retirement. As shown in **Chart 5**, the analysis found that for career workers, ERS would provide a better benefit when compared to two of the four DC options assuming expected investment returns materialized. However, under a low return scenario, ERS provided a better benefit than each of the four DC models, which reflects the fact that the participant assumes all of the investment risk under a DC approach.

Conversely, for workers who leave county service mid-career at age 40 or 50, Pew’s analysis found the DC option provided a better retirement benefit, as shown in **Chart 6**. That finding stems from the fact that a DC account would remain with the participant and would grow until he or she reached retirement age; conversely, the participant would stop accruing benefits under ERS once he or she left county service.

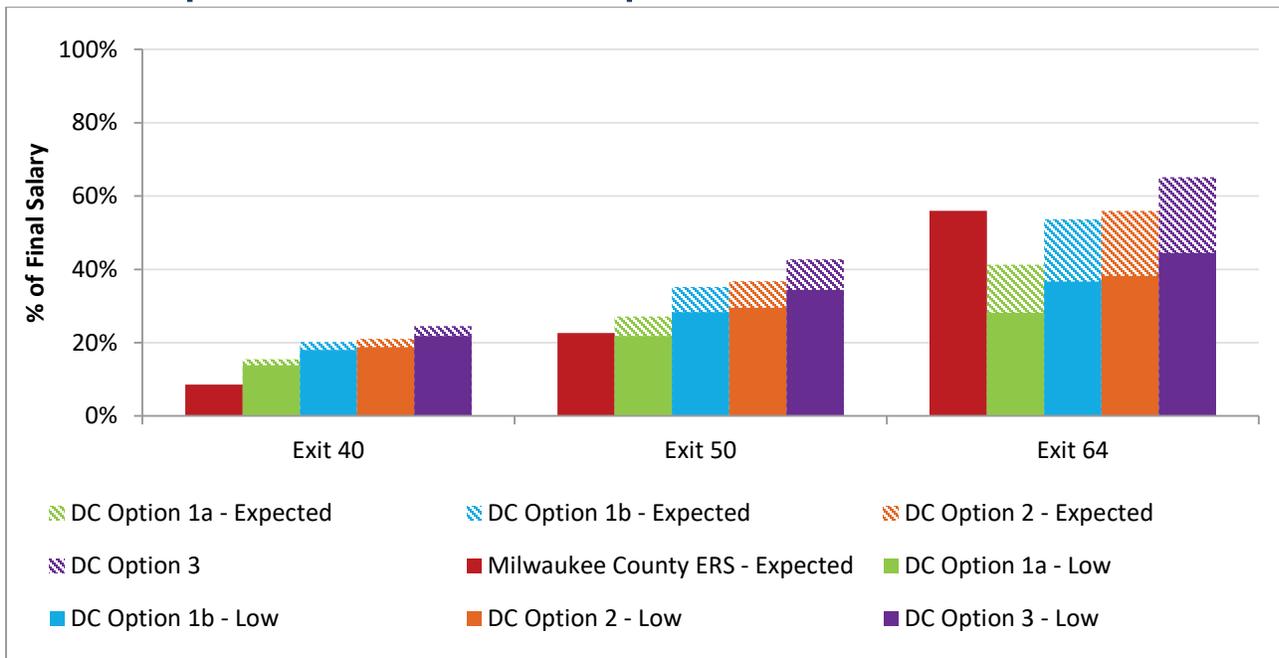
Chart 5: Replacement Income for DC Options - Career Worker



Notes:

Pew analysis using ERS actuarial assumptions for salary growth and inflation. Expected return for DC plans is 7%; low return scenario is 5%. Annuitization is calculated using plan mortality assumptions and a 4% return assumption; DC annuities do not include a COLA.

Chart 6: Replacement Income for DC Options - Mid-Career Worker



Notes:

Pew analysis using ERS actuarial assumptions for salary growth and inflation. Expected return for DC plans is 7%; low return scenario is 5%. Annuitization is calculated using plan mortality assumptions and a 4% return assumption; DC annuities do not include a COLA.

Summary

A key question for Milwaukee County in considering moving to a DC plan design would be the level of employer contribution. In making that determination, the County would need to consider both affordability for itself and what level of employer contribution is required to provide a sufficient benefit for employees. Pew reported that a 12% combined DC contribution rate (both employer and employee) is a typical minimum benchmark, assuming plan participants are in Social Security.

Under one of the sample DC plans – in which the employer contribution would be set at the current employer normal cost (1.8%) – the County would experience a net savings when compared to current plan design, but the combined contribution rate would fall below the minimum benchmark noted by Pew. Conversely, setting the employer contribution rate at the normal cost if there was no unfunded liability (4.5%), or at rates that matched current replacement rates (5%) or the median public plan rate (7%), would produce higher costs for the County but have better potential to provide for reasonable replacement income for participants.

In all cases, a DC approach would provide a less certain benefit for employees that would depend on investment performance, and much greater certainty for the County given the fixed employer cost. Also, in many cases, the DC approach would provide a reduced benefit for career employees but the potential for higher replacement income for short- and medium-term employees.

Finally, as would be the case with a shift to WRS, a DC approach under a partial freeze scenario would produce higher employer costs than under a soft freeze scenario; and a shift to a new DC plan design model would not eliminate the need for a credible plan to pay for existing promises.

Hybrid option

Under a hybrid option, Milwaukee County would continue to operate ERS as the pension benefit provider in Milwaukee County, but the level of ERS benefit would be reduced and a more modest DC plan (with smaller employer contributions compared to the sole DC options described earlier) would be added in conjunction with that benefit. This could allow the County to derive some of the advantages of greater cost predictability because of the lower ERS benefit. Meanwhile, by providing employees with a defined benefit plan in addition to the DC component, the County could provide its workers with some degree of benefit predictability and certainty.

At the RST's April 24, 2018 meeting, Pew modeled a hybrid plan under which the value of the ERS benefit would be cut in half by reducing the current pension multiplier from 1.6% to 0.8%.⁷ Employees still would contribute to ERS – with their annual percentage contribution determined as it is currently – but the contribution would be smaller because the reduced ERS benefit would decrease the normal cost.

At the same time, a DC plan would be added under which the employee contribution would be set at half the current employee contribution rate to ERS (3.6%) and the employer rate would be set at half the current estimate for the expected normal cost (2.25%). Pew modeled both a hybrid scenario in which only *new* employees would be enrolled in both components, as well as one in which *all* employees would be enrolled for future service.

The fiscal modeling also envisioned a “risk-managed” hybrid approach to increase predictability for the employer contribution, as the desire for such predictability likely would be a key driver for the County's desire to pursue such a plan. In this case, risk would be managed by adopting a provision similar to WRS that would tie retiree COLAs to ERS investment performance. **Table 4** summarizes the characteristics of Pew's hypothetical hybrid design used for financial modeling. However, a WRS-style COLA was not built into Pew's model.

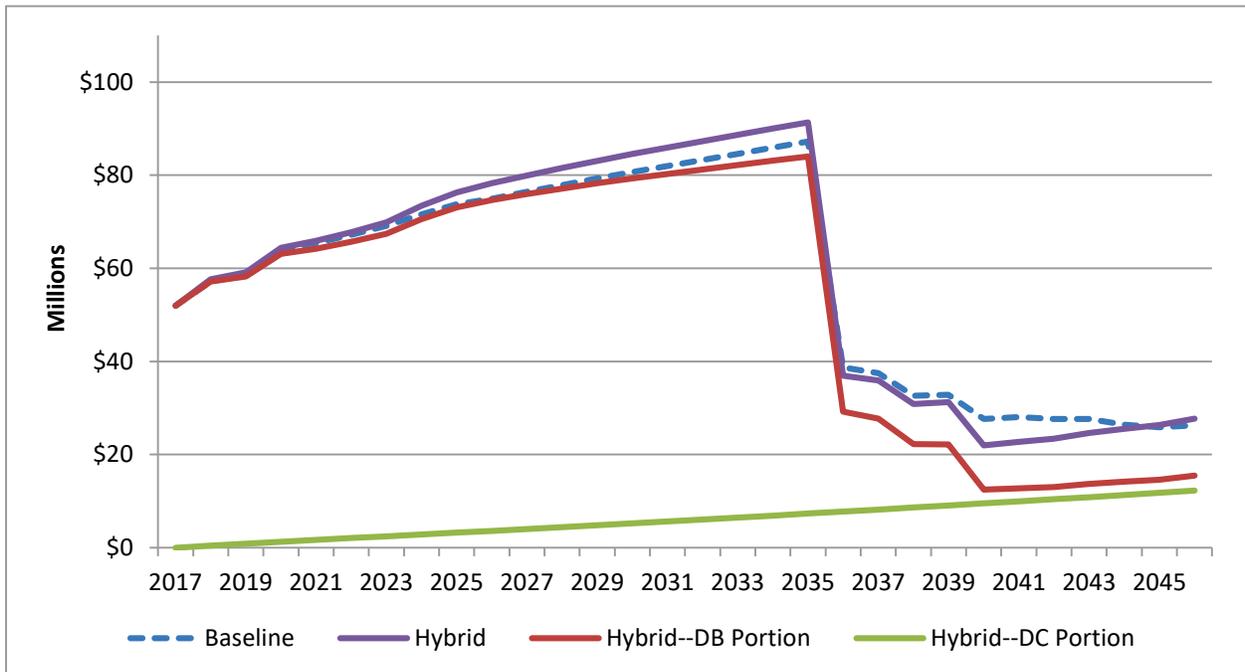
⁷ 1.6% is the current multiplier for employees hired after August 1, 2011.

Table 4: Hybrid Design Model

	Milwaukee Co. Employees Retirement System (ERS) (Employees hired on or after August 1, 2011)	Risk Managed Hybrid Design
DB		
Multiplier	1.60%	0.8%
COLA	2%	2%
Employee Contribution to DB	Actuarially determined	Actuarially determined
Vesting Schedule	5 years	5 years
Normal Retirement	64	64
Early Retirement	55 w/ 15 YOS	55 w/ 15 YOS
Early Retirement discount factor	5% each year	5% each year
DC		
Employee Contribution to DC	n/a	3.6%
Employer Contribution to DC	n/a	2.25%
Vesting Schedule	n/a	5 year
Risk Management Tools		
	<ul style="list-style-type: none"> Employee contribution cost sharing on active share of UAAL. 	<ul style="list-style-type: none"> Employee contribution cost sharing on active share of UAAL. Can include WRS-style COLA provisions.

Pew’s modeling found that over the 2017-2046 period, a hybrid would produce a \$22 million cost increase for the County under a soft freeze approach (**Chart 7**). The small net increase for the employer would be linked mainly to decreased employee contributions to ERS.

Chart 7: Expected Employer Costs, New Employees in Hybrid



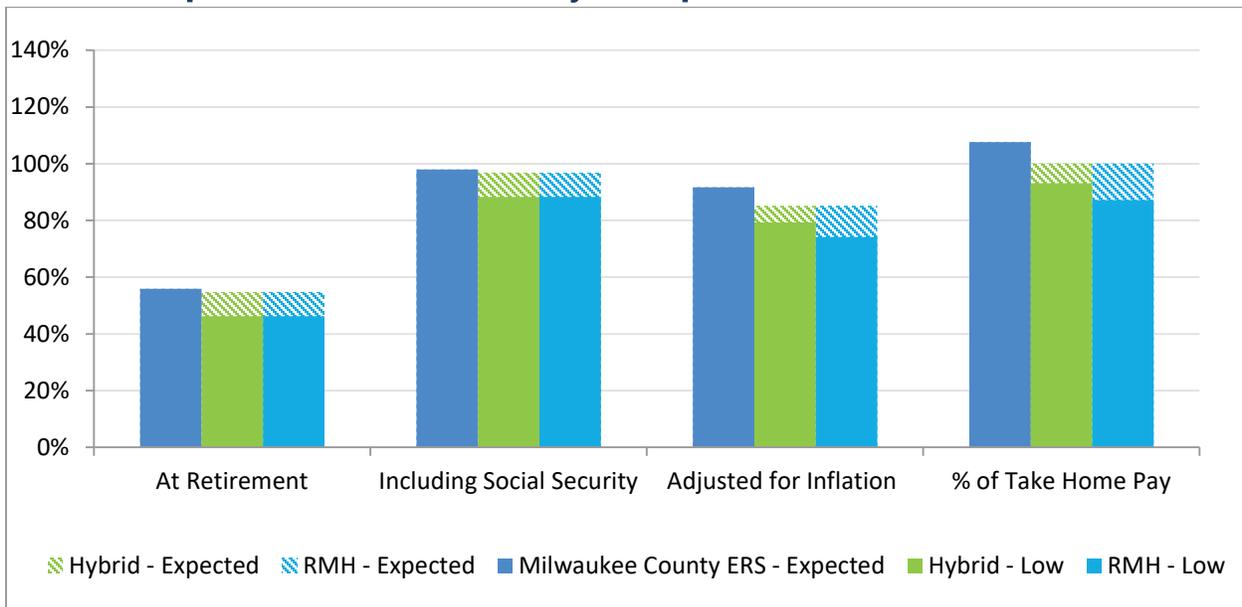
Notes:

Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions. Updated using additional data from Segal.

Under a scenario in which all employees were enrolled in the new plan for future years of service, Pew estimated a smaller increased employer cost of \$13 million over the 30-year period. In this case, the loss of employee contributions would be mostly offset by the greater reduction in the unfunded liability caused by the reduced ERS benefit for both new and active employees going forward.

The Pew analysis also noted that under the risk-managed hybrid (and to a lesser extent the regular hybrid), the County would experience reduced risk because of the reduced ERS benefit and its replacement with a DC component. At the same time, as shown in **Chart 8**, career workers would see a slight reduction in replacement income under both hybrid approaches when compared to the status quo (assuming expected investment returns), but employees leaving mid-career would enjoy an enhanced benefit (**Chart 9**).

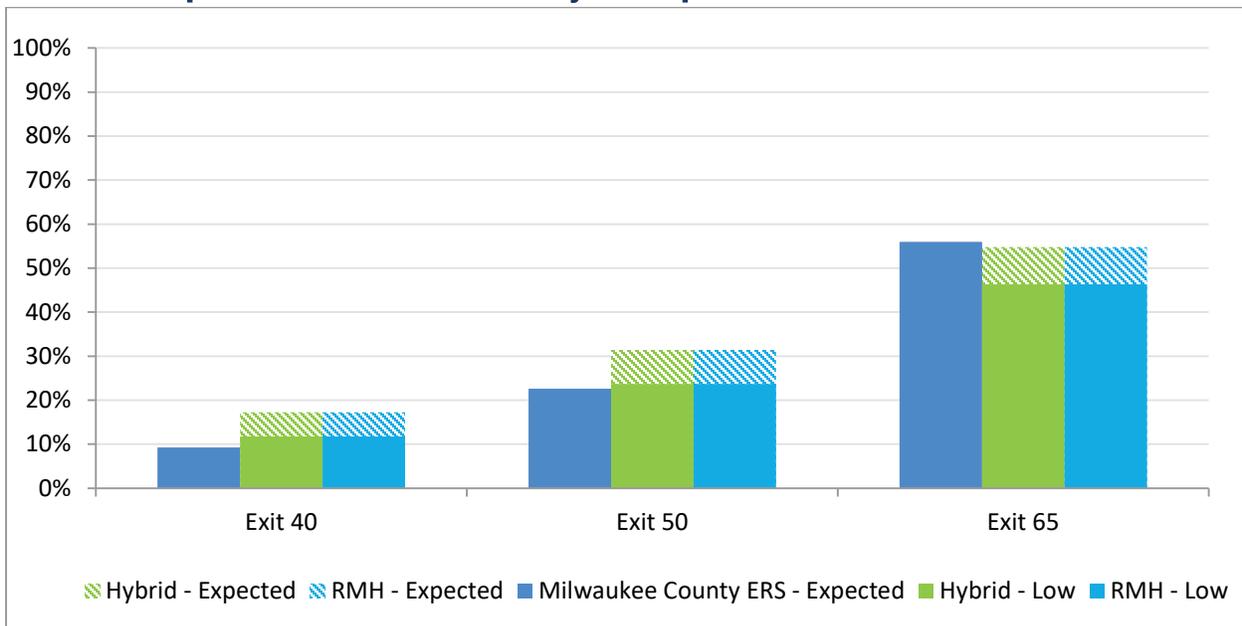
Chart 8: Replacement Income for Hybrid Options - Career Worker



Notes:

Pew analysis using ERS actuarial assumptions for salary growth and inflation. Expected return for DC plans is 7%; low return scenario is 5%. Annuitization is calculated using plan mortality assumptions and a 4% return assumption. Risk Managed Hybrid does not include a COLA in the low return scenario. DC plan does not include a COLA.

Chart 9: Replacement Income for Hybrid Options - Mid-Career Worker



Notes:

Pew analysis using ERS actuarial assumptions for salary growth and inflation. Expected return for DC plans is 7%; low return scenario is 5%. Annuitization is calculated using plan mortality assumptions and a 4% return assumption. Risk Managed Hybrid does not include a COLA in the low return scenario. DC plan does not include a COLA.

Summary

Pew was able to model a hybrid option that would keep costs approximately the same but provide the County with greater predictability with regard to its employer contribution. This approach would lead to greater risk and volatility for career employees than a pure defined benefit approach, but it would hold potential to produce a better retirement benefit for medium- and short-term workers.

A key question for Milwaukee County in considering this option is whether closing the ERS to new employees is an explicit goal. While the hybrid option would lower the ERS benefit and the associated risk for the County, it still would necessitate the continued administration and operation of ERS with no end in sight for that responsibility.

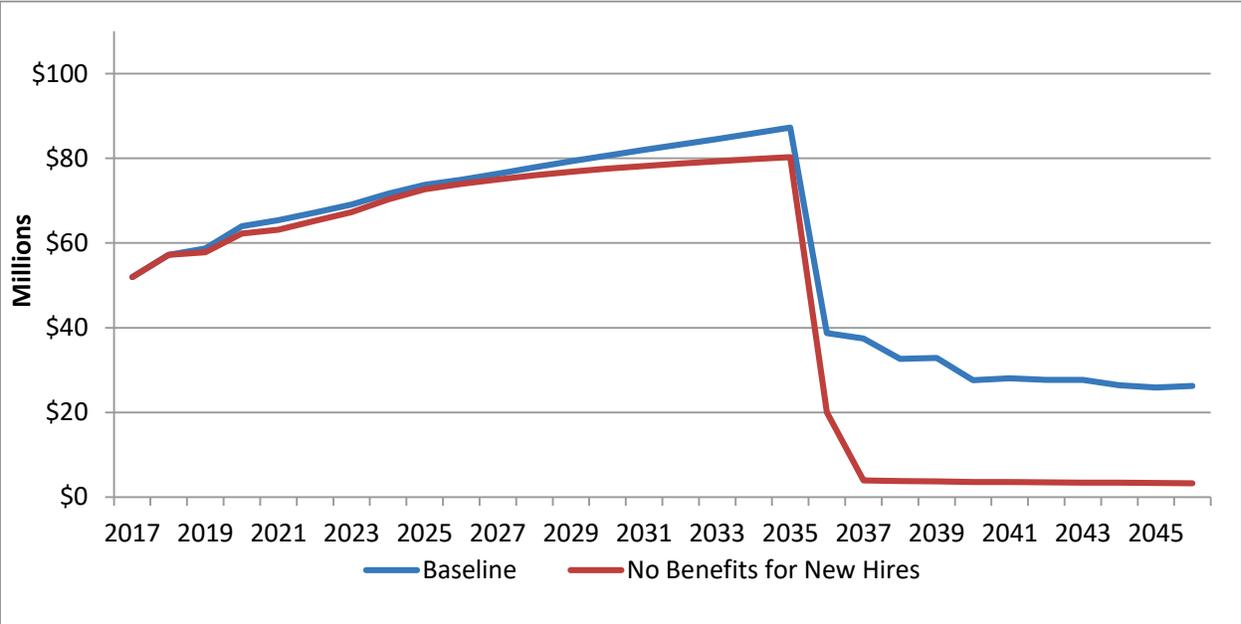
Finally, as would be the case for a shift to WRS or a pure DC approach, a shift to a hybrid model would not erode the unfunded ERS liability, meaning a plan still would be needed to pay for existing promises.

Pension Debt

Pew’s presentation on the hybrid plan design approach at the April 24, 2018 RST meeting concluded the initial analysis of plan design options. While that analysis had not yet yielded consensus on which option the County should pursue, it did produce consensus on one important finding: *Because of already promised benefits, no new plan design would have an appreciable impact on Milwaukee County’s employer costs through at least 2037.*

That conundrum is illustrated in **Chart 10**, which shows that even if the County closed ERS to new employees and *did not offer a retirement benefit* to those workers going forward, the employer contribution would decline only slightly over the next two decades. This example is illustrative, as the RST was clear in its deliberations that an important objective was to offer both current and future workers a secure retirement. But, as the results make clear, new plan changes will not meaningfully change costs over the short- or medium-term.

Chart 10: Majority of Projected Employer Costs Are For Existing Promises



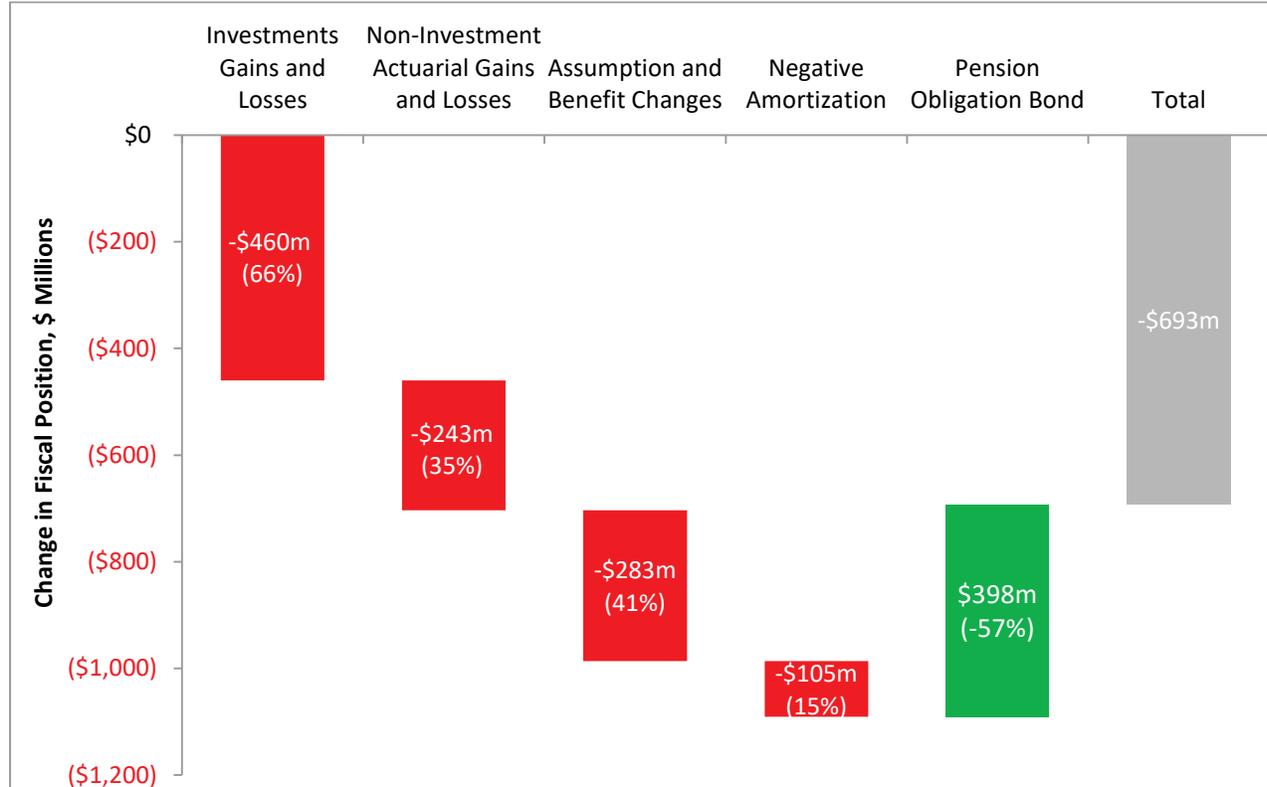
As a result of that important determination, the RST asked Pew to lay out options outside of a new plan design that might help manage the County’s existing pension liabilities and lower the employer contribution over a shorter timeframe. Pew did so at the RST’s May 29, 2018 meeting.

The meeting began with an overview of the causes of the growth in ERS’ unfunded liability since the turn of the century. As shown in **Chart 11**, the leading cause of that growth – from a \$100 million

surplus in 2001 to a \$585 million unfunded liability on a market value basis in 2016⁸ – was lower-than-assumed investment performance.

Chart 11: Milwaukee County ERS Sources of Growth in Unfunded Liability (MVA), 2001-2016

ERS went from a \$100 million surplus on a market value basis to a \$585 million unfunded liability



Notes:
Pew analysis using ERS actuarial valuations.

Three additional important contributors to the growth of the unfunded liability were benefit and assumption changes that occurred during this period; losses resulting from differences between non-investment actuarial assumptions and actual occurrences; and contribution policies (both an actuarial funding policy that allowed pension debt to grow as well occasional shortfalls in paying the actuarial rate).

Options to reduce the unfunded liability are somewhat limited given legal restrictions on the ability of employers to reduce benefits already earned or promised. Also, the County already had reduced the pension multiplier for general employees to 1.6% for all future service such that current employees

⁸ The \$585 million liability would have been approximately \$400 million larger if not for the County’s decision to issue pension obligation bonds in that amount in 2009, which reduced the pension liability but added long-term debt to the County’s books. Also, the \$585 million unfunded liability figure differs from figures cited earlier in this report because it is based on the market value of assets, instead of the actuarial value of assets.

are subject to the same benefit formula as new hires, and the backdrop provision already had been frozen to the extent legally possible.

Given these realities, Pew was asked to model four options that have been considered elsewhere to adjust employer cost and risk and that potentially could be considered by the RST:

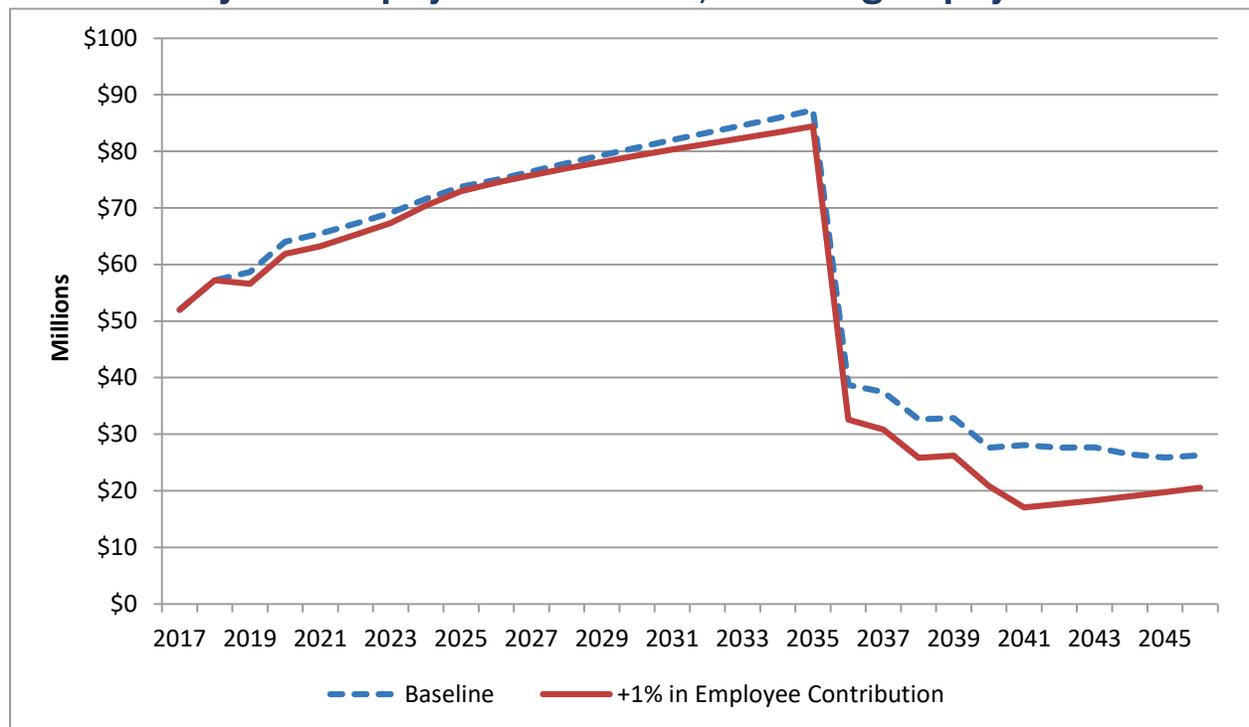
- Increase employee contributions
- Reduce the annual COLA for retirees' pension payments
- Adjust the assumed rate of return for ERS assets
- Increase the amortization period for ERS assets and liabilities

A fifth option – issuing pension obligation bonds – was noted but considered out of scope given that it was seen as a financing strategy, as opposed to one that might adjust the underlying liability.

Increase the Employee Contribution

Pew modeled a scenario in which the employee contribution to ERS would be increased by one percentage point above the percentage that ordinarily would be required under the current statutory framework. As shown in **Chart 12**, that alternative would produce only a small savings in the employer contribution through 2036. Moreover, with the employee contribution already nearing 7%, concerns were expressed that increasing it further would have a negative impact on retention and recruitment.

Chart 12: Projected Employer Contributions, Increasing Employee Contribution



Notes:

Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions. Updated using additional data from Segal.

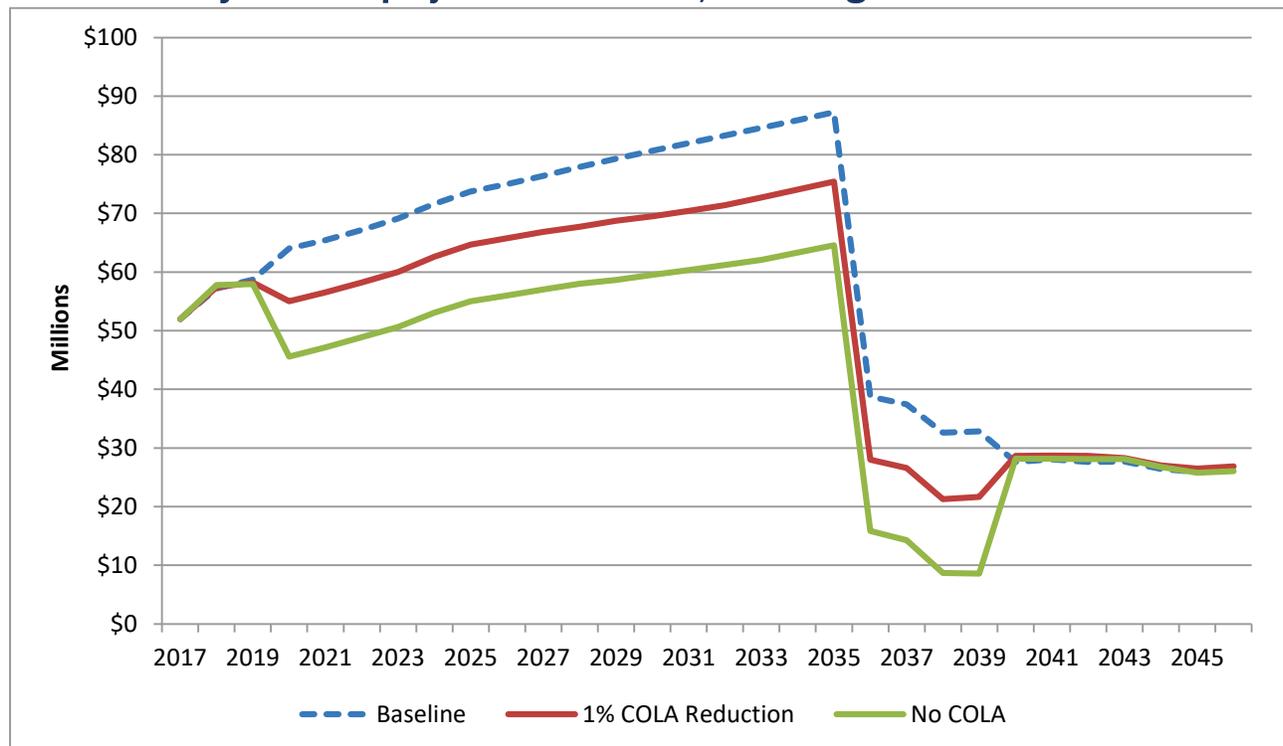
Reducing or Adopting a WRS Style of COLA

ERS currently grants a 2% annual COLA to retirees who are receiving pension payments. Pew modeled two alternatives to that approach: one in which the 2% annual COLA would be reduced to 1%, and a second in which no COLA would be granted. It was noted that the “No COLA” approach could be designed to be consistent with WRS, which only provides a COLA to retirees in the absence of an unfunded liability based on a formula reflecting investment performance. Given that ERS is forecast to have an unfunded liability for the next 20 years, the practical impact would be to not grant COLAs for the foreseeable future.

As shown in **Chart 13**, the annual employer contribution savings under both options would be significant, with the 1% approach yielding annual savings in the \$10 million range through 2040, and the no COLA option yielding annual savings in the \$20 million range. Savings from COLA reductions reflect a reduction of future projected benefits and would impact both those receiving relatively high benefits under prior benefit formulas (including those eligible for the backdrop benefit), as well as those under newer reduced benefit levels.

One of the potential approaches to reducing COLAs discussed by the RST would involve temporary suspension until funding levels were improved, with the WRS COLA provisions being an example of such an approach. Another point of discussion was redirecting any savings realized by COLA changes into contributions above the actuarial contribution to speed up the achievement of full funding.

Chart 13: Projected Employer Contributions, Reducing COLA



Notes:

Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions. Updated using additional data from Segal.

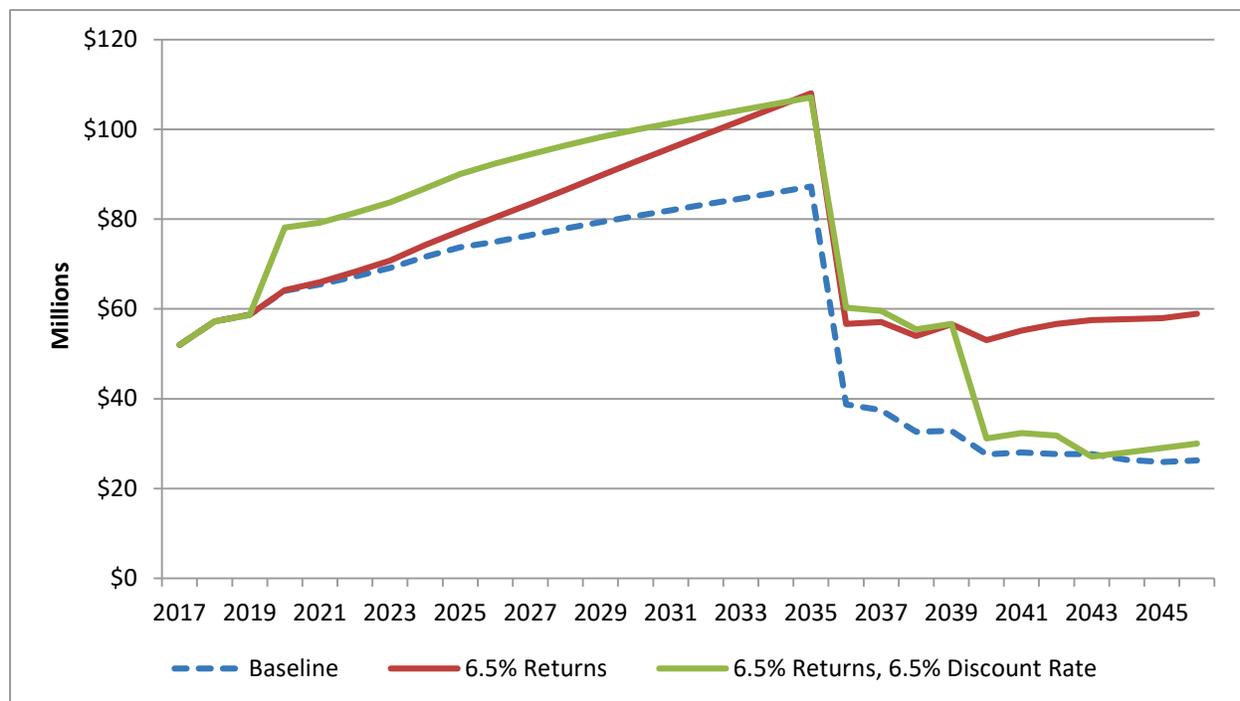
Change the Assumed Rate of Investment Return

The assumed rate of investment return used by ERS’ actuaries to calculate the unfunded liability was a subject that surfaced repeatedly throughout the RST’s deliberations, primarily in the context of the County’s risk should that assumed rate not materialize. As noted earlier, ERS reduced its investment return assumption from 8.0% to 7.75% in 2018 and plans to make an additional reduction to 7.5% in 2020. This would put ERS nearly in line with the 50-state average of 7.4%.

For the discussion on the unfunded liability, Pew modeled a scenario in which the County would further reduce the discount rate to 6.5%. While this model was anticipated to yield an *increase* in the employer contribution instead of a decrease, the modeling was deemed important in case RST members wanted to consider using a different option that would reduce the liability *in combination with* a lower assumed rate of return, which would produce positive consequences for the County in terms of reduced risk over time.

Chart 14 shows the impact on the employer contribution 1) if the County kept its 7.5% discount rate assumption but realized annual returns of only 6.5%; and 2) if it both reduced the rate to 6.5% and experienced that rate of return. In both cases, the employer contribution would be considerably higher for the first 20 years, although contribution levels would be roughly the same as the baseline after that time if the discount rate was adjusted. This reflects the reduced risk the County would experience under that scenario.

Chart 14: Projected Employer Contributions, Changing Returns & Discount Rates



Notes:

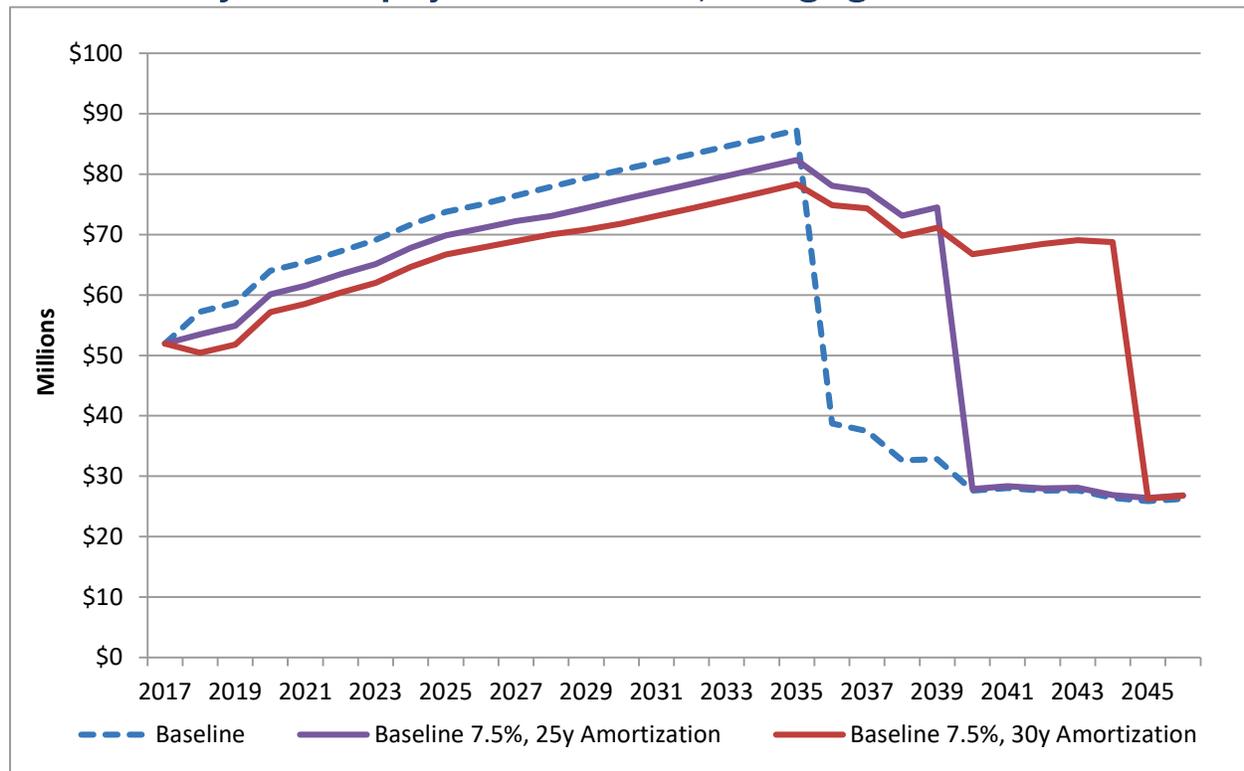
Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions. Updated using additional data from Segal.

Change the Amortization Period

The final option for managing existing liabilities modeled by Pew involved potential changes to the amortization period used by the ERS actuary to determine the size of the unfunded liability and the County's corresponding employer contribution. Pew modeled two possible changes to the existing 20-year period used by the ERS actuary: one that would increase it to 25 years and the other to 30 years.

As shown in **Chart 15**, both options would produce annual reductions to the employer contribution in the \$4 to \$9 million range until 2036. However, after that time, when the current 20-year amortization period would be exhausted, extending the amortization period would produce substantially higher employer contributions. Generally speaking, the use of a shorter amortization period is deemed more fiscally responsible because it requires any unfunded liability to be paid off over a shorter period of time. It also costs less for taxpayers to finance the same amount of debt in a shorter time frame.

Chart 15: Projected Employer Contributions, Changing Amortization Periods



Summary

The analysis of four potentially legally permissible options to reduce ERS' unfunded liability yielded one with considerable potential: reducing the 2% COLA granted to retirees or modifying it to be consistent with the WRS approach. In addition to producing annual reductions in the employer contribution of \$10 million to \$20 million, this option ostensibly could help balance the costs of addressing the unfunded liability between taxpayers, employees, and retirees. While the bulk of addressing the unfunded liability would remain with taxpayers, retirees would be asked to take on a portion of the cost. On the negative side, it could have a detrimental impact on retirees who rely on a COLA to ensure an appropriate level of retirement income.

In addition, the Pew analysis showed that a further reduction in the ERS discount rate to 6.5% could appreciably reduce the County's risk over the long term should actual investment returns mirror that rate. However, that benefit would come at the cost of significantly higher contributions in the first 20 years after such a change was made.

Finally, all of the analysis and discussion around unfunded liability reduction strategies underscored the fact that the County will continue to manage ERS for decades to come, regardless of which plan design option is chosen. Pew pointed to stress testing as a tool that would help the County understand the financial health of ERS and evaluate the risk of existing policies, particularly in a scenario where the plan is frozen and policymakers need to be attentive to cash flow and solvency risk.

Evaluation of Options

Alternative Plan Designs

At its April 24, 2018 meeting, the RST decided to narrow its consideration to three plan design alternatives:

- WRS option
- Defined contribution option 1B (4.5% employer contribution rate and 7.2% general employee contribution rate)
- Risk-managed hybrid

Key results from Pew’s analysis of each of the three alternatives under a soft freeze scenario – and their comparison to ERS – are summarized in **Table 5**.

Table 5: Summary Results, Soft Freeze Plan Design Alternatives

		ERS	WRS	DC, 1B	Risk-Managed Hybrid
Employer Cost, Expected Returns	Total	\$1,723	\$1,924	\$1,773	\$1,745
	<i>Difference from ERS</i>	\$0	\$201	\$49	\$22
Employee Cost, Expected Returns	New Hire Rate Range	4.6%-9.6%	6.4%-6.8%	7.2%	5.8%-10.2%
	ERS Employee Rate Range		6.1%-30.2%	6.1%-30.2%	
Replacement Income	Mid- Career Worker (Expected/Low)	9%/9%	18%/18%	20%/18%	17%/12%
	Career Worker (Expected/Low)	106%/106%	107%/95%	93%/79%	100%/87%
Risk	Employer Cost: Expected/Low/Realized	5.1%/8.7% /28%	7%/8.2% /7.2%	5.1%/5.1% 5.1%	5.1%/5.5% /TBD
	Administration	County	State	County	County

Notes

The DC figure assumes an extra half percent in DC employer contributions to replace death and disability benefits.

Parts might not total due to rounding.

A soft freeze assumes all new employees enter the new retirement system while current employees remain in ERS.

The risk-managed hybrid assumes a split DC/DB retirement system, with risk sharing features in the DB portion similar to those found in the Wisconsin Retirement System.

For its consideration of these alternatives, the RST reached consensus early on that nine criteria would be used for evaluation purposes:

1. Impact on affordability of employer contribution (both for the County and taxpayers)
2. Impact on employee contribution
3. Impact on unfunded liability
4. Impact on retention of existing employees
5. Impact on recruitment of new employees
6. Vulnerability to risk and volatility (for both employer and employees)
7. Flexibility to change design in the future
8. Ease of administration
9. Impact on inter-generational equity

To launch the RST’s deliberation on plan redesign, the project team (Pew, WPF, and the DAS Director) scored each of the options based on these criteria and presented the results at the June 26, 2018 RST meeting. A scale of 1 to 5 was used to assess the option’s impact with regard to each criterion, with a score of 1 indicating a negative impact; a score of 2 indicating a somewhat negative impact; a score of 3 indicating no impact; a score of 4 indicating a somewhat positive impact; and a score of 5 indicating a positive impact. The options were all scored relative to the status quo, where the project team assumed there would be no changes to ERS.

The project team emphasized that its “scorecard” should be used only as a starting point for discussion, as the different criteria were not weighted by importance and involved both objective and subjective analysis. RST members were asked to fill out their own scorecards and submit them for consideration at future meetings.

A summary of plan design option ratings by the project team is shown in **Table 6**. The WRS option received the highest composite average score, although it is important to note that each of the three plan design options had an average composite score that exceeded that of the status quo, thus indicating potential improvement over existing policies.

Table 6: Summary of Ratings

Criteria	ERS	WRS	DC, 1B	Risk-Managed Hybrid
1: Employer costs	3	3	3.5	3.5
2: Employee costs	3	2.75	2.75	3.25
3: Unfunded liability	3	3	3	3
4: Existing employee Retention	3	4	2.5	3.5
5: New employee recruitment	3	4	2.5	3.5
6: Risk	3	4	3	3.5
7: Future design flexibility	3	1	3	3
8: Ease of administration	3	5	4	2
9: Inter-generational equity	3	5	5	3
Simple Average	3	3.53	3.25	3.14

The WRS option received particularly high scores when compared to other plan design alternatives and the status quo with regard to the following criteria:

- **Existing employee retention and new employee recruitment** – comparatively high scores for these criteria stem from the project team’s determination that WRS provides a more attractive retirement benefit than ERS, in large part because of its money purchase option. The team also cited the greater potential for WRS to maintain a lower employee contribution for new employees than likely would be possible under the ERS status quo option. When compared to the DC and hybrid options, the fact that WRS offers a robust defined benefit – combined with a money purchase benefit – was seen as an advantage for both career and shorter-term employees.
- **Risk reduction** – for this criterion, WRS’ provisions that share the negative impacts of lower-than-anticipated investment returns between employers and employees was central to the high score from an employer perspective. Meanwhile, WRS’ defined benefit approach was seen as less risky from an employee perspective when compared to the DC and hybrid options.
- **Ease of administration** – in the case of a partial freeze, a transition to WRS would allow the County to close ERS to any future service, though it still would need to administer the closed plan. In the case of a soft freeze, the County would begin to reduce the accumulation of additional benefits under ERS and pave the way for eventual closure. Under either option, having WRS administer the pension benefit for new hires would ease the County’s administrative burden when compared to ERS. The WRS option also could provide a lower administrative burden when compared to the DC and hybrid options, given that the county likely would need to manage a contract with a private vendor to manage the DC component.

The two criteria for which the WRS option received negative scores were employee cost and future design flexibility. The negative score for the former was attributed to the potential for substantially increased employee contributions by active employees to support ERS under a soft freeze approach, given that new employees no longer would be contributing to that system. The negative score for design flexibility resulted from a requirement that the county commit to permanent participation in WRS as a condition of being allowed by the state to transition to that system.

Evaluation of Unfunded Liability Reduction Options

The project team also used the nine criteria to score each of the pension debt reduction options. A summary of those scores – also presented at the June 26, 2018 RST meeting – is shown in **Table 7**. It should be noted that the option of reducing the multiplier was added to the four pension liability management options discussed earlier to provide further context; it had earlier been determined that this option would not be seriously considered given that the County recently had already lowered the multiplier to 1.6% for most employees, which was in line with many public pension systems nationally.

Table 7: Summary of Pension Debt Ratings

Criteria	Reduce/ Modify COLA	Extend Amortization Period	Reduce Multiplier	Increase Employee Contribution Rate	Lower Discount Rate
1: Employer costs	5	4	4	4	2
2: Employee costs	5	4	4	1	2
3: Unfunded liability	5	2	3	3	4
4: Existing employee Retention	2	3	2	2	3
5: New employee recruitment	2	3	2	2	3
6: Risk	4	2	3	3	4
7: Future design flexibility	N/A	N/A	N/A	N/A	N/A
8: Ease of administration	2	3	2	3	3
9: Inter-generational equity	3	2	3	3	4
Average	3.5	2.88	2.88	2.63	3.13

As shown in the table, the option of reducing the COLA or modifying it to reflect the WRS approach received the highest composite average score of the five options considered. Lowering the discount rate was the only other option that scored above a 3, thus indicating a promising approach to managing the risks from the current ERS liability.

The criteria for which COLA reduction/modification received the highest scores from the project team were its potential to lower both annual employer and employee contributions, as well as to reduce the overall size of the unfunded liability and reduce risk. Task force members also noted that this approach could allow the County to better share the cost of addressing the unfunded liability among employees, taxpayers, and retirees, since without a COLA change all cost sharing would fall to only current employees and taxpayers.

On the negative side, existing employee retention and new employee recruitment could be impacted by the reduced benefit, and tying the COLA to any unfunded liability would add some administrative complexity.

Reform Package

The project team reported at the July 24, 2018 RST meeting that scorecards submitted by members were largely consistent with the team’s scorecard, i.e. the WRS and COLA reduction/modification options generally scored highest. Several RST members also reflected that a combined package in which the County would combine both options could allow it to offset higher employer contributions under the WRS approach with COLA savings.

Consequently, Pew modeled a reform “package” consisting of a soft freeze transition to WRS and a full 2% COLA reduction. Because of an emerging consensus that a soft freeze transition to WRS would be untenable without addressing the huge increases in active employee contributions that would result from that approach, the package also included a 9% cap on employee contributions. It was acknowledged that effectuating such a cap may require a change in State law, however.

Table 8 shows the results of that analysis for the 2017-2046 period, using a scenario under which ERS investment assumptions and returns mimic current policy, and one in which the discount rate is reduced to 7% and the rate of return is at that level. The modeling shows that the full 2% COLA reduction would fully offset the higher employer cost attributed to the soft freeze WRS approach and also allow the County to enjoy about \$150 million to \$180 million in savings over the period, depending on whether the cap on employee contributions was in place.

Table 8: Reform Summary Results, 2017-2046

\$Millions	Current Trajectory	If 7% Discount Rate and Rate of Return starting in 2020	Soft Freeze to WRS		
				9% Employee Cap	
					ERS 7% Discount Rate and Rate of Return in 2020
	Baseline	Baseline	2% COLA Reduction	2% COLA Reduction	2% COLA Reduction
Employer Costs	\$1,723	\$1,915	\$1,541	\$1,577	\$1,764
Employee Costs	\$698	\$780	\$697	\$673	\$689
Total	\$2,421	\$2,695	\$2,238	\$2,250	\$2,453

Notes

Parts might not total due to rounding.

A soft freeze assumes all new employees enter the new retirement system while current employees remain in ERS.

RST Recommendations

The RST deliberated over recommendations at its July 24 and August 29, 2018 meetings. Motions were offered and seconded by committee members and discussed by those present, with the goal of reaching consensus. Votes were taken at the conclusion of discussion and/or upon apparent agreement that consensus had been reached.

Motions Adopted at July 24, 2018 Meeting

At the July 24, 2018 meeting, two motions were considered and approved. The first recommended that the Milwaukee County Executive and Board of Supervisors analyze options for reducing or modifying the COLA, and the second recommended that they pursue an approach to transition new employees to the WRS while analyzing the possibility of also transitioning future service for active employees to WRS.

With regard to the first motion, several RST members noted that a COLA adjustment would share the cost of addressing past investment losses and benefit decisions between taxpayers, active employees, and retirees. Furthermore, it was noted that using WRS as a model for COLA provisions would share risk and stabilize employer costs while also giving retirees the ability to benefit from the upside of strong investment returns. No consensus was reached on a precise recommended reduction or modification to the COLA, however, and individual members of the RST advocated a range of possible changes to COLAs.

Motion #1 (Hollmon, seconded by Smith) – all members voted “aye” with the exception of one abstention (Mapp).

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors analyze options for reducing the COLA – including potential legal considerations – as a means of reducing the unfunded liability and ensuring that future costs are spread equitably among retirees, past and current employees, and County residents and taxpayers. In doing so, the County should consider options that include those implemented by other public plans, as well as an approach that mirrors that used by the WRS.

With regard to the second motion, RST members argued that WRS would provide greater stability in employer costs while continuing to provide a substantial retirement benefit to workers. Also, while expected employer costs would be higher under WRS than under the status quo should current investment return assumptions be met, they likely would be lower under low return scenarios, thus better shielding the County from risk. Furthermore, moving Milwaukee County from directly managing pension benefits over time was considered an advantage by some members of the task force. Finally, it was felt that WRS benefits offer greater retirement security for short- and medium-term workers than ERS.

The RST felt that additional analysis was necessary to determine whether the WRS transition should involve more than a soft freeze and also include non-vested active employees and future service for vested active employees. However, taskforce members agreed that if the soft freeze option ultimately was selected, then there also needed to be a cap on the employee contribution.

Motion #2 (Nelson, seconded by Hollmon) – all members voted “aye” with the exception of one “no” vote (Harper)

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors pursue an approach that would close the ERS to new employees and – subject to legal analysis – have all new employees become members of the Wisconsin Retirement System. The treatment of non-vested active employees and future service of active employees should be further analyzed by both the County and WRS. Such analysis shall include determination that no adverse financial impacts shall accrue to WRS.

Furthermore, the task force recommends that any approach that would involve a “soft freeze” with regard to a shift to WRS include a cap on the active employee contribution rate to ERS.

A third motion was offered recommending that ERS engage in regular financial monitoring and stress testing per guidelines recommended by Pew, and that it consider other financial and operational best practices. That motion was tabled to the next meeting, however, in light of a request for further information on Pew stress testing guidelines.

Motions Adopted at August 28, 2018 Meeting

Motion #3 on stress testing and financial and operating best practices – with a minor technical change – was re-considered at the August 28 meeting.

Pew presented information on stress testing, explaining that it was a simulation technique used to assess the impact of different economic conditions on pension balance sheets and governmental budgets. In particular, stress testing was deemed by Pew to be an important tool to help policymakers plan for the next recession and better manage economic uncertainty. (See Appendix II for a summary of stress testing guidelines) The RST agreed and also felt ERS and the County should be encouraged to assess and consider the use of other financial and operational best practices.

Motion #3 (Meaux, seconded by Gedemer) – all members present voted “aye”

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors require and provide funding for regular financial monitoring and stress testing per guidelines recommended by Pew, and that ERS and the County consider other financial and operational best practices.

The RST also considered a fourth motion that had been drafted by Rep. Kooyenga. That motion sought to ensure that the County had a stated goal of fully funding the ERS by 2036; that it maintain a 20-year amortization period; that it lower the assumed rate of return to a number reasonably recommended by plan actuaries; and that it commit to using any new, non-designated revenue sources to fund the Actuarial Required Contribution (ARC).

Committee members did not reach consensus on the establishment of a strict timeline for fully funding the ERS, as well as on the proposal to bind the County to use new revenue sources to fund the ARC. However, consensus emerged on the importance of recommending to the County and ERS that a 20-year amortization period be maintained and that the rate of return be lowered to a reasonable number recommended by plan actuaries. Furthermore, taskforce members agreed that the County and ERS should be urged to prioritize the allocation of resources to addressing ERS’

unfunded liability (including net savings produced by COLA adjustments) without committing it to a specific date and to using any new revenue sources to do so.

Motion #4 (Nelson, seconded by Meaux) – all members present voted “aye”

The RST recommends that the County Executive, County Board, and ERS (a) maintain a maximum 20-year amortization period; (b) reasonably lower the assumed rate of return to a number recommended by the plan actuaries; and c) prioritize the allocation of resources to appropriately address ERS' unfunded liability, which includes allocating any net savings produced by the RST's recommendations to reduce the unfunded liability.

Full Package of Motions

Prior to a vote on the full package of four motions at the August 2018 meeting, Pew summarized the proposed benefit changes:

- New hires would be moved to WRS and receive benefits through that system. ERS would be closed to new entrants.
- Non-vested employees would potentially be moved to WRS as well and vested Milwaukee County workers could potentially receive future service through WRS.
- Employee contribution rates would be subject to a maximum level.
- COLA reductions would be applied to reduce the unfunded liability and share costs.
- The WRS rules, or something similar, would be considered in identifying how to reinstate COLAs when full funding is reached and provide both risk sharing as well as sharing of gains.

Pew also presented the results of modeling it had conducted of a version of the reform package that follows these recommendations. It was emphasized that the model may differ in the specifics from the final package (for example, the full WRS COLA provisions had not been built into the model), but this exercise was intended to provide for RST members and the public a sense of scale and scope of what these reforms would look like.

Specifically, Pew modeled two packages:

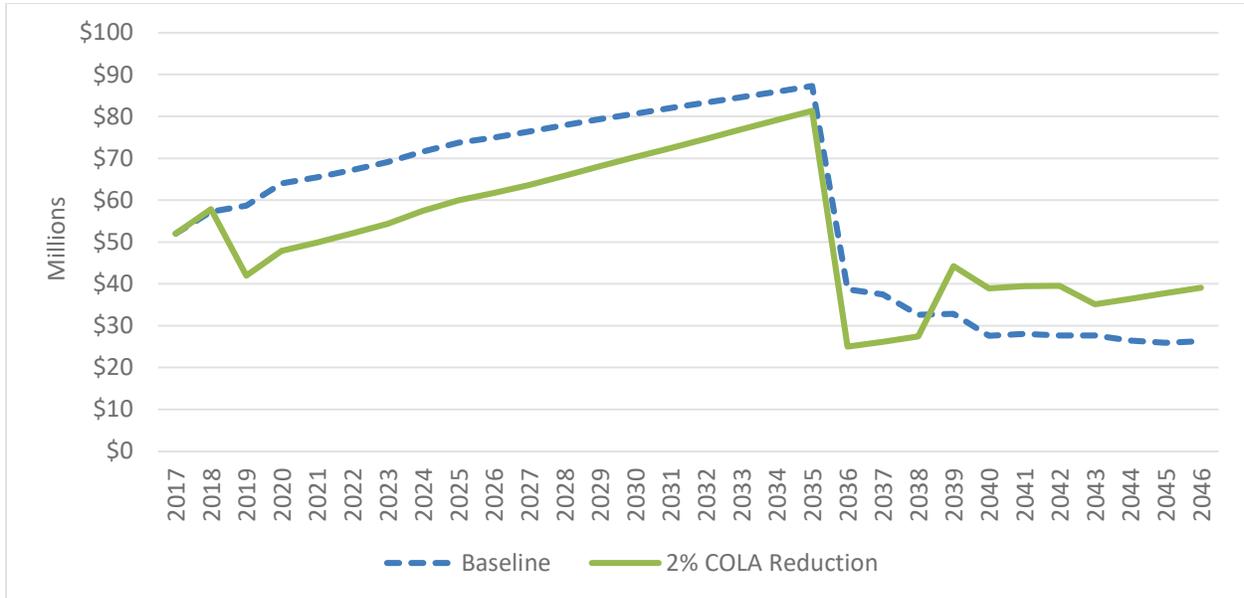
- 1) A soft freeze switch to WRS and a full cessation of the COLA, along with a cap of the employee contribution rate of 9%.
- 2) The same approach, except the 2% COLA would be reduced to one 1%.

Chart 16 tracks annual employer savings under the full COLA reduction, which would result in a total employer savings of \$146 million through 2046. **Chart 17** does the same for a 1% COLA reduction, which would save \$37 million in employer contributions through 2026 but increase costs through 2046 by \$102 million.

Following discussion of this modeling, **RST members unanimously approved the package of four motions upon the motion of Supervisor Schmitt and a second by Mr. Hollmon.**

Chart 16: Comparing Costs Over Time: Baseline and Example Reform Package

Employer Costs: Soft Freeze to WRS with Maximum 9% Employee Contribution; 2% COLA Reduction

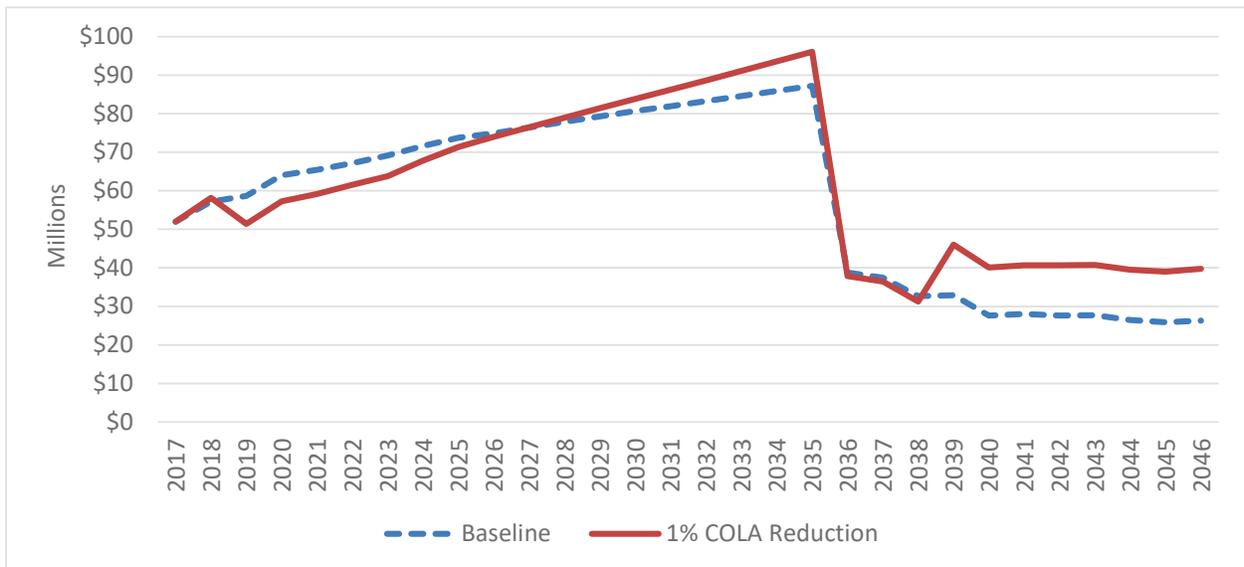


Notes:

Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions. Updated using additional data from Segal.

Chart 17: Comparing Costs Over Time: Baseline and Example Reform Package

Employer Costs: Soft Freeze to WRS with Maximum 9% Employee Contribution; 1% COLA Reduction



Notes:

Actuarial projections done by The Terry Group based on Milwaukee County ERS plan assumptions. Updated using additional data from Segal.

Final Package of Motions Adopted at November 8, 2018 Meeting

Subsequent to the RST's initial approval of the package of four motions, it held a public hearing to solicit feedback on October 16, 2018. At that hearing, more than 30 members of the general public provided testimony or submitted cards indicating their position on RST recommendations.

The RST then met for a final time on November 8, 2018, to consider proposed amendments and take a final vote on the package of motions. At that meeting, amendments to two of the motions were offered by Ms. Mapp and seconded by County Executive Abele and were unanimously approved. The amended motions are shown below, with changes to the original motions underlined.

Motion #1

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors analyze options for reducing the COLA – including potential legal considerations – as a means of reducing the unfunded liability and ensuring that future costs are spread equitably among retirees, past and current employees, and County residents and taxpayers. In doing so, any changes to the COLA should consider recruitment, retention, and fairness to retirees. The County should consider options that include those implemented by other public plans, as well as an approach that mirrors that used by the WRS, maintaining the COLA at a sustainable amount, and revisiting the COLA during each annual budget for review as part of the County's obligation to the public.

Motion #2

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors pursue an approach that would close the ERS to new employees and – subject to legal analysis - have all new employees become members of the Wisconsin Retirement System. The treatment of non-vested active employees and future service of active employees should be further analyzed by both the County and WRS. Such analysis shall include determination that no adverse financial impacts shall accrue to WRS. The analysis should also explore whether it is reasonable to allow active employees the choice to stay in ERS for future years of service or to join WRS for future years of service.

Furthermore, the task force recommends that any approach that would involve a “soft freeze” with regard to a shift to WRS include a cap on the active employee contribution rate to ERS.

After adoption of the amended motions, **RST members unanimously approved the package of four motions upon the motion of County Executive Abele and a second by Mr. Smith.**⁹ The full package of motions adopted by the RST is shown on the following page.

⁹ For the vote on the final package of motions and all other votes at the November 8 meeting, Comptroller Manske, Mr. Conlin, and Mr. Coyne abstained to avoid the appearance of a conflict of interest.

Motion #1

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors analyze options for reducing the COLA – including potential legal considerations – as a means of reducing the unfunded liability and ensuring that future costs are spread equitably among retirees, past and current employees, and County residents and taxpayers. In doing so, any changes to the COLA should consider recruitment, retention, and fairness to retirees. The County should consider options that include those implemented by other public plans, as well as an approach that mirrors that used by the WRS, maintaining the COLA at a sustainable amount, and revisiting the COLA during each annual budget for review as part of the County’s obligation to the public.

Motion #2

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors pursue an approach that would close the ERS to new employees and – subject to legal analysis - have all new employees become members of the Wisconsin Retirement System. The treatment of non-vested active employees and future service of active employees should be further analyzed by both the County and WRS. Such analysis shall include determination that no adverse financial impacts shall accrue to WRS. The analysis should also explore whether it is reasonable to allow active employees the choice to stay in ERS for future years of service or to join WRS for future years of service.

Furthermore, the task force recommends that any approach that would involve a “soft freeze” with regard to a shift to WRS include a cap on the active employee contribution rate to ERS.

Motion #3

The task force recommends that the Milwaukee County Executive and Milwaukee County Board of Supervisors require and provide funding for regular financial monitoring and stress testing per guidelines recommended by Pew, and that ERS and the County consider other financial and operational best practices.

Motion #4

The RST recommends that the County Executive, County Board, and ERS (a) maintain a maximum 20-year amortization period; (b) reasonably lower the assumed rate of return to a number recommended by the plan actuaries; and c) prioritize the allocation of resources to appropriately address ERS’ unfunded liability, which includes allocating any net savings produced by the RST’s recommendations to reduce the unfunded liability.

Appendix I: List of RST Members

Chris Abele – Milwaukee County Executive

Robert Conlin – Wisconsin Department of Employee Trust Funds, Secretary

Tim Coyne+ – Milwaukee County Retirement Plan Services, Director

Margaret Daun – Milwaukee County, Corporation Counsel

Norb Gedemer – Milwaukee County, Deputy Sheriff

Rep. Evan Goyke – Wisconsin State Assembly, 18th District

Michael Harper+ – Milwaukee County Pension Board, Chairperson

Ralph Hollmon – Retired President and CEO, Milwaukee Urban League

Waylon Hurlburt – Wisconsin State Budget Director

Rep. Dale Kooyenga – Wisconsin State Assembly, 14th District

Maria Lopez Vento – Bader Philanthropies, Inc., VP of Programs and Partnerships

Scott Manske – Milwaukee County, Comptroller

Jodi Mapp – Milwaukee County Behavioral Health Division, Executive Assistant

Tom Meaux – Ansay Holdings, LLC, President

Kerry Mitchell* – Milwaukee County, Chief Human Resources Officer

Ron Nelson – Milwaukee School of Engineering, Adjunct Professor

David Sartori* – Former Milwaukee County Supervisor, District 8

James “Luigi” Schmidt+ – Milwaukee County Board of Supervisors, 6th District

Tim Sheehy – Metropolitan Milwaukee Association of Commerce, President

Julie Siegel – Whitefish Bay, Village President

Greg Smith – UW-Milwaukee Lubar School of Business, Executive-in-Residence

Sup. Sheldon Wasserman – Milwaukee County Board of Supervisors, 3rd District

+ Added to the taskforce after its creation

* Left the taskforce after its creation

Appendix II: Stress Testing Guidelines

Goals: Provide budget officials, policymakers and other stakeholders with:

- 1) Accessible information about the risks and potential costs associated with actuarial assumptions and contribution behavior.
- 2) Tools and analysis to better inform planning and decision making.

Objectives: Provide analysis of investment and contribution risks in a standard report to help policymakers:

- 1) Assess the impact of investment risk on government budgets.
- 2) Evaluate the impact of contribution risk on pension system solvency.
- 3) Quantify the range of possible costs for current benefits.
- 4) Assess the impact of market volatility on expected employer contributions.

Core Components:

- 1) Sensitivity analysis of plan liabilities at +/- 1% (per GASB) of the expected rate of return, a lower discount rate as outlined in Actuarial Standard of Practice (ASOP) No. 4 (currently in DRAFT).
- 2) Scenario analyses based on long-term projections over a 20-year measurement period including both (a) a scenario assuming a fixed 5% rate of return (or the 25th percentile of expected returns) on assets, and (b) an asset shock scenario – for example, applying assumptions included in the Dodd-Frank adverse stress test scenario – followed by long-term returns of 5% (or the 25th percentile of expected returns).*
- 3) To assess contribution risk, projections and measurements for each of the scenarios included above assuming both (a) full actuarial contributions based on current funding policies, and (b) contributions that are constrained by the rate of revenue growth (i.e. fixed as a percent of revenue).
- 4) Sensitivity of total normal cost and employer normal cost for new benefits earned under several different investment return assumptions, including +/- 1% of the expected rate of return and a 5% rate of return (or the 25th percentile of expected returns).
- 5) Projections that simulate the volatility of annual investment returns above and below the expected rate of return in order to measure the range of employer contributions, including the minimum and maximum over 10- and 20-years where the assumed rate of return is achieved over the measurement period.

*Additional scenarios may include projections at +/-1% of the assumed rate. Measurements for all of the scenarios to include, without limitations: assets, liabilities, and funded ratios; employer contributions as a share of payroll and as a share of own source revenue; and total contributions, benefit payments, and the ratio of operating cash flow to asset.



Milwaukee County Courthouse
901 North 9th Street | Milwaukee, WI 53233

county.milwaukee.gov

Empowering People | Strengthening Community

BRIDGING THE PENSION GAP:

Strong state plan may show Milwaukee the way

The Wisconsin Retirement System (WRS) is one of the few public pension systems nationally to avoid the funding gaps that have beset other plans like those in the city and county of Milwaukee. Adopting elements of the WRS approach would be challenging in the short term but could aid the Milwaukee plans in the long run.

In recent years, Wisconsin's state pension system has won acclaim while its two counterparts in Milwaukee have faced stark challenges. The fiscal impacts of those challenges have contributed to the elimination of city police positions, a huge county infrastructure repair backlog, and a push for a new local sales tax.

The contrasts between the three public pension systems in the state are striking. The Wisconsin Retirement System (WRS) outperforms most of its peers nationally on a range of criteria, including its annual cost to taxpayers and its ability to pre-fund the benefits promised to state and local workers and retirees. The pension plans for the city and county in Milwaukee are healthier than many public plans, but still closed 2018 with a combined unfunded liability of \$2 billion.

The WRS, the pension plan for the state and most local governments in Wisconsin, was more than fully funded at 102.9% at the end of 2017, a testament to the disciplined contributions by those employers and WRS' unusual approach of linking retiree payments to investment performance. At that point, state employee retirement funds nationally had funded only 69% of the \$4.1 trillion in obligations promised to beneficiaries, according to a [Pew Charitable Trusts report](#) from June. The state pension system in neighboring Illinois had only 38.4% of the pension assets needed to cover its liabilities.

The Milwaukee area plans are better than the average state system in terms of funding levels. And, like WRS, both plans will benefit from strong 2019 investment returns that won't show up on their financial statements until this summer. But they still have sizable unfunded liabilities, which require growing annual taxpayer

contributions that are placing severe pressure on city and county finances. In the 2020 budget, for example, Milwaukee Mayor Tom Barrett and the city council cut 60 police positions to help prepare for a huge increase in the city's employer contribution to its pension plan in 2023.

Meanwhile, Milwaukee County's employer contribution to support its pension obligations (including pension obligation bond debt) grew by nearly 50% in the past decade to nearly \$98 million in the 2020 budget. The increased costs contributed significantly to difficult decisions in recent years to reduce staff and service levels and implement a \$30 wheel tax.

These contrasts raise the question: why has Wisconsin's system weathered financial challenges so well and

METHODOLOGY

Most figures in this report come from plan financial statements prepared using national accounting standards meant to allow for the best possible comparisons of assets, liabilities, and other figures between plans. However, the city and county budget impacts mentioned in this report result from the separate statements prepared by each plan's actuaries, who use somewhat different methods and arrive at modestly different figures. Also, for ease of comparison, this report focuses primarily on the general employees such as office workers in each plan, as opposed to public safety employees. However, the costs and benefits of these other classes of workers (such as police and firefighters) can be different; that is particularly important in the city of Milwaukee, where public safety workers make up 44% of active employees and an even larger share of the employer pension contribution.

could the two public pension plans in Milwaukee benefit from adopting elements from the WRS approach? In this issue of *The Wisconsin Taxpayer*, we consider those questions.

OVERVIEW OF THE THREE PENSION SYSTEMS

Wisconsin Retirement System (WRS)

The state is fortunate that the WRS is so well-positioned given its massive size – [by one ranking](#) it is the eighth-largest state or local pension system in the nation and 25th-largest in the world. The WRS provides retirement, disability, and death payments to survivors and covers nearly 642,000 retirees, workers, and other participants who were or are employed by over 1,500 state agencies and local governments. Financial statements show WRS benefit payments provided to retirees and beneficiaries rose 5.9% in 2018 to \$5.5 billion. The growth reflects increases in the number of beneficiaries and in their benefits because of rising employee salaries and earnings on pension investments.

Among the participants are teachers, police and firefighters, university professors, and some elected officials as well as a host of other state and local employees from all school districts in Wisconsin, all technical colleges, all counties except Milwaukee County, essentially all cities except Milwaukee, two-thirds of villages, roughly one-fifth of towns, and more than 200 special districts. All told, more than 1,430 local governments participate. Since 2001, the WRS

has gained employers, helping to boost the number of state and local participants by more than 30%, while the city of Milwaukee plan’s membership has been roughly flat and the county’s is down 8%.

After World War II, Wisconsin officials brought together a number of smaller retirement funds, according to the state Legislative Fiscal Bureau (LFB). In 1951, Wisconsin became the first state in the country to extend participation in the federal Social Security program to some state and local employees and nearly all active WRS workers qualify for it. Most participants in the two Milwaukee pension plans also qualify for Social Security benefits but the city’s police and firefighters do not – a notable difference that means the city funnels more money into its pension plan for those workers but does not have to pay federal Social Security payroll taxes. [A 1976 law](#) consolidated funds for teachers, state workers, and local employees, including the Milwaukee Teachers Retirement Fund, but did not extend to the plans for the city and county of Milwaukee, a decision with far-reaching implications.

Milwaukee pension plans

Like the WRS, both Milwaukee plans provide retirement, disability, and death benefits. The city of Milwaukee pension plan has twice as many participants and roughly three times the assets of the Milwaukee County retirement system, though both plans are considerably smaller than WRS (see Table 1).

Table 1: Wisconsin Pension System Larger, More Conservative than Milwaukee Counterparts
Key Indicators by Plan for 2018 or as of Dec. 31, 2018 (except 2020 for rate of return)

Pension Plan Element	State of Wisconsin	City of Milwaukee	Milwaukee County
Participants	641,892	27,176	12,910
Net Position (Net Assets)	\$96.74B	\$4.95B	\$1.62B
Liabilities	\$100.3B	\$6.29B	\$2.29B
Employee Contribution Rate*	6.7%	4%	6.5%
Normal Retirement Age*	65	65	64
Vesting Period for Benefits	5 years	4 years	5 years
Avg. Annual Benefit	\$25,893	\$28,649	\$22,403
Avg. Active Employee Salary	\$53,273	\$53,605	\$55,779
Assumed Rate of Return (2020)	7%	7.5%	7.5%
Automatic Cost of Living Adjustment	No	Yes	Yes

* All contribution rates and retirement ages for newly hired general employees. With 30 years of service, Milwaukee city and county workers hired before 2014 can retire at 55 and WRS workers at 57. The employee contribution rate for general city employees hired prior to 2014 is 5.5%.

Sources: Annual financial and actuarial reports and audits



CALCULATING BENEFITS

To calculate the initial pension benefit for workers retiring at the normal age, the Wisconsin Retirement System and the city and county pension systems in Milwaukee typically take the average of the employee's three highest years of salary and multiply that by their years of service and a multiplier. The multiplier varies for different classes of employees but it is 1.6% for newly hired general employees in all three pension systems. Differences between plans include the minimum retirement age for full benefits and the cap placed on pension payments. The WRS and generally the city of Milwaukee limit initial benefits to 70% of average earnings and the county caps them at 80% with some exceptions. The WRS also does a separate "money purchase" calculation of the potential benefit based on total employee and employer contributions plus interest. Participants receive the higher of the two benefits, with the money purchase formula tending to benefit shorter-term workers.

The city of Milwaukee Employees' Retirement System is overseen by an eight-member board and serves police officers, firefighters, and other city workers as well as employees in the Metropolitan Milwaukee Sewerage District, the Wisconsin Center District, the city housing and redevelopment authorities, and certain Milwaukee Public Schools staff who are not teachers or administrators. The county plan is run by a 10-member board and serves general employees and sheriff's deputies. It does not include county circuit court judges (who are part of the WRS) or Milwaukee County Transit System workers (who have their own pension plan).

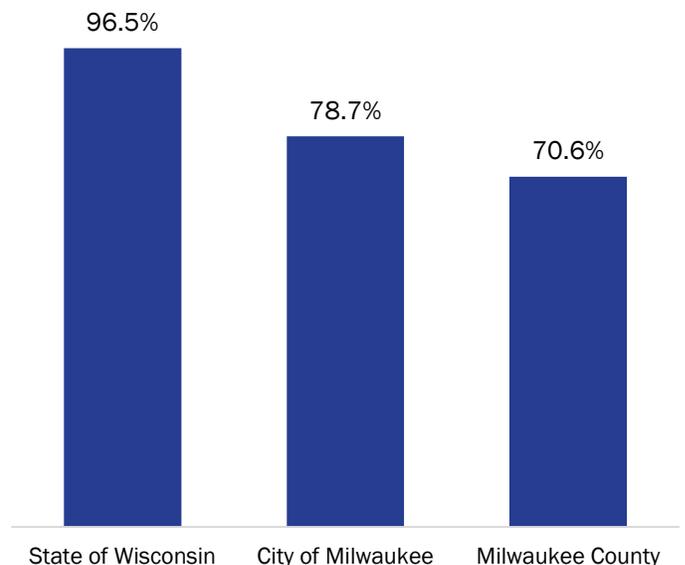
Like the state, the city and county pension plans provide a guaranteed benefit to retirees based on factors such as salary and years of service. The defined benefit approach provides a high degree of certainty for employees regarding the pension payments they will receive upon retirement. (See box on calculating this benefit.) However, both Milwaukee plans differ from the state in providing automatic cost of living adjustments to retirees' pension payments regardless of investment performance.

Defined benefit plans differ from the defined contribution approach used by most private employers, who often favor 401k plans. Under that approach, the employer and employee make defined contributions to individual retirement accounts, but the benefits available upon retirement are uncertain and based on the investment performance of individual accounts.

The state's practice of providing the necessary funding, sharing risk with participants, and relying on more conservative assumptions have helped the WRS maintain funding levels at or near 100% of liabilities since 2001, a period which includes two recessions. Investment losses in 2018 reduced the plan's net assets, or the resources available to fund benefits, and as of Dec. 31, 2018 (see Figure 1) resulted in a drop in WRS's funded ratio to 96.5% of the \$100.3 billion in benefits promised (we previously cited the 2017 ratio of 102.9% because that is the most recent year for which national comparison data were available). However, strong investment returns in 2019 should help to offset the previous year's losses.

In contrast, the city of Milwaukee retirement system reports it was 78.7% funded at the end of 2018 and the Milwaukee County system was 70.6% funded. Like the state, both systems saw a decrease in 2018 and will likely see an increase at the end of 2019 because of better investment returns. These figures – like most others in this report – are based on the fluctuating fair market value of the investments for each pension system, making their funded ratios more up to date but also more volatile.

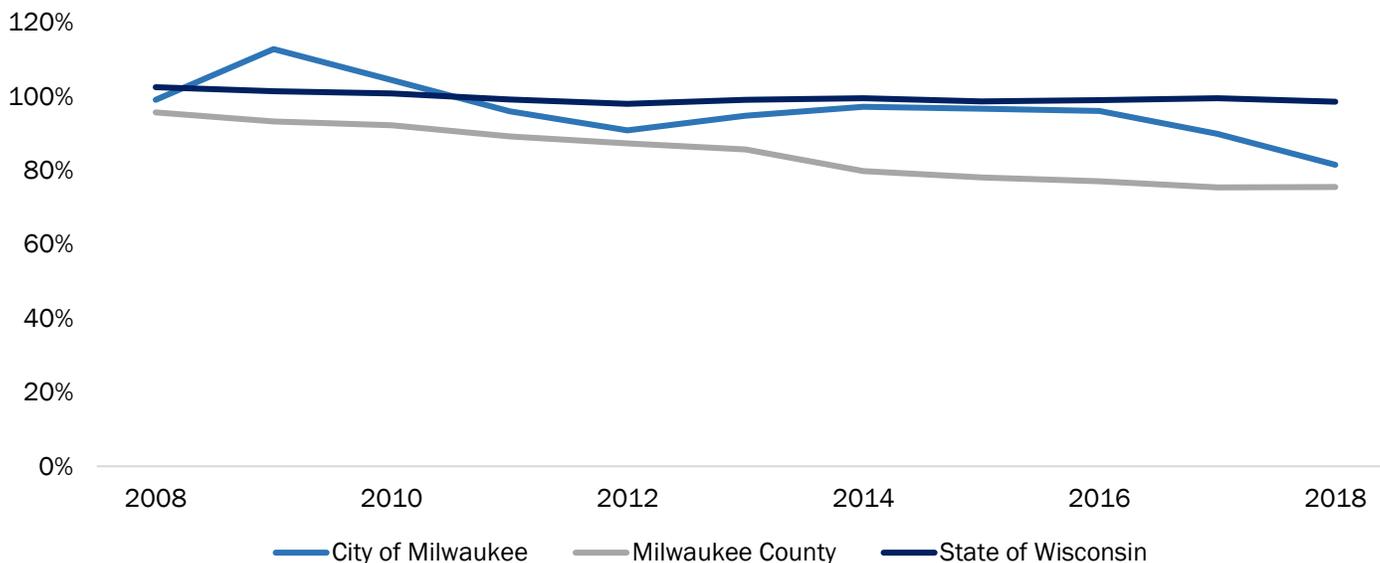
Figure 1: State System Better Funded
Ratio of Assets (Market Value) to Liabilities
by Retirement System, Dec. 31, 2018



Sources: Annual financial statements



Figure 2: Wisconsin Pension System Holds Steady, Milwaukee Funding Levels Fall
Ratio of Assets to Liabilities by Retirement System (Smoothed Values), 2008-18



Sources: Annual financial statements, Public Plans Data

Funding ratios also can be calculated by actuaries using methods to smooth out short-term differences in asset values and these data are available going back further in time. Figure 2 charts these ratios using smoothed asset values, showing how funding levels for the two Milwaukee plans have fallen since 2008 while the state has kept steady at or near 100%.

HOW DEEP ARE MILWAUKEE'S CHALLENGES?

For both the city and county of Milwaukee plans, taxpayer-financed contributions have been rising. Government pension systems facing unfunded liabilities seek to fill those gaps through annual employer and employee contributions recommended by plan actuaries. The recommendations reflect the amounts needed to offset the cost of pension benefits paid out during that year and to eliminate any unfunded liabilities within a specific timeframe known as the "amortization period."

The calculation of these payments rests on a series of assumptions approved by the pension system's governing board. One of the most important is the assumed rate of annual investment return on the fund's assets, but there are many other important assumptions, including mortality rates of plan members, the rate of inflation, and projected changes in the salaries and number of active workers.

Any unfunded liabilities – as well as corresponding employer and employee contributions – rise or fall depending on how closely actual investment returns and other outcomes mirror the actuarial assumptions. The challenging investment environment has led many plans nationally – including all three in Wisconsin – to lower their assumed investment returns. Other factors that can impact annual contribution amounts include decisions to modify key assumptions and to contribute more or less than what the pension fund actuary recommends.

Milwaukee County

The 70.6% funded status of the Milwaukee County pension system at the end of 2018 meant that the plan was facing an unfunded liability of about \$675 million at that time. The county has a policy of paying down the unfunded liability completely over 20 years but in practice it has grown in four of the last five years.

In 2018, the county paid an employer contribution of \$59.5 million, while its employees contributed \$12.7 million. The county also paid \$33.2 million for principal and interest owed on \$400 million in pension obligation bonds (POBs) issued in 2009 to reduce the unfunded liability, for a total taxpayer pension contribution of \$92.7 million.



To put that number into context, the county’s overall property tax levy for 2018 was \$292.8 million. In other words, the county’s pension payments in 2018 equated to nearly a third of its total levy, though the county has other revenues it also uses to make pension payments.

Unfortunately, the county plan’s unfunded liability and employer contribution have been trending upward in recent years. The 2018 contribution was \$10.6 million (11%) higher than just two years earlier (see Figure 3), and the county is budgeting \$97.7 million for 2020.

One past contributor to the county’s unfunded liability was the package of pension enhancements approved in 2000, which included the lump sums paid to retirees and known as “backdrop payments.” Though the county has not recently calculated the long-term net impact of these changes, they clearly added to the plan’s net liability. In 2017 and 2018, the county plan made lump sum backdrop payments of \$19.9 and \$20.7 million respectively, which amounted to about one-tenth of the total benefits paid out in each year.

One of the most significant recent contributors to the rise in taxpayer funding was a decision by the pension board to reduce the assumed rate of investment return from 8.0% to 7.75% in 2018 and again to 7.5% in

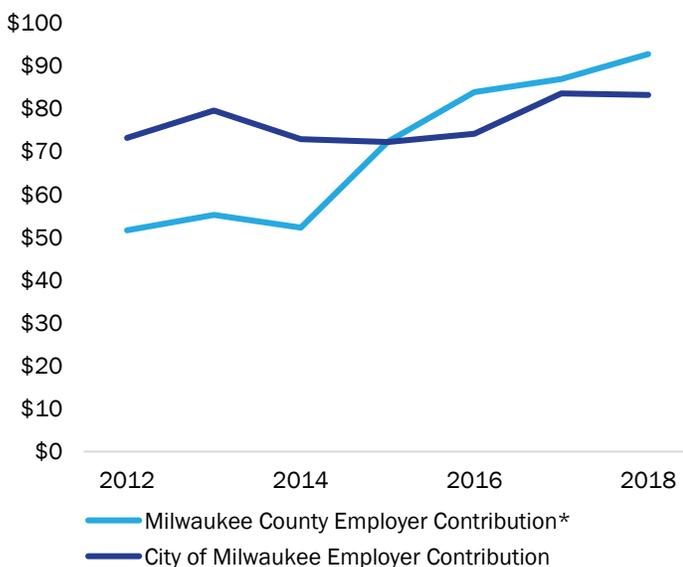
2020; and a 2015 decision to reduce the amortization period from 30 years to 20 years. In addition, the required contribution has grown in part because investment returns have fallen short of assumptions, though they were strong in 2019.

In the summer of 2017, the county executive formed a Retirement Sustainability Task Force (which was facilitated by the Forum) to assess potential solutions to rising pension payments. The task force received technical assistance from staff of the Pew Charitable Trusts, who projected the county’s annual employer contribution (including POB debt service) would grow to more than \$130 million by the mid-2030s.

Pew also found that because the size of the contribution was driven primarily by legally binding promises already made to retired and active workers, any newly enacted plan design changes aimed at reducing benefits for new employees would have little impact on reducing the size of the contribution for at least a decade. One possible change with more immediate impact would be to modify the annual cost of living adjustments made to retirees’ benefits and we discuss that potential change below.

Pew’s work included another concerning projection: contributions to the county Employees’ Retirement System (ERS) from general employees could increase from 6.5% of salary in 2017 to more than 9.7% within two decades. Today, that increase would mean an additional contribution of \$1,795 a year for an employee with the average plan salary of \$55,779 a year. Such an increase could pose a significant threat to employee retention and recruitment.

Fig. 3: Contributions Rise in Milwaukee
Annual Employer Required Contribution by Pension Plan in Millions, 2012-2018



City of Milwaukee

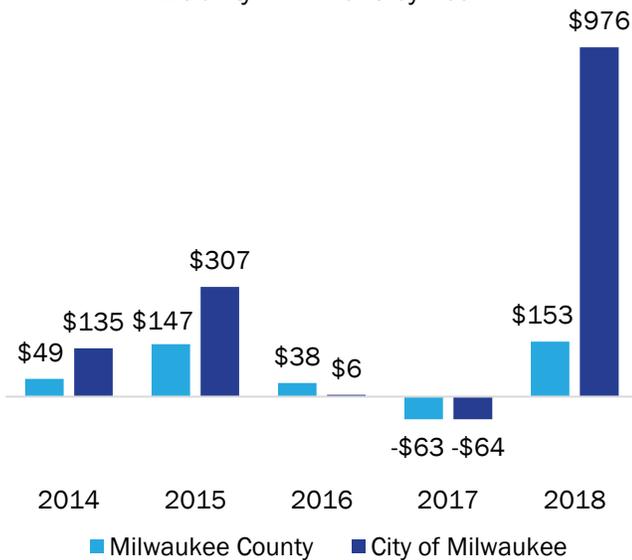
At the end of 2018, the 78.7% funded status of the city of Milwaukee’s pension plan meant that the city and other units of government in the plan were facing an unfunded liability of what was then projected to be \$1.34 billion. Like the county, the city’s system has seen its unfunded liability grow in four of the last five years (see Figure 4 on page 6). However, the magnitude of the increase for the city is particularly notable, with the system’s financial report for the end of 2018 showing an increase of nearly \$1 billion in the net liability from the previous year, when the city pension system was considered to be 93.7% funded.

The financial statement shows two notable developments that produced the shift. First, after a

*Includes county pension obligation bond payment
Sources: Financial statements



Figure 4: Unfunded Liabilities Rise in Four of Last Five Years
 Increase or (Decrease) in Unfunded Liability in Millions by Year



Sources: Financial statements

series of years with positive investment returns, the pension plan’s investments yielded a loss of \$160.2 million in 2018 – a stark contrast to the gain of \$787.8 million they produced in 2017.

Second, in both 2017 and 2018 the city’s estimated pension liability grew substantially because of changes in the underlying assumptions used to calculate it. As we will discuss in greater detail below, the Annuity and Pension Board in April lowered the assumed rate of return used for its 2018 financial statements to 7.5% from the previous rates of 8% for 2018 through 2022 and 8.24% from 2023 into all future years.

In all, the changes in assumptions caused the liability to grow by \$245 million in 2017 and \$475.8 million in 2018 for a total of \$720.8 million over the two-year period. In 2017, the negative impact of the change in assumptions was easily absorbed by the positive investment returns, but in 2018 there were no investment gains to offset the even larger effect that year of the changes in assumptions.

To cover the much larger liability, the city will need to substantially increase its pension contribution, although the boost will not need to occur until 2023. The delay results from the city’s “stable contribution policy,” which resets the employer contribution rate every five years, as opposed to annually.

In 2018, the city and its other employer participants paid a contribution to the pension system of \$83.2 million. As of last fall, the contribution was expected to rise sharply to \$158 million by 2023 – or roughly double current levels. Whereas in 2022 the projected employer contribution would account for about 23% of the city property tax levy for that year (based on annual inflationary increases), the much larger contribution in 2023 would require a whopping 51% of that year’s levy.

To prepare for that impact, city leaders contributed \$8 million to a pension reserve fund in the 2020 budget and hope to make larger contributions to the reserve in the following two years. They will then withdraw reserve funds beginning in 2023 to soften the blow somewhat.

City employees contributed \$32.1 million to the pension system in 2018. The contribution rate for general employees enrolled in the plan prior to Jan. 1, 2014 is 5.5% of salary and for those enrolled after that date it’s 4.0% of salary. These are lower amounts than those paid by their counterparts within WRS or the county plan, a factor that we will discuss in greater detail later in this report. Still, the city’s employer contribution rate for its general employees (7.5% of payroll) is not much higher for now at least than the employer rate for WRS general employees (6.75%), though the city’s contribution is expected to rise sharply in 2023.

Public safety workers represent the main driver of the city’s higher pension cost. After excluding other units of government like Milwaukee Public Schools with some workers in the city plan, 80.8% of the city’s required employer contribution is for police and firefighters despite the fact that they make up 44.3% of the city’s active workforce.

In addition to their earlier retirement age, the larger impact for the city’s police and firefighters partly reflects the fact that they do not receive Social Security benefits. It is worth noting that the public safety workers themselves do pay a higher employee contribution rate (7.0%) than the city’s general employees. However, the contribution rate for those workers as a share of payroll (25.7%) is much higher for the city than it is for the small number of public safety workers in the WRS (local firefighters) who are not covered by Social Security (14.95%). Reasons for this could include the city’s



unfunded pension liability, the larger guaranteed annual benefit increases for these city employees, and their earlier potential retirement age compared to their public safety counterparts in WRS.

WHAT CAN THE CITY AND COUNTY LEARN FROM WRS?

Several elements stand out in helping to explain the stronger position of the WRS, including the practice of making the required contributions, generally conservative assumptions regarding investment returns and other key factors, and the policy of tying benefit payments to those returns and other factors.

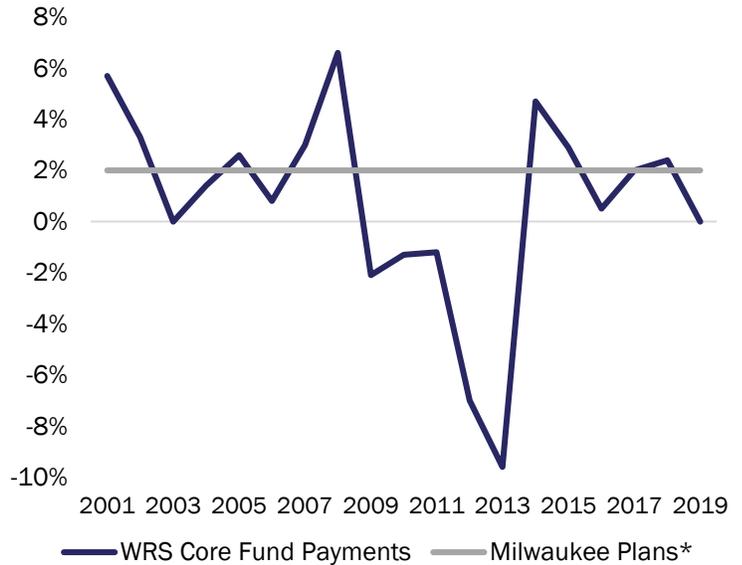
These practices have paid off. Largely because of WRS, government contributions to state and local pension systems in Wisconsin accounted for just over 2% of all state and local general spending in fiscal year 2017, according to U.S. Census Bureau figures. That was the third-lowest share in the country, behind only Wyoming and South Dakota.

Shared Risk

The WRS follows a “shared-risk” model which helps spread the potential rewards of investing – as well as the risks – between government employers and pension recipients through increases or decreases in annual payments to retirees. Like many other pension systems, the Milwaukee plans offer automatic annual cost-of-living increases (COLAs) to retirees’ pension payments regardless of the plan’s investment performance and the size of its unfunded liability. Milwaukee County retirees are entitled to annual increases of 2% of their original pension benefit, general employees within the city of Milwaukee plan receive 2% increases in their pension payments starting on the fifth anniversary of their retirement, and city public safety workers receive up to 3% increases.

Instead of automatic COLAs, the WRS provides higher payments to beneficiaries only if the fund outperforms its target rate of return that applies to those recipients. The reverse is also true – in the case of many employees previous benefit increases can be taken back due to poor investment performance. Figure 5 shows how payments to WRS retirees fell during and after the Great Recession instead of rising as they did for both Milwaukee plans.

Figure 5: State Pension Payments Rise, Fall
Annual % Change in Ongoing Retiree Benefit Payments by Plan



* City of Milwaukee general employees starting on fifth anniversary of retirement; Milwaukee County retiree increases based on original benefit amount
Sources: Annual financial statements and plan documents

To manage their risk, WRS participants can choose between two trust funds with investments managed by the State of Wisconsin Investment Board (SWIB). The diversified Core Trust Fund is by far the larger of the two, accounting for more than 90% of WRS assets, and holds stocks, bonds, real estate, and other investments. At least 50% of the contributions for each employee must go into the Core Fund. Participants can choose whether to place the other half in the smaller Variable Trust Fund, which invests only in stocks and therefore has greater potential risks and rewards.

Gains and losses within the Core Fund are distributed to employee accounts over rolling five-year periods, smoothing out increases and decreases in pension payments. In addition, a retiree’s pension benefit from the Core Fund cannot fall below the floor of his or her initial payment. Gains and losses in the Variable Fund are distributed every year and there is no limit to decreases to benefit payments, making them more volatile.

This approach also applies if other factors turn out better or worse than projected, including whether participants retire earlier or live longer. In addition,



public employers and active employees paying into the system may have their contributions lowered or raised when plan investments and other factors beat expectations or fall short of them.

Any WRS benefit changes occur automatically, freeing elected officials from taking difficult votes. In addition, decreases are unlikely to face legal challenge from pensioners because they and their employers have essentially agreed in advance to the shared risk approach and because these provisions have also been written into state law.

Prudent Projections

The WRS has also avoided banking on a high rate of return that could lead to higher employer and employee contributions if the investment earnings fail to materialize. At the end of 2018, the WRS lowered its investment return assumption from 7.2% to 7%, below the national median of 7.25% reported by the National Association of State Retirement Administrators and the 7.5% currently used by both Milwaukee plans.

As discussed above, the city’s near-term return assumption was 8% (and slightly higher when blended over 30 years) before it was decreased to the lower rate in 2019, while the county lowered its rate from 7.75% to 7.5% on January 1, 2020. Figure 6 shows that while all three pension plans have lowered their assumed rate

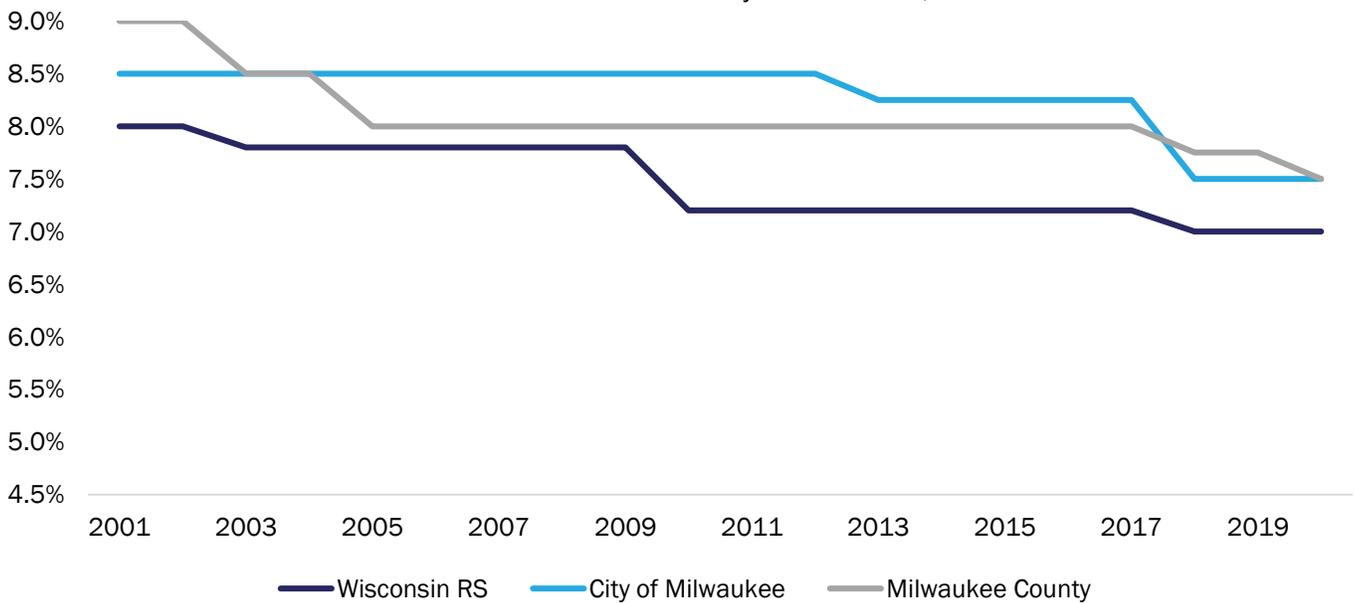
of investment return in recent years, the state’s has remained the most conservative.

In addition, the WRS is actually being more cautious than the numbers above might imply. Once workers in the WRS retire, the state only needs to earn a 5% rate of return on the assets associated with those retirees to make the minimum necessary payments to them. If the state’s returns exceed the 5% target, then the extra returns on those assets can be used to make additional payments to the retirees, as discussed above.

Making WRS Contributions More Affordable

Another key to the current funding level of the WRS has been the steps taken to share the cost of employer contributions with workers. With the passage by lawmakers and then Gov. Scott Walker of 2011 Wisconsin Act 10, collective bargaining was eliminated for most public employees and the share of pension contributions being made by state and local government employees increased dramatically. While we take no position on the overall merits of Act 10, there is no question that it lowered the cost of pension contributions for the state and other participating employers. It did so as well for the two Milwaukee governments, though arguably not to the same extent because of the way employee contribution requirements have been applied.

Figure 6: Pension Plans Expecting Smaller Investment Returns
Assumed Rate of Investment Return by Pension Plan, 2001-2020



Sources: Annual financial statements and actuarial reports; Public Plans Data



Prior to Act 10, WRS employers made more than 99% of all contributions in that plan, but since its passage the share contributed by employers in the system has fallen to roughly 52%. Act 10 also increased contribution rates for city and county workers within the two Milwaukee area pension plans, though the law did not apply to most law enforcement officers and firefighters. For the city that is particularly significant given that police and fire personnel make up 44% of the active workforce. Figure 7 shows how taxpayer contributions to WRS fell as employees' amount rose.

Using LFB figures on WRS contributions, we estimate that having employees pick up a greater share of those pension contributions reduced state and local government costs – and before-tax wages for public employees – nearly \$5.2 billion over the seven-year period from 2011 to 2017. The analysis looked at only the increase in required employee pension contributions and not other Act 10 changes, such as increases in employee health premiums or a decrease in the pension multiplier for elected officials and appointed executives. The seven-year pension savings was nearly \$1.7 billion for the state and almost \$3.5 billion for the local governments participating in WRS – not counting additional pension savings for the Milwaukee plans.

State and local WRS employers now pay less into the system even as contributions have risen overall. In 2008, the contributions in WRS for general employees such as teachers amounted to 11.2% of their gross

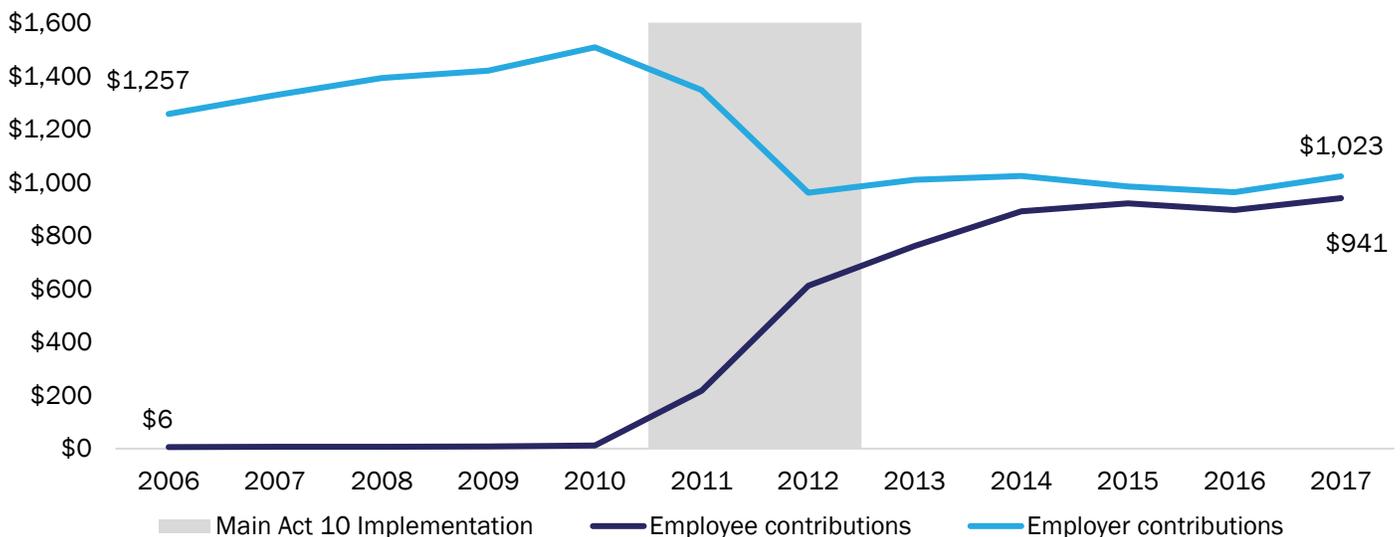
earnings, with almost all of that paid in by employers such as state agencies and school districts. As of January 2020, the overall contribution rate had risen to 13.5% of the wages of general employees but employers were only paying half of that, or 6.75%, with workers paying the rest.

Act 10 also contained provisions requiring city of Milwaukee and Milwaukee County employees to pay more toward their pensions, although the two governments implemented those provisions differently. The county calculates the annual employee contribution as 50% of the portion of the actuarially required contribution corresponding to active employees. For 2020, that percentage is 6.2% for general employees (compared to 6.75% for WRS participants).

The city simply ascribes a longstanding employee contribution rate of 5.5% that general employees started paying prior to Act 10 in January 2010. While the employee contribution rate had existed on paper before that, the city had previously agreed to pay it for its general employees when they were covered by collective bargaining agreements. For general employees hired after 2014 the rate is only 4%, as pension benefits are lower for that group of employees (for example, the multiplier is 1.6% as opposed to the 2% provided to pre-2014 workers).

The Act 10 provisions requiring employee contributions for general city and county employees have helped both governments weather the impact of growing employer

Figure 7: State, Local Employee Contributions Rise After Act 10
Contributions to Wisconsin Retirement System in Millions (Current \$)

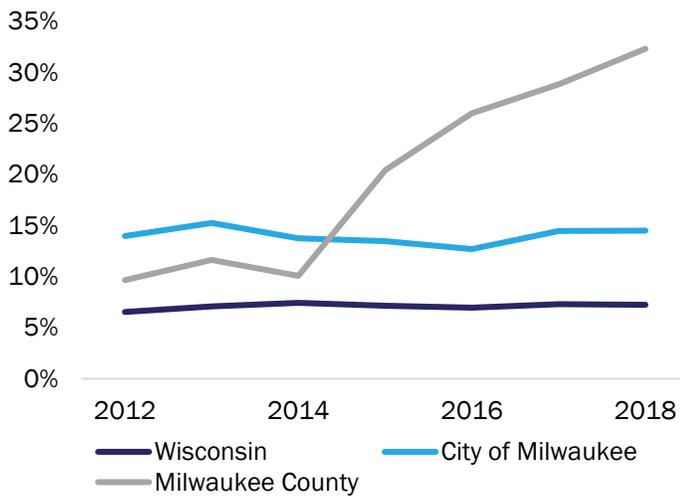


Source: Data from Legislative Fiscal Bureau; WPF calculations



Figure 8: Employer Contribution Rates Higher in Milwaukee

Employer Contributions as a % of Payroll



Sources: Annual financial statements

contributions much as they have for the state and other local governments and school districts covered by WRS. However, there may be latitude for both governments (and in particular the city) to consider higher employee contributions, although officials would have to weigh potential impacts on employee retention and recruitment. We discuss this issue in greater detail later.

For added context, Figure 8 shows the employer’s required contribution as a percentage of payroll for the three Wisconsin pension plans in the wake of Act 10. According to 2018 financial statements, the 7.2% contribution rate as a percentage of payroll for all WRS employers and types of employees in 2018 was half the 14.5% rate for the city of Milwaukee pension plan before its even higher rate expected for 2023; and less than one-fifth of Milwaukee County’s worrisome 32.3% rate. As noted, the city’s higher payment reflects in part a larger share of public safety workers who retire earlier and who do not receive Social Security benefits.

Factors contributing to the higher contribution rates for the Milwaukee plans include their greater unfunded liabilities and recent decreases in assumed investment returns. Milwaukee County also is coping with the decline in its workforce resulting from the transfer of certain social services to the state, the 1995 closure of the county’s John L. Doyne Hospital, and, more recently,

personnel reductions caused by outsourcing initiatives and budget challenges.

A few WRS provisions may lead to higher liabilities within the state plan compared to at least one of the Milwaukee plans. For example, the city of Milwaukee plan does not include employee overtime in its covered pay or final earnings calculation but the WRS and county plan do (the state plan also monitors workers’ overtime for spikes). As mentioned in the “Calculating Benefits” box, the alternate WRS money purchase formula also can benefit shorter-term workers.

WRS has also faced some challenges. In 2003, the state approved issuing bonds to help fund accumulated liabilities for state employers within the system. As of December 2018 the state still owed \$1.5 billion in principal on these bonds, according to LFB. Milwaukee County took a similar step in 2009 when it issued about \$400 million in pension obligation bonds to pay down a portion of the retirement system’s unfunded liability; as of December 2019 about \$262 million of that debt was still outstanding. The city has not taken such a step so far.

OPTIONS FOR MILWAUKEE’S PENSION PLANS

The city and county’s rising pension contributions largely reflect liabilities for benefits already earned by retirees and active employees. Consequently, while WRS policies and practices may offer insights for policy changes that could be applied to future workers or years of service, in most cases the financial benefits associated with those changes would not be realized for quite some time. Figure 9 on page 11 helps illustrate why – both Milwaukee plans have more retirees and other beneficiaries with fixed benefits than they have active workers whose benefits for future service could be reduced.

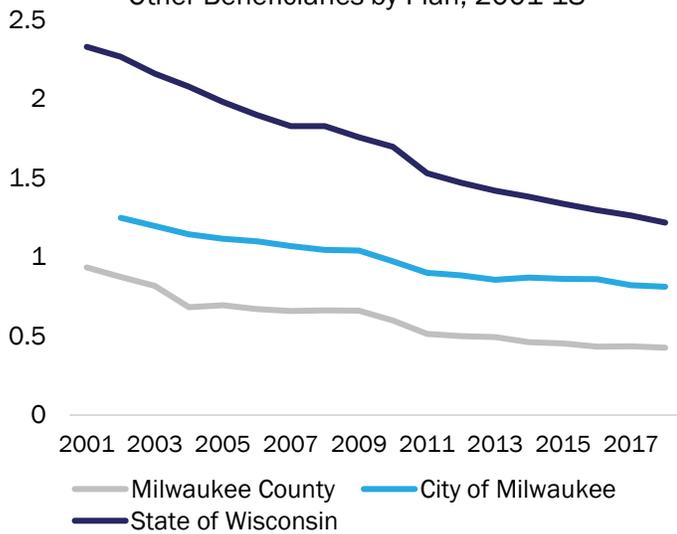
Nevertheless, to help address their challenges the two governments could consider three categories of options: accounting and financing changes; design modifications to their existing plans; and closure of the existing plans with a transfer to WRS. We view each through the lens of the policies and practices that have worked well for WRS.

Given the complexity of the analysis, we do not consider eliminating the city and county defined benefit plans and prospectively switching to a defined contribution or



Fig. 9: Retirees Outnumber Employees in Milwaukee

Ratio of Active Employees to Retirees and Other Beneficiaries by Plan, 2001-18



Sources: Annual financial statements; Public Plans Data; WPF calculations

hybrid approach. Also, the county Retirement Sustainability Taskforce rejected this approach in favor of a shift to WRS.

Accounting and financing changes

As discussed above, required employer contributions reflect the calculations made by plan actuaries using dozens of assumptions about future events and trends. The actuaries recommend changes to the assumptions when actual experience diverges too greatly from them. While changes to most assumptions only modestly affect required contributions, modifications to others – like the assumed rate of investment return on plan assets – can produce annual swings in the tens of millions of dollars for plans the size of Milwaukee’s two systems.

Contributions also are impacted by each system’s accounting and financing policies. For example, the amount of time over which any unfunded liabilities are amortized can have a substantial effect on contributions. A longer amortization period spreads required contributions over a greater number of years, reducing annual contributions but delaying the plan’s arrival at full funding. Plans also adopt different approaches for how their actuary calculates their required contribution; the city’s stable contribution policy uses a five-year time frame to calculate the

required contribution and resets it every five years, while the county does so on an annual basis.

To hold down employer contributions in the short term, the city and county could:

- **Extend the amortization period.** A longer amortization period would push out rising employer contributions over a longer period. Officials would have to consider each plan’s financial outlook and the impacts on current and future taxpayers and budgets. Generally speaking, the trade-offs are similar to those a home buyer faces when considering a 15-year vs. a 30-year mortgage; paying off the mortgage more quickly reduces interest costs (and total payments) and generally promotes better financial health, but the larger annual payments required under a shorter repayment schedule can produce other untenable impacts.

Analysis conducted by Pew as part of the county’s Retirement Sustainability Taskforce (RST) estimated that extending the county’s amortization period to 25 or 30 years from the current 20 would reduce the annual employer contribution by \$4 million to \$9 million per year until 2036 but would leave contributions substantially higher after that. The RST did not recommend pursuing this option because of the greater financial benefits of a shorter amortization period.

- **Make changes to contribution policies.** The city’s stable contribution policy is meant to avoid large annual swings by estimating required employer contributions over a five-year period and keeping them steady over that time but it can lead to greater shocks when a reset does occur. The city could consider a shorter or a lengthier period between resets depending on whether the goal was a steady contribution in most years or a smaller change in the years when one does occur. The county could consider a similar policy. Still, these policy changes likely would have little impact on the total amount of employer contributions required. In addition, the sharp projected increase in the city’s contribution for 2023 shows a multi-year window does not guarantee stability.



- Issue pension obligation bonds.** As discussed above, both the state and county have issued pension obligation debt as a strategy for stabilizing annual contributions and shoring up funding levels. Under this approach, some or all of a projected unfunded liability is paid off through a deposit of bond proceeds into the pension fund. The government pays off the bonds (with interest) over a lengthy period of time and the debt schedule provides predictability with regard to annual payments. POBs can be financially advantageous if earnings on the investments purchased with bond proceeds generate a higher rate of return than the interest rate paid on the bonds. However, there is considerable risk involved, as the opposite can also occur in cases of a downturn in the financial markets. Also, the additional debt could limit the city or county's ability to borrow for other needs and potentially impact bond ratings.

Design changes to existing plans

Rising employer contributions may prompt policymakers to consider reducing pension benefits to hold down costs, though such strategies may have little immediate effect. In their deliberations, city and county officials should weigh the impact of any potential changes on employee recruitment and retention as well as any effects on retirees and other beneficiaries. Also, as noted before and shown in Figure 10, the great majority of the city's contribution is for police and firefighters.

Any changes to their pensions would have to be collectively bargained but changes that do not include them would only have limited impacts on the city's long-term costs. Any benefit changes for county public safety workers would also require collective bargaining, but they make up far less of the county workforce.

The options include:

- Implement risk sharing.** As discussed above, WRS links annual changes in its payments to beneficiaries to factors such as investment performance while the city and county offer automatic annual 2% COLAs to retirees (up to 3% for retired city police and firefighters) regardless of investment performance and funding levels.

The RST recommended the county analyze a variety of options for adjusting its COLA policy, including "an approach that mirrors that used by the WRS, maintaining the COLA at a sustainable amount, and revisiting the COLA during each annual budget." So far, no action has been taken on this recommendation.

Pew's analysis revealed reducing the guaranteed COLA from 2% to 1% could reduce the county's annual employer contribution by about \$10 million annually, while eliminating it entirely could yield annual savings in the \$20 million range. Similar estimates for the city are not available but could be

Figure 10: Most of City's Pension Contribution for Public Safety Workers
Employer Contribution by Class or Agency in Millions, 2019



Source: Actuarial report



substantial. However, the Pew projections assume the changes would be applied not only to new workers, but also to existing retirees and active employees prospectively. Whether such a move would be legally permissible is unknown; such changes have withstood legal scrutiny in other states but it is impossible to know how Wisconsin's courts would rule and also whether a previous legal agreement affecting the city known as the Global Pension Settlement might preclude such an option for that plan.

Depending on how it was implemented, adopting the WRS approach might have the practical impact of reducing COLAs to zero for city and county retirees for the foreseeable future, given the unfunded liabilities in the two plans. The resulting impact on retirees with more modest pensions would have to be considered. Yet, if full funding is achieved, city and county retirees might benefit from COLAs in some years that exceed the current 2% depending on investment performance.

- **Reduce the defined pension benefit.** Policymakers could consider whether pension benefits in Milwaukee are out of line with other public plans and whether any reasonable and legal changes would yield significant savings. Indeed, the city already lowered its pension multiplier from 2.0% to 1.6% for newly hired general employees in 2014, and the county also lowered its multiplier from 2.0% to 1.6% for both new general employees and future years of service for most active general employees earlier in the decade.

For the future service of new or existing workers, local leaders could further reduce the multiplier, push back the retirement age, or change the final average salary calculation (such changes would need to be collectively bargained for public safety employees). As shown in Table 1 on page 2, city and county benefits are generally on par with WRS. There are some differences, however, such as the minimum age at which recently hired police with 25 years of service can retire and still receive full benefits – 50 for city of Milwaukee officers and 53 for those in the WRS.

- **Increase employee contributions.** Under Act 10, the employer and employees covered by WRS

essentially share each year's required contribution equally, which for employees is translated into a percentage of their annual salary. As discussed above, for general employees that percentage was 6.75% in 2019.

For the city and county, the situation is more complicated. Instead of dictating a 50/50 split of the required contribution, Act 10 simply prohibits both governments from paying the employee share. Prior to Act 10, all three of Wisconsin's pension plans calculated an employee contribution, but except for the city's general employees the employer typically paid most or all of that contribution on behalf of its workers. Current law gives each of the Milwaukee plans the leeway to calculate the employee contribution as it sees fit and simply requires the employees to actually pay it, though any change is still subject to collective bargaining in the case of law enforcement officers and firefighters.

Prior to Act 10, the city had established its employee contribution rate at 5.5% of salary, and it continues to apply that percentage to general employees hired before 2014. For those hired after 2014, a rate of 4% is used, which reflects the lower pension multiplier for those workers (though it is now the same as the one used by WRS). Public safety workers not covered by Act 10 have their contribution rate established through collective bargaining. The county established a new methodology for calculating the employee contribution after Act 10's passage that has the employer and employees share equally the "normal cost" (i.e. the cost of benefits earned by workers each year), but applies only 20% of the cost of the unfunded liability to the employee share (the rest is for workers who are no longer with the county). For 2020, that produces a 6.2% contribution rate for general employees.

The fact that city and county general employees are contributing lower percentages of their salaries to support their pensions than WRS participants may be reason to consider potential changes. Of course, as with other plan design changes, potential impacts on employee retention and recruitment as well as sound actuarial principles would need to be taken into account.



Transfer to WRS

Given WRS' fiscal health and its high regard nationally, it is logical to ask whether the city and county in Milwaukee should simply close their plans and have their participants become part of WRS. Indeed, that approach has been seriously considered by Milwaukee County and its retirement task force, and it may receive similar consideration by the city.

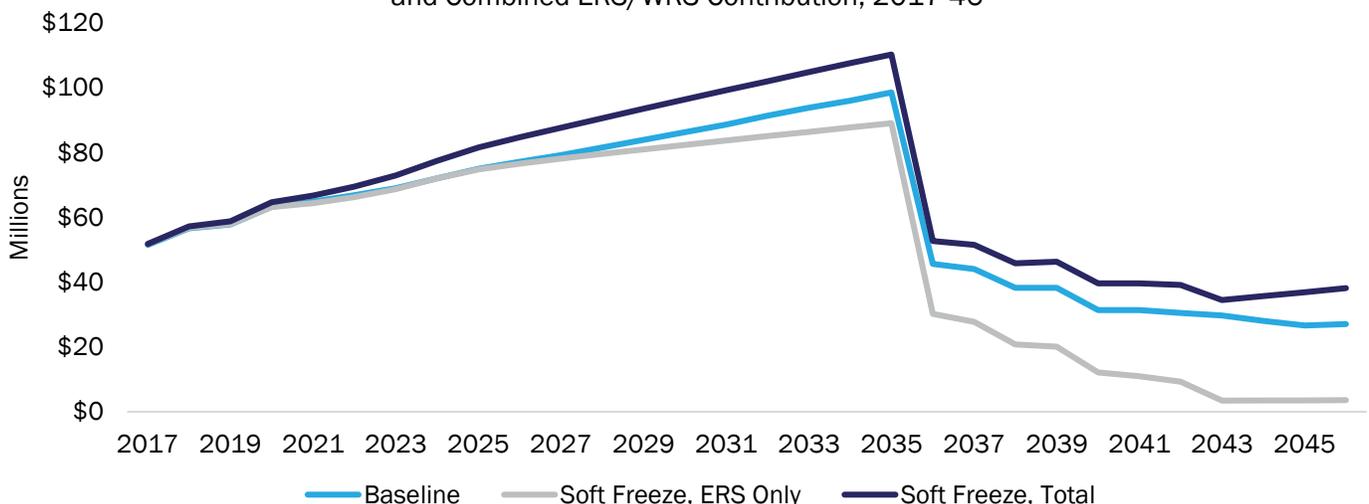
For their part, WRS leaders have repeatedly expressed willingness to consider that option, but only for new employees and future years of service for active employees, and not for existing retirees and the benefits already earned by active employees.

That stipulation – which is understandable given the myriad legal and administrative issues involved – does create formidable challenges. For example:

- Under a “soft freeze” scenario in which only new employees of the city and county would become members of WRS, those employees would contribute to that system, thus depriving the two existing plans of some revenue to offset the annual required contribution. To address that issue, either the active workers remaining in the county plan, the employer, or most likely both would have to contribute much more. In addition, as noted earlier, WRS has both more conservative assumptions and in some ways higher benefit levels for workers – both factors could increase employer contributions.

- In a so-called “hard freeze,” both new city or county employees and the future service of active employees would be covered by WRS. While this scenario would leave the legacy plans responsible only for administering benefits already earned and would shorten their existence, it would essentially eliminate *all* employee contributions, as both active and new employees would contribute to WRS. That, in turn, would drive up the employer contribution to a much greater extent than the soft freeze scenario.
- Under either scenario, the city and county would be expected to contribute to WRS as well as pay off the unfunded liabilities in the legacy plans, thus producing a higher combined contribution for the foreseeable future. In reviewing a soft freeze scenario for the county, Pew projected that the need for two employer contributions would increase overall employer costs by \$200 million over a 30-year period, or about 2% of payroll (see Figure 11). That estimate grew to \$380 million, or 3.9% of payroll, for a form of hard freeze considered by the county task force because of the elimination of employee contributions from active employees.
- Finally, under a scenario in which the existing plans are closed or partially closed, national standards for actuaries might dictate that the amortization period for paying off the unfunded liability would need to be shortened. That requirement also would drive up

Figure 11: Enrolling Milwaukee County Hires in WRS Would Raise Employer Contribution
Current County Employer (ERS) Contribution, ERS-Only Contribution Under WRS Transfer, and Combined ERS/WRS Contribution, 2017-46



Source: Pew Charitable Trust using The Terry Group actuarial projections based on the assumptions of county ERS and WRS plans



the annual employer contribution over the relatively near term.

Despite the potential for higher short-term employer contributions, there are several benefits associated with a shift to WRS that merit consideration. One is the opportunity to ease and eventually eliminate the need for both governments to administer their pension plans, which for the county in particular would be a substantial relief because of its extremely complicated system. Perhaps more compelling is the opportunity to reduce risk by virtue of being part of a much larger and more stable pension system with greater economies of scale and more predictable employer contributions, as well as risk sharing with employees. The ability to provide parity in pension benefits for virtually all city, county, and state workers in Wisconsin also would be a sound policy outcome.

Consequently, additional analysis for both the city and county would seem warranted, including consideration of possible state assistance or other strategies to reduce or eliminate the short-term financial impacts for both governments so that they might realize the potential long-term benefits. Such an analysis might also explore whether and how much each Milwaukee system could save in plan administration and investment management costs through a merger.

CONCLUSION

It is somewhat ironic that while growing pension challenges are creating severe fiscal stress in Wisconsin's largest city and county, those governments are located in a state that has seemingly developed a blueprint for effectively managing such challenges. This report has highlighted key elements of that blueprint that might be adopted by the city of Milwaukee and Milwaukee County and has considered whether the two governments should simply close their systems to new employees and join WRS.

As we have discussed, there are both pros and cons – as well as potential legal and logistical barriers – associated with any of the changes the city and county might contemplate to more closely mirror WRS or to have their employees be covered by it. As noted, the county's task force recently spent more than a year examining and weighing the advantages and obstacles associated with several of those options. While it did not propose a clear-cut solution, it did recommend further

consideration of both greater risk sharing and a shift of new county employees to WRS.

The alarming projected growth in the city's employer contribution and the county's huge infrastructure repair backlog should now create a new sense of urgency for leaders of *both* governments to consider those options. Those leaders recently have focused on a 1% county sales tax proposal to address the legitimate weaknesses in their revenue streams that are significant contributors to their ongoing budget challenges. We would suggest that equal emphasis needs to be placed on their growing pension costs, which are perhaps the foremost driver on the expenditure side of the ledger.

It is critical to note that as with the sales tax proposal, any efforts to comprehensively address Milwaukee's city and county pension challenges likely will require assistance from state government. Specifically, the transfer of new city and county employees to WRS not only would require state approval to carry out, but also would seemingly call for consideration of some form of state assistance or additional flexibility for local revenues to help both governments manage the near-term financial hit and reap the long-term benefits.

Given the stakes involved – which include appropriate city police staffing, the needs of county parks and cultural institutions, and the area's vulnerable citizens who depend on public services – a partnership between the state and its two largest local governments to identify a comprehensive solution would appear to be in order. We hope this report helps generate that needed discussion and partnership.





ON THE MONEY?

THE CITY OF MILWAUKEE'S UNCOMMON REVENUE
STRUCTURE AND HOW IT COMPARES TO PEER CITIES



PUBLIC POLICY FORUM

ABOUT THE PUBLIC POLICY FORUM

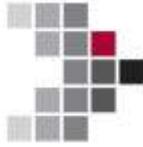
The Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of Southeastern Wisconsin through objective research of regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide citizens and policymakers in the Milwaukee region and across the state with insights into the City of Milwaukee's revenue structure and how Milwaukee's framework for financing its city government compares with other similarly-sized cities across the United States. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations at both the City and State level.

Report authors would like to thank Milwaukee fiscal officials and staff, as well as budget officials from Pittsburgh, Minneapolis, Cleveland, and Kansas City, for their assistance in providing financial information and for patiently answering our questions. We also would like to thank the Lincoln Institute of Land Policy and its staff for the use of their database and for similarly answering our questions.

In addition, we wish to acknowledge and thank the Greater Milwaukee Committee, which commissioned and helped fund this research as part of its MKE United initiative. We also thank the Northwestern Mutual Foundation and the Rockwell Automation Charitable Corporation for their long-standing support of our local government finance research.



ON THE MONEY?

*The City of Milwaukee's Uncommon
Revenue Structure and How it
Compares to Peer Cities*

JULY 2017

REPORT AUTHORS:

Rob Henken, President
Douglass Day, Researcher
Susan Moeser, Researcher
Ben Juarez, Researcher

INTRODUCTION

In September 2016, the Public Policy Forum released *Making Ends Meet*,¹ a comprehensive analysis of the City of Milwaukee's fiscal condition. The report emanated from discussions between the Forum and the Greater Milwaukee Committee's (GMC) Downtown Task Force, which had been established earlier that year to provide civic guidance on projects to improve Downtown Milwaukee and adjacent neighborhoods.

Both the Forum and the Task Force agreed that efforts to build a world class downtown would be influenced by the capacity of City government to provide public works, public safety, public health, and other core services that support economic development and quality of life. Consequently, it was important to understand the City's financial condition, and to identify challenges that were threatening its investment capacity and its overall financial well-being.

Making Ends Meet left little doubt as to the foremost of those challenges: a "broken" revenue structure that failed to provide wherewithal for annual inflationary growth; and that was increasingly ill-suited to address the City's retirement obligations, aging infrastructure, and "fierce public safety expenditure pressures." In fact, the report found that whatever limited revenue growth the City was able to attain from year to year was being consumed by increased expenditures needed simply to maintain existing Police Department staffing and service levels.

The main culprit behind the City's revenue woes was its extreme reliance on aids from the State of Wisconsin, which had been stagnant for the past two decades. Furthermore, with its local revenue options restricted by the State and limited largely to property taxes and service fees, the City was placing more and more burden on property owners to generate revenue growth, despite the tens of thousands of suburban commuters who use those services each weekday, and the millions of annual visitors to its conventions, special events, and sports venues.

While *Making Ends Meet* identified the problem, this report is dedicated to exploring potential solutions. We do so by considering how similar-sized cities across the country generate the revenues required to sustain core municipal services, and then by applying a handful of those revenue models to Milwaukee. Specifically, we seek to initiate discussion on possible alternative revenue structures that might provide for healthier revenue growth while reducing the City's need for increased shared revenue payments from the State and increased property taxes and fees from its residents.

We begin by reviewing how state governments across the country have set up revenue frameworks for their largest cities, including the history and rationale behind the framework used in Wisconsin. Next, we broadly explore the revenue structures of a 38-city peer group, and then conduct a much deeper dive into the structures of four Midwestern peers: Pittsburgh, Cleveland, Minneapolis, and Kansas City.

¹ This report can be accessed at <http://publicpolicyforum.org/research/city-milwaukee%E2%80%99s-fiscal-condition-making-ends-meet>.



Our analysis concludes with a modeling section that shows what alternative revenue structures observed in other cities might look like if applied to Milwaukee. We develop four models, which are loosely based on the characteristics of the four Midwestern cities.

For each model, we show revenue totals that are equivalent to those currently generated. In other words, the goal of our modeling exercise is not to show how alternative structures might produce *more* revenue for the City, but rather to ascertain whether revenue strategies used in other cities might provide for greater reliability, equity, and *future* growth.

There has never been a more urgent and better time for City and State leaders to consider whether a revenue structure established more than a century ago still is meeting the needs of Milwaukee citizens and taxpayers. *Making Ends Meet* conveyed the urgency by documenting the severe financial challenges facing City government. If not addressed, those challenges soon will cause City leaders to reduce service levels, and they will impede or eliminate its ability to invest appropriately in areas ranging from the Police workforce, to neighborhood revitalization, to replacement of the Milwaukee Water Works' lead service lines.

With regard to timeliness, this report shows how other cities have used their growing list of attributes – including new sports and entertainment venues and new offices and housing that accommodate the lifestyles of millennials and empty nesters – to adjust their revenue structures in ways that meet municipal needs while equitably spreading the tax burden among residents, commuters, and visitors. It would appear logical for Milwaukee to consider similar adjustments given the resources it is devoting and the success it is enjoying in making itself an attractive place to live, work, and play.

Changing a local tax structure is difficult, as it should be. Yet, at the same time, living with a tax structure that has outlived its effectiveness makes little sense. The goal of this report is to stimulate an informed, community-wide conversation about whether Milwaukee's revenue structure should be changed, and about what types of changes might enhance the city's economic competitiveness, its tax equity, and its capacity to deliver the core public services demanded by residents, businesses, and visitors.



BACKGROUND: THE CITY OF MILWAUKEE'S REVENUE STRUCTURE

The City of Milwaukee, like other large U.S. cities, has a large, multi-faceted government that provides a wide variety of services. Not surprisingly, its revenue structure mirrors this complexity with funds flowing from multiple sources to an array of programs and accounts that are governed by different fiscal rules and procedures.

Municipal financial operations often are categorized by *governmental activities*, which consist of basic services such as police, fire, and public works that are supported by taxes and general revenue; *business-type activities*, which are self-supporting operations often related to sewers, water, ports, and parking that derive their revenues solely from the enterprise in which they are engaged; and *component activities* that are conducted by separate legal entities whose purposes and finances are closely allied to the home city.²

Because this report is concerned with Milwaukee's taxes and tax policy, our focus is on governmental activities. Governmental activities accounted for \$834 million (about 75%) of the City of Milwaukee's total revenues in 2015.

Table 1 provides a breakdown of Milwaukee's major revenues for governmental activities in 2015 as displayed in that year's Comprehensive Annual Financial Report (CAFR). As shown in the table, governmental activities are broken down by four distinct categories of funds. The largest of those is the General Fund, which is Milwaukee's fund for ongoing operations and which receives about three-quarters of all revenues dedicated to governmental activities. Other governmental activities cited in the CAFR include debt service, capital projects, and "non-major governmental activities."³ This study includes these four accounts because, together, they are Milwaukee's primary recipient of state aids and local tax revenue.⁴

² Milwaukee's business-type activities include its Sewer Maintenance and Parking funds, the Milwaukee Water Works, and the Port of Milwaukee, while its component units include the Redevelopment Authority, Neighborhood Improvement Development Corporation, and Century City Redevelopment Corporation.

³ The fund for non-major governmental activities supports grant and aid projects, community development block grants, delinquent taxes, and some economic development aid. About 80% of this fund's revenue comes from the state and federal governments.

⁴ A full accounting of local taxation and intergovernmental revenue is important for peer analysis since cities differ in how they allocate taxes across government fund accounts. An analysis limited to the general fund would not accurately account for other cities' total or types of tax revenue. In *Making Ends Meet* – our September 2016 assessment of the City of Milwaukee's fiscal condition – separate analyses were conducted for general operations, debt service, and capital funding.



Table 1: City of Milwaukee governmental activities revenues, 2015 (in thousands)

Revenues	General Fund	G.O. Debt Service	Public Debt Amortization	Capital Projects	Non-major Governmental	Total
Property taxes	\$190,318	\$57,833	\$0	\$5,664	\$0	\$253,815
Other taxes	\$2,765	\$27,351	\$2,745	\$0	\$0	\$32,861
Special assessments	\$0	\$2,646	\$0	\$2,020	\$0	\$4,666
Licenses & permits	\$16,629	\$0	\$0	\$0	\$0	\$16,629
State aid for General Fund	\$263,350	\$0	\$0	\$0	\$0	\$263,350
Intergovernmental		\$817	\$0	\$14,390	\$44,206	\$59,413
Charges for services	\$141,318	\$13,084	\$0	\$0	\$0	\$154,402
Fines & forfeitures	\$4,110	\$0	\$0	\$0	\$0	\$4,110
Other	\$20,591	\$693	\$2,395	\$10,647	\$10,450	\$44,776
Total	\$639,081	\$102,424	\$5,140	\$32,721	\$54,656	\$834,022

Source: City of Milwaukee CAFR, 2015

The table indicates that Milwaukee's three predominant funding sources are general state aid (\$263 million or 32%), property taxes (\$254 million or 30%), and charges for services (\$154 million or 19%). We briefly summarize those sources below:

- *General state aid* historically has been Milwaukee's largest revenue source. Most general state aid comes from the shared revenue program (about \$219 million of the \$263 million in 2015).
- The *property tax* historically has been Milwaukee's second largest revenue source and – per the CAFR's methodology for defining various forms of revenue – constitutes nearly 90% of local taxation.⁵ In Milwaukee's 2017 budget, 44% of property tax revenue is allocated for general city purposes, with substantial funding also allocated toward employee retirement (30%) and debt payments (25%).
- *Charges for services* represent funds received for the delivery of certain services for which fees can be assessed under Wisconsin's statutes. Milwaukee's major charges include solid waste and snow and ice fees. Non-profit organizations, which are exempt from the property tax, are required to pay charges for services.

In *Making Ends Meet*, we found that Milwaukee's state aids have been largely flat over the past 20 years, which is highly problematic given that this is its largest revenue resource. The City has increased property taxes and fees to partially make up for the state aid shortfall, and those actions – combined with a successful effort to dramatically reduce health care expenditures – have allowed City leaders to avoid service cuts in recent years. Nevertheless, this persistent trend of stagnant state aid was found to be a major cause for concern given Milwaukee's dependence upon it.

⁵ The CAFR, City budget, and U.S. Census Bureau use different methodologies for classifying revenues, which may account for differences in revenue percentages cited in different sections of this report. Per the CAFR, the remaining amount of local taxation in the "Other taxes" category consists largely of revenues received from Tax Incremental Districts (TIDs), as well as smaller amounts of payments in lieu of taxes, interest and penalties on delinquent taxes, and other miscellaneous sources.



THE ROLE OF THE STATE IN LOCAL GOVERNMENT FINANCE

Given the importance of state aid as a source of funding for Milwaukee's governmental activities, it is important to understand the history and rationale for the local government finance paradigm created by the State of Wisconsin. Similarly, it is important to consider how other states have established revenue ground rules for their municipal governments in light of our extensive use of peer city comparisons in this report. In this section, we provide both national and Wisconsin context to help frame our analysis of revenue structures in Milwaukee and the peer cities.

NATIONAL CONTEXT

States provide financial assistance to local governments and establish their fiscal framework. In fact, local finances are rooted in the types of taxes that states authorize. The three broad types of taxation typically authorized by states are the property tax, sales tax, and income tax. States delineate which taxes municipalities may impose, as well as some of the conditions under which they are applied. Generally speaking, a state is deemed to have authorized a local tax if the municipality has “an option to levy the tax, local option to control the tax rate (within some increment, i.e. they have some ability to shift the rate) and if the revenues are for general use.”⁶

While states establish municipal taxing authority, local municipalities typically decide whether and when to act on this authority. In some cases, cities operate within a tax ceiling but do not tax up to this limit; in others, municipalities may elect not to impose a tax even if authorized to do so. For example, no city in Arkansas has implemented the income tax authority granted by the state.

Municipalities that are permitted to implement more than one local source of taxation may enjoy certain advantages from the standpoint of flexibility and stability. For example, cities that are allowed to draw upon multiple revenue streams can set lower tax rates for those distinct sources than would be possible if they were reliant upon only one tax.

Diverse revenue streams also provide local governments with fiscal balance. Sales and income tax revenues grow rapidly during a strong economy, but they also can drop sharply when the economy is weak. Changes in these tax revenues are offset, to some degree, by property tax revenues, which tend to deviate more slowly from year to year because of the assessment process and the ability of local policymakers to adjust property tax rates when values decline.

Many states have granted the right to levy a particular tax or to set higher rates for a tax to a large city or cities within their border. For example, Pennsylvania has authorized Philadelphia, but no other city in the state, the ability to levy a general sales tax. New York, meanwhile, has allowed New York City and Yonkers to levy an income tax. Similar situations exist in Baltimore, Maryland; Wilmington,

⁶ The National League of Cities, Center for City Solutions and Applied Research, *Cities and State Fiscal Structure 2015*, p.4. http://www.nlc.org/sites/default/files/2017-02/NLC_CSFS_Report_WEB.PDF

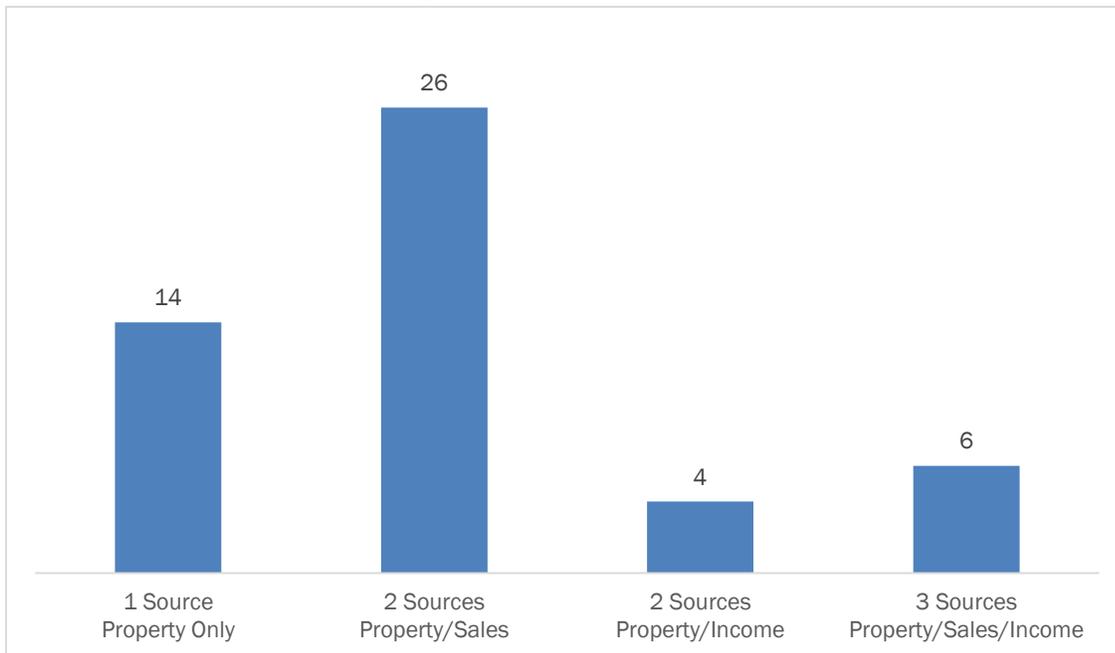


Delaware; and Kansas City and St. Louis, Missouri, which have income tax authority. There are numerous other examples of this practice.

In a smaller number of states, a particular class of cities is permitted to levy a tax. For example, 22 cities in Michigan and 19 cities in Alabama can impose an income tax, while cities of less than 5,000 in Montana and “resort cities” of less than 10,000 in Idaho can charge a local sales tax. Arizona requires that cities that wish to levy a property tax first receive approval by referendum. Some cities in Minnesota can implement a local sales tax subject to the approval of the state legislature.

Chart 1 breaks down the 50 states by how many of the three types of general taxes they authorize their municipalities to levy. We see that 14 states permit local governments to levy only one tax, the property tax; 30 states allow at least some of their municipalities to levy two taxes;⁷ and six states have authorized all three types of general taxes (a property tax, sales tax, and income tax).

Chart 1: State authorization of major local taxes, 2015



Source: Center for City Solutions and Applied Research, National League of Cities, *Cities and State Fiscal Structure*, 2015

⁷ Information comes from *Cities and State Fiscal Structure*, although the categorization of states used here differs from that source. A state is counted as having authorized a revenue source when any city in the state has authority to levy that tax. The table refers only to the authorization of a general sales tax, not selective sales taxes. The next section of this report, on peer cities, suggests that more states have authorized selective sales taxes than a general sales tax.

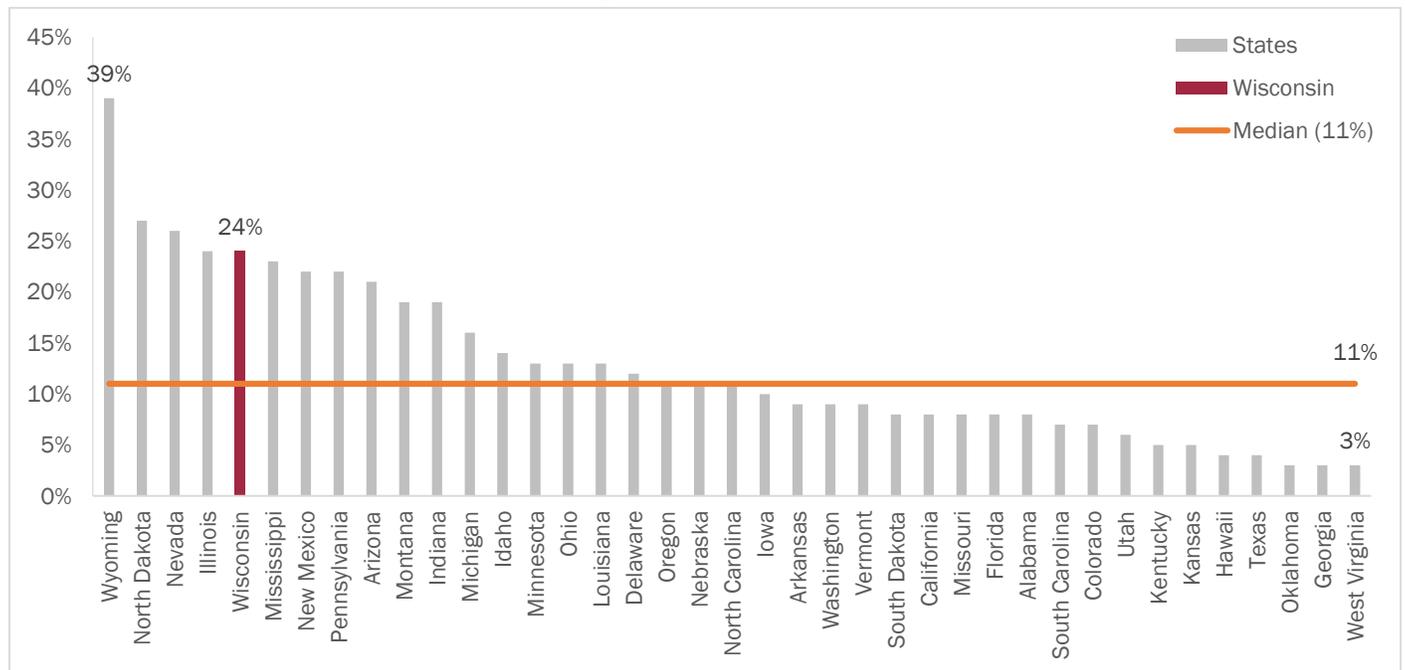


Wisconsin is the only state in the Midwest that only authorizes the property tax. Of the remaining 13 states whose local governments only have access to the property tax, nine are located along the Eastern Seaboard. The other four states are in the far west (and include Hawaii).

In addition to setting up the local taxing structure, states affect municipalities through their provision of state aid. The amount of state funding that flows into municipal coffers has a direct impact on municipal fiscal strength (although, in most cases, such aid does not approach funding generated by local taxation). Types and purposes of state aid vary and include "re-distributional purposes, general government support, and other reasons that enhance the fiscal capacity of the recipient governments."⁸

A 2015 report by the National League of Cities found that state aid ranged from 3% of municipal general revenue in West Virginia, Oklahoma, and Georgia, to 39% in Wyoming. Across all states, state aid represented, on average, 18% of local general revenue.⁹ **Chart 2** shows state aid as a percentage of municipal revenue for various states as reported by the National League of Cities and collected from 2012 U.S. Census data. Wisconsin ranks fifth on this list at 24%, while the median was 11%.

Chart 2: State aid as a component of municipal general revenue for various states, 2012*



*Does not include 11 states where school aid and municipal aid funds to local governments are co-mingled

Source: Center for City Solutions and Applied Research, National League of Cities, *Cities and State Fiscal Structure*, 2015

⁸ National League of Cities, *Cities and State Fiscal Structure*, p. 9.

⁹ General revenue represents all incoming funds except for those for utilities, retirement trust funds, and liquor store operations.



STATE OF WISCONSIN

In Wisconsin, the State statutes (as opposed to the Constitution) grant lower levels of government the authority to tax, and they establish the property tax as the main source of local government taxation. The number of taxes currently authorized is smaller than in most states. For example, local income and motor fuel taxes are prohibited.

State statutes stipulate what types of local governments can levy property taxes, and they also limit annual levy increases for different governments. For example, under current State law, municipalities generally cannot increase the property tax levy from one year to the next by a percentage that exceeds the percentage growth of new construction in the previous year (municipalities do have the option of exceeding the levy limits through voter referendum). In Wisconsin, unlike some states, all market value (i.e. 100% of assessed value) is taxed. The city, county, school district, sewerage district, and technical college district impose property taxes in Milwaukee.

Counties are the only form of local government permitted to establish a general sales tax in Wisconsin. Under current law, counties may impose a 0.5% sales tax on the same tax base as the State sales tax. All but 10 of Wisconsin's 72 counties – including Milwaukee County – have established a sales tax.¹⁰ Counties may – but are not required to – share sales tax revenue with their municipal governments. We are aware of only one county government – Sheboygan County – that does so.

Municipalities do have the right to impose a “room tax” on hotels, motels, and certain other lodging establishments, though State statutes dictate that the room tax in the City of Milwaukee is dedicated to the Wisconsin Center District, and not to City government. (The Wisconsin statutes also authorize the Wisconsin Center District – but not the City – to impose sales taxes on certain food and beverages and car rentals; these and hotel/motel taxes are referred to as “selective” sales taxes.)

Municipalities also are permitted to levy a vehicle registration fee (the so-called “wheel tax”) on vehicle owners and a franchise fee on cable television companies. The City of Milwaukee avails itself of all permitted taxes: the property tax, wheel tax, and cable franchise fee.

Another sales tax authorized by the state is the “premier resort area tax,” which allows qualifying municipalities to impose a 0.5% tax on sales from 44 kinds of retail businesses. Revenue generated from these retail sales may only be used to pay for public infrastructure expenses. A municipality must generate at least 40% of its taxable equalized assessed value from tourism-related businesses to qualify, though six municipalities have been granted exemptions from the 40% rule and are permitted to charge a 0.5 % premier resort tax.¹¹ Milwaukee currently does not qualify to use this form of taxation.

¹⁰ The state also has established a 0.1% sales tax in five counties (Milwaukee, Racine, Washington, Waukesha, and Ozaukee) to finance debt issued for the construction of Miller Park.

¹¹ Wisconsin Dells and Delton meet the 40% requirement and are authorized to assess a 1.25% sales tax. Four of the six municipalities that have been granted exemptions from the 40% rule charge a 0.5% tax (Eagle River, Rhinelander, Stockholm, and Bayfield). For more information, see Wisconsin, Department of Revenue, Premier Resort Area Tax: <https://www.revenue.wi.gov/Pages/FAQS/pes-premier.aspx>



The practice of sharing state taxes with local governments in Wisconsin dates back to 1911, when lawmakers decided to share a portion of the new state income tax with local governments, in part to compensate them for property tax exemptions enacted in the same year. Over the years, this “shared taxes” program evolved into one of “shared revenue” to reflect the fact that the state no longer dedicated a specified percentage of state taxes to local governments.¹²

Wisconsin’s shared revenue comes in the form of unrestricted aid awarded to counties and municipalities. The term “shared revenue” actually refers to four types of local aid programs authorized under the shared revenue chapter in the Wisconsin statutes: county and municipal aid, utility aid, expenditure restraint aid, and state aid for tax-exempt property (computer aid). Shared revenue payments for county/municipal aid and utility payments in 2015 amounted to \$823 million, of which municipalities received \$666 million and counties \$157 million. Shared revenue is the sixth largest general fund program in the State budget.

In recent decades, the shared revenue program has diminished in force and focus as ad hoc aid has replaced formula funding methodologies. In 1985, the State eliminated automatic shared revenue aid and in 2001 it discontinued the main components of the funding formula. Since 2004, except for one year, annual funding for shared revenue either has remained essentially the same, or has been reduced.¹³ In fact, the combined amount of municipal aid and utility payments declined from \$719 million in 2005 to \$666 million in 2015, and their share of the State’s general fund budget fell from 13% in 1995 to 6% in 2015.

The drop in shared revenue has had a substantial impact on the City of Milwaukee’s finances. In *Making Ends Meet*, we noted that if Milwaukee’s intergovernmental revenue (of which shared revenue is by far the largest component) had increased at the rate of inflation from 1995 to 2015, then its revenue total would have been 58% higher (\$415 million versus the \$264 million it actually received). Property tax increases made up for less than 20% of the inflation-adjusted decline in intergovernmental funds during that time.

It should be noted that Wisconsin is not unique in trimming state aids to municipalities. According to *Governing*, state aids to local governments and school districts have declined by 6% in inflation-adjusted terms when compared to 2007-2009 averages. As a consequence, many municipalities have had to reduce their expenditures or increase local sources of revenue.¹⁴

¹² State of Wisconsin, Legislative Fiscal Bureau, *Shared Revenue Program (County and Municipal Aid, and Utility Aid)*, Informational Paper # 18, 2015, page 10

https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2015/0018_shared_revenue_program_informational_paper_18.pdf

¹³ It should be noted that a substantial reduction in shared revenue in the 2011-13 budget was accompanied by the adoption of Wisconsin Act 10. Supporters argue that Act 10 provided local governments with capacity to offset the impact of shared revenue reductions by granting them the authority to reduce health care and pension benefits for non-public safety employees without having to engage in collective bargaining.

¹⁴ Mike Maciag and J.B. Wogan, *With Less State Aid, Localities Look for Ways to Cope*, *Governing*, February, 2017, <http://www.governing.com/topics/finance/gov-state-aid-revenue-sharing-intergovernmental-revenue.html>.



SUMMARY

No other state in the Midwest has a local tax structure like Wisconsin's that relies solely on the property tax. Wisconsin also differs from many other Midwestern states in that Milwaukee, the state's largest city, has the same tax structure as other municipalities throughout the state. That is not the case in Illinois, Michigan, Ohio, Minnesota, and Missouri, as well as numerous other states throughout the country whose major cities can draw on additional forms of taxation.

Wisconsin's strong state aid historically has compensated for the lack of local revenue diversity. However, cutbacks in shared revenue have diminished this program's purchasing power and required Milwaukee to lean heavily on increased property taxes and fees to offset the impact.



REVENUE STRUCTURES OF PEER CITIES

In this section, we provide a high-level review of the revenue structures of 38 cities similar to Milwaukee. To build this peer set, we first examined the finances of all 54 U.S. cities with populations between 300,000 and one million. We then removed cities whose budgets fully or partially funded local county and school district operations. This excluded cities with consolidated (i.e., city/county) governments, such as Indianapolis; cities that perform some typical county functions, such as Baltimore; and cities whose budgets fund or pass through monies to local school districts, such as Boston. The result was a group of 39 cities – including Milwaukee – that we use to compare and contrast revenue structures.

Our analysis examined the major revenues flowing into each of the 39 cities in 2012, the year for which the most recent data were available from the U.S. Census when we conducted our research. This information was accessed via the website of the Lincoln Institute of Land Policy, where it is organized to facilitate such review.¹⁵ Our analysis focuses on state and federal revenue (i.e. intergovernmental funds) and major local taxes (property, sales, and income).

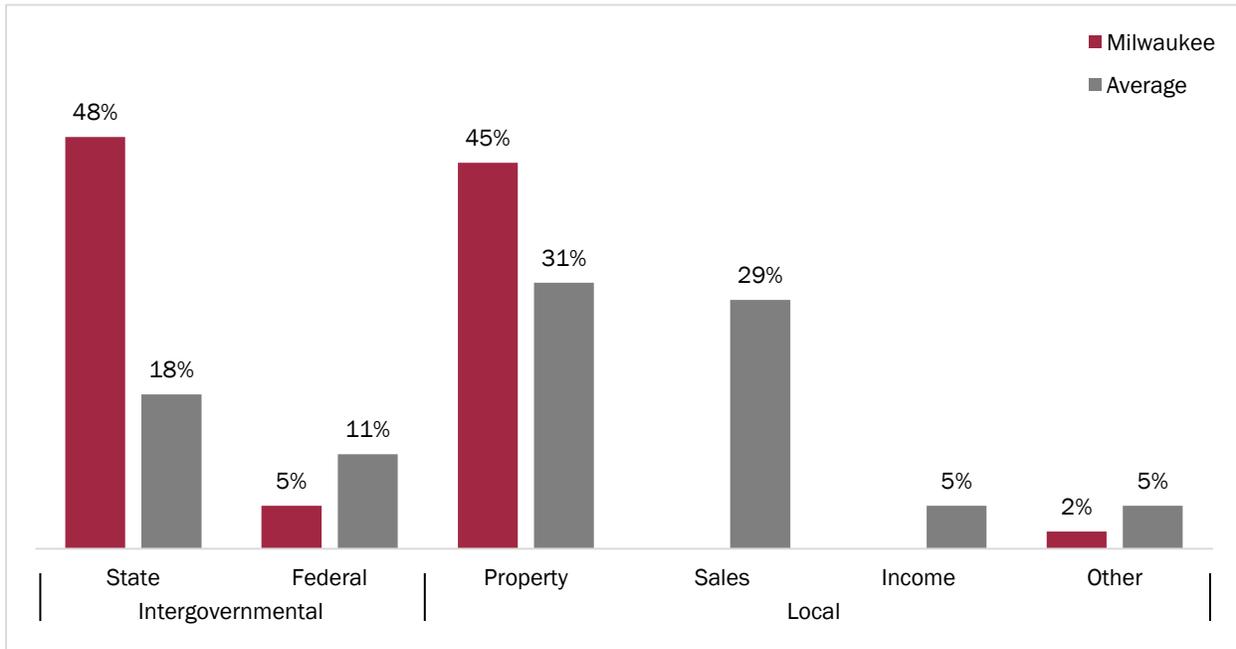
The most common and largest sources of revenue among the 39 peers are the property tax, sales taxes, and state aid. **Chart 3** shows the average amount of revenue received from the major sources among the peers when viewed as a percentage of combined local, state, and federal revenue. The chart also shows Milwaukee's percentages for comparison.

While not shown in the chart, our analysis finds that many cities' peer rank fluctuates from revenue source to revenue source, showing greater than average funding for one type of revenue source and lower than average funding for another. For no city is this more true than Milwaukee, which has two principal forms of revenue – state aids and the property tax – while most peers, at a minimum, have three major forms of support. **Appendix A** details each of the peers' sources of revenue as a percentage of total intergovernmental and local tax revenue and on a per capita basis.

¹⁵ The Lincoln Institute of Land Policy is a nonprofit foundation created in 1946 that, according to its website, "seeks to improve the quality of life through the effective use, taxation, and stewardship of land." The Institute's "Fiscally Standardized Cities Database (FiSC)" was a key resource for this report. Accounting for differences across cities in government structure, this web-based database provides comparative data on local government finances for 150 of the largest U.S. cities across more than 120 categories of revenues, expenditures, debt, and assets. The FiSC database covers the 1977-2014 timeframe using information from the individual unit of government files produced by the Governments Division of the U.S. Census Bureau. The Institute's website can be accessed at <http://www.lincolninst.edu/>.



Chart 3: Major revenue sources as a percentage of combined intergovernmental and local revenue – peer averages vs. Milwaukee, 2012



Source: Lincoln Institute of Land Policy

Since municipalities retain latitude in setting the level and mix of local taxation, revenues in a given state can differ significantly from one city to another. For example, Corpus Christi, Texas, obtained 45% of its tax revenue via sales taxes in 2012, while sales taxes in Austin, Texas, comprised 35% of all tax revenue in that same year. Similar revenue variations can be found among peer cities in California, Missouri, and Ohio.

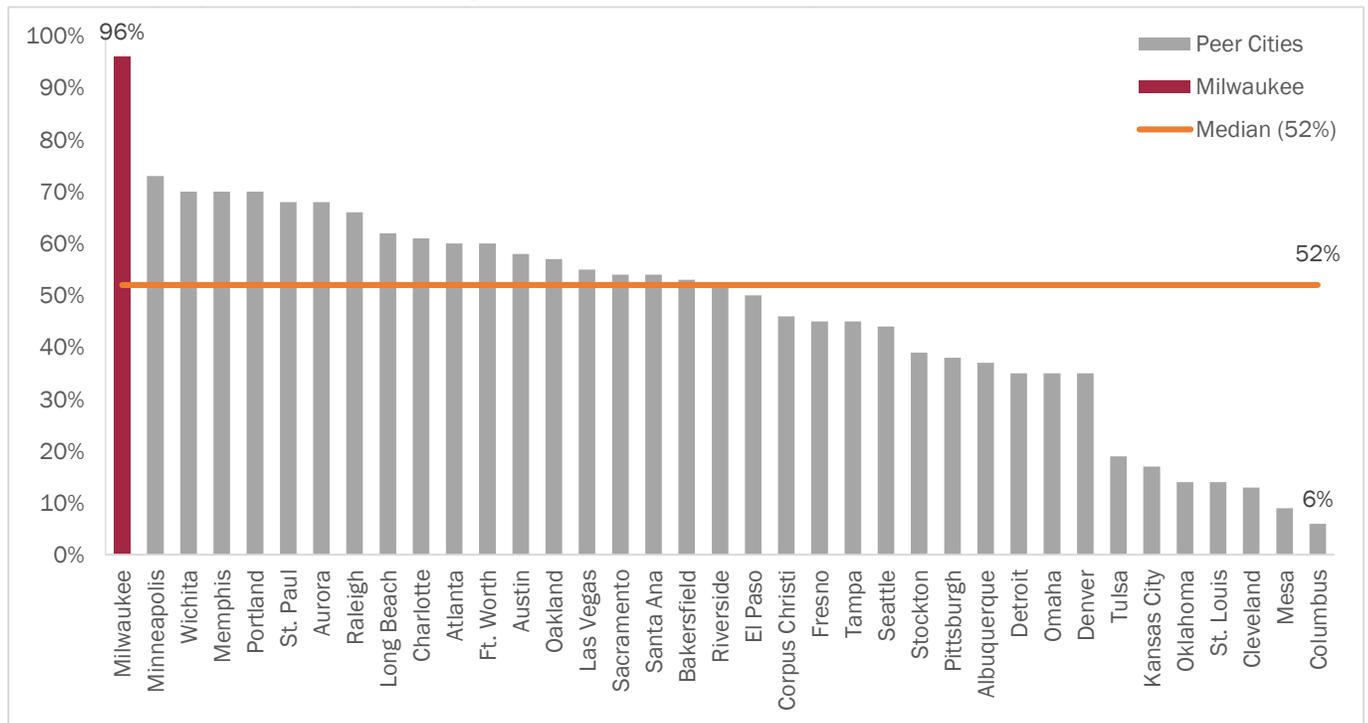
Historically, local governments have relied on the property tax as their main source of taxation. All peers in our study assess property taxes, although not every city that levies such a tax allocates the revenue to its general fund. For instance, Oklahoma City, whose principal local revenue is the sales tax, dedicates its property tax revenues to capital expenditures.

In 2012, property taxes comprised 96% of the local tax revenues supporting Milwaukee's City government.¹⁶ No other city in the peer group approached this level of property tax reliance as a percentage of local tax funds, as shown in **Chart 4**. Minneapolis, the city with the next highest level, received 73% of total local tax revenues from property taxes.

¹⁶ Per the Lincoln Institute's methodology – which is based on reporting to the U.S. Census Bureau – the remaining 4% consists primarily of revenues generated from licenses and permits. Also, this figure differs from the "nearly 90%" figure cited in the previous section because a different year is used and because the Lincoln Land Institute's classification of revenues is different from that of Milwaukee's CAFR.



Chart 4: Property taxes as a percentage of local tax revenues for peer cities, 2012



Source: Lincoln Institute of Land Policy

Starting in the 1930s, many states began granting municipalities the right to levy general sales taxes. Revenue from this source of funding grew steadily, and sales taxes in 2012 produced almost as much revenue as the property tax among this group of large U.S. cities. In total, the peers garnered 44% of all local taxes via the property tax and 41% via sales taxes in 2012.

Our use of the term "sales tax" refers both to a general tax assessed on many goods and services sold within a municipality (with items like food and medicine often exempted), as well as selective taxes on sales of specific items, such as entertainment ticket sales, insurance, public utilities, motor fuels, tobacco, alcoholic beverages, etc. Thirty of the 39 members of the peer group have a general sales tax, while nine (including Milwaukee) do not. Most cities without a general sales tax do raise substantial revenues through selective sales taxes, as shown in **Table 2**. Unlike many other cities, Milwaukee does not have authority under State statutes to levy selective sales taxes.¹⁷

¹⁷ The U.S. Census defines selective sales taxes as “taxes imposed on sales of particular commodities or services or gross receipts of particular businesses separately and apart from the application of general sales and gross receipts taxes.”



Table 2: Revenue structures of peer cities without a general sales tax, 2012

Cities	Property Tax	Selective Sales Tax	Income Tax	Other Tax
Atlanta	60%	28%	0%	12%
Cleveland	13%	8%	74%	5%
Columbus	6%	2%	87%	5%
Detroit	35%	29%	31%	4%
Las Vegas	55%	29%	0%	15%
Milwaukee	96%	0%	0%	4%
Pittsburgh	38%	32%	21%	9%
Portland	70%	12%	0%	18%
Wichita	70%	26%	0%	4%

Source: Lincoln Institute of Land Policy

As a general rule, cities with larger populations tend to draw more heavily on the sales tax and less upon the property tax, as shown in **Table 3**. That may reflect the fact that as cities increase in size, they become more cosmopolitan (i.e. less local) and host greater numbers of non-residents who are engaged in business, employment, tourism, entertainment, etc. The sales tax enables local governments to recoup the costs of services provided to all users irrespective of their purpose for being in the city. The property tax is strictly levied on those who own city property, while the income tax can encompass those who work and live in cities.

Table 3: Relationship of property to sales taxes as percentage of total local taxes for cities (averages grouped by population), 2012¹⁸

Tiers	Property	Sales	Total
Tier 1- (1 million +)	43%	42%	85%
Tier 2- (300,000 to 1 million)	44%	41%	85%
Tier 3- (circa 150,000+)	54%	28%	82%

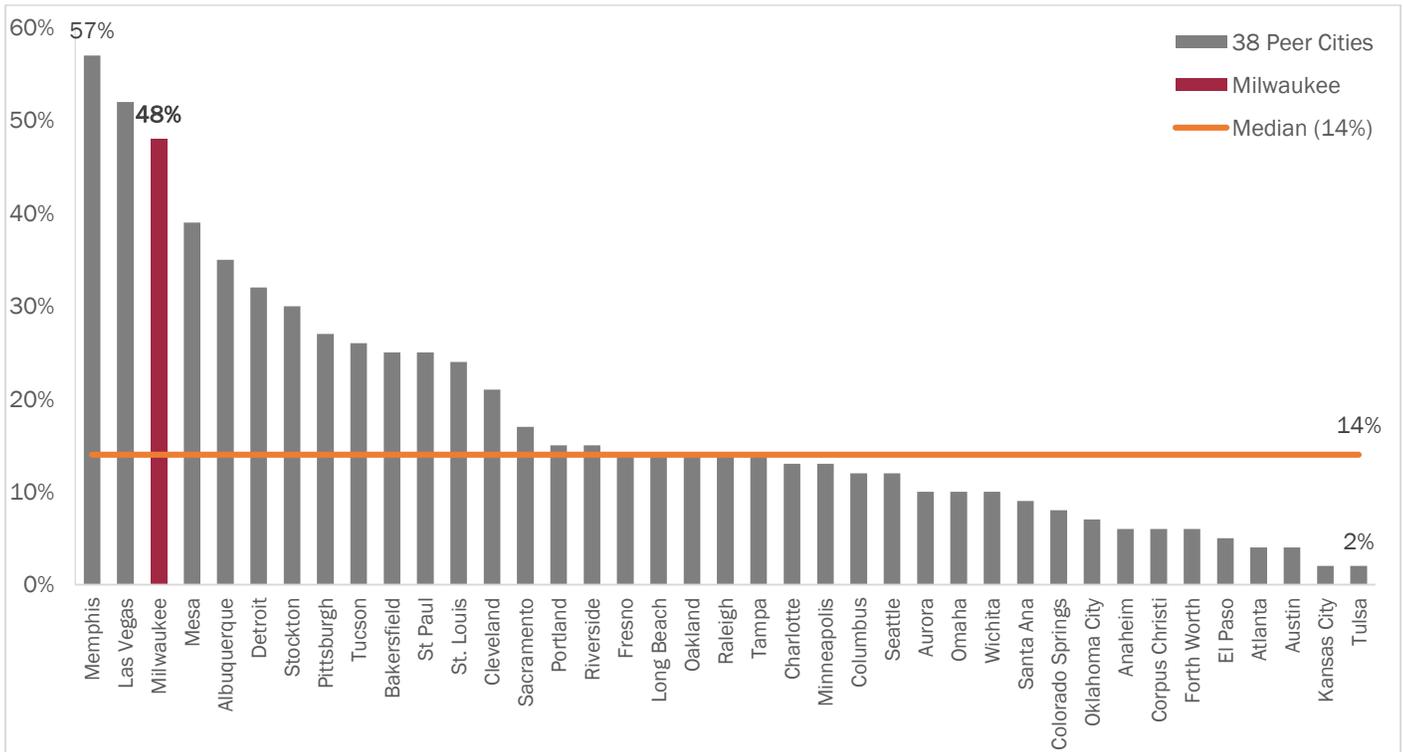
Source: Lincoln Institute of Land Policy

State aid is a relatively minor source of revenue for most of the peer cities, providing supplemental financial assistance, but not serving as a principal source of support compared with property or sales taxes. Indeed, our analysis found that state funding represented 14% or less of total combined intergovernmental and local tax revenue for half of the peers. In contrast, state funding equaled 48% of Milwaukee's total and, historically, has been its largest revenue resource. Only two other cities in the peer group had a greater proportion of state funding, as shown in **Chart 5**.

¹⁸ Tier 2 does not include cities with financial and/or operational responsibilities that typically are a part of other local governments, nor city/county consolidated governments. Tier 3 comprises all remaining cities from Lincoln Land Institute's database of the 150 largest U.S. Cities.



Chart 5: State funding as a percentage of total intergovernmental and local tax revenues for peer cities, 2012



Source: Lincoln Institute of Land Policy

Six members of the peer group have a local income tax: Columbus, Cleveland, Pittsburgh, Detroit, St. Louis, and Kansas City. These cities are located in four states that authorize local income taxes either for all municipalities, or for specified cities within their borders.

We would note that these six peers have considerable poverty and low median household income, which can create a high demand for government services. An income tax has enabled these cities to raise more revenue than other peers since they also benefit from a property tax and various sales taxes, as shown in **Table 4**. Milwaukee, which depends more on intergovernmental revenue and less on local revenue than its peers, ranked 34th in terms of revenues raised through local taxation. (See **Appendix A** for details on major revenue sources for each of the 39 peers in 2012).



Table 4: Peer cities with the greatest per capita local tax revenue, 2012

Cities	Property	Total Sales	Income	Other	Total Local
1. St. Louis	\$233	\$816	\$581	\$76	\$1,706
2. Kansas City	\$268	\$734	\$459	\$148	\$1,608
3. Seattle	\$639	\$727	\$0	\$103	\$1,469
4. Oakland	\$821	\$286	\$0	\$333	\$1,440
5. Atlanta	\$724	\$340	\$0	\$143	\$1,207
6. Minneapolis	\$869	\$240	\$0	\$76	\$1,185
7. Pittsburgh	\$444	\$372	\$244	\$108	\$1,167
8. Cleveland	\$143	\$81	\$790	\$54	\$1,068
9. Detroit	\$377	\$315	\$331	\$44	\$1,068
10. Portland	\$719	\$124	\$0	\$188	\$1,031
11. Oklahoma City	\$141	\$843	\$0	\$37	\$1,021
12. Columbus	\$54	\$21	\$848	\$49	\$972
34. Milwaukee	\$484	\$0	\$0	\$22	\$507

Source: Lincoln Institute of Land Policy

SUMMARY

While *Making Ends Meet* presented the broad outlines of Milwaukee's financial structure, here we delve deeper to compare Milwaukee's revenue framework with those of comparably-sized cities. Our analysis shows the stark difference between Milwaukee and its peers when it comes to raising revenues. As summarized in **Table 5**, Milwaukee ranks at or near the top with regard to state aids and the property tax, but at or near the bottom with regard to sales taxes and total local taxes.

Table 5: Milwaukee's peer rankings, 2012

State Revenue as % of Combined Intergovernmental & Local Tax Revenue	Property Tax as % of Local Taxes	Sales Taxes as % of Local Taxes	Total Local Taxes (Per Capita)	Total Intergovernmental Revenue & Local Taxes (Per Capita)
3rd	1st	39th	34th	19th

Source: Lincoln Institute of Land Policy

In the end, Milwaukee's total intergovernmental and local tax revenues per capita are at the mid-point of the group because of its greater receipt of State funds and higher property taxes.¹⁹ Since all other peers draw on at least two major sources of local taxes, they can spread the cost of their expenditures across multiple forms of local taxation and, thereby, maintain lower property tax rates.

¹⁹ While Milwaukee falls at the middle of the peer group in total tax revenues per capita, it is 8 percentage points below the overall peer group average. A 2015 study by the Milwaukee Comptroller that employed an eight-city peer group and a different methodology for calculating local and intergovernmental revenues found a similar result, reporting that Milwaukee was 11 percentage points below the average in total local tax revenue per capita. See: <http://city.milwaukee.gov/ImageLibrary/User/pmensa/2015CompRevRept.pdf>



A CLOSER LOOK AT FOUR PEER CITIES

The preceding two sections have revealed both the distinctive nature of Wisconsin's system of municipal government finance and Milwaukee's unique fiscal position when compared with similarly-sized cities. Most states – and particularly those in the Midwest – are not like Wisconsin in that they authorize multiple sources of local taxation and permit their largest cities to have more tax flexibility than smaller municipalities. Most large cities are not like Milwaukee in that they can draw on a greater range of local taxes. Indeed, no peer city depends so heavily on a single source of local tax revenue and no peer depends so heavily on the property tax.

Is Milwaukee's distinctive revenue structure a positive or a negative and what are the alternatives if State and local leaders wish to change it? Those are the questions that we seek to address in the remainder of this report.

In this section, we take a closer look at the revenue structures of four peer cities that were included in the 39-city peer group. Those cities are Pittsburgh, Cleveland, Minneapolis, and Kansas City. Our intention is to provide greater insight into the distinct features of revenue structures used by cities that are comparable to Milwaukee, assess the general pros and cons of such features, and examine their potential relevance to efforts to explore modifications to Milwaukee's revenue structure.

METHODOLOGY

Admittedly, there was no precise science to our selection of these four cities. Our primary criteria were that the peer cities be comparable to Milwaukee in population, climate, size of budget, and breadth of municipal services. We also sought a peer group from the Midwest given the similarities in attitudes toward governance, taxation, and other facets of public policy that tend to exist within geographic regions. Finally, we were careful to select cities from distinct states in light of the impact that state policies have on local government finances. When we applied those criteria, these four cities emerged.

It is important to note that these cities were *not* selected because we believe them to be aspirational models for Milwaukee. We did not delve into their finances and local economies deeply enough to determine whether they are financially or economically "better off" than Milwaukee, nor whether the revenue structures of their municipal governments have promoted or deterred economic growth. What we do know is that each city has a revenue structure that is distinctive in its own way, and that those distinctive elements are worthy of consideration by Milwaukee in light of the challenges implicit in its revenue structure.

To compare revenues and expenditures in this section, we again use governmental activities – which include capital and debt accounts – as opposed only to revenues that flow into the general fund. Inclusion of capital and debt service gives us a more complete picture of each government's expenditure needs, and it also allows us to include revenue sources that are specifically earmarked for capital and/or debt.



We lean heavily on CAFRs for our financial data, as opposed to annual budgets. The methodologies used in CAFRs are far more standardized among cities than those used in budgets, which allows us to conduct more accurate comparative analyses. Nevertheless, we discovered that important differences do exist in the way certain expenditure and revenue line items are categorized in CAFRs for the different cities. In such cases, we point out the differences to the best of our ability.

Finally, we would emphasize that we did not have the capacity to do a thorough scrub of each peer city's finances and we do not profess to have a complete understanding of the full range of nuances that contribute to their fiscal condition and the viability of their revenue structures. Consequently, the comparative analysis in this section should be seen as informative, but not definitive.

COMPARING LOCAL REVENUE STRUCTURES

There is no standard definition of an ideal local revenue structure, but many government finance experts agree that high-quality revenue systems are reliable, balanced, straightforward, and equitable.²⁰

- A **reliable** revenue system is likely to generate the same amount or additional revenues from one year to the next with a relatively high degree of certainty and generally is expected to grow at a pace that mirrors the pace of local economic growth.
- A **balanced** system relies on a variety of revenue sources that are generated by different types of activities and by different types of taxpayers (e.g. property owners versus consumers of goods and services).
- A system that is **straightforward** does not require an inordinate amount of staff resources to collect revenues; does not place a significant burden on individuals or employers in terms of compliance; and is uncomplicated and easy for citizens to understand.
- An **equitable** system imposes similar tax burdens on people in similar circumstances²¹ and has limited regressivity.

In our analysis of the revenue characteristics of the four peer cities, we use these considerations as a means of objectively assessing the strengths and weaknesses of their overall revenue structures.

²⁰ There is considerable academic and related literature on ideal revenue structures for state and local governments. One particularly useful example – from which we draw here – is "Principles of a High-Quality State Revenue System" published by the National Conference of State Legislatures. That document is available at <http://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx>.

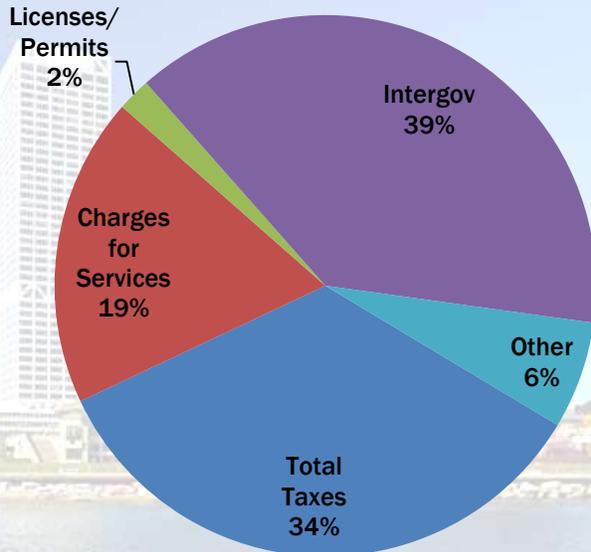
²¹ "Principles of a High-Quality State Revenue System," National Conference of State Legislatures.



MILWAUKEE

Population: 600,155
Governmental Fund Revenues: \$834,022,000

Governmental Fund Revenues



Largest Local Taxes



Distinguishing characteristics:

Heavy reliance on intergovernmental revenues with a local tax portfolio that consists of only one primary source.

Earlier in this report, we provided background information on the City of Milwaukee's revenue structure and finances. Here, we again present basic information on the City's finances, but for comparative purposes we do so in a manner that corresponds with our presentation of revenue and expenditure data for the other cities considered in this section.

Our starting point is a summary of governmental fund *expenditures*, broken down by function. While the focus of our analysis is the *revenue* structure of the peer cities, efforts to compare revenue structures must take into account the differences that may exist in the types and levels of core services provided by each city government. Comparing functional expenditures can provide insight into that question.



Table 6 categorizes Milwaukee's 2015 governmental fund expenditures by function per the City's 2015 CAFR.²² Public safety is the largest component of Milwaukee's governmental fund expenditure budget, followed by general government and public works.

Table 6: City of Milwaukee 2015 governmental fund expenditures by function

Activities	Expenditures	Per Capita
Public Safety	\$399,620,000	\$666
General Govt.	\$204,691,000	\$341
Public Works	\$182,340,000	\$304
Conservation & Development	\$88,252,000	\$147
Culture & Recreation	\$25,315,000	\$42
Interest on Long-Term Debt	\$24,749,000	\$41
Health	\$20,249,000	\$34
Total	\$945,216,000	\$1,575

While a functional breakdown of expenditures provides some insight into the core responsibilities of a city government, it does not tell the whole story. For example, comparison of functional spending also should take into account the activities that comprise the functional categories. Some cities, like Milwaukee, have robust public health functions and will show significant health-related expenditures, while other cities cede that responsibility to counties. Also, those cities that operate convention centers, museums, sports facilities, recreation venues, and parks systems likely spend more in the culture and recreation category than cities that do not house such activities. In the same vein, those cities that operate transit systems will exhibit higher levels of spending in the public works category.

Also, as noted above, using data from CAFRs to summarize governmental fund expenditures has limitations given that different CAFRs may categorize certain expenditures in different ways. **For example, Milwaukee's CAFR considers fringe benefits as general government expenditures, thus boosting expenditure amounts in that functional category.** Conversely, CAFRs in other cities may allocate fringe benefit expenditures to departments based on their number of employees and spread those costs across all departmental functions.

On the revenue side, we again use a basic breakdown of governmental fund revenues by the categories used in each city's CAFR. **Table 7** provides that breakdown for Milwaukee per its 2015 CAFR. This table again illustrates how Milwaukee's revenue structure is characterized by a heavy reliance on intergovernmental revenue, while local taxes and charges for services comprise the second and third largest revenue categories. Also, it should be noted that the revenue total in **Table 7** is more than \$100 million lower than the expenditure total in **Table 6** because we do not show bond proceeds as revenues in **Table 7**.

²² The 2015 CAFR was the latest available at the time during which our research was conducted.



Table 7: City of Milwaukee 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Intergovernmental	\$322,763,000	\$538
Local Taxes	\$286,676,000	\$478
Charges for Services	\$154,402,000	\$257
Licenses & Permits	\$16,629,000	\$28
Fines & Forfeits	\$4,110,000	\$7
Other	\$49,442,000	\$82
Total	\$834,022,000	\$1,390

For the other cities in this section, we also include tables breaking down the major sources of local taxes, followed by descriptions of those sources. We do not do so here for Milwaukee because there are only two such sources. In 2015, \$253.8 million (89%) of the City's \$286.7 million in local taxes was derived from property taxes. The remainder – characterized as "Other Taxes" in the CAFR – was generated primarily from payments from Tax Incremental Districts (which similarly are linked to property ownership), as well as smaller amounts from miscellaneous sources.

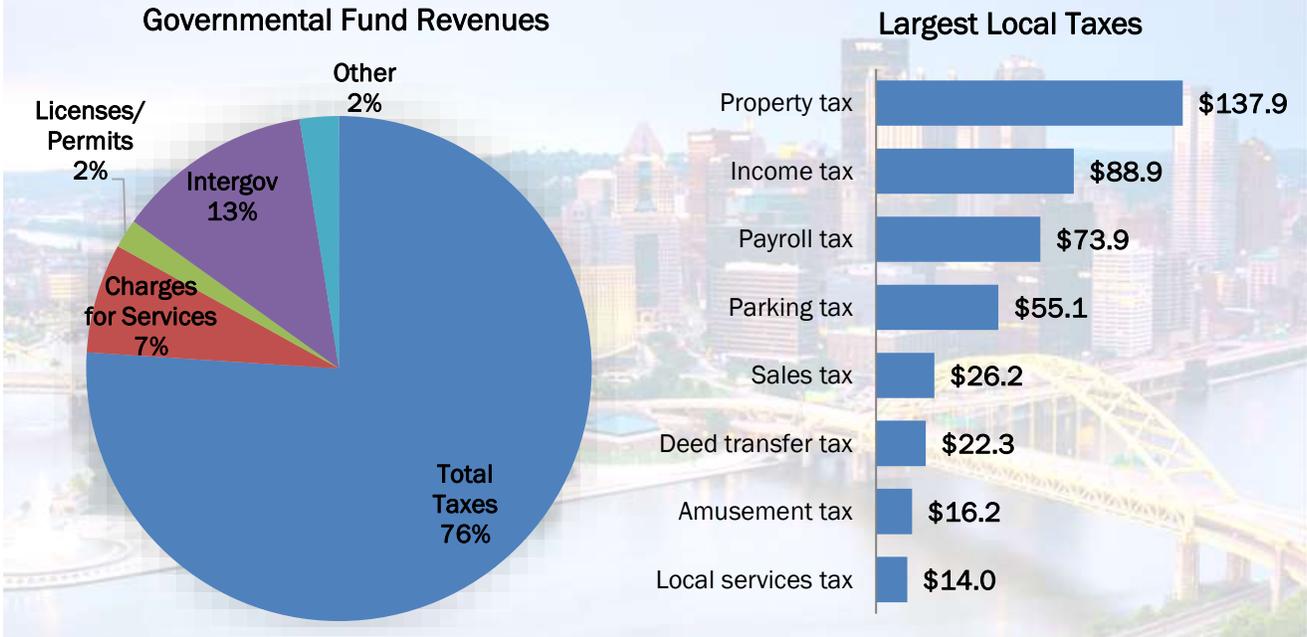
As with expenditures, our ability to make apples-to-apples comparisons between cities using revenue figures from CAFRs is somewhat limited. For example, we observe differences in the way CAFRs categorize fees charged to utilities (some consider these to be local taxes while others consider them to be service charges or license fees); in the classification of certain taxes that are levied locally but collected and redistributed by the state (some consider these to be intergovernmental revenues while others consider them to be local taxes); and in the general classification of license-related fees (some combine these with charges for services).

Finally, our tables in this section that lay out categorical expenditures and revenues for Milwaukee and the peer cities show both total amounts and per capita amounts. Per capita amounts generally provide a more effective means of comparing spending and taxing among different governments. That also may be the case here, but we would caution against drawing firm conclusions given the limitations cited above. For example, differences in the responsibilities held by the various governments – as opposed to the willingness of elected officials to tax and spend – may be the foremost contributor to differences in per capita spending and revenues,.



PITTSBURGH

Population: 304,391
 Governmental Fund Revenues: \$573,396,431



Distinguishing Characteristics:

Heavy reliance on local taxes with a highly diversified tax portfolio that includes property, income, payroll, sales, and selective sales taxes.

BACKGROUND

The City of Pittsburgh has a population of 304,000 and occupies 58.3 square miles (this compares to Milwaukee's population of about 600,000 and geographic size of 96.9 square miles). With \$573 million in governmental fund revenues in 2015, its budget is about two-thirds the size of Milwaukee's.

Pittsburgh's economy has experienced rejuvenation in recent years, stemming largely from concerted efforts to modernize. Pittsburgh's 2015 CAFR – published in April 2016 – cited growth in the manufacturing, financial business services, health care, and technology sectors as "contributi(ing) significantly to the increase in economic and employment vitality of the city" and helping to reduce the unemployment rate to 4.3% at the end of 2015 (compared to 4.7% for the state and 4.8% nationally). Pittsburgh also has undertaken concerted efforts to revitalize its downtown, and now



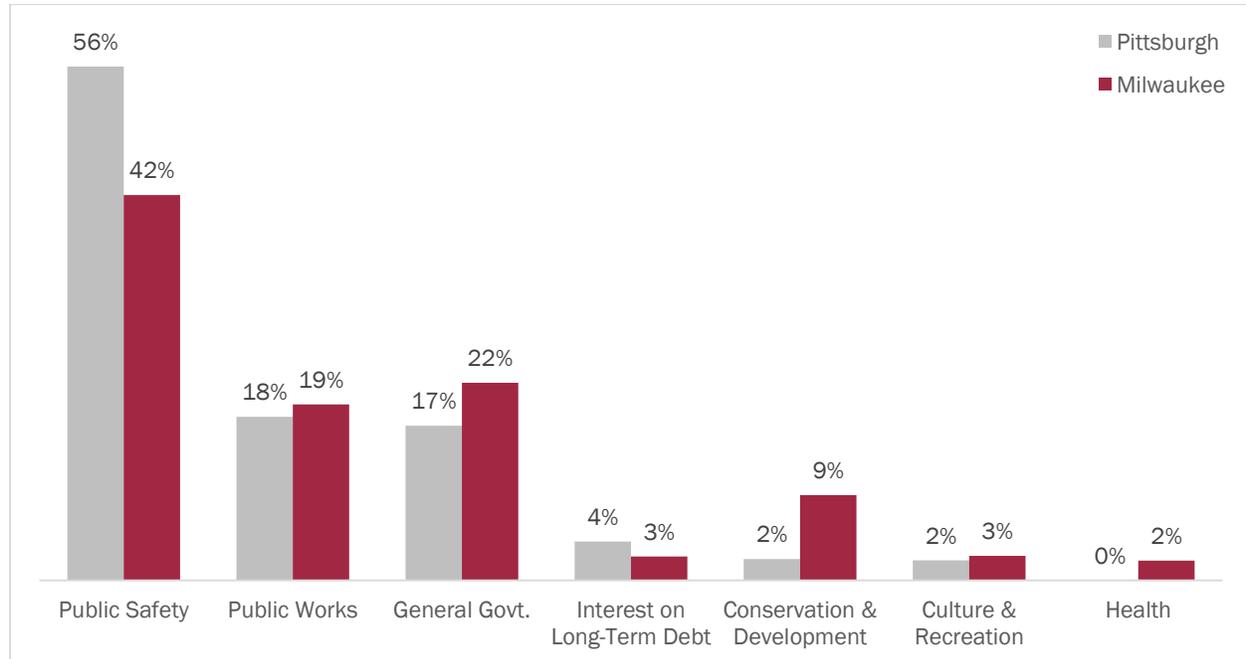
boasts of 12,600 downtown residents and more than 800,000 annual visitors to its Market Square shopping and entertainment area.²³

As shown in **Table 8**, public safety is the largest component of Pittsburgh's governmental fund expenditure budget, followed by public works and general government. Both Pittsburgh's array of services and its distribution of resources among those services are somewhat similar to Milwaukee (as shown in **Chart 6**), with the exceptions that Pittsburgh does not engage in public health (this is done at the county level) and that Milwaukee spends considerably more on conservation & development.²⁴ (The fact that Pittsburgh spends proportionally more on public safety may be explained by the way fringe benefit expenditures are classified.)

Table 8: City of Pittsburgh 2015 governmental fund expenditures by function

Function	Expenditures	Per Capita
Public Safety	\$307,202,644	\$1,009
Public Works	\$97,762,357	\$321
General Govt.	\$92,461,452	\$304
Interest on Long-Term Debt	\$23,075,567	\$76
Economic Development	\$12,630,440	\$41
Culture & Recreation	\$11,889,380	\$39
Total	\$545,021,840	\$1,791

Chart 6: 2015 governmental fund expenditures by function, Pittsburgh vs. Milwaukee



²³ City of Pittsburgh CAFR for Year Ended December 31, 2015.

²⁴ The chart combines Pittsburgh's Highways & Streets and Sanitation expenditure categories into a "Public Works" category for the sake of comparison with Milwaukee.



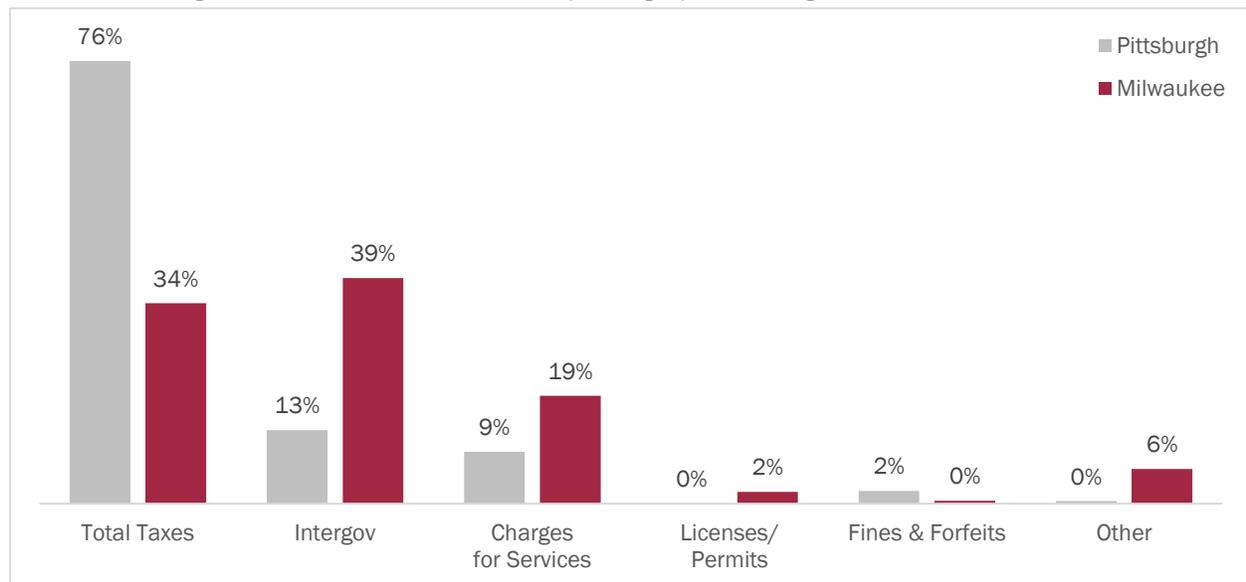
REVENUE STRUCTURE

Pittsburgh's revenue structure is characterized by a heavy reliance on local taxes and by a local tax portfolio that consists of several different types of taxes that spread taxation across residents, employers, commuters, and visitors. As shown in **Table 9**, Pittsburgh's revenue portfolio is strongly linked to its local economy. Local taxes comprised \$436 million (76%) of Pittsburgh's \$573 million in governmental fund revenues in 2015, with intergovernmental revenues and charges for services accounting for the bulk of remaining revenues. **Chart 7** shows the stark contrast between Pittsburgh's revenue structure and that of Milwaukee.²⁵

Table 9: City of Pittsburgh 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Local Taxes	\$435,519,826	\$1,431
Intergovernmental	\$72,287,991	\$237
Charges for Services	\$50,905,304	\$167
Fines and Forfeits	\$12,293,000	\$40
Other	\$2,390,310	\$8
Total	\$573,396,431	\$1,884

Chart 7: 2015 governmental fund revenues by category, Pittsburgh vs. Milwaukee

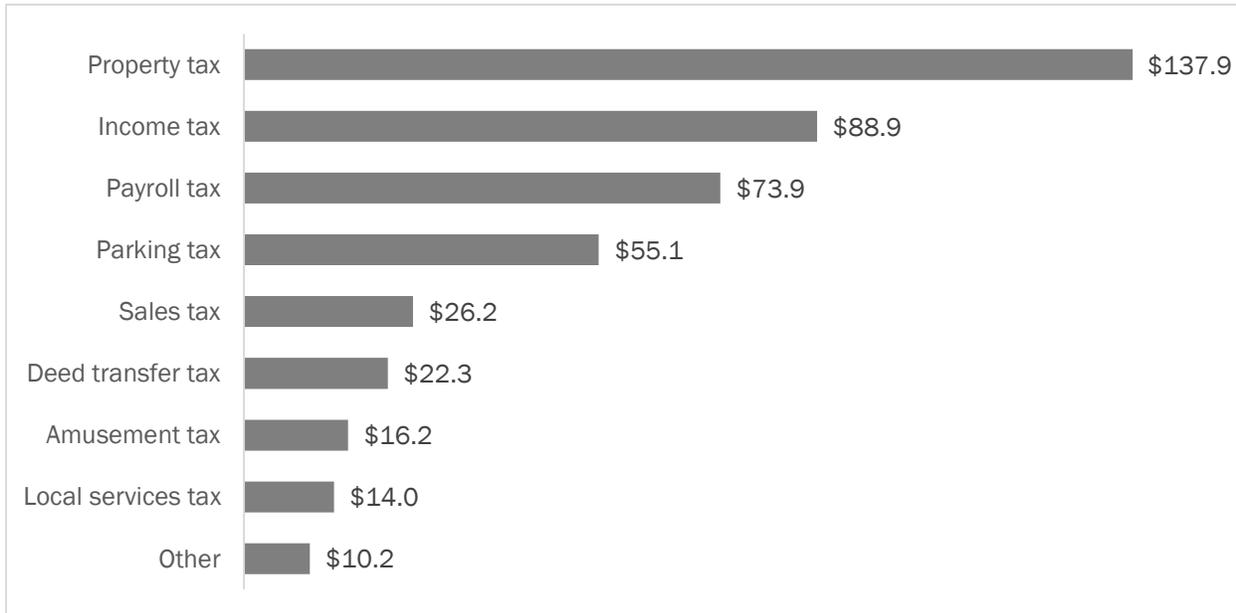


²⁵ Pittsburgh's CAFR does not cite a separate revenue line item for Licenses & Permits (as is the case for the other cities analyzed in this section, including Milwaukee), but instead combines license and permit revenue in the Charges for Services category.



Chart 8 shows the largest local taxes levied by the City of Pittsburgh and illustrates its balanced approach to local taxation. Eight different types of local taxes generated at least \$14 million in revenue for governmental funds in 2015, led by the property tax at \$138 million and followed by the earned income tax (\$89 million) and payroll tax (\$74 million).

Chart 8: City of Pittsburgh 2015 local taxes (in millions)



The following provides a brief summary of the different types of local taxes employed by the City of Pittsburgh.

- Property tax** – Pittsburgh levies a property tax on buildings and land which is calculated by applying a millage rate to the assessed value of real property. Personal property is not taxed. In 2015, the millage rate of \$8.06 per \$1,000 of assessed value generated \$137.9 million, making this the largest source of revenue in the City budget. By comparison, Milwaukee's 2015 millage rate was \$10.71 per \$1,000 of assessed value.
- Earned income tax** – Pittsburgh levies a 1% tax on the wages or net profits earned by city residents (investment and other forms of non-wage income is not taxed by the City). The earned income tax generated \$88.9 million in 2015, making it Pittsburgh's second largest source of local tax revenue.
- Payroll preparation tax** – The City levies a 0.55% tax on the gross payroll of its for-profit employers, as well as on the distribution of net income from self-employed individuals. This tax was adopted after state enabling legislation was passed in 2004 and replaced a variety of other business-related taxes. The payroll tax generated \$73.9 million in 2015.
- Parking tax** – Pittsburgh levies a 37.5% tax on parking transactions at nonresidential parking places. The tax is applied to patrons when a fee is charged for parking their cars, regardless of whether the facility is open to the public. The parking tax generated \$55.1 million in 2015.



- **Sales tax** – Pittsburgh receives a portion of a 1% sales tax levied by Allegheny County. One half of the proceeds support the region's cultural and entertainment assets, while one quarter is retained by the County and one quarter is distributed by formula to each of its municipalities. This redistribution was approved by the Pennsylvania Legislature, in part, as a means of replacing revenues that were lost when it eliminated the personal property tax and reduced the amusement tax. Pittsburgh received \$26.2 million in sales tax revenue in 2015.
- **Deed transfer tax** – The City receives revenue from a 2% tax that is levied upon the transfer of an interest in real property that is located within city limits. The tax generated \$22.3 million for Pittsburgh in 2015. In Wisconsin, a real estate transfer fee of 3% is collected by counties, with 80% of the revenue remitted to the State and the remaining 20% kept by the county.
- **Amusement tax** – Pittsburgh levies a 5% tax on the admission price paid by patrons of any entertainment event (non-profit performing arts groups are exempted). Entertainment events are defined as "all manner and forms of entertainment" and include concerts, movies, athletic events, recreational activities, and shows. The amusement tax generated \$16.2 million in 2015.
- **Local services tax** – Pittsburgh levies a tax of \$1 per week (\$52 per year) on every employee – or any individual engaged in an occupation – working within the city (both residents and non-residents). The local services tax generated \$14 million in 2015.

OBSERVATIONS

Our research and interviews yield the following additional observations about Pittsburgh's revenue structure:

- **The benefits of diversity are offset somewhat by state-imposed restrictions.** While Pittsburgh's variety of local taxation and limited reliance on state aids suggest a high degree of local control, it is important to note that the ability of City leaders to increase the rates of their various forms of local taxation are highly restricted by state government. For example, state law caps the amusement tax at 5%, the parking tax at 37.5%, and the payroll tax at 0.55%, and City leaders would need state legislative approval to increase those tax rates. Similarly, while fiscal officials likely would want the opportunity to consider a general City sales tax, state law limits their sales tax revenues to a redistributed share of Allegheny County's sales tax proceeds.
- **Political and public acceptance of the existing revenue structure was linked to elimination or reduction of other forms of taxation.** In particular, Pittsburgh's payroll tax was linked to elimination of a gross receipts tax and reduction in the parking tax. Pittsburgh's mayor touted this and other tax reforms as "essential to position Pittsburgh to compete, to thrive, and grow in an increasingly interdependent, global marketplace."²⁶ Also, the local services tax was linked to elimination of the personal property tax, reduction of the amusement tax (from 10% to 5%), and creation of a Real Estate Senior Relief program. The Act creating the Allegheny County 1% sales tax was linked to the same factors, as well as an effort to redistribute money from richer to poorer municipalities.

²⁶ Pennsylvania State & Local Tax Alert, Kirkpatrick & Lockhart LLP, December 2004.



- **State government helped design Pittsburgh's revenue structure after becoming better educated about its overall financial challenges.** A severe financial crisis in the early 2000s prompted creation of two state-appointed review boards to work with City leaders on corrective actions. Analysis by those entities helped state leaders reach the conclusion that Pittsburgh needed to do more to spread taxation to those who work in the city but live elsewhere, leading to a significant increase in the local services tax and establishment of the payroll tax in 2004.

Assessing Pittsburgh's revenue structure in the context of best practices

Pittsburgh's revenue structure has **strong balance**, which is reflected both by the variety of activities that are taxed and by the City's efforts to spread the local tax burden among residents, businesses, and visitors. Most cities rely heavily on two or three major forms of local taxation, making Pittsburgh highly unique in terms of its number of distinct taxes.

Pittsburgh's revenue framework also provides a **high level of reliability**. In times of recession, general and selective sales taxes (as well as income taxes) may be susceptible to sharp fluctuations; property values, on the other hand, tend to be more stable, and elected officials can maintain collections by raising rates. Conversely, when local economies emerge from recession, property values tend to recover more slowly than sales or income taxes. Having a balanced mix of these sources can help guard against sharp swings in revenue collections and slow recoveries coming in and out of periods of economic decline.

Pittsburgh's revenue structure also **rates highly in terms of equity**. Property and income taxes derive greater contributions from wealthier individuals given that the tax burden increases with the value of one's property or income. Pittsburgh's revenue approach also effectively distributes taxes and fees among the users of City services. In particular, the parking, payroll, and local services taxes reflect efforts to ensure that daily non-resident commuters pay for a share of the City services they use, while the amusement tax generates revenue from non-residents who attend sporting events, concerts, etc.

The area in which Pittsburgh's revenue structure may be **most challenged is with regard to its straightforwardness**. The existence of such a wide variety of taxes adds to the complexity of collecting and enforcing tax laws and puts an additional burden on employers, as well as on entertainment and parking venues. Also, Pittsburgh's wide variety of taxes may lead to a perception among citizens that they are heavily taxed, and Pittsburgh's eight different forms of major taxation means there may be eight different constituencies opposing various aspects of the City's revenue policies.



RELEVANCE TO MILWAUKEE

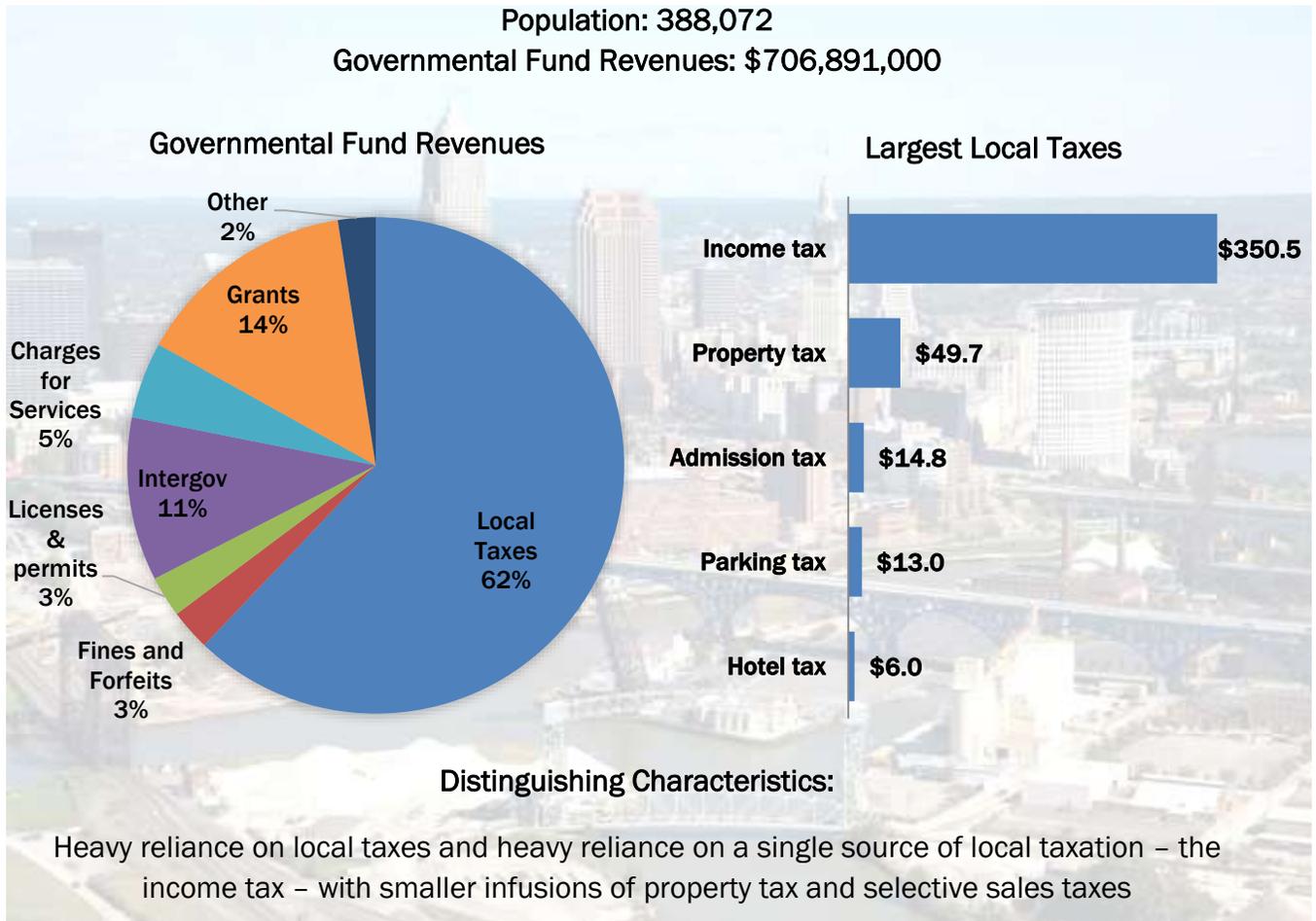
Pittsburgh's approach to generating revenues offers considerable food for thought for Milwaukee. State and City leaders in Pittsburgh recognized a need to spread an increased share of the local tax burden to non-residents – both to ensure equity and as a means of tapping into Pittsburgh's growing advantages as a place where businesses wish to locate and where citizens from across the region and state wish to visit. Milwaukee has similar advantages that are rapidly expanding, which could lead to a similar conclusion.

City and state leaders also saw reform of their tax structure as an opportunity to make Pittsburgh more attractive to new businesses and to better position existing businesses to compete in the global economy. Similarly, the opportunity to engage business leaders in discussion on the potential benefits of substituting different forms of sales or payroll taxes for property taxes and user fees might be warranted and might be welcomed by those leaders.

Of course, none of the local taxing mechanisms utilized in Pittsburgh could be adopted by Milwaukee without approval by the Wisconsin Legislature. This may lead to the conclusion that pursuing just one or two modifications – as opposed to a complete overhaul of the existing structure that would involve several new forms of taxation – may be a more logical approach for those interested in altering Milwaukee's revenue structure.



CLEVELAND



BACKGROUND

The City of Cleveland has a population of 388,000 and occupies 82.5 square miles. With \$707 million in governmental fund revenues in 2015, its budget is about 85% the size of Milwaukee's.

Cleveland has struggled economically in recent years, losing much of its manufacturing base but attempting to offset that decline with a shift toward health care and financial services. The city's unemployment rate stood at 7.1% in April 2015, as compared to the statewide unemployment rate of 5.2%.

Cleveland's 2015 CAFR – published in June 2016 – noted that the city's economy "draws strength and stability from its evolving role as the focal point of a growing, changing, and substantial regional economy." The CAFR also cited the "re-emergence" of Cleveland's downtown to become a focal point for national and regional entertainment and cultural activities and asserted that this "signals a



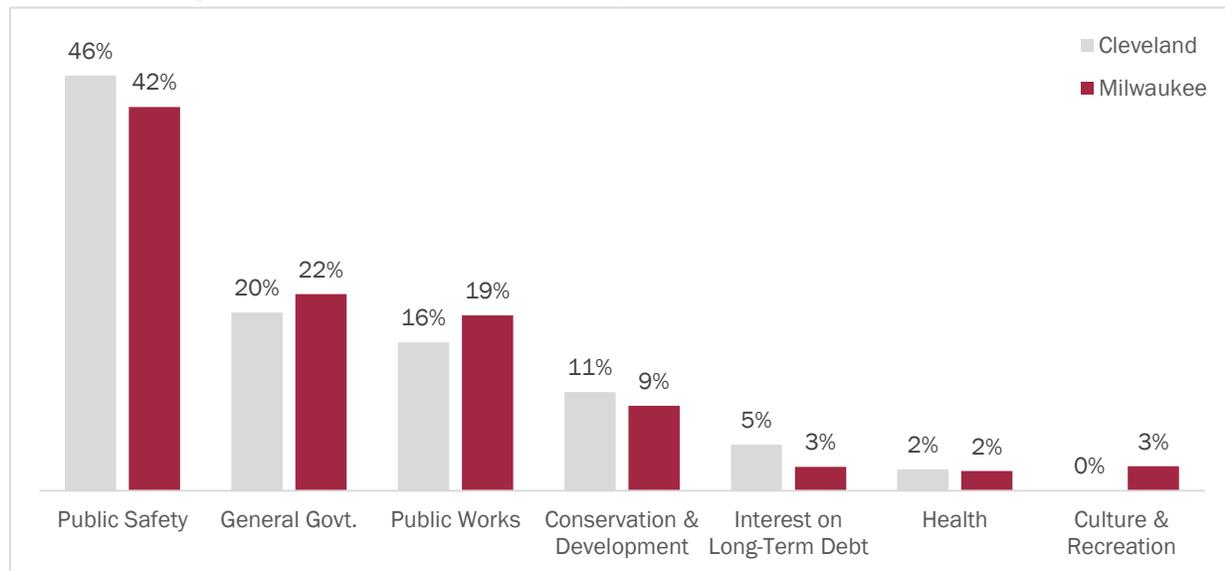
turning point in the city's overall fortunes and is paving the way for further economic expansion that will be significantly more entrepreneurial in scope."²⁷

As shown in **Table 10**, public safety is the largest component of Cleveland's governmental fund expenditure budget, followed by general government and public works. It should be noted that Cleveland's Department of Public Works includes a parks and recreation function that spends more than \$26 million annually to maintain 154 park sites and operate 21 recreation centers. In Milwaukee, parks primarily are a county function, while recreational services are spearheaded by the Milwaukee Public Schools. Otherwise, as shown in **Chart 9**, Cleveland's array of services and its distribution of resources among those services are somewhat similar to Milwaukee.²⁸

Table 10: City of Cleveland 2015 governmental fund expenditures by function

Activities	Expenditures	Per Capita
Public Safety	\$328,453,000	\$846
General Govt.	\$140,946,000	\$363
Public Works	\$117,040,000	\$302
Conservation & Development	\$77,933,000	\$201
Interest on Debt	\$36,489,000	\$94
Public Health	\$16,841,000	\$43
Total	\$717,702,000	\$1,849

Chart 9: 2015 governmental fund expenditures by function, Cleveland vs. Milwaukee



²⁷ City of Cleveland CAFR for Year Ended December 31, 2015.

²⁸ Cleveland's CAFR cites Community Development, Building & Housing, and Economic Development as separate expenditure categories, while Milwaukee's folds those functions into Conservation & Development. For comparative purposes, the chart combines those functions for Cleveland, as well.



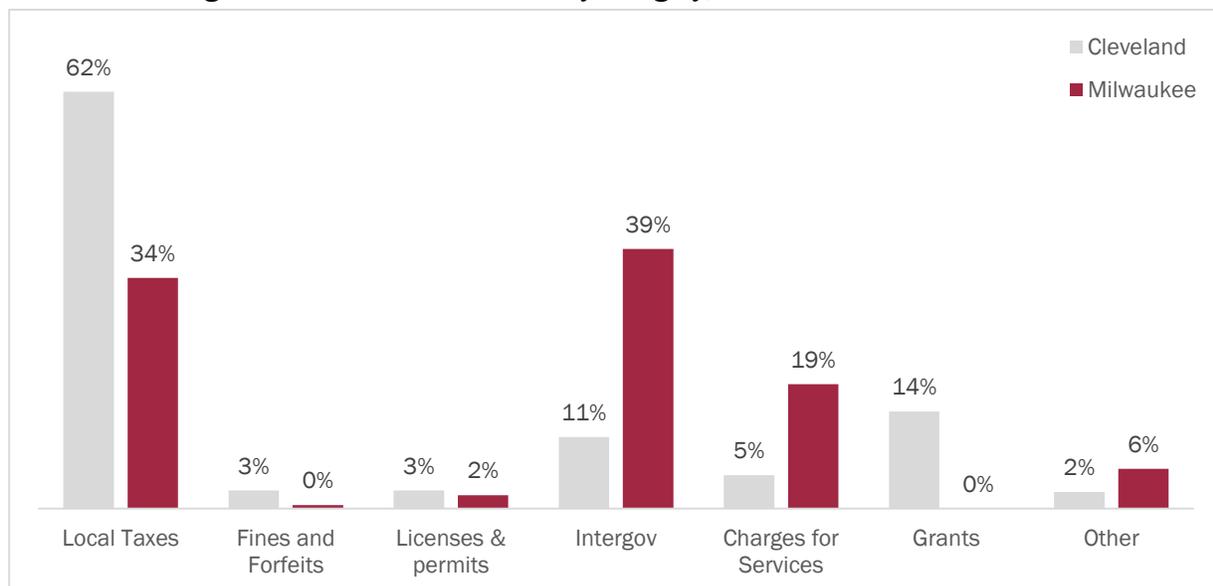
REVENUE STRUCTURE

Cleveland's revenue structure is characterized by a heavy reliance on local taxes (particularly a local income tax). As shown in **Table 11**, local taxes comprised \$439 million (62%) of Cleveland's governmental fund revenues in 2015, with grants and intergovernmental revenues accounting for the next largest sources.²⁹ Major sources of intergovernmental revenue include a distribution from the State and Local Government Fund (\$26.6 million in 2015) and casino revenue that is distributed to local jurisdictions by the state (\$9 million). **Chart 10** shows Milwaukee's comparably higher reliance on intergovernmental revenue and charges for services, and its lower reliance on local taxes.

Table 11: City of Cleveland 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Local Taxes	\$439,125,000	\$1,132
Grants	\$102,257,000	\$264
Intergovernmental	\$75,297,000	\$194
Charges for Services	\$35,169,000	\$91
Licenses & permits	\$18,884,000	\$49
Fines and Forfeits	\$18,864,000	\$49
Other	\$17,295,000	\$45
Total	\$706,891,000	\$1,822

Chart 10: 2015 governmental fund revenues by category, Cleveland vs. Milwaukee

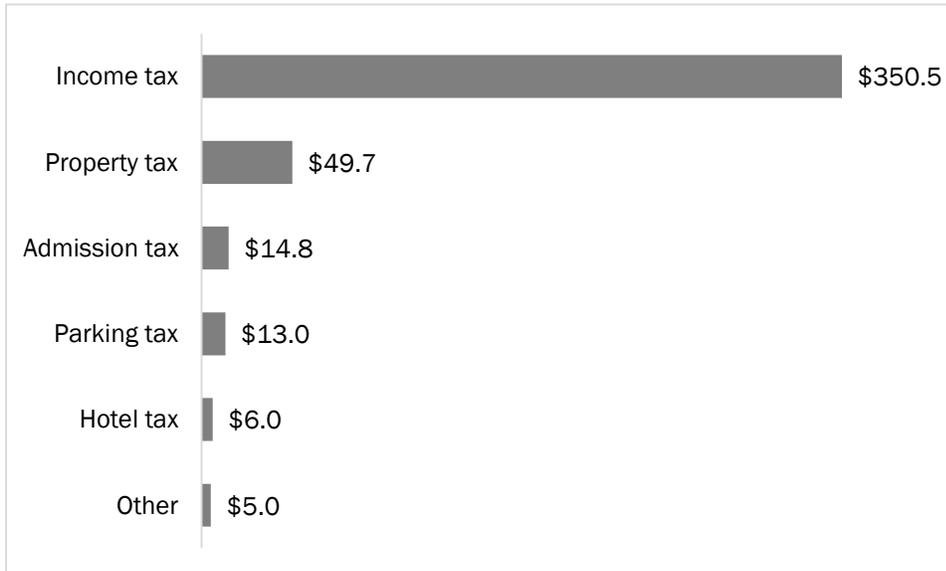


²⁹ The table likely understates Cleveland's intergovernmental revenue when compared to peers, as Cleveland's CAFR categorizes certain federal and state grants in a separate "grants" category. The other cities examined in this section categorize such grants as intergovernmental revenue.



Chart 11 shows that \$351 million (80%) of Cleveland's local tax revenue is derived from an income tax, while the property tax comprises only \$50 million (11%). Like Pittsburgh, Cleveland also levies selective sales taxes on entertainment and parking, as well as a hotel tax.

Chart 11: City of Cleveland 2015 local taxes (in millions)



The following provides a brief summary of the different types of local taxes employed by the City of Cleveland.

- Income tax** – Cleveland imposes a 2.5% tax on corporate income and wages earned in the city, whether by residents or non-residents. Residents who work outside the city may deduct the income taxes paid to the municipality in which they work. Per state law, municipalities may levy income taxes at a rate of up to 1% on their own and at a rate above 1% with voter approval. In November 2016, voters in Cleveland approved a 0.5% rate increase to 2.5%. The 2% income tax generated \$350.5 million in 2015. According to the 2015 CAFR, approximately 90% of income tax revenues paid to the City were derived from non-residents and business profits. Per a 1981 referendum, one ninth of the proceeds must be used for debt service or capital improvements.
- Property tax** – Cleveland levies its property taxes by applying a mill rate to the assessed value of property, though that value is fixed only at 35% of full value. State law prohibits the collective taxation of property from all levying entities in excess of 10 mills without voter approval. The City's share of that "unvoted millage" is 4.4 mills, of which 4.35 mills is dedicated to debt service and the remaining .05 to pensions for fire personnel. Cleveland also receives the proceeds from an additional 8.3 mills approved by voters. Of that amount, the revenues generated from 7.75 mills are dedicated to general operations while the remainder goes to fire/police pensions. The property tax generated \$49.7 million for governmental funds in 2015. Milwaukee's 2015 millage rate was \$10.71, but 100% of assessed value is taxed.
- Admission tax** – Cleveland imposes an 8% tax on ticket sales for events held within the city. Religious and charitable organizations are exempted, as well as entertainment venues with



capacity of fewer than 150 people. Cleveland collected \$14.8 million in admissions taxes in 2015.

- **Parking tax** – Cleveland imposes an 8% tax on commercial, non-residential parking facilities offering three or more parking spaces. The parking tax generated \$13 million in 2015.
- **Hotel tax** – Cleveland levies a 3% tax on hotels, motels, and other establishments that sell lodging to transient guests. The hotel tax generated \$6 million for the City in 2015. The City of Milwaukee has a 7% hotel/motel tax, but the proceeds go to the Wisconsin Center District.

Assessing Cleveland's revenue structure in the context of best practices

Cleveland's revenue structure is only **modestly balanced** in that the income tax comprises 80% of its local tax revenue portfolio. The use of selective sales and property taxes provides some revenue diversity, but Cleveland's fiscal fortunes in a given year are tied closely to a single source of revenue. On the positive side, application of the income tax to residents, businesses, and non-residents spreads the local tax burden among both residents and commuters.

Cleveland's structure also has only **modest reliability**, as its dependence on the income tax makes it susceptible to substantial fluctuations from changes in economic conditions. While its local tax portfolio is more diverse than Milwaukee's, reliance on a single tax could be viewed as a bigger problem for Cleveland given that income tax revenues tend to be impacted more sharply and immediately by economic downturns than property tax revenues. Also, income tax rates cannot be as easily adjusted to respond to such conditions. Cleveland lost \$28 million in income tax collections in the two years after the 2007-2008 recession.

Cleveland's revenue structure **rates highly in terms of equity**. Both the income and property tax require those with higher incomes or higher-value homes to contribute more money toward the cost of City services. Cleveland also equitably distributes taxes among the users of City services given that its income tax is applied to businesses, residents, and non-residents, and that its parking, hotel, and admission taxes draw revenues from commuters and visitors.

Finally, Cleveland's revenue structure is **challenged in terms of its straightforwardness** in that it requires residents, businesses, and commuters to prepare and submit municipal income tax forms in addition to their state and federal returns. It is worth noting, however, that Cleveland's municipal income tax form is only one page. Cleveland's other forms of local taxes are relatively simple to collect and relatively easy for individuals and businesses to understand.



OBSERVATIONS

Our research and interviews yield the following additional observations about Cleveland's revenue structure:

- **The Mayor's case for raising the local income tax was linked largely to a decline in state aids.** Cleveland's mayor cited the City's annual loss of state revenues as a primary justification for his proposal to increase the City's income tax from 2 to 2.5% (which was approved by voters last November by three percentage points). The State of Ohio created a Local Government Fund in 1935 when it promised that 40% of collections from a new state sales tax would be redistributed to local governments and school districts. However, distributions were cut sharply in the face of a severe budget shortfall in 2011. Cleveland's allocation from the Fund declined from \$56 million in 2006 to \$26.5 million in 2015. Cleveland also has lost more than \$10 million annually from state modifications to tangible personal property, estate, and commercial activity taxes.
- **Cleveland faces expenditure challenges that are similar to those facing Milwaukee.** In pushing for the income tax increase, City officials also cited costs associated with a Consent Decree with the U.S. Department of Justice, which required enhanced police staffing and technology; newly negotiated union contracts that required both future and retroactive pay increases; and a desire to implement a comprehensive youth violence prevention strategy. Similarly, Milwaukee faces fierce expenditure pressures from growing police staffing and technology needs; its 2017 budget included sharp spending increases associated with retroactive pay increases for police and fire personnel; and the Mayor has launched a Youth Development and Violence Prevention Initiative, which so far has had to rely largely on funding from outside grants.
- **Suburbanites pay the bulk of Cleveland's income taxes.** Officials estimate that 87% of the income taxes collected by the City come from people who work in the city but live outside of it. Cleveland's population grows from about 390,000 to 593,000 on workdays, and commuters hold about 77% of the jobs in the city, including 78% of downtown jobs.³⁰ While suburban municipalities also have the ability to levy local income taxes, they do so at lower rates. The impact of the City's income tax on commuters was contentious during the recent debate on the proposed increase, with some arguing it was unfair for suburban commuters to have no say in the citywide referendum.

RELEVANCE TO MILWAUKEE

While Cleveland's revenue structure is similar to that of Milwaukee in its strong reliance on a single source of local taxation, the similarities end there. Cleveland's income tax reflects a far different philosophy for generating revenue in that it leans on non-residents who inhabit the city during the workday to contribute heavily to City government. The same is true – with visitors added to the mix – with regard to Cleveland's use of admission, parking, and hotel taxes. In stark contrast, Milwaukee's approach relies heavily on residents through property taxes and fees (though businesses pay these

³⁰ Cleveland.Com, http://www.cleveland.com/metro/index.ssf/2016/02/suburbanite_pay_income_tax.html, February 2016.



as well), and Milwaukee reaps no direct financial benefit from the entertainment, parking, food/beverage, retail, and hotel/motel purchases made by commuters and visitors.

Similar to Milwaukee, Cleveland has suffered financially from reductions in state aids and modifications to state taxation policies. In response, Cleveland's leaders were able to ask voters to choose between raising the local income tax or reducing municipal services. It is worth noting that, when faced with that choice, Cleveland's business leadership largely supported the former. This decision also implies that Cleveland's leaders feel the city has sufficient positive attributes to endure higher income tax rates without losing substantial numbers of businesses or residents.

Milwaukee's leaders have a similar option with regard to the property tax, which is restricted by State levy limits, but which allows for those caps to be exceeded if approved by referendum. The referendum option has been used sparingly by cities, however, which is not surprising given their already high property tax rates. In fact, according to the League of Wisconsin Municipalities, only 34 municipalities have availed themselves of that option since levy limits went into effect in 2006, including 13 cities and villages and 21 towns.

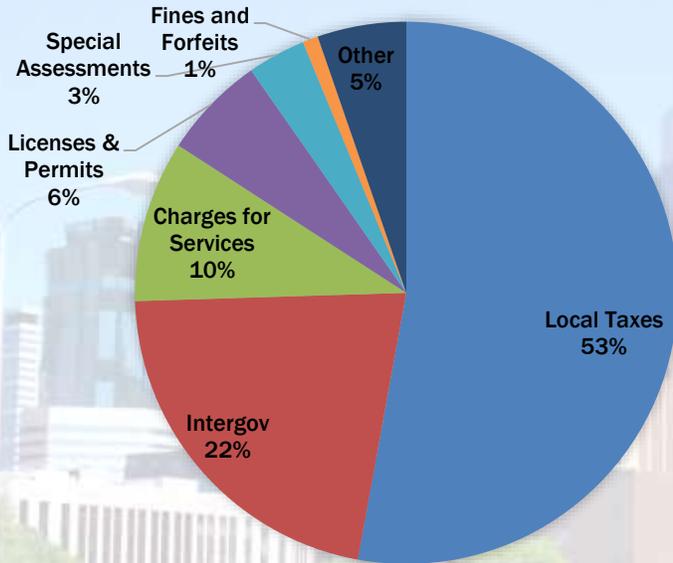
Using a city income tax similar to Cleveland's – even if allowed under State law – likely would be a difficult pill for Milwaukee to swallow given the State's already high income tax rates. Also, unless suburban communities also were authorized and elected to impose an income tax (as they do in metro Cleveland), a Milwaukee income tax could have negative impacts on business retention and recruitment. Nevertheless, Cleveland's use of a revenue structure that spreads the burden of paying for City services across the wide range of users – and that allows residents to determine when that burden can be increased without unduly impacting the city's attractiveness and competitiveness – would appear to offer food for thought for those contemplating a different revenue structure for Milwaukee.



MINNEAPOLIS

Population: 410,939
 Governmental Fund Revenues: \$743,458,000

Governmental Fund Revenues



Largest Local Taxes



Distinguishing Characteristics:

Moderate reliance on local taxes and heavy reliance on a single source of local taxation – the property tax – with smaller infusions of general and selective sales taxes

BACKGROUND

The City of Minneapolis has a population of 411,000 and occupies 59 square miles. With \$743 million in governmental fund revenues in 2015, its budget is about 90% of the size of Milwaukee's.

Minneapolis has enjoyed strong economic conditions and population growth in recent years. Its 3.9% unemployment rate in 2015 was 1.7 percentage points lower than 2012 and 0.8 percentage points lower than the state rate. Minneapolis' 2015 CAFR – published in June 2016 – noted that the city "enjoys a strong and highly diverse business foundation of companies involved in manufacturing supercomputers, electronics, medical instruments, milling, machine manufacturing, food processing



and graphic arts."³¹ Its 2016 budget adds that "the city's highly educated workforce continues to be a driving force of a strong economy."³² Minneapolis' population grew 7.5% from 2010 to 2015.

As shown in **Table 12**, public safety is the largest component of Minneapolis' expenditure budget, followed by community planning/economic development and public works. A distinctive feature of Minneapolis' governmental fund budget is the inclusion of a Community Planning and Economic Development Special Revenue Fund that operates a series of activities "designed to enhance housing options and economic development within the city."³³ Its major source of revenue is property tax increment. This fund helps explain why Minneapolis shows vastly increased spending for community/economic development than other cities analyzed in this section.

As shown in **Chart 12**, Minneapolis also spends comparably less on general government than Milwaukee (this may be explained by the fact that general government expenditures in Milwaukee per its CAFR include employee fringe benefits, while in Minneapolis they do not).

Table 12: City of Minneapolis 2015 governmental fund expenditures by function

Activities	Expenditures	Per Capita
Public Safety	\$275,495,000	\$670
Community Planning & E.D.	\$192,957,000	\$470
Public Works	\$122,472,000	\$298
General Govt.	\$97,652,000	\$238
Health & Welfare	\$23,462,000	\$57
Interest on Long-Term Debt	\$16,329,000	\$40
Culture & Recreation	\$4,570,000	\$11
Total	\$732,937,000	\$1,784

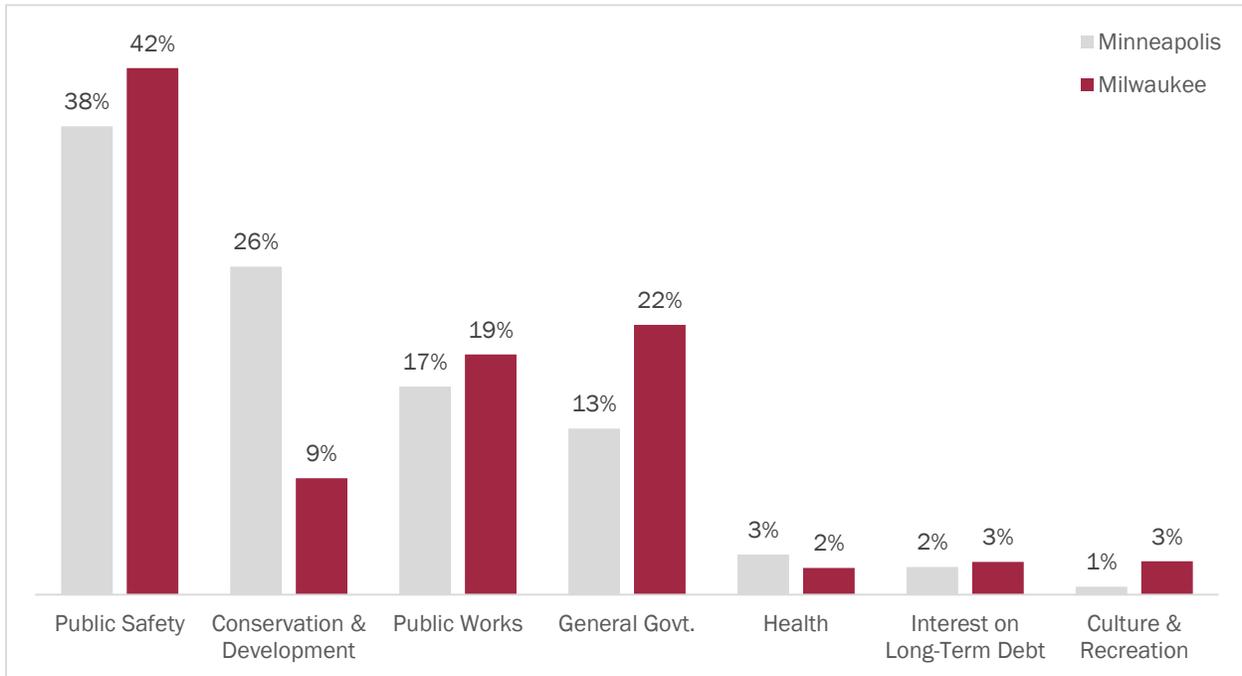
³¹ City of Minneapolis CAFR for Year Ended December 31, 2015.

³² City of Minneapolis 2016 Budget.

³³ City of Minneapolis CAFR for Year Ended December 31, 2015.



Chart 12: 2015 governmental fund expenditures by function, Minneapolis vs. Milwaukee



It also is important to note that City government owns the convention center in Minneapolis and maintains a special revenue fund to support it. That special fund receives a transfer from the General Fund to ensure that it breaks even. In addition, the City owns the Target Center, which houses the city's NBA franchise, and maintains a special revenue fund that supports most of the maintenance and operation of that facility. In contrast, City government in Milwaukee provides no direct support for the Wisconsin Center or Bradley Center.

REVENUE STRUCTURE

Minneapolis' revenue structure is characterized by a moderate reliance on local taxes (53% of its revenue total) and by a local tax portfolio that is highly dependent on one single source: the property tax. As shown in **Table 13**, intergovernmental revenue is the second largest source of revenue for the City (comprising 22% of the total), which represents lesser dependence on that source than Milwaukee, but much greater dependence than the other peer cities analyzed in this section. Minneapolis's proportional use of charges for services and licenses & permits revenue also exceeds that of the other peer cities (though Milwaukee's usage of charges for services revenue is greater). **Chart 13** further compares Minneapolis' revenue structure with that of Milwaukee.



Table 13: City of Minneapolis 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Local Taxes	\$393,015,000	\$956
Intergovernmental	\$160,953,000	\$392
Charges for Services	\$71,609,000	\$174
Licenses & Permits	\$45,878,000	\$112
Special Assessments	\$25,780,000	\$63
Fines and Forfeits	\$6,853,000	\$17
Other	\$39,370,000	\$96
TOTAL	\$743,458,000	\$1,809

Chart 13: 2015 governmental fund revenues by category, Minneapolis vs. Milwaukee

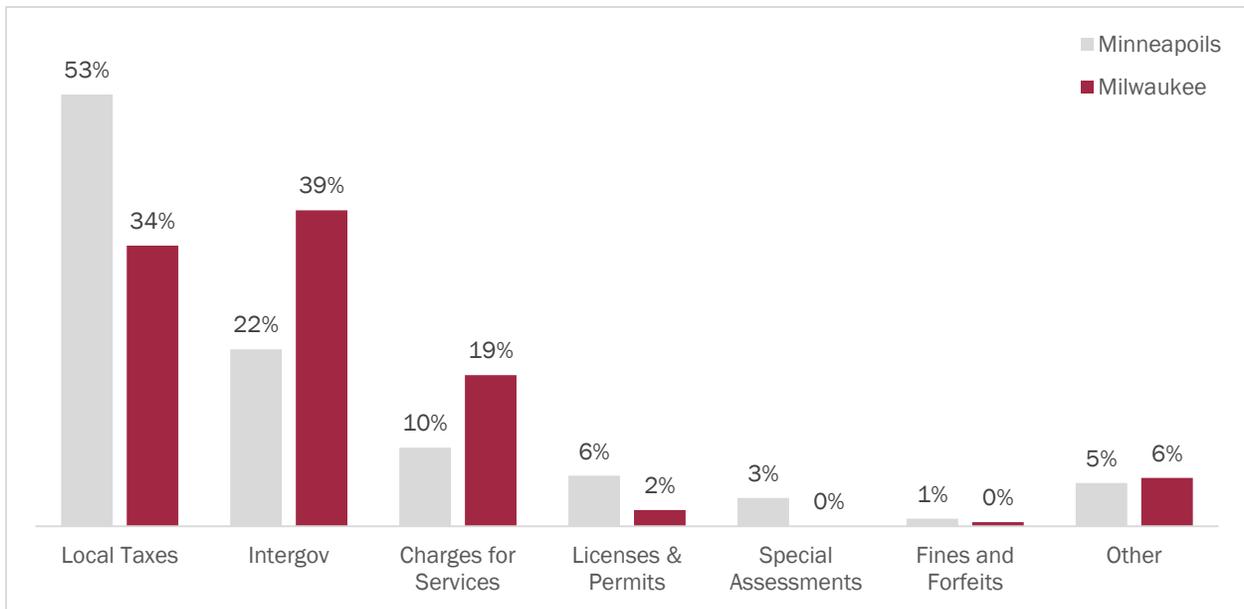
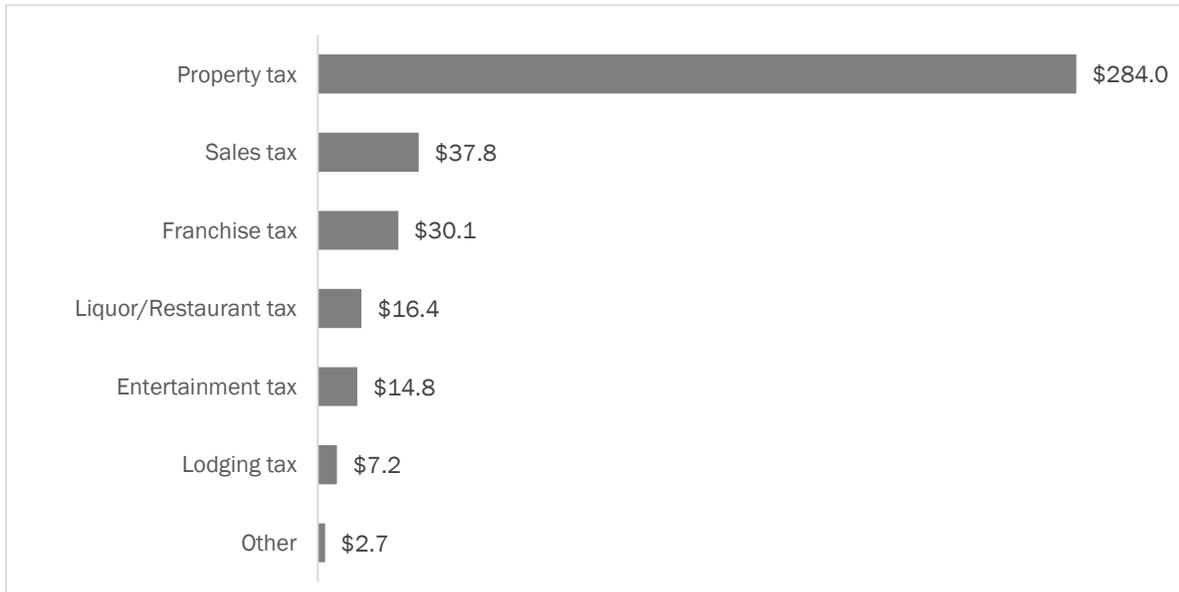


Chart 14 shows the largest local taxes levied by the City of Minneapolis and illustrates its substantial reliance on the property tax. Minneapolis supplements the property tax with a variety of general and selected sales taxes, and it also levies a franchise fee on local businesses.



Chart 14: City of Minneapolis 2015 local taxes (in millions)



The following provides a brief summary of the different types of local taxes employed by the City of Minneapolis.

- **Property tax** – Minneapolis levies a tax on personal and commercial properties by applying a mill rate to the property's value, but the methodology for determining that value varies. State law requires all properties within cities to be classified as one of more than 50 types, with each type receiving a classification rate that determines what portion of the property's value will be taxable. Property taxes in Minneapolis also are impacted by City and State policies, including levy limits. The City's General Fund receives the largest allocation of the City's property tax levy, though other City entities – including the Park Board and Municipal Building Commission – also receive allotments. The property tax generated \$284 million in 2015 with a mill rate of \$8.29 of assessed value.
- **Sales tax** – Since 1986, Minneapolis has levied a 0.5% sales and use tax. In order to impose a local sales tax, a political subdivision must obtain approval from the State through a special law. The use of sales tax proceeds is carefully prescribed by that law. In Minneapolis, the first uses of general and selective sales taxes are for payment of debt service and operational support for the city's convention center. Other eligible uses include capital projects at the convention center and Target Center, replenishment of the City's tax stabilization account, and certain infrastructure needs. The funds flow into the General Fund and then are transferred for other uses. Minneapolis collected \$37.8 million in general sales and use taxes in 2015.
- **Franchise tax** – Minneapolis imposes franchise taxes on electric and natural gas utilities and cable television companies that serve the city. State law allows cities to impose such taxes, which are intended to reimburse the City for the use of public right of way. Utility franchise fees typically are paid by the company's consumers as a fee on monthly bills. Franchise taxes generated \$30.1 million in 2015. The City of Milwaukee does not have statutory authority to levy such taxes for energy utilities (authority for such taxes is vested with the State), but does have



such authority for cable television companies. Milwaukee's cable franchise fee generated \$4.9 million in 2015 and is included in its revenue total for charges for services.

- **Liquor/Restaurant tax** – Minneapolis imposes a 3% tax on liquor, food, and beverages sold at bars, hotels, restaurants, and clubs in a downtown taxing district. Combined, they generated \$16.4 million for Minneapolis in 2015. Milwaukee does not have statutory authority to levy such taxes, though a 0.5% food and beverage tax in Milwaukee County (which also applies to sales of alcoholic beverages at bars and restaurants) is levied by the Wisconsin Center District.
- **Entertainment tax** – Minneapolis levies a 3% city-wide entertainment tax on admission fees; use of amusement devices and games (e.g. video games, pool tables); food, drink, and merchandise sold in public places during live performances (this is an add-on to the food/beverage tax); and short-term lodging. Certain artistic performances sponsored by nonprofit arts organizations are exempted from the tax. Minneapolis collected \$14.8 million in entertainment taxes in 2015.
- **Lodging tax** – Minneapolis levies a 2.625% tax on lodging at hotels and motels with more than 50 rooms. The lodging tax generated \$7.2 million for the city in 2015.

Assessing Minneapolis' revenue structure in the context of best practices

Minneapolis' revenue structure is only **modestly balanced**, as the City relies heavily on the property tax, which comprises 72% of its local tax revenues. The use of general and selective sales taxes, franchise taxes, and lodging taxes do provide some revenue diversity. In addition, the various selective sales taxes spread a portion of the local tax responsibility among visitors and commuters.

Minneapolis' structure enjoys a **relatively high degree of reliability**, as there is some balance between property taxes and sales taxes. The franchise tax also represents a stable source of revenue. On the negative side, the reliability of Minneapolis' property tax collections is somewhat restricted by local levy limits.

Minneapolis' revenue structure **rates relatively highly in terms of equity**, as its largest revenue source – the property tax – draws greater amounts of revenue from those with higher home values. On the negative side, franchise taxes are passed on to users by utilities without regard for income level. Minneapolis' heavy reliance on the property tax makes its structure less equitable in terms of distributing taxes and fees among the full range of users of City services, though its sales and lodging taxes do bring in some revenue from commuters and visitors.

Finally, Minneapolis' revenue structure is somewhat **challenged in terms of its straightforwardness** given the complex nature of its property tax calculation and the variety of different selective sales taxes it uses, some of which only are applied in the downtown area. The general sales tax is relatively simple to collect and relatively easy for individuals and businesses to understand.



OBSERVATIONS

Our research and interviews yield the following additional observations about Minneapolis' revenue structure:

- **Minneapolis has been able to use natural growth in local sales taxes to help offset large cuts in state aids.** Per its 2016 budget, the City's Local Government Aid (LGA) allocation from the State – which at \$77 million comprised nearly half of its intergovernmental revenues in 2015 – was reduced by \$70 million from 2008-2011. Fortunately, local tax revenues have grown substantially, from \$350 million in 2010 to \$393 million in 2015 (12%). The 2016 budget notes that "the City's financial position has benefited from growth in local sales and entertainment taxes...due to the continued growth in the local economy." The Fitch ratings agency echoes that point, stating that while property taxes "registered only modest growth between 2011 and 2015...local sales, entertainment, and hotel taxes have risen at a level approaching 4% per annum since 2000."³⁴
- **Minneapolis also has turned to license, permit, and service charges to offset state aid reductions.** Between 2011 and 2015, charges for services revenue grew from \$58.7 million to \$71.6 million (22%), while licenses/permits grew from \$32.9 million to \$45.9 million (40%). Similar to Milwaukee – which saw its charges for services revenue grow by 16.8% and its licenses/permits revenue grow by 25.1% over the same period – Minneapolis has turned to these sources as a means of using non-property tax options to offset reduced State revenues.
- **Use of Minneapolis' local sales taxes traditionally has been restricted but now contributes to the financing of general City services.** The City's array of general and selective sales taxes were enacted in 1986 as a means of paying for the construction of a new downtown convention center. Over time, their usage has expanded, and a policy change adopted in 2014 allowed the funds to flow into the General Fund. While the first uses of the funds still are for convention center debt and operations and for the Target Center, they have freed up property tax dollars that can be used for other needs and have helped the City maintain service levels and limit property tax increases in the face of state aid reductions.

RELEVANCE TO MILWAUKEE

Of all of the cities analyzed in this report, Minneapolis has the revenue structure that is most similar to Milwaukee's. Minneapolis' heavy reliance on state aids and the property tax – while not quite as pronounced as Milwaukee's – gives its budget a similar flavor, particularly given that both cities have suffered from state aid reductions. Common characteristics include an increasing need to lean on user-based fees, and high property tax rates that are unpopular with constituents and that make policymakers wary of increasing them.

Where the two cities diverge is in Minneapolis' collection of general and selective sales tax revenues, which give it greater revenue diversity and elasticity than Milwaukee. Yet, even here there are similarities. While Milwaukee does not have authority to issue such taxes, the Wisconsin Center

³⁴ Fitch Ratings report on Minneapolis 2016 G.O. bond issue, October 2016.

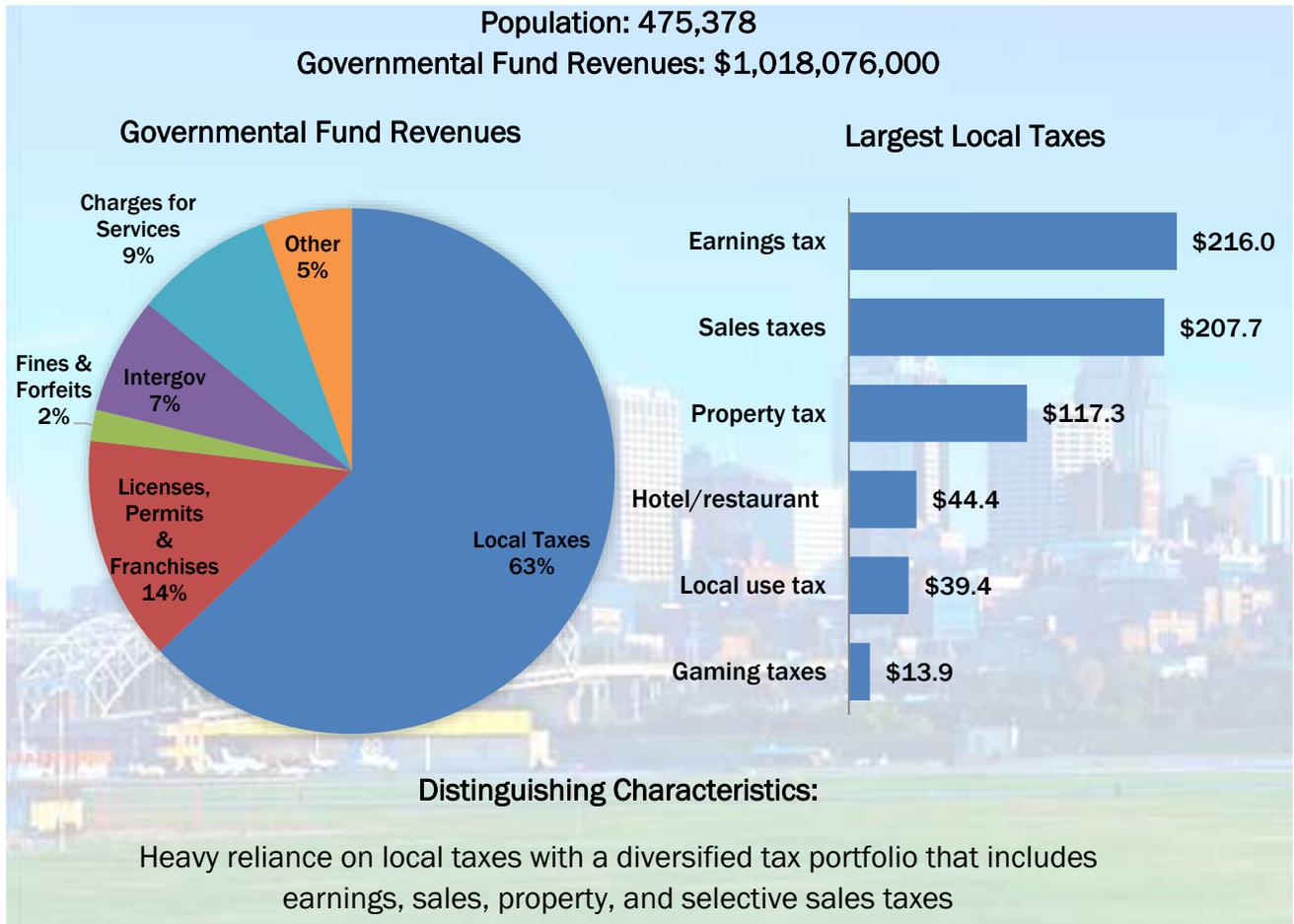


District levies both liquor/restaurant and lodging taxes to help pay for convention center debt service and operations. Those are the first use of those taxes in Minneapolis, as well. [Minneapolis' ability to levy a franchise tax also provides greater revenue diversity, but because that tax is passed along to consumers, it also could be seen as a user fee.]

Because Minneapolis' general and selective sales taxes are linked (in part) to ownership of the convention center and Target Center, it cannot be precisely argued that those revenue sources provide Minneapolis with greater revenue diversity and flexibility than Milwaukee. As described above, however, that is at least partially the case, as growth in those revenue sources *has* indirectly helped the City withstand reductions in state aids. In addition, Minneapolis' use of an entertainment tax and downtown liquor and restaurant taxes show how selective sales taxes can target the unique attributes of a first class city to ensure that its throngs of entertainment-seeking visitors chip in for the cost of the basic city services they use.



KANSAS CITY (MISSOURI)



BACKGROUND

Kansas City has a population of 475,000 and occupies 319 square miles. According to its 2017 budget,³⁵ Kansas City's square mileage makes it the 11th largest city by land area in the U.S. among cities not consolidated with counties. With a little over \$1 billion in governmental fund revenues in 2015, its budget is about 20% larger than Milwaukee's.

Kansas City enjoyed modest (2.8%) population growth from 2010 to 2015 and has a growing reputation as an up and coming city. According to the City's 2015 CAFR (published in October 2015), Kansas City recently was named the "coolest city to visit right now" by the *Huffington Post* and its downtown recently was named one of "America's best downtowns" by *Forbes*. It also has been

³⁵ Kansas City's fiscal year begins on May 1. Consequently, we were able to use the City's 2017 budget (which took effect on May 1, 2016) for this report. For the other peer cities in this section, we used 2016 budgets, as 2017 budgets had not been adopted and/or printed when we initiated our research in late 2016.



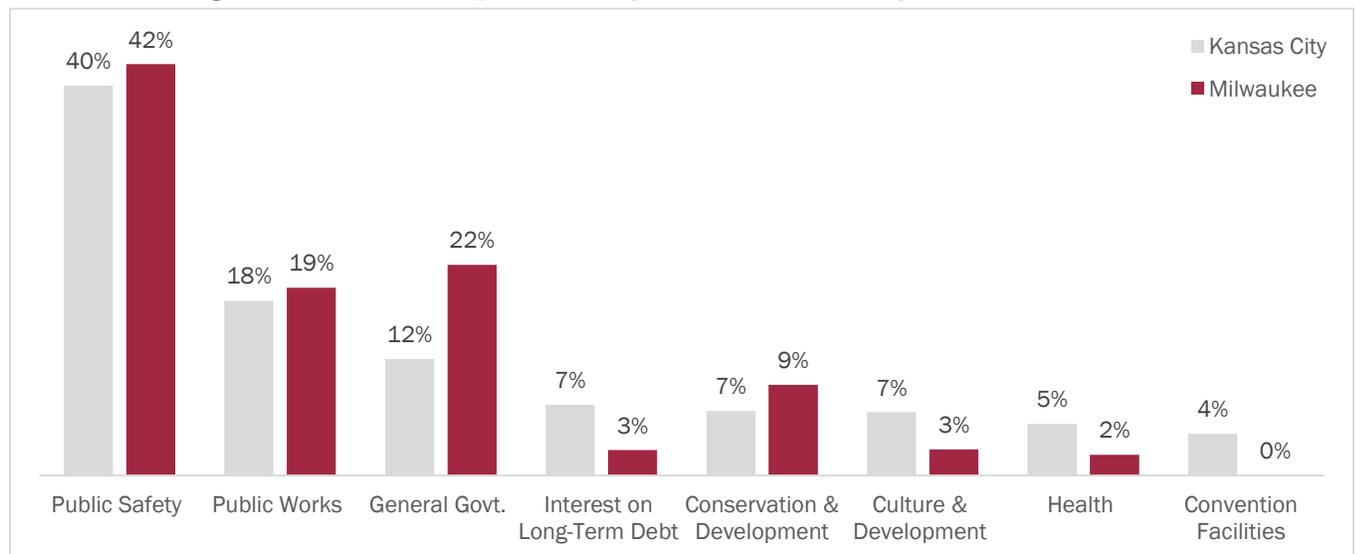
labeled as a "hot place" for start-ups by the *Wall Street Journal*. Kansas City's unemployment rate in October 2015 was 4.2%, which was 0.7 percentage points less than a year earlier and 0.5 points below the state average.³⁶ Its diversified economy includes transportation, telecommunications, manufacturing, health care, legal services, trade, financial services, and governmental services.³⁷

As shown in **Table 14**, public safety is the largest component of Kansas City's expenditure budget, followed by public works and general government. **Chart 15** shows that Kansas City's expenditure budget differs from Milwaukee's in terms of its larger expenditure on culture & development (its Parks and Recreation Department oversees an extensive parks system) and interest on long-term debt. It also differs in its inclusion of nearly \$44 million in expenditures for convention and entertainment facilities owned by the City and by the inclusion of nearly \$70 million within the public works function for transportation authorities that operate buses and streetcars.

Table 14: Kansas City 2015 governmental fund expenditures by function

Activities	Expenditures	Per Capita
Public Safety	\$407,290,000	\$857
Public Works	\$182,674,000	\$384
General Govt.	\$121,623,000	\$256
Interest on Long-Term Debt	\$73,741,000	\$155
Culture & Development	\$66,107,000	\$139
Neighborhood Development	\$55,880,000	\$118
Health	\$54,054,000	\$114
Convention Facilities	\$43,678,000	\$92
Economic Development	\$11,684,000	\$25
Total	\$1,016,731,000	\$2,139

Chart 15: 2015 governmental fund expenditures by function, Kansas City vs. Milwaukee



³⁶ Kansas City 2017 Budget.

³⁷ Kansas City 2015 CAFR.



REVENUE STRUCTURE

Like the other three peer cities considered in this section, Kansas City's revenue structure is characterized by a heavy reliance on local taxes. Where Kansas City is distinct, however, is in its heavy usage of *each* of the three major forms of local taxation analyzed earlier in this report (income, sales, and property taxes).

As shown in **Table 15**, local taxes comprised \$647 million (63%) of Kansas City's \$1 billion in revenues in 2015, with licenses/permits/franchises next at \$142 million and charges for services third highest at \$88 million. It is important to note that Kansas City's CAFR categorizes utility taxes under the licenses/permits/franchises category; if those taxes – which generated about \$102 million in 2015 – were categorized as local taxes, then Kansas City's local taxes would comprise about 73% of its total. **Chart 16** shows how Kansas City's revenue structure sharply contrasts with that of Milwaukee.

Table 15: Kansas City 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Local Taxes	\$647,423,000	\$1,362
Licenses, Permits & Franchises	\$142,381,000	\$300
Fines & Forfeits	\$19,586,000	\$41
Intergovernmental	\$73,965,000	\$156
Charges for Services	\$88,231,000	\$186
Other	\$56,139,000	\$118
Total	\$1,027,725,000	\$2,162

Chart 16: 2015 governmental fund revenues by category, Kansas City vs. Milwaukee

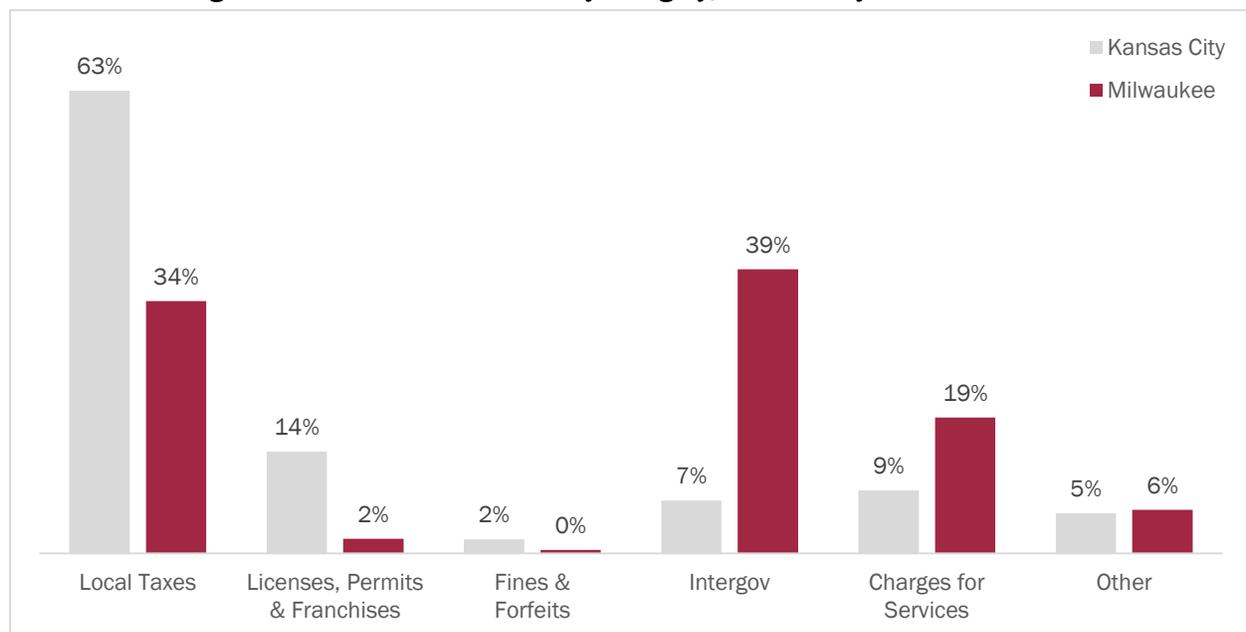
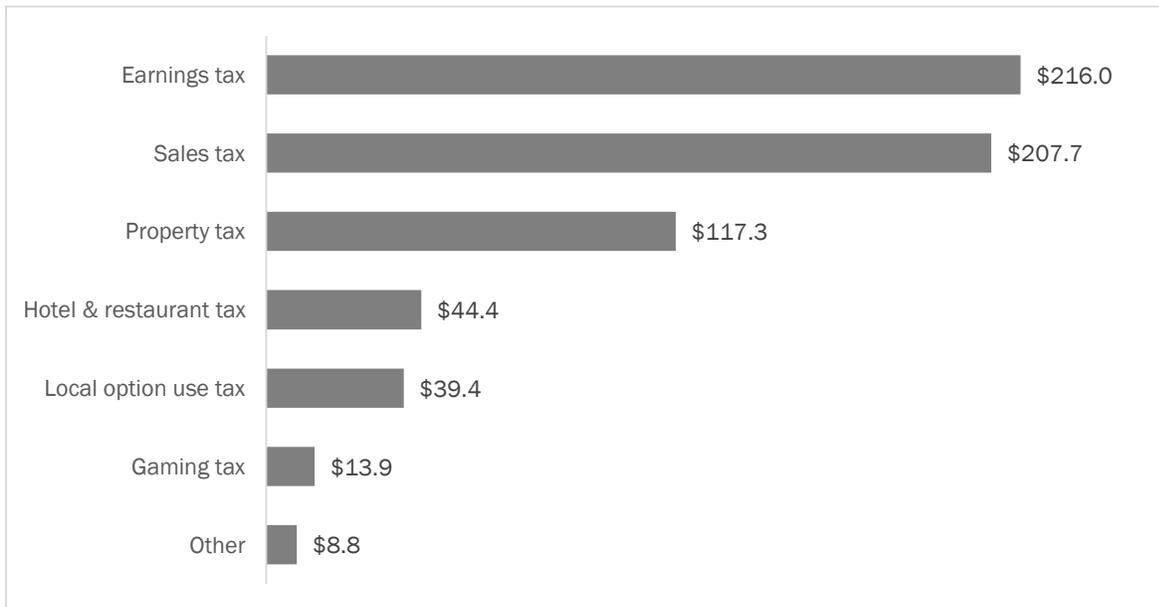


Chart 17 shows the largest local taxes levied by Kansas City and its co-dependence on three primary sources of revenue. No single tax makes up more than a third of Kansas City's local tax portfolio.

Chart 17: Kansas City 2015 local taxes (in millions)



The following provides a brief summary of the different types of local taxes employed by Kansas City.

- Earnings tax** – Since 1970, Kansas City has imposed a 1% tax on the city earnings of all residents and non-residents, as well as business net profits. Both the earnings and profits taxes must be renewed by Kansas City voters every five years; the most recent renewal occurred in April 2016, with 77% of the vote. The earnings tax generated \$216 million in 2015, making it Kansas City's largest single revenue source. According to the 2017 budget, individuals generate 81% of earnings tax revenues, while businesses contribute the remaining 19%. The budget also estimates that non-residents pay about 50% of the total. Kansas City and St. Louis are the only Missouri cities authorized to employ the earnings tax.
- Sales tax** – Kansas City levies a 3% general sales tax, with the revenues specifically earmarked for distinct city functions (the tax had been 2.875% until April 2017, when voters approved an additional 0.125% earmarked for inner city economic development).³⁸ The Missouri Legislature authorizes cities to levy sales taxes (upon voter approval) for a variety of prescribed purposes, and typically also requires voter re-approval on a periodic basis. Kansas City's sales tax is earmarked for capital improvements (1%), parks/recreation (0.5%), mass transit (0.5%), fire (0.25%), public safety (0.25%), the Kansas City Area Transportation Authority (0.375%), and inner city economic development (0.125%). Kansas City collected \$207.7 million in general sales taxes from the 2.875% tax in 2015.

³⁸ Kansas City also makes use of additional general sales taxes in special transportation development or community improvement districts, with the proceeds dedicated to improvements in those districts.



- **Property tax** – Kansas City levies a tax on properties by applying a mill rate to the property's value, but the methodology for determining that value varies. State law requires that different types of property be assessed at distinct percentages of their full value. For example, personal property is assessed at 33.3%, while residential real property is assessed at 19%. A 1980 amendment to the Missouri Constitution essentially limits annual increases in property tax rates to the lower of the Consumer Price Index or assessed value growth without voter approval. Kansas City generated \$117.3 million from property tax collections in 2015 with a total mill rate of \$1.59. Distinct rates are established for different city purposes, with \$0.71 dedicated to the General Fund in 2015, \$0.15 to debt service, \$0.71 to public health, and \$0.2 to the museum.
- **Hotel/Restaurant tax** – Kansas City imposes a 2% tax on the sale of food, beverages, and liquor at restaurants and a 7.5% tax on lodging at hotels and motels. The two taxes are segregated in a convention and tourism tax fund and only can be used to support convention and tourism activities. The two taxes generated a combined \$44.4 million in 2015.
- **Local option use tax** – While many jurisdictions combine sales and use taxes as one revenue line item, Missouri provides municipalities with separate discretionary sales and use tax authority. The use tax in Kansas City is levied at the same rates as the City's sales tax, but it is allocated differently in that it is not restricted to specific uses, and it primarily flows into the general fund. The tax is imposed on the out-of-state purchase of tangible personal property that is stored, used, or consumed in the city. The local option use tax generated \$39.4 million in 2015.
- **Gaming tax** – The State of Missouri levies a 21% tax on casino gaming, with 90% of the revenues retained by the State and the remaining 10% re-distributed to the city in which the casino is located. There are two casinos in Kansas City; casino gaming revenues allocated to City government totaled \$13.9 million in 2015. By comparison, the City of Milwaukee receives 1.5% of the net win from the Potawatomi Hotel & Casino, which amounted to \$5.4 million in 2015.



- **Utility tax** – As noted above, utility taxes in Kansas City (per its CAFR) are categorized under the licenses & permits category, but we describe them here given that other cities categorize them as local taxes, and given the amount of revenue they generate. Kansas City levies a 6% tax on sales of electricity and natural gas and telecommunications usage (plus an additional 4% on commercial usage), 5% on cable television bills, and 2.4% on use of steam (plus an additional 1.6% for commercial). These taxes are collected by the utilities and remitted to the City. Utility taxes generated \$98 million in 2015.

Assessing Kansas City's revenue structure in the context of best practices

Kansas City's revenue structure is **well-balanced**, as the City relies on a mix of three major local revenue sources (four if utility taxes are included), which ensures that no single local tax comprises more than a third of its portfolio. The use of incomes, sales, and selective sales taxes also ensures that a portion of the local tax burden is spread among visitors and commuters.

Kansas City's structure provides only **modest reliability**, as sales and income taxes can fluctuate sharply depending on local economic conditions, and property taxes – which fluctuate less sharply from year to year – comprise only 18% of the local portfolio. Also troublesome is the fact that the City's single largest source of revenue – the earnings tax – must be renewed by voters every five years, and several dedicated components of its general sales tax have sunset provisions. Utility taxes do represent a stable source of revenue.

Kansas City's revenue structure **does not rate highly in terms of equity**. Income, sales, and utility tax rates apply equally to citizens at all income levels. On the positive side, Kansas City's application of the earnings tax to non-residents and its heavy use of general and selective sales taxes distribute taxes and fees among the full range of users of City services.

Finally, Kansas City's revenue structure suffers from a **lack of straightforwardness**. The earnings tax creates another level of income tax reporting for residents, businesses, and non-residents, and the numerous dedicated uses of general sales and property tax revenues create a confusing patchwork for citizens seeking to understand where their tax dollars are being spent.



OBSERVATIONS

Our research and interviews yield the following observations about Kansas City's revenue structure:

- **Kansas City's fiscal future is precarious given the need to periodically renew the earnings tax.** The fact that voters could pull the plug on the City's single biggest revenue source – and that State legislators have been threatening to do so on their own – makes budget planning extremely difficult and casts constant doubt on the stability of core services. The 2017 budget warned that "elimination of the earnings tax, without equivalent replacement of revenue, would necessitate an equivalent reduction of over 2,200 employees over 10 years – mostly in police and fire operations."³⁹ The possibility of repealing the earnings tax in Kansas City and St. Louis received considerable debate in the Missouri Legislature last year. In addition, possible court challenges have been discussed.
- **Restricted use of Kansas City's sales tax proceeds creates a challenge for budget officials.** Kansas City's 3% general sales tax actually is a set of seven smaller general sales taxes, with each dedicated to a distinct government function and with several set to expire on different dates pending voter re-approval. This hodgepodge results from a mixture of authorizations per voter referendum, City ordinance, and State statute. Kansas City's budget director praises the City's revenue diversity, but says these restrictions on the expenditure of sales tax revenues create a significant challenge given that the prescribed uses are not necessarily consistent with the City's greatest needs and highest priorities.
- **Kansas City leaders established a special revenue commission to consider improvements to the City's revenue structure.** The Citizens' Commission on Municipal Revenue (CCMR) was established by the Mayor in July 2011 to "analyze the City's current revenue structure, consider the fairness and level of each major source, explore additional opportunities for improvements, and provide...innovative recommendations to improve the City's long-term financial condition."⁴⁰ The CCMR consisted of representatives from business, civic, neighborhood, and nonprofit entities. Its report – released in June 2012 – found the City's revenue structure to be generally sound, though it outlined a series of recommendations to promote greater reliability and equity.

RELEVANCE TO MILWAUKEE

Kansas City's balanced and diverse revenue structure and its very low reliance on intergovernmental support contrast sharply with Milwaukee's revenue picture. Milwaukee leaders likely would envy Kansas City's mix of four distinct primary local revenue sources, which combine not only to provide a high likelihood of inflationary growth, but which also effectively spread local taxation among residents, commuters, businesses, and visitors. The advantage of that structure was voiced by a Fitch ratings agency report in February 2017, which projected that the City can continue to expect revenues to grow at a "solid pace, which is consistent with growth trends over the past decade."⁴¹

³⁹ 2017 Kansas City budget, p. iii.

⁴⁰ Citizens' Commission on Municipal Revenue, 2012 Report to the City of Kansas City, p. 3.

⁴¹ Fitch Ratings, "Fitch Downgrades Kansas City, MO GO to AA- on Criteria Change," February 2017.



At the same time, the strings attached to Kansas City's major revenue sources detract from the reliability of its revenue structure. In the same analysis, Fitch noted that the City "has essentially no independent legal ability to increase revenues, with voter approval required for all new and increased taxes," and that Missouri's Constitution sharply limits increases in property taxes. Consequently, its capacity for revenue growth is dependent on "economic development trends."

The need for voter approval of new or increased local taxes can be a positive attribute of a revenue structure, and it is certainly a mechanism that State and local leaders could consider as a condition for altering Milwaukee's local tax structure. Dedicating specific local taxes to specific governmental functions or purposes also is a strategy that may have merit (particularly with a sunset), as it provides taxpayers with assurance that any extra tax burden they accept will be linked to addressing a specific high-priority need (e.g. public safety) or resolving a specific high-priority problem (e.g. infrastructure repair backlogs). That being said, it is easy to see how a structure with so many time-limited revenue streams and so many restrictions on uses of particular revenues can be confusing for taxpayers and disconcerting for fiscal officials.

SUMMARY

As noted in the introduction to this section, we have not performed the type of in-depth analysis of the budget challenges and local economic performance of the four peer cities that would be required to assess whether their revenue structures are "better" or "worse" than those of other cities. Furthermore, our analysis finds both strengths and weaknesses for each structure, and our discussions with budget officials in each city reveal that none see their structures as perfect.

Nevertheless, in viewing the revenue structures of these four cities collectively, we see several important characteristics that distinguish them from Milwaukee:

- 1. Their state governments have granted them greater authority than other municipalities within their states to establish different forms of local taxation.**
- 2. Each has developed several specific local tax sources outside of the property tax, general sales tax, and income tax.**
- 3. At least a portion of their local revenues are linked to economic growth and not subject to annual limits.**

Furthermore, in two of the cities, state and/or civic officials have worked with city leaders to identify flaws in their financial structure, shape their revenue sources, and improve their fiscal condition.

Consequently, while not necessarily providing an ideal model for Milwaukee, each of the four cities reviewed in this section offers important insights that could be used to address the flaws in Milwaukee's financial structure and secure hope for reasonable revenue growth going forward.



MODELING ALTERNATIVE REVENUE STRUCTURES FOR MILWAUKEE

Previous sections of this report have established that Milwaukee's revenue structure is highly unique with respect to its substantial reliance on revenue from the State and its exclusive use of only one major source of local taxation. We also have shown that, from a *theoretical* perspective, "unique" does not necessarily mean better or worse, as there are both pros and cons associated with municipal use of each of the three major forms of local taxation.

Yet, hearkening back to our previous research on the City's finances, we would also attest that from a *practical* perspective, Milwaukee's current revenue structure is not working. State shared revenue – the City's largest single revenue source – is budgeted at \$219 million in 2017, which is \$15 million lower than Milwaukee's actual shared revenue payment in 1997. Had that revenue source simply kept up with inflation, then the City's shared revenue allocation would be \$138 million higher than it is today.

With no other major revenue-generating options at their disposal, City leaders have leaned increasingly on property taxes and property-based fees, which have increased by \$115 million and \$127 million (in nominal terms) respectively over the past 20 years. Still, the resources generated from those strategies have been barely sufficient to meet the cost-to-continue needs of public safety and public works, leaving most other City functions with no additional spending capacity to meet inflationary pressures.

Consequently, in this section, we consider what the City's revenue picture might look like if revenue models from peer cities were applied to Milwaukee. Using insights gleaned both from our broad review of 38 peers and from our deeper analysis of four Midwestern cities, we develop four models:

- **Modified Property Tax Model** – this model, based on Minneapolis, simply tweaks Milwaukee's existing revenue structure to add a small general sales tax and a couple of selective sales taxes (one of which is applied only in the downtown area). The property tax would remain the primary revenue source and reliance on state aids would be slightly reduced.
- **Property and General Sales Tax Model** – this model, based loosely on Kansas City, would establish a sizable Milwaukee sales tax that would equate with the property tax as the two primary sources of revenue that support City government. A couple of small selective sales taxes also would be added to the revenue mix and reliance on state aids would be reduced but remain high.
- **Income Tax Model** – this model, based on Cleveland, would establish a Milwaukee income tax that would become the primary source of revenue supporting City government. The income tax would be applied to residents, non-residents working in the city, and corporate income generated in the city. A couple of small selective sales taxes also would be added to the revenue mix and reliance on state aids would be reduced but remain high.



- **Diversified Tax Model** – this model, based on Pittsburgh, would establish several new selective sales taxes in Milwaukee as well as a payroll tax and local services tax. The property tax would remain the largest source of local taxation but would be reduced substantially. Reliance on state aids would be reduced but would remain high.

Our methodology is based on applying Milwaukee demographics and financial data to the various revenue mechanisms used in each model. Obtaining precise data to conduct our modeling was no easy task; however, we believe that reasonable assumptions were made to provide viable proxies. A full discussion of our methodology is included in **Appendix B**.

A critical methodological decision was to **keep the total amount of revenue generated under each model identical to the amount of governmental fund revenue generated by the City of Milwaukee in 2015** (\$834 million). Consequently, the additional revenues generated by new forms of taxation in each model are used exclusively to reduce the property tax and state aids, as opposed to increasing the total amount of revenue available to the City.

This decision does not reflect a position that consideration should not be given to adding revenue to the City budget or to redistributing the new resources in other ways. However, our intent in this exercise simply is to demonstrate how new revenue sources would alter the City's *existing* revenue portfolio and to discuss those in the context of the strengths and weaknesses of each form of taxation.

It also is important to note that there was no policy intent behind the manner in which we allocated new tax revenues. We choose to divide these revenues between property tax relief and a reduction in state aids because our research suggests that the current overreliance on those two revenue sources is a highly problematic element of Milwaukee's revenue structure. We acknowledge that the notion of "refunding" any of Milwaukee's state aids would be vociferously opposed by many City officials, who argue the City already is being shortchanged by the State. In light of that argument, we could have devoted all of the new local tax revenue in our models to property tax relief. Alternatively, as noted above, we simply could have shown all or a portion as increased revenue in the budget.

We believe that showing some reduction in state aids is appropriate for the purpose of our modeling, however, given that our objective is to demonstrate what Milwaukee's revenue structure would look like if the approaches of the Midwestern peer cities were utilized here. With that as our premise, incorporating some reduction in state aids was a *necessity*, as no other Midwestern peer city employs a structure that has such a sizable state aid allocation.

We decided, therefore, to include a reduction of \$50 million in state aids for the three models that involve substantial new local tax revenues, and a smaller reduction of \$25 million for the one model that shows a smaller influx of new local taxes. There was no science behind these numbers – they simply represent round numbers that made sense in the context of our modeling. Again, **our models are purely hypothetical and they do not reflect a position that the City should relinquish a portion of its state aids if provided the opportunity to use new forms of local taxation.**

Finally, it should be noted that adoption of any of these models would require approval by the Wisconsin Legislature and Governor.



MODEL I: MODIFIED PROPERTY TAX MODEL

We start with a model that most closely parallels Milwaukee's current tax structure. This model is loosely based on Minneapolis' current tax structure. Among the cities in the 39-city peer group, Minneapolis is second only to Milwaukee in the proportion of local tax revenue obtained from the property tax.

This model continues Milwaukee's heavy reliance on the property tax, but lessens it somewhat by adding a 0.5% general city sales tax; and selective sales taxes on entertainment (8%) and food/beverages (2.5%, including liquor served at bars and restaurants). We apply the entertainment tax to the entire city to ensure that Miller Park is included. In contrast, the food/beverage tax is limited to the City's downtown per the example set by Minneapolis. This limitation also reflects the substantial public investment in downtown facilities and amenities that not only should bring considerable numbers of additional patrons to Downtown Milwaukee in the coming years, but that also should allow Milwaukee's downtown to successfully compete for restaurant and bar business despite a higher sales tax.

There are several reasons why the property tax remains the most common form of taxation for municipal governments across the U.S. One is that it is very defensible as a means of financing municipal services. Property owners require a variety of municipal services, such as garbage collection, sewers, snow and ice removal, street sweeping, police, fire, etc.; it appears fair and reasonable to ask the major users of city services to pay for them.

Another advantage is that the property tax meets the financial management needs of local governments, especially in times of economic recession. Because most local governments are empowered to adjust property tax rates to keep tax collections steady when

PROS

- Adds diversity to the City tax base, modestly reducing reliance on property taxes
- General sales tax spreads cost of City services across a wider base of users (including commuters and visitors)
- Takes advantage of growth of Downtown restaurant, bar, and entertainment venues
- Provides greater potential for revenue growth that corresponds with growth in the local economy
- Relatively easy to administer, as all of these taxes already are collected
- For payers of new sales taxes, involves only a small added cost per transaction

CONS

- General sales tax could shift consumer purchases outside of city
- Sales taxes take a larger share of income from low-income residents (exemptions on groceries and prescription drugs help alleviate this problem)
- Increase in the cost of food/beverages and entertainment could discourage consumption or drive business outside of Downtown
- Potential for revenue would decrease during times of economic decline



property values diminish, the property tax often is deemed a more stable form of taxation than the sales or income tax. Property values also tend to decline more slowly during economic downturns than sales or income, though they also tend to rebound more slowly when the economy recovers.

Comparing levels of property taxation from city to city is complicated by the fact that many cities in the U.S. only tax a portion of assessed value. The Washington, D.C. government produces an annual report that compares property taxes across cities by equalizing the treatment of property assessments. The most recent D.C. report finds that Milwaukee has the second highest “effective” property tax rate among the cities it surveyed.⁴²

The addition of relatively small general and selective sales taxes in this model would not replace the property tax as the City's major revenue source, but those taxes would add diversity to Milwaukee's current revenue structure. A primary argument in favor of a general Milwaukee sales tax is that as the largest city in the state, Milwaukee is Wisconsin's business and cultural center. Every day, the city is host to people from outside its borders: commuters, business owners, convention attendees, tourists, and others. These non-residents use city services, and a sales tax would be a way for non-residents and residents alike to help pay for them. From another perspective, a sales tax would leverage the city's economic and cultural vitality to take some pressure off property owners.

A similar argument would apply to selective sales taxes, which are a key fiscal resource for Milwaukee's peers. In 2012, 24 cities in our 39-member peer group raised more than 10% of their total tax revenues via selective taxation, and about half raised more than \$50 million in 2012 from such taxes. The average city raised \$63 million.

Chart 18 outlines the City of Milwaukee's revenue structure under the Modified Property Tax Model. The model generates \$56 million from the new general and selective sales taxes. We apply \$31 million of the new revenue to property tax relief and \$25 million to a reduction in state aids. The City's reliance on property tax levy would decrease from 30.4% to 26.7% of total revenues, while dependence on state aids would be reduced from 31.6% to 28.6%.⁴³

⁴² The D.C. comparison group consists of the largest city in each state, *Government of the District of Columbia, Tax Rates and Tax Burdens in the District of Columbia, A Nationwide Comparison, 2014*.

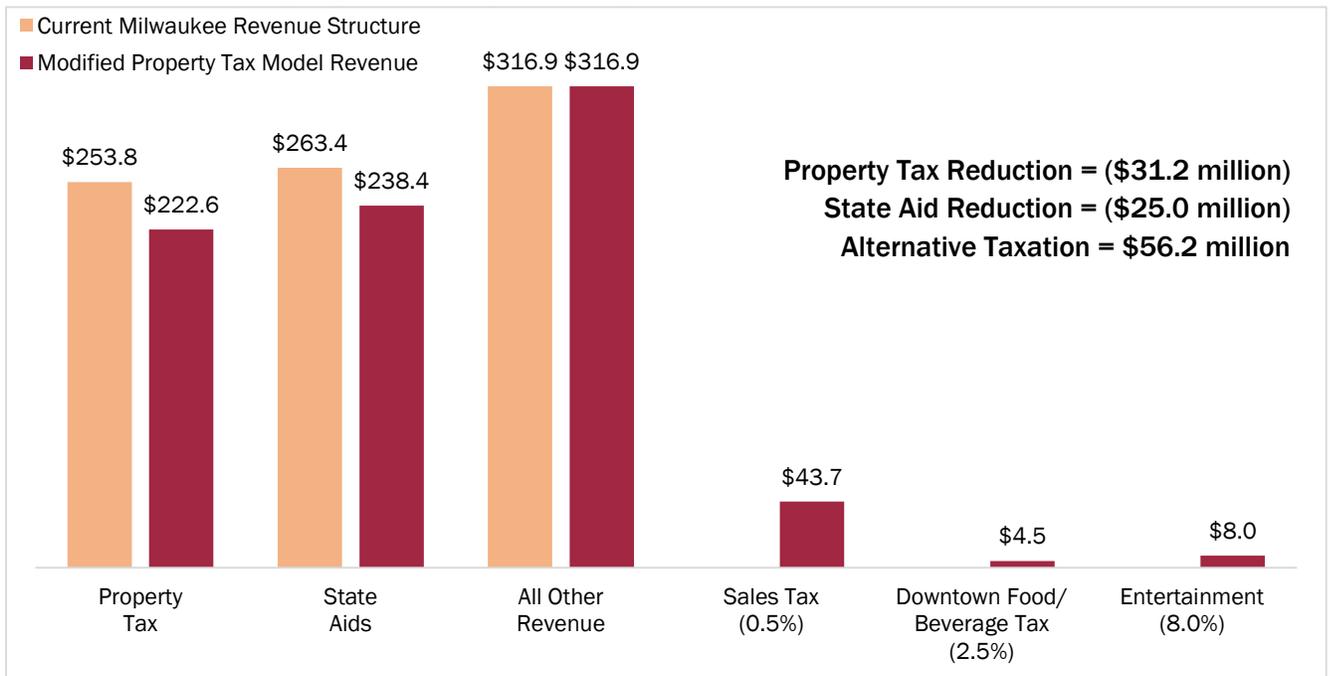
https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2014_51City_Study.pdf.

Another 2016 study by the Lincoln Institute of Land Policy ranks Milwaukee fifth among this same set of peers: <https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-study-2016-full.pdf>

⁴³ For all models, the "All Other Revenue" category is comprised of Other Taxes (which mostly consists of TID revenue), Charges for Services, Licenses & Permits, Fines & Forfeits, and all other miscellaneous revenues categorized as "Other" by the City's CAFR. We acknowledge that changes to the City's property tax rate may have an impact on TID incremental revenue, but we are unable to calculate that impact in our modeling.



Chart 18: Modified Property Tax Model (in millions)



We estimate that if this model had been in place in 2015, then a Milwaukee property owner's total combined property tax rate would have been reduced from \$29.97 per \$1,000 of assessed value to \$28.55, and City government's portion of that rate would have been reduced from \$10.71 to \$9.29.⁴⁴ This would have reduced the property tax bill for the owner of a median-valued home (\$114,000 assessed value) by \$162, as shown in **Table 16**. Of course, property tax savings for residents would be offset to some extent by increased sales taxes on most consumer purchases within the city, as well as for downtown restaurant/bar purchases and ticket purchases for certain entertainment venues. Because the amount of the offset would be predicated on consumer behavior, we cannot provide an estimate of its added cost for individual residents.

Table 16: Effects on property tax payments

	Gross Tax Rate	Median Home Value	Property Tax
Current Milwaukee Structure	\$29.97	\$114,000	\$3,417
Modified Property Tax Model	\$28.55	\$114,000	\$3,255

⁴⁴ For a City of Milwaukee property taxpayer, the gross property tax rate reflects the aggregate of rates charged by each taxing body, including City government, Milwaukee County, Milwaukee Public Schools, the Milwaukee Metropolitan Sewerage District, and Milwaukee Area Technical College, as well as a State property tax credit. Per the City's 2015 budget, the portion of the \$29.97 that was attributed to City government in that year was \$10.71. In our tables that show hypothetical property tax reductions for each model, we use the gross rate because that is the rate that is applied to the value of one's property to determine the total property tax bill.



MODEL II: PROPERTY AND GENERAL SALES TAX MODEL

The cities in our 39-city peer group collectively garnered 44% of all local taxes via the property tax and 41% via sales taxes in 2012. Our Property and General Sales Tax Model reflects that breakdown by constructing a framework in which Milwaukee would be almost equally dependent on property and sales tax revenues to fund its general government activities.

This model is loosely based on Kansas City's revenue structure in its co-dependence on a general sales tax and the property tax. Kansas City also has substantial reliance on the income tax, but we do not include income tax revenue in this model, as we felt it appropriate to include an income tax in only one of our four models (Model III). We do include a food and beverage tax in this model, as is the case in Kansas City.

Specifically, this model reduces Milwaukee's heavy reliance on the property tax by adding a 1.5% general city sales tax and a 1.25% selective sales tax on food/beverages (including liquor served at bars and restaurants). The food and beverage tax mirrors Kansas City's in that it applies to the entire city, and not just the downtown area. The model sets the sales tax rate at a level that would enable it to generate revenues that would be roughly equivalent to the property tax, while also allowing for a \$50 million annual reduction in aids from the State of Wisconsin.

It is not hard to understand why large cities employ sales taxes and regard them as a key financial resource. The 30 peer cities with a general sales tax took in an average of \$115 million in 2012. Sales tax revenue ranged from \$13.8 million in Tampa to \$442.3 million in Oklahoma City.

PROS

- Significantly diversifies the City tax base, reducing the reliance on property taxes
- Provides substantial property tax relief, lessening the burden on property owners
- General sales tax spreads cost of City services across a wider base of users (including commuters and visitors)
- Takes advantage of growth of restaurant and bars in city venues
- Provides strong potential for revenue growth that corresponds with growth in the local economy
- Relatively easy to administer, as all of these taxes already are collected
- For payers of new sales taxes, involves a relatively small added cost per transaction
- Transparent and easy to understand

CONS

- Given its size, general sales tax may shift some consumer purchases outside of city
- Sales taxes they take a larger share of income from low-income residents (exemptions on groceries and prescription drugs help alleviate this problem)
- Increase in the cost of food/beverages could drive some business outside of city
- Potential for revenue would decrease during times of economic decline



The general sales tax favors cities with vibrant shopping districts and is most productive during times of rising economic activity, when retail sales are brisk. In such periods, revenue flows into city coffers without limitation or state control. In an economic downturn, however, retail sales can dry up and with them city revenues. Unlike the property tax, for which the mill rate can be adjusted annually to compensate for declining property assessments, changes to the sales tax rate typically only occur in response to long-term fiscal trends and often require voter or state approval.

Perhaps the most common argument against the general sales tax is its regressivity, as there is no mechanism that compensates for differences in wealth or income. Moreover, because the portion of income devoted to consumption decreases with a rise in income, the tax carries an inherent bias against low-income individuals. The exemption of groceries and pharmaceuticals from taxation in Wisconsin and many other states offsets some of the regressive effects.⁴⁵

We acknowledge that a 1.5% City of Milwaukee sales tax would be sufficiently large as to generate legitimate concerns that Milwaukee would become a "tax island," i.e. consumers would opt to make purchases elsewhere to avoid the tax. That potential negative impact would be alleviated, of course, if sales tax authority also was granted to and used by other municipal governments in the region. Similarly, tax island concerns would be reduced – but not eliminated – if a sales tax was implemented countywide, with a portion of the proceeds distributed back to municipalities (as occurs in Pittsburgh).

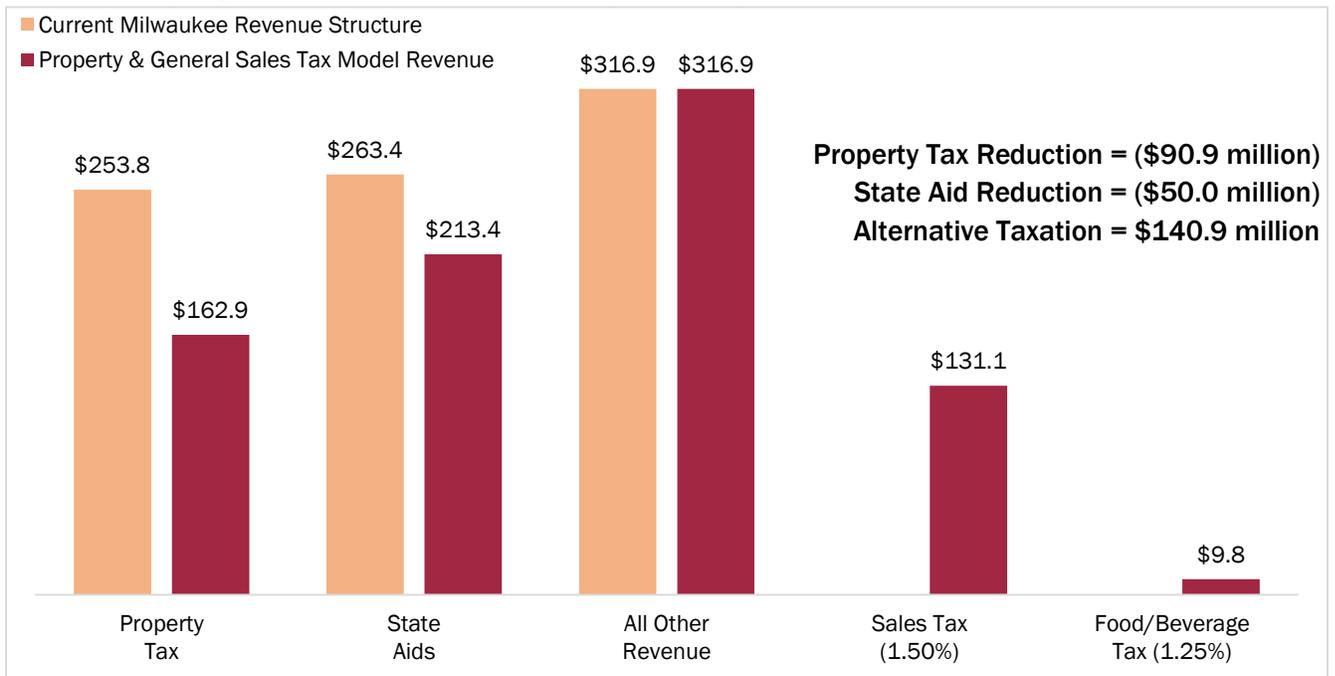
While tax island concerns are real, it is worth noting that under this model, Milwaukee still would maintain a lower general sales tax rate than many of its peers. The U.S. Census does not collect information on local sales tax rates. However, the Tax Foundation annually produces such a list for the 50 largest U.S. cities. The average total sales tax rate in the 28 cities that were in both the Tax Foundation list and our Milwaukee peer group was 7.7% in 2015 (this represents the sum of state, city, and county sales taxes). That compares to Milwaukee's current general sales tax rate of 5.6% (5% levied by the State of Wisconsin, 0.5% by Milwaukee County, and 0.1% by the Stadium District).

Chart 19 outlines the City of Milwaukee's revenue structure under the Property and General Sales Tax Model. The model generates \$131 million from the new general sales tax and \$10 million from the new selective food and beverage sales taxes. We apply \$91 million of the new revenue to property tax relief and \$50 million to a reduction in state aids. The City's reliance on property tax levy would decrease from 30.4% to 20.8% of total revenues, while dependence on state aids would be reduced from 31.6% to 25.6%. The general sales tax would comprise 15.7% of the City's revenue pie.

⁴⁵ For a general discussion of the regressivity of the sales tax see Wisconsin Legislative Fiscal Bureau, *Sales and Use Tax*, Informational Paper #7, 2015: https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2015/0007_sales_and_use_tax_informational_paper_7.pdf



Chart 19: Property and General Sales Tax Model (in millions)



We estimate that if this model had been in place in 2015, then a Milwaukee property owner's total combined property tax rate would have been reduced from \$29.97 per \$1,000 of assessed value to \$26.06, and City government's portion of that rate would have been reduced from \$10.71 to \$6.80. This would have reduced the property tax bill for the owner of a median-valued home (\$114,000 assessed value) by \$446, as shown in **Table 17**. Of course, those savings would be offset to some extent by significantly higher sales taxes on most consumer purchases within the city, as well as for restaurant/bar purchases. Because the amount of the offset would be predicated on consumer behavior, we cannot provide an estimate of its added cost for individual residents.

Table 17: Effects on property tax payments

	Gross Tax Rate	Median Home Value	Property Tax
Current Milwaukee Structure	\$29.97	\$114,000	\$3,417
Modified Property Tax Model	\$26.06	\$114,000	\$2,971



MODEL III: INCOME TAX MODEL

Our third model is based on the revenue structure found in Cleveland, which relies heavily on a 2.5% income tax that is levied on residents, non-residents who work in the city, and corporate income earned in the city. While only six of the cities in our 39-member peer group use the income tax, they include three of the four Midwestern cities we reviewed in the previous section.⁴⁶

Mirroring Cleveland, our Income Tax Model applies a 2.5% tax to individual and corporate income earned within the city as the primary source of local government taxation, as well as 8% selective sales taxes on entertainment and parking. The model retains a relatively small reliance on the property tax and reduces state aids by \$50 million.

While only six cities in our peer group have a local income tax, all 39 cities have a property tax, 30 have a general sales tax, and 38 have one or more selective sales taxes. A city income tax typically is assessed on wages and other forms of general compensation, as well as net business profits. Many of the six cities exclude income from pensions and social security, as well as investment income.

All cities with an income tax generate considerable revenue from it, often in excess of revenue from the property tax and sales tax. Other advantages of the income tax are the ability to establish separate rates for residents and nonresidents and the opportunity to use the proceeds to significantly reduce property taxes. As with the sales tax, the income tax generates revenue from others besides property owners; unlike the sales tax, however, it does not capture revenue from those passing through the city on business trips, tourism, recreation, and other short-term purposes.

The small number of peer cities with a local income tax is perhaps the best indication that the property and sales tax are preferred forms of local taxation. The income tax requires individuals to understand and comply with tax rules and regulations and to submit tax forms, a process that many see as burdensome. An income tax applied to non-residents also could impact business location,

PROS

- Raises greater amounts from higher-income taxpayers
- A portion of local taxes would be levied on non-residents to reflect their use of city services
- A portion of local taxes would be levied on corporate income to reflect the "privilege" of being located in a first-class city
- A relatively small income tax (percentage-wise) raises considerable revenue, thus allowing for minimal use of the property tax

CONS

- Could reduce disposable income resulting in a decrease in consumer spending
- Local income tax produces administrative responsibility for taxpayers
- Income tax could make Milwaukee less attractive to businesses and residents
- Wisconsin already has a relatively high income tax
- Increase in the cost of entertainment and parking could discourage consumption or drive business outside of city

⁴⁶ The six cities are Columbus, Cleveland, Pittsburgh, Detroit, St. Louis and Kansas City.



which is important given that many cities already are at a disadvantage in competing with neighboring suburbs to attract new businesses.

We recognize that any proposal to impose an income tax in Milwaukee would be controversial. Milwaukee residents already pay a substantial amount in State income tax, to which any local income tax would be added. The Washington-based Institute on Taxation & Economic Policy produced a report in 2015 comparing the tax systems of the 50 states. Using that report, we determined that Wisconsin's income tax rate for a couple in the middle income quintile is 6.27%, which is 12th highest in the nation and 1.77 percentage points higher than the national average of 4.5%.⁴⁷

Another likely argument against a Milwaukee income tax is that it would drive residents and businesses out of the city. While we cannot prove or disprove that assertion, Milwaukee would appear to have more to lose than some other large cities given the number of people that reside and work downtown, and given that metro Milwaukee's suburban communities do not impose income taxes (as they do in metro Cleveland, for example).

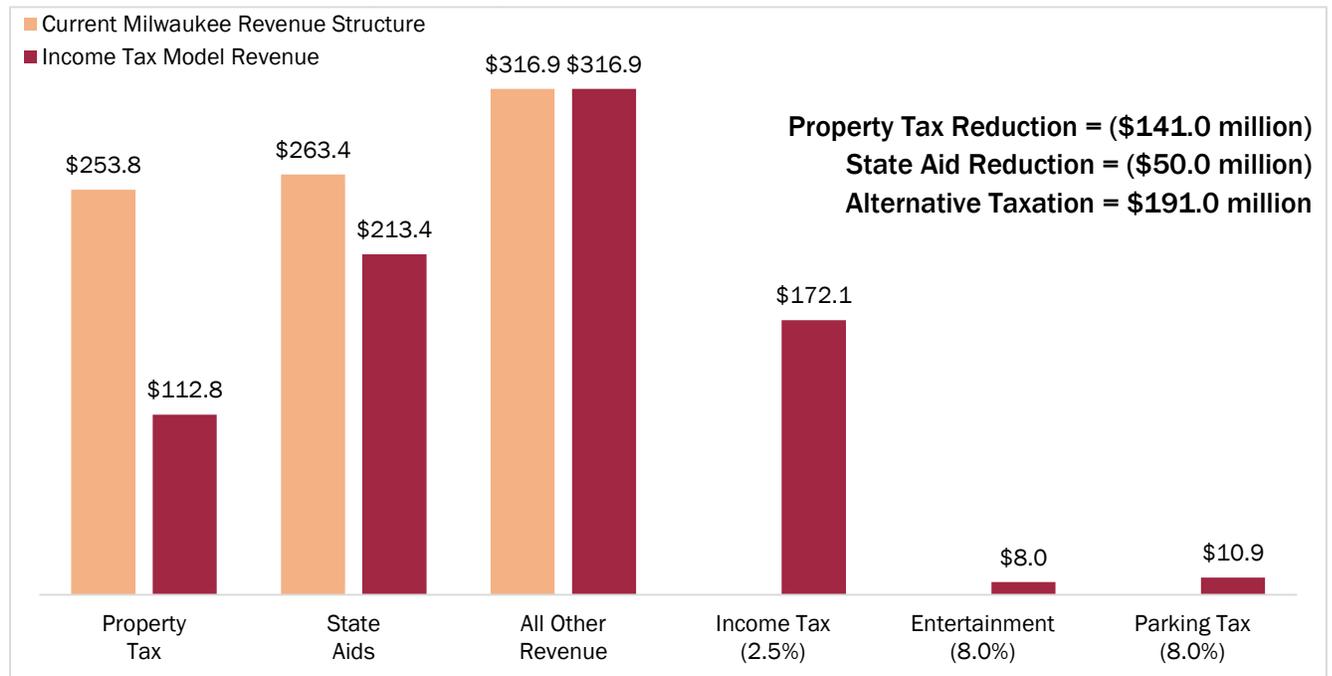
Nevertheless, an income tax also holds several advantages, not the least of which is its ability to spread the cost of city services among both residents and daily commuters, as well as among businesses. Another virtue of an income tax is its ability to generate considerable amounts of revenue at a relatively low rate. In fact, for the six cities in our 39-city peer group that use the tax, average income tax revenue amounted to \$282 million in 2012. In contrast, the property tax raised an average of \$174 million and the general sales tax raised an average of \$115 million for peer cities levying those taxes.

Chart 20 outlines the City of Milwaukee's revenue structure under the Income Tax Model. The model generates \$172 million from the 2.5% income tax and \$19 million from the new selective sales taxes. We apply \$141 million of the new revenue to property tax relief and \$50 million to a reduction in state aids. The City's reliance on property tax levy would decrease from 30.4% to 13.5% of total revenues, while dependence on state aids would be reduced from 31.6% to 25.6%. The income tax would comprise 20.6% of the City's revenue pie.

⁴⁷ <https://taxfoundation.org/state-individual-income-tax-rates-brackets-2017/>



Chart 20: Income Tax Model (in millions)



We estimate that if this model had been in place in 2015, then a Milwaukee property owner's gross property tax rate would have been reduced from \$29.97 per \$1,000 of assessed value to \$23.97, and City government's portion of that rate would have been reduced from \$10.71 to \$4.71. This would have reduced the property tax bill for the owner of a median-valued home (\$114,000 assessed value) by \$685 as shown in **Table 18**. Of course, those savings would be offset to some extent by the new income tax, as well as higher sales taxes on entertainment and parking. The 2.5% income tax would cost a household with taxable earnings of \$36,000 per year (the median household income in Milwaukee is \$35,958) an extra \$900. We cannot provide an estimate of the impact of entertainment and parking taxes for individual residents because they would be predicated on consumer behavior.

Table 18: Effects on property tax payments

	Gross Tax Rate	Median Home Value	Property Tax
Current Milwaukee Structure	\$29.97	\$114,000	\$3,417
Modified Property Tax Model	\$23.97	\$114,000	\$2,732



MODEL IV: DIVERSIFIED TAX MODEL

Our final model, based on Pittsburgh's revenue structure, institutes a broad array of local taxes that establish a highly diverse revenue portfolio. A key advantage to such a portfolio would be its ability to provide stability and reliability in the face of fluctuations in the local economy.

Specifically, our Diversified Tax Model mirrors Pittsburgh's by using a 0.55% payroll tax, 37.5% parking tax, 5% entertainment tax, and \$1 per week local services tax (which would be charged to all individuals who are employed in the city and who make over \$12,000 per year). It retains significant (but reduced) reliance on the property tax and state aids. Unlike Pittsburgh, we do not utilize sales or income taxes in this model, as the virtues and detriments of those taxes are illustrated in our other models.

We would anticipate that a 37.5% parking tax would generate significant opposition, as some will argue that a tax of that magnitude could discourage businesses from locating or staying in the city. Obviously, while we chose to model a 37.5% tax to be consistent with Pittsburgh, a smaller parking tax also could be considered. The primary benefit of such a tax is that it would generate revenue from non-resident commuters (many resident commuters also would be subject to the tax, but much larger numbers of those residents take transit, bike, or walk to work). The local service tax could generate similar concern.

We also would anticipate that similar to a corporate income tax, a payroll tax would generate concern that Milwaukee's competitiveness in attracting and retaining employers would suffer, particularly given that businesses in suburban locations would not be subject to such a tax. According to budget officials in Pittsburgh, that city's business leadership supported the payroll tax, but it is important to note that its implementation was coupled with elimination of other business-related "nuisance" taxes at the same time.

On the positive side, in addition to providing greater stability, the Diversified Tax Model would be highly effective in spreading the cost of City services among the various users of those services. In addition, it would do so in relatively small dosages (i.e. no single tax would take a substantial bite out of corporate or personal pocketbooks), which could enhance its palatability among citizens and business owners.

PROS

- Diversified portfolio provides some protection from sharp fluctuations caused by local economic distress
- Spreads revenue responsibilities across many users of city services
- Provides modest levels of taxation for several distinct uses and users, as opposed to large levels for one or two
- Provides substantial property tax relief, lessening the burden on property owners

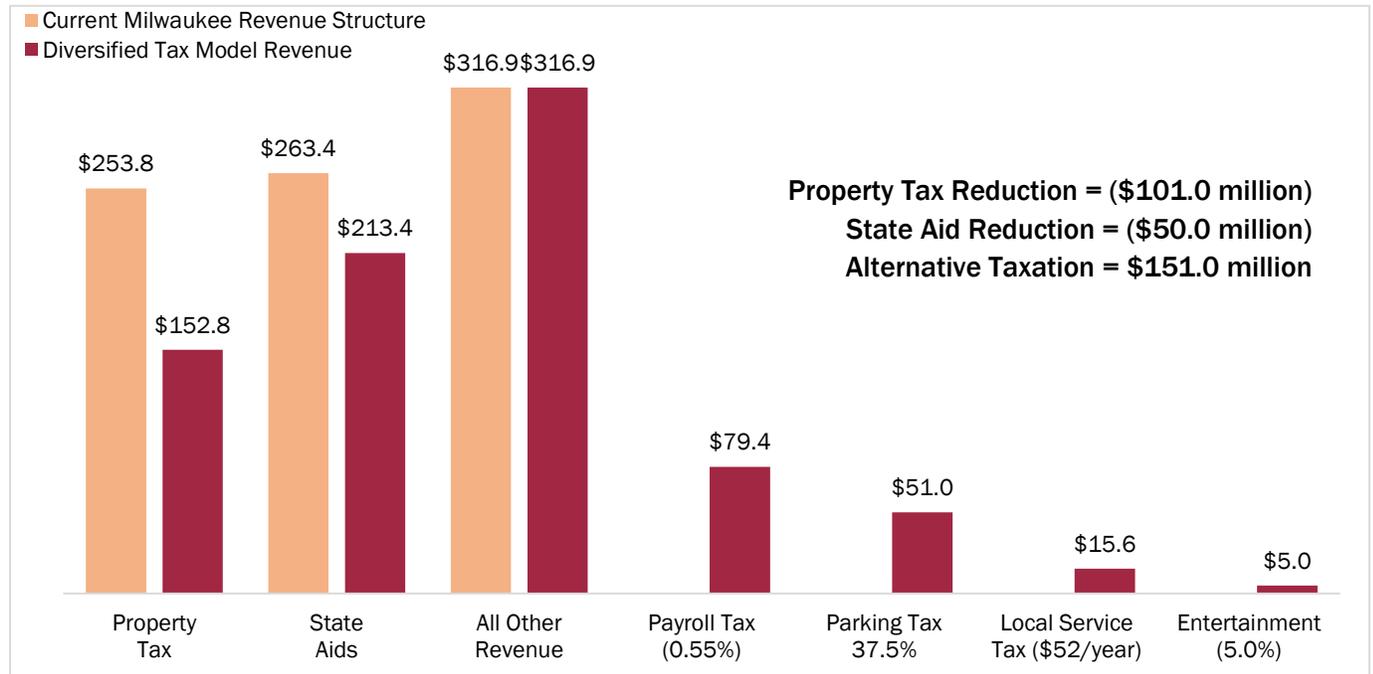
CONS

- Several different local taxes would be more difficult for City to administer and add complexity for taxpayers
- Increase in the cost of entertainment could discourage patronage
- Payroll tax and substantial parking tax could discourage employers from locating/staying in city



Chart 21 lays out the City of Milwaukee's revenue structure under the Diversified Tax Model. The model generates \$79 million from the payroll tax, \$16 million from the local services tax, and \$56 million from the selective sales taxes on parking and entertainment. We apply \$101 million of the new revenue to property tax relief and \$50 million to a reduction in state aids. The City's reliance on property tax levy would decrease from 30.4% to 18.3% of total revenues, while dependence on state aids would be reduced from 31.6% to 25.6%. No single local tax would comprise more than 20% of the City's total revenue pie.

Chart 21: Diversified Tax Model (in millions)



We estimate that if this model had been in place in 2015, then a Milwaukee property owner's gross property tax rate would have been reduced from \$29.97 per \$1,000 of assessed value to \$25.63, and City government's portion of that rate would have been reduced from \$10.71 to \$6.37. This would have reduced the property tax bill for the owner of a median-valued home (114,000 assessed value) by \$495, as shown in **Table 20**. Of course, those savings would be offset by \$52 for those residents who work in the city from the new local service tax and by an unknown amount from the higher sales taxes on entertainment and parking.

Table 20: Effects of property tax payments

	Gross Tax Rate	Median Home Value	Property Tax
Current Milwaukee Structure	\$29.97	\$114,000	\$3,417
Modified Property Tax Model	\$26.12	\$114,000	\$2,922



SUMMARY

Our modeling exercise shows that the application of local taxes used by the Midwestern peer cities at their respective approximate levels of taxation would ameliorate several of the weaknesses inherent in Milwaukee's current revenue structure. In particular, each of the models would help Milwaukee address the two most visible defects in that structure: its over-reliance on the property tax and state aids.

Many would argue that given the City's pressing financial needs, the revenue generated by new local taxes should *not* be redistributed to property taxpayers and/or refunded to the State. The notion of having the City relinquish any of its state aids also could be refuted by the statewide interest in supporting its flagship city and by the huge reduction in the value of the City's shared revenue payments that already has occurred (when adjusted for inflation).

As noted at the beginning of this section, our modeling is not intended to convey a position on those questions. In developing our models, we simply seek to show how different revenue structures may better reflect the different users of City services and the strengths of the local economy. Also, each model seeks to create a revenue "pie" that looks similar to the city the model is emulating, which necessarily requires us to reduce Milwaukee's state aids allocation and property tax levy.

In addition, notwithstanding the legitimate question of whether the City needs *more* revenue, we would contend that each model provides better potential for revenue *growth* than Milwaukee's existing structure. It is important to recognize that the magnitude of such growth would be unlikely to fully address the City's structural budget issues, which have been building for years. Nevertheless, the promise even of limited revenue growth would provide City leaders with a stronger position from which to conduct long-term budget planning.

Our modeling also suggests that when considered in the context of ideal revenue characteristics, each of the models would produce greater reliability, balance, and equity than Milwaukee's current structure. While each would add complexity (and perhaps additional administrative costs) by imposing new taxes, most of the new taxes we model already are being collected by a different governmental entity in Milwaukee and would be relatively easy to implement.

Finally, while we model four potential new revenue scenarios for Milwaukee, we acknowledge that dozens of additional modeling alternatives exist. In determining the composition of the models and rates of taxation, we adhered closely to the examples of the four Midwestern peers. Because others may wish to consider different combinations of local taxes or different levels of taxation, **Table 19** shows our rough estimates of what each tax would generate at a basic rate. Those reading this report can use the figures in this table to develop their own model. In fact, that is an exercise we hope to facilitate with creation of an interactive website later this year.



Table 19: Funds generated by local tax options using basic rates of taxation

Type of Tax	Rate	New Tax Revenue
Income	1%	\$68,858,963
Parking	5%	\$6,534,120
Entertainment	5%	\$5,000,000
Downtown Food/Beverage	1%	\$4,473,490
Full City Food /Beverage	1%	\$14,430,614
General Sales	1%	\$87,377,918
Payroll	.5%	\$72,211,642
Local Service	\$1 per week	\$15,623,816



OBSERVATIONS AND CONCLUSION

This report is intended to shed new light on the characteristics of the revenue structure that is supporting the City of Milwaukee. A critical question raised by our previous research is whether this structure is appropriately and equitably supporting the City's ability to provide core municipal services and to invest in areas that are deemed essential for its economy and quality of life. We hope this analysis will precipitate further discussion among City and State leaders – as well as among residents and business owners – about the adequacy of the existing revenue framework and the types of changes that might be pursued.

We began by analyzing the historical and statutory underpinnings of Milwaukee's revenue structure and how it compares to similar-sized cities across the United States. That analysis produced the following key observations:

- **No other state in the Midwest has a local tax structure like Wisconsin's.** Property, general sales, and income taxes are the three major forms of local taxation used by cities nationwide. We find that while the property tax is the only permissible form of local taxation (among those three) in 14 states, Wisconsin is the only such state located in the Midwest. Wisconsin also differs from many other Midwestern states in that Milwaukee, the state's largest city, has the same tax structure as other municipalities throughout the state. That is not the case in Illinois, Michigan, Ohio, Minnesota, and Missouri, as well as numerous other states throughout the country whose major cities can draw on additional forms of taxation.
- **Milwaukee is particularly unique among its peers in its absence of general and selective sales taxes.** Our broad review of 38 peer cities finds that every other city has multiple taxes and most have either general or selective sales taxes. In fact, 30 have a general sales tax and each of the remaining eight generates substantial revenue from selective sales taxes and/or other forms of taxation besides the property tax. Overall, the percentage of local taxes generated by sales taxes for the peer cities nearly equals the percentage generated by property taxes.
- **As a general rule, cities with larger populations tend to draw more heavily on the sales tax and less upon the property tax.** Our analysis shows that sales taxes comprise more than 40% of the local tax revenues collected by cities with populations over 300,000, but just 28% for those with populations between 150,000 and 300,000. That may reflect the fact that as cities increase in size, they host greater numbers of non-residents who are engaged in business, employment, tourism, entertainment, etc. The sales tax enables local governments to recoup the costs of services provided to all users irrespective of their purpose for being in the city.
- **State aid is a relatively minor source of revenue for most peer cities.** We find that among our 38 peer, state aids typically are a form of supplemental financial assistance, but they do not serve as a principal source of support compared with property or sales taxes. Indeed, our analysis finds that state funding represented 14% or less of total intergovernmental and local tax revenue for half of the peers. In contrast, state funding equaled 48% of Milwaukee's total intergovernmental and local tax revenues in 2015 and, historically, has been its largest revenue source.



While our broad research on peer cities provides insights, our deeper analysis of four Midwestern peers shows how distinct approaches to local taxation work in practice. We find that there is no single or ideal model for Milwaukee to follow in local taxation. Each revenue source has its own weaknesses and strengths, and various restrictions on authorized forms of local taxation imposed by states – such as sunsets or periodic referenda – can offset some of the benefits of having that authorization in the first place.

Nevertheless, we see that in their ability to draw on multiple sources of local taxation – and to have greater latitude to establish a structure that reflects their unique economic strengths – some peer cities appear to have substantial advantages. Furthermore, in viewing these four cities in the context of revenue structure best practices, we see more clearly where Milwaukee's current structure falls short:

- **It is poorly balanced with low reliability.** Lacking diverse revenue streams, Milwaukee lacks the ability to offset the effects of economic swings with revenue sources that vary in response to economic factors.
- **It is inequitable in its reliance only on property-based taxes and fees.** Milwaukee's property owners and residents bear the bulk of the financial burden for Wisconsin's flagship city. Their property-related taxes and fees are the sole source of locally-generated support for municipal infrastructure and services that are critical to employment and entertainment for nonresidents, who pay no local taxes to the City.
- **It is far too reliant on state aid.** State aid has clear benefit to cities in that it redistributes statewide wealth to jurisdictions with high levels of poverty. In the case of Milwaukee, the substantial state aid allocation also reflects the City's statewide significance. Yet, because Milwaukee's state aids have not grown over time, the City has been severely challenged in securing total annual revenue growth that matches inflation and meets its expenditure needs. Furthermore, its lack of local taxation options – which exacerbates its reliance on the State – has precluded it from addressing its revenue gaps on its own and from taking advantage of Milwaukee's unique economic attributes.

To shed additional light on possible solutions to address the weaknesses in Milwaukee's revenue structure, we modeled four alternative structures that draw upon our peer city analysis. We find that each model would address the weaknesses inherent in Milwaukee's current revenue structure, though each has its own challenges, as well.

The **Modified Property Tax Model** continues Milwaukee's use of the property tax as its primary source of local taxation, but adds a 0.5% sales tax, 8% entertainment tax, and 2.5% downtown food and beverage tax to provide greater diversification and to spread some of the tax burden to non-residents. This model would represent only a modest change from the existing revenue framework, but still would move the City toward greater fiscal independence and less reliance on the property tax. Also, because the levels of new taxation are relatively small, they would pose the least risk of tax island consequences; and because general sales and food/beverage taxes already are levied in Milwaukee County, these taxes would be relatively simple to administer. Yet, on the negative side,



this model would be least effective in weaning the City from state aids and provides only a small dosage of property tax relief.

The **Property and General Sales Tax Model** establishes the sales tax as a second primary local revenue source by adding a 1.5% general sales tax and a 1.25% city-wide food and beverage tax to Milwaukee's revenue mix. This model would provide higher levels of reliability and balance by placing the bulk of the City's local revenue eggs in two baskets, instead of one. It also would create increased equity by having one of the primary local taxes tied to consumption within the city by both residents and non-residents. The ability to generate substantial sales tax revenues also could allow the City to become less reliant on state aids and provide property tax relief. A challenge with this model, however, is that the considerably higher sales tax within the city could drive some consumer purchases and restaurant/bar patronage to other locations.

The **Income Tax Model** levies a 2.5% income tax to make that the City's primary source of local taxation, replacing the property tax (8% parking and entertainment taxes also are included in this model). This model would provide substantial property tax relief and ease reliance on state aids, while also establishing equity between residents, non-resident commuters, and businesses. This model also would enhance reliability and balance by diversifying the City's revenue portfolio. On the negative side, this radical change to the City's tax structure could pose a threat to the attraction and retention of residents and businesses, and it also would create an extreme level of income taxation for City residents, commuters, and businesses in light of the State's high income tax rates.

The **Diversified Tax Model** uses several different forms of local taxation, including a 0.55% payroll tax on employers, a \$1 per week local services tax on city workers, a 37.5% parking tax, and a 5% entertainment tax. This approach provides significant property tax relief, reduces reliance on state aids, and spreads responsibility among commuters, visitors, and businesses, thus providing greater reliability, balance, and equity. However, this model would add complexity (both for those administering the various taxes and those paying), and the payroll, local services, and parking taxes might deter business attraction and retention.

Overall, our analysis of peer cities and our modeling exercise reinforces the need for an objective and informed discussion among policymakers, civic leaders, and citizens about the efficacy of Milwaukee's current revenue structure. Initially, this discussion should put aside the question of whether the City requires *more* revenue. Instead, it should focus on whether a structure that was imposed on the City by State government more than a century ago still is effective and relevant, and on what types of changes might be pursued to ensure that principles of tax equity, revenue reliability, and administrative simplicity can be achieved.

We fully acknowledge that discussion of any new forms of taxation will be contentious and controversial, and that each of the potential new municipal taxes contained in our models has drawbacks. In fact, we are certain that should policymakers engage in objective deliberation about possible modifications to Milwaukee's current structure, they will come up with their own combinations of local and State revenues that are distinct from those we have postulated. We are also confident that questions about whether to make potential new local revenue sources contingent on voter approval, whether to earmark them for specific purposes, whether to sunset



them, and whether to cap them at specified rates will be prominent subjects of debate, as they should be.

Yet, while lengthy and detailed analysis of major structural changes would be appropriate, there also are some relatively basic steps that policymakers might consider immediately to *begin* to address the weaknesses in Milwaukee's current revenue structure. For example, a minor change in State law could make Milwaukee eligible to levy a 0.5% sales tax under the State's Premier Resort Area Tax statute, as was proposed in the 2007-09 State budget by Governor Jim Doyle. While the revenues generated may be limited given that the tax likely would apply only to a limited geographic area (the Doyle proposal covered a four-square-mile section in and around downtown), this approach could begin to move Milwaukee toward revenue diversification, and it could begin to tap into Downtown Milwaukee's impressive renaissance.

Similarly, authorization for the City to include even a small citywide general sales tax in its revenue portfolio could accomplish the same objectives. This could be accomplished by extending the half-cent sales tax authorization for counties to cities of the first class, or even by allowing counties of the first class (i.e. Milwaukee County) to tack on an additional amount with a requirement that they share some of the proceeds with municipalities for property tax relief (as occurs in Pittsburgh).

While we are in no position to recommend to City and State leaders whether they should pursue a comprehensive overhaul of Milwaukee's revenue structure or a more measured approach, our research does allow us to conclude that *some* change is needed. We also would assert that given the impressive economic growth in Milwaukee's greater downtown and the city's enhanced attractiveness to businesses and residents, Milwaukee is better positioned than it has been for decades to take greater control of its own financial destiny.

We hope this report provides a compelling rationale to launch the type of thoughtful deliberation on Milwaukee's financial structure that its current fiscal challenges both demand and require. In the end, Milwaukee's ability to prosper economically will be linked to its ability not only to provide, but also to equitably pay for core municipal services. Unfortunately, without modification to the existing structure, that ability will continue to come under increasing duress.



APPENDIX A: MILWAUKEE PEER GROUP

State, Federal, and Local Revenues as a Percentage of Combined Intergovernmental and Local Tax Revenues, 2012

Peer Cities	State	Federal	Property	General Sales	Select Sales	Income	Other
Albuquerque	35%	8%	21%	27%	6%	0%	3%
Anaheim	6%	24%	30%	13%	24%	0%	2%
Atlanta	4%	7%	53%	0%	25%	0%	10%
Aurora	10%	5%	14%	59%	8%	0%	5%
Austin	4%	8%	51%	22%	13%	0%	3%
Bakersfield	25%	11%	34%	21%	8%	0%	1%
Charlotte	13%	14%	45%	17%	7%	0%	6%
Cleveland	21%	15%	9%	0%	5%	48%	3%
Colorado Springs	8%	14%	8%	55%	14%	0%	0%
Columbus	12%	12%	4%	0%	2%	66%	4%
Corpus Christi	6%	7%	40%	32%	13%	0%	2%
Detroit	32%	14%	19%	0%	16%	17%	2%
El Paso	5%	14%	41%	24%	13%	0%	3%
Fort Worth	6%	5%	53%	22%	10%	0%	4%
Fresno	14%	18%	31%	28%	3%	0%	5%
Kansas City	2%	10%	15%	22%	18%	25%	8%
Las Vegas	52%	8%	22%	0%	12%	0%	6%
Long Beach	14%	18%	42%	9%	13%	0%	4%
Memphis	57%	6%	26%	7%	3%	0%	1%
Mesa	39%	11%	5%	41%	1%	0%	4%
Milwaukee	48%	5%	45%	0%	0%	0%	2%
Minneapolis	13%	11%	56%	5%	11%	0%	5%
Oakland	14%	12%	42%	4%	10%	0%	17%
Oklahoma City	7%	6%	12%	64%	8%	0%	3%
Omaha	10%	5%	30%	27%	1%	0%	27%
Pittsburgh	27%	4%	26%	0%	22%	14%	6%
Portland	15%	6%	55%	0%	10%	0%	14%
Raleigh	14%	6%	53%	19%	0%	0%	8%
Riverside	15%	9%	39%	18%	14%	0%	5%
Sacramento	17%	9%	40%	13%	17%	0%	4%
Santa Ana	9%	27%	34%	13%	12%	0%	5%
Seattle	12%	5%	36%	14%	27%	0%	6%
St Paul	25%	12%	43%	6%	10%	0%	4%
St. Louis	24%	0%	10%	23%	13%	26%	3%
Stockton	30%	8%	25%	14%	18%	0%	6%
Tampa	14%	13%	33%	4%	25%	0%	11%
Tulsa	2%	11%	16%	61%	7%	0%	2%
Tucson	26%	23%	7%	33%	6%	0%	4%
Wichita	10%	12%	55%	0%	20%	0%	3%

Note: All cities > 300,000 and < 1 million population except cities whose financial and/or operational responsibilities encompass activities normally a part of other local governments, such as a county government or local school district, excludes city/county consolidated governments

Source: U.S. Census of Governments, 2012, accessed through Lincoln Institute of Land Policy
<http://datatoolkits.lincolnst.edu/subcenters/fiscally-standardized-cities/search-database>



State, Federal, and Local Revenues, Per Capita, 2012

Peers	State	Federal	Property	General Sales	Select Sales	Income	Other	Local	Total
Albuquerque	\$412	\$94	\$245	\$322	\$69	\$0	\$29	\$667	\$1,173
Anaheim	\$74	\$277	\$343	\$148	\$268	\$0	\$26	\$785	\$1,136
Atlanta	\$52	\$100	\$724	\$0	\$340	\$0	\$143	\$1,207	\$1,360
Aurora	\$74	\$37	\$104	\$451	\$61	\$0	\$35	\$651	\$762
Austin	\$30	\$71	\$424	\$180	\$106	\$0	\$22	\$732	\$833
Bakersfield	\$166	\$72	\$226	\$137	\$52	\$0	\$8	\$423	\$661
Charlotte	\$145	\$152	\$501	\$186	\$73	\$0	\$63	\$823	\$1,120
Cleveland	\$347	\$243	\$143	\$0	\$81	\$790	\$54	\$1,068	\$1,659
Colorado Springs	\$49	\$91	\$53	\$355	\$92	\$0	\$2	\$502	\$642
Columbus	\$153	\$155	\$54	\$0	\$21	\$848	\$49	\$972	\$1,281
Corpus Christi	\$41	\$51	\$284	\$231	\$91	\$0	\$16	\$623	\$715
Detroit	\$616	\$263	\$377	\$0	\$315	\$331	\$44	\$1,068	\$1,947
El Paso	\$34	\$101	\$292	\$174	\$94	\$0	\$22	\$582	\$717
Fort Worth	\$57	\$49	\$476	\$201	\$91	\$0	\$32	\$800	\$907
Fresno	\$109	\$145	\$242	\$223	\$27	\$0	\$41	\$534	\$788
Kansas City	\$40	\$183	\$268	\$410	\$324	\$459	\$148	\$1,608	\$1,832
Las Vegas	\$439	\$69	\$189	\$0	\$100	\$0	\$52	\$341	\$850
Long Beach	\$185	\$235	\$548	\$117	\$166	\$0	\$54	\$884	\$1,304
Memphis	\$1,250	\$139	\$559	\$152	\$57	\$0	\$31	\$799	\$2,188
Mesa	\$273	\$78	\$32	\$285	\$5	\$0	\$30	\$352	\$703
Milwaukee	\$524	\$53	\$484	\$0	\$0	\$0	\$22	\$507	\$1,085
Minneapolis	\$196	\$164	\$869	\$77	\$163	\$0	\$76	\$1,185	\$1,545
Oakland	\$281	\$234	\$821	\$82	\$204	\$0	\$333	\$1,440	\$1,956
Oklahoma City	\$78	\$71	\$141	\$750	\$93	\$0	\$37	\$1,021	\$1,170
Omaha	\$115	\$51	\$326	\$295	\$13	\$0	\$294	\$929	\$1,095
Pittsburgh	\$466	\$69	\$444	\$0	\$372	\$244	\$108	\$1,167	\$1,702
Portland	\$198	\$73	\$719	\$0	\$124	\$0	\$188	\$1,031	\$1,303
Raleigh	\$120	\$49	\$458	\$164	\$2	\$0	\$71	\$694	\$863
Riverside	\$124	\$79	\$331	\$151	\$114	\$0	\$43	\$638	\$840
Sacramento	\$181	\$93	\$421	\$132	\$177	\$0	\$47	\$778	\$1,052
Saint Paul	\$245	\$122	\$416	\$54	\$97	\$0	\$40	\$608	\$975
Santa Ana	\$93	\$267	\$337	\$125	\$118	\$0	\$46	\$627	\$987
Seattle	\$213	\$86	\$639	\$253	\$474	\$0	\$103	\$1,469	\$1,768
St. Louis	\$545	\$3	\$233	\$514	\$301	\$581	\$76	\$1,706	\$2,255
Stockton	\$267	\$68	\$216	\$126	\$155	\$0	\$50	\$548	\$882
Tampa	\$149	\$144	\$352	\$40	\$266	\$0	\$122	\$779	\$1,071
Tulsa	\$22	\$115	\$161	\$614	\$73	\$0	\$17	\$866	\$1,003
Tucson	\$281	\$249	\$76	\$348	\$66	\$0	\$45	\$535	\$1,065
Wichita	\$55	\$70	\$308	\$0	\$112	\$0	\$18	\$437	\$562

Note: All U.S. cities > 300,000 and < 1 million population except those whose financial and/or operational responsibilities encompass activities normally a part of other local governments, such as a county government or local school district, excludes city/county consolidated governments.

Source: U.S. Census of Governments, 2012, accessed through Lincoln Institute of Land Policy

<http://datatoolkits.lincolninst.edu/subcenters/fiscally-standardized-cities/search-database>



APPENDIX B: METHODOLOGY AND ASSUMPTIONS FOR REVENUE MODEL FORECASTS

Modeling requires the use of assumptions that drive each model's content. Each of the revenue models required the use of data estimates and assumptions that relate to each form of local taxation that was modeled. This Appendix shares the methodology used to generate those estimates. The data elements are discussed in the order in which they first appear in the document.

It is important to note that those estimates that involve forms of taxation that currently are used in the City of Milwaukee by Milwaukee County, the Wisconsin Center District, or the State of Wisconsin undoubtedly are more reliable than those that involve entirely new forms of local taxation. In those instances, we had larger data sets from which to initiate our revenue calculations, or to use to test our assumptions. Even in those cases, however, it is critical to view our revenue calculations only as estimates. These can provide a broad sense of the revenue potential of certain forms of local taxation if implemented in the City of Milwaukee, but they should not be interpreted as precise projections.

GENERAL SALES TAX REVENUES

In 2015, the 0.5% Milwaukee County sales tax generated \$72,213,155 in revenue.⁴⁸ A UW-Madison study from 2005 estimated that 60.5% of Milwaukee County's sales tax revenues were generated within the City of Milwaukee.⁴⁹ We first calculated the value of annual sales in Milwaukee County that are subject to the sales tax by dividing the County's 2015 sales tax revenue amount of \$72,213,155 by the County's current sales tax rate of 0.5%. That calculation yielded a total of \$14,442,631,000 in annual sales revenue. We then applied the City of Milwaukee estimated portion of 60.5% to the total sales tax revenue of \$14,442,631,000 to generate an estimate of \$8,737,791,755 in annual sales in the City of Milwaukee.

Formula: Proposed Sales Tax Rate * \$8,737,791,755

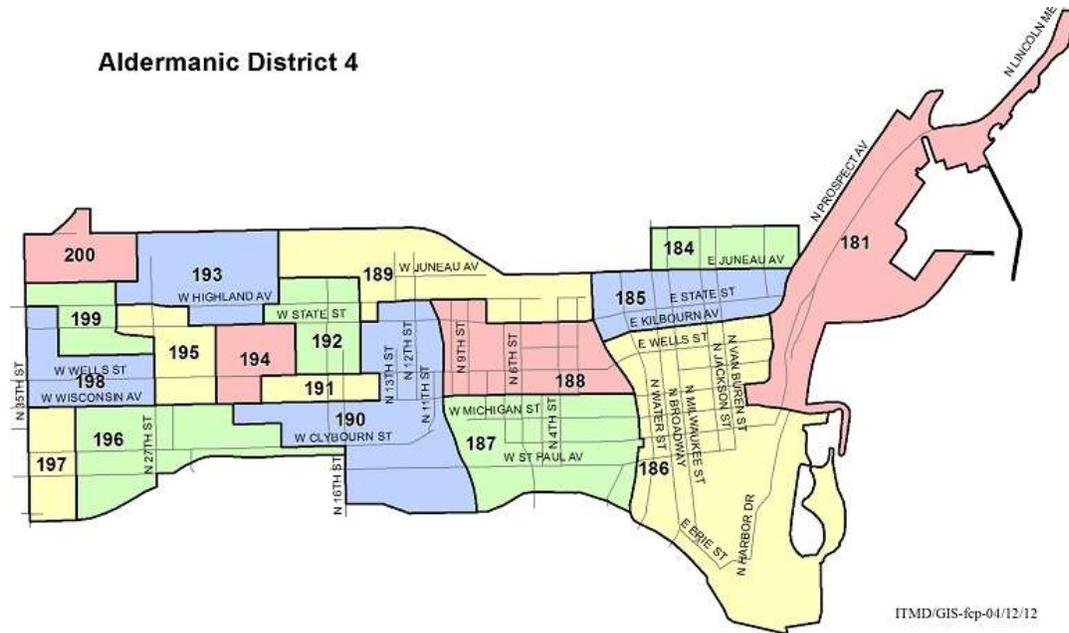
⁴⁸ Milwaukee County 2017 Milwaukee County Non-Departmental Revenues Budget
<http://county.milwaukee.gov/ImageLibrary/Groups/cntyDAS/PSB/Budgets/2017-Budget-/2017-Adopted-Budget/1800Non-DepartmentalRevenues.pdf>

⁴⁹ <https://www.lafollette.wisc.edu/research/publications/analysis-of-a-local-sales-tax-in-the-city-of-milwaukee>, page 40



DOWNTOWN FOOD AND BEVERAGE TAX

Our proposed downtown food and beverage tax required defining a downtown area. For this purpose we used the boundaries for Milwaukee Aldermanic District 4.⁵⁰



We then calculated the percentage of licensed food and beverage establishments in the City of Milwaukee that are located in this downtown district.⁵¹ This established a rough proxy indicating that 23% percent of Milwaukee food and beverage restaurant sales take place in our established downtown district.

This percentage was applied to the food and beverage sales for Milwaukee found in the 2012 US Census (\$743,005,000 American Fact Finder,⁵² adjusted for inflation to 2015 = \$785,601,753), giving us annual downtown food and beverage sales of \$180,688,403.

Formula: Proposed tax rate* \$180,688,403

⁵⁰ <http://city.milwaukee.gov/Directory/How-to-Run-for-Public-Office/Nomination-Packet-Forms/District-Maps/Map-City-of-Milwaukee-Alderman.htm#.WSXFrlQrKUK>

⁵¹ <http://city.milwaukee.gov/cityclerk/license/LicenseSearch#.WSXKfVQrKUK>

⁵² U.S. Census American FactFinder code EC1272A1, 2012 NAICS codes 7224 and 7225



ENTERTAINMENT TAX

We elected not to include nonprofit organizations in our entertainment tax calculation. Therefore, Milwaukee theater sales for nonprofit organizations filing an IRS Form 990 were not considered. Our sales figure for calculating the entertainment tax is conservative, as it is specific only to five venues for which we were able to obtain reliable ticket sales data. However, we feel this number captures a substantial percentage of the entertainment ticket sales that would be subject to the new tax.

Annual ticket sales estimates totaling \$100 M were obtained as follows:

Milwaukee Bucks	\$25 M ⁵³
Milwaukee Brewers	\$58 M ⁵⁴
Milwaukee Wave	\$5.3 M ⁵⁵
Milwaukee Admirals	\$8.1 M ⁵⁶
BMO Harris Bradley Center Concert Revenues	\$3.7 M ⁵⁷

Formula: Proposed tax rate* \$100,000,000

PARKING TAX

To calculate projected revenue associated with a commercial parking tax, we used the number of parking spaces and the occupancy rate from a 2014 Downtown Parking Study (77,808 parking spaces with a 56% occupancy rate).⁵⁸ A 2009 Colliers Parking Study estimated the average daily parking rate per space per day in Milwaukee at \$12.⁵⁹ These three figures were used to calculate annual parking sales, assuming 206 work days per year ($77,808 * .56 * 12 * 206 = \$135,946,138$). We acknowledge that this estimate is conservative in that it only captures Downtown commercial parking and it only captures weekdays, but we also believe it is a reasonable proxy given that the vast majority of commercial parking spaces in the city are located in Downtown Milwaukee.

Formula: Proposed tax rate * \$135,946,138

⁵³ <https://www.forbes.com/forbes/welcome/?toURL=https://www.forbes.com/teams/milwaukee-bucks/&refURL=https://www.google.com/&referrer=https://www.google.com/>

⁵⁴ <https://www.forbes.com/teams/milwaukee-brewers/>

⁵⁵ companies.bizjournals.com/profile/milwaukee-wave/156373/?mkt=milwaukee

⁵⁶ <http://companies.bizjournals.com/profile/milwaukee-admirals/678787/?mkt=milwaukee>

⁵⁷ <http://www.jsonline.com/story/entertainment/music/2016/11/21/bucks-bullish-more-concerts-new-arena/92796128/>

⁵⁸ 2014 Downtown Milwaukee Central Business District Parking Study

⁵⁹ 2009 Colliers Parking Study, <http://www.cleanairinstitute.org/cops/bd/file/gdt/103-parking%20globalcolliersparkingratesurvey2009.pdf>



FOOD AND BEVERAGE TAX

Food and Beverage sales for Milwaukee from the 2012 US Census American Fact Finder, adjusted for inflation to 2015 (see Downtown Food and Beverage Tax)

Formula: Proposed tax rate * \$785,601,753

INCOME TAX

The Income Tax used in our modeling mirrors Cleveland's approach in that it includes corporate income (profits from business conducted in the city), wages for Milwaukee residents earned in Milwaukee, and wages for non-city residents earned in Milwaukee.

Corporate Income Tax

Corporate tax revenue data for 2015 was obtained from the Wisconsin Department of Revenue. We divided corporate taxes generated in Milwaukee (\$85,005,447) by the State tax rate (7.9%) to calculate total corporate taxable earnings (\$1,076,018,316). Our assumption is that a local income tax in Milwaukee would be applied to the same corporate taxable income established by State revenue codes and that application of the tax rate established by our models would reflect this taxable income.

Aggregate Earnings for Residents of Milwaukee Earned in Milwaukee

Aggregate earnings⁶⁰ for residents of Milwaukee was \$9,207,935,100 in 2015.⁶¹ The U.S. Census also indicates that of the city's 600,000 residents, 469,920 (78.3%) are over age 15⁶² and that 161,906 residents of Milwaukee work in the city.⁶³

From this data, we determined that 34% of Milwaukee residents are over age 15 and work in Milwaukee ($161,906/469,920 = 34\%$). Applying this percentage to the aggregate earnings for all residents of Milwaukee over age 15 provides an aggregate income for Milwaukee residents over age 15 that was earned in Milwaukee.

$$34\% * \$9,207,935,100 = \$3,130,697,934$$

$$\text{Per Capita Income} = \$3,130,697,934/161,906 = \$19,337$$

⁶⁰ Earnings is defined as the algebraic sum of wage or salary income and net income from self-employment. Earnings represent the amount of income received regularly before deductions for personal income taxes, Social Security, bond purchases, union dues, Medicare deductions, etc.
<https://factfinder.census.gov/help/en/index.htm#glossary.htm>

⁶¹ U.S. Census American Community Survey code B19061, 5-year estimate

⁶² U.S. Census American Community Survey code S0101

⁶³ U.S. Census American Community Survey code B08008



Aggregate Earnings for Non Residents of Milwaukee Working in Milwaukee

From the Census we also find that Milwaukee employs a total of 300,458 workers.⁶⁴ Subtracting the number of workers in the city who live in the city (see above) indicates that 138,552 of the individuals who work in Milwaukee do not live in the city. For the purposes of the modeling we assume that workers in the city who do not reside in the city earn the same average per capita income as those who do not live in the city. Therefore, we multiplied the number of city workers who reside outside of the city by the amount of per capita income we calculated for the residents of the city who work in the city.

$$\$19,337 * 138,552 = \$2,679,180,024$$

Total Income Tax

\$1,076,018,316 (corporate taxable earnings)

\$3,130,697,934 (aggregate earnings for city residents working in Milwaukee)

\$2,679,180,024 (aggregate earnings for non-city residents working in Milwaukee)

\$6,885,896,274

Formula: Proposed tax rate * \$6,885,896,274

PAYROLL TAX

The payroll tax used in the modeling reflects tax revenue obtained from gross payroll of for-profit employers and net income from self-employed individuals. We started with a Census figure of \$13,659,239,000 for the annual payroll for all sectors from the City of Milwaukee,⁶⁵ and then indexed that amount to 2015 to arrive at a gross payroll of \$14,442,328,253.

Formula: Proposed tax rate * \$14,442,328,253.

LOCAL SERVICE TAX

The local service tax used in the modeling was \$1 per week per employee for employees making over \$12,000 per year. We previously calculated that workers in Milwaukee living both in the city and outside of the city = 300,458.⁶⁶

Formula: Proposed tax rate * 300,458

⁶⁴ U.S. Census American Community Survey code B08604

⁶⁵ U.S. Census American Community Survey code SB1200CSA01

⁶⁶ U.S. Census American Community Survey codes B08604 and B08008





GRANT F. LANGLEY
City Attorney

RUDOLPH M. KONRAD
LINDA ULISS BURKE
VINCENT D. MOSCHELLA
Deputy City Attorneys

ERS '10 JUN 21 PM 3:01

CITY OF MILWAUKEE
Office of the City Attorney

 **Milwaukee's Future: IT'S IN OUR HANDS**
www.milwaukee.gov/2010census

THOMAS O. GARTNER
BRUCE D. SCHRIMPF
SUSAN D. BICKERT
STUART S. MUKAMAL
THOMAS J. BEAMISH
MAURITA F. HOUREN
JOHN J. HEINEN
DAVID J. STANOSZ
SUSAN E. LAPPEN
JAN A. SMOKOWICZ
PATRICIA A. FRICKER
HEIDI WICK SPOERL
KURT A. BEHLING
GREGG C. HAGOPIAN
ELLEN H. TANGEN
MELANIE R. SWANK
JAY A. UNORA
DONALD L. SCHRIEFER
EDWARD M. EHRlich
LEONARD A. TOKUS
MIRIAM R. HORWITZ
MARYNELL REGAN
G. O'SULLIVAN-CROWLEY
KATHRYN Z. BLOCK
MEGAN T. CRUMP
ELOISA DE LEÓN
ADAM B. STEPHENS
KEVIN P. SULLIVAN
BETH CONRADSON CLEARY
THOMAS D. MILLER
HEIDI E. GALVÁN
JARELY M. RUIZ
ROBIN A. PEDERSON
DANIELLE M. BERGNER
Assistant City Attorneys

June 21, 2010

Bernard J. Allen
Executive Director
Milwaukee Employees' Retirement System
789 North Water Street, Suite 300
Milwaukee, WI 53202

Re: Annual Valuations of the Assets and Liabilities
of the ERS (CCFN 091274)

Dear Mr. Allen:

This opinion is in response to your letter of April 28, 2010, in which you ask whether the adoption by the Common Council and the Mayor of File No. 091274, which codified changes to the funding formula that had been adopted by the Annuity and Pension Board in August, 2009, infringes on the fiduciary responsibilities of the board, and, whether board members could be held liable in the event of fund impairment.

To answer these questions, this opinion discusses the obligations of the board, the City, and the city agencies, the City's home rule authority over the pension plan, the events leading up the adoption of File No. 091274, IRS funding requirements, a discussion of how the issues raised by the questions asked have been addressed under Employees Retirement Income Security Act, contractual limitations on funding changes, and our conclusion.

Obligations of the Board and the City

Chapter 36, the ERS plan, creates an eight-member board consisting of three who are appointed by the President of the Common Council, three who are elected by the members of the retirement system, one who is elected by the retirees, and the Comptroller, who sits *ex officio* (by virtue of the office). The board is charged with "[t]he general administration and responsibility for proper operation of the retirement system and making effective the provisions of this act." Sec. 36-15. As explained below, this generally means the safeguarding and investment of fund assets, and the payment of expenses and benefits in accordance with the terms of the plan.

Bernard J. Allen
June 21, 2010
Page 2

The City and city agencies are obligated to finance their pension obligations, sec. 36-13-2-d; accordingly, the City is authorized to levy a tax on all taxable real and personal property to fund its pension contribution. Sec. 36-08-6-f. Non-taxing city agencies are required to include their pension contributions in their budgets. Sec. 36-08-6-g.

The City's Home Rule Authority over the Pension Plan

Chapter 396, Laws of 1937, which created the Employees' Retirement System, authorized the creation of several funds to hold contributions, make investments, and pay benefits and expenses. The law defined the method to be used to determine the amount of employee and employer contributions, but left the calculation of the amount of those contributions to the board and the actuary. Chapter 396, sec. 8.

Under Chapter 441, Laws of 1947, the City was given home rule power with respect to the Employees' Retirement System. Under the home rule provision, the City was empowered to amend or alter the provisions of the Employees' Retirement Act, using the method prescribed for charter ordinances under Wis. Stat. sec. 66.01, provided no amendment "shall modify the annuities, benefits, or other rights of any persons who are members of the system prior to the effective date of such amendment."¹ The board retained the responsibility for administration and the proper operation of the retirement system and for making effective the provisions of the Act.

In 1995 the Common Council amended Chapter 36 to adopt the projected unit credit method to determine the amount of the City's and city agencies' annual contributions to the fund. File No. 942017. Accordingly, the actuary is required by sec. 36-15-15 of the Charter to make an annual valuation of assets and liabilities of the pension fund by applying the projected unit credit method specified in the ordinance. The 1995 amendment, however, did not define all of the assumptions the actuary is required to make when applying that method. Those assumptions include averaging periods (smoothing) and financing (amortization) methods generally referred to as the "funding policy." The board annually approves the actuary's valuation and certifies the contributions due from the City and the city agencies. Sec. 36-08-6-e. In approving the actuary's valuation report, the board either tacitly or explicitly approves the assumptions made by the actuary in the report.

¹ The Wisconsin Court of Appeal interpreted this provision to mean ERS retirement benefits in effect when an employee becomes a member of the system were vested unless the employee agreed to a change. *Milwaukee Police Association v. City of Milwaukee*, 222 Wis.2d 259, 588 N.W.2d 636 (Ct. App. 1998); *Welter v. City of Milwaukee*, 214 Wis. 2d 485, 571 N.W.2d 459 (1997).

Bernard J. Allen
June 21, 2010
Page 3

Events Leading Up to the Adoption of File No. 091274

In August of 2009, the Annuity and Pension Board, with the approval of the system actuary, adopted a new funding policy that changed some of the assumptions made by the actuary when applying the projected unit credit method. The actuary informed the board in writing that the proposed assumption changes were “reasonable,” and “within the bounds of responsible actuarial practice.” The actuary explained that the new policy modifies certain policy components “within actuarially sound parameters.” (Letter of August 14, 2009) A consequence of this change is a reduction the City’s and city agencies’ near term annual contributions, but delayed recognition of future increases in asset values.

In March of 2010, the Common Council amended Chapter 36 to codify the funding policy recommended by the actuary and adopted by the board. File No. 091274. The Council added the qualification that the policy could not be changed without certification by the actuary and approval by the board. The effect of the amendment is that the board would no longer have authority to change those parts of the funding policy specifically addressed in Chapter 36 by majority vote; instead, a change would require written certification from the board’s actuary that such changes comply with actuarial standards of practice, approval of the board by majority vote, a two-thirds vote of the Common Council, and approval by the Mayor.

IRS Funding Requirements

Governmental plans are exempt from the minimum funding standards imposed under section 412 of the IRS Code. 26 U.S.C. §412(h). Governmental plans are subject to the pre-ERISA funding standards. Accordingly, a governmental plan must meet the requirements of section 401(a)(7) of the Code, as in effect on September 1, 1974, in order to be treated as a qualified plan for purposes of section 401(a). *Id.* Section 401(a)(7), as in effect on September 1, 1974, did not prescribe any specific funding standards, but instead required that a plan provide that in the event of a plan termination or a complete discontinuance of contributions, the rights of employees to benefits accrued to the date of the plan termination or discontinuance of contributions, to the extent then funded, would become non-forfeitable.

As to funding, a governmental plan must be able to meet current or anticipated near-future benefit payments, and the amounts appropriated to the plan must be fully sufficient to finance current benefits as determined by actuarial standards. *Gen. Couns. Mem.* 36813 (August 16, 1976). Therefore, as long as a governmental plan provides for full

Bernard J. Allen
June 21, 2010
Page 4

vesting on termination or discontinuance, and as long as the plan can meet its current or near-future benefit commitments, the employer is generally free to fund benefits in any manner it chooses, provided that it actually sets aside assets for that purpose. See, e.g., Rev. Rul. 71-91, 1971 C.B. 116 (holding that a noncontributory plan that contained no funding arrangement but provided that the employer would pay the monthly pension benefit to the employee directly did not qualify under section 401(a)).

How Similar Issues have been Addressed Under ERISA

Although governmental plans such as the Employees' Retirement System are exempt from ERISA under 29 U.S.C. secs. 1002(32) and 1003(b)(1), similar principles apply under the law of trusts. Moreover, courts often look to ERISA for guidance to resolve questions concerning public pension plans. Accordingly, to answer your questions, we reviewed *Lockheed Corp. v. Spink*, 517 U.S. 882 (1996), which discussed ERISA in a similar context.

The Lockheed Corporation adopted an early retirement program that offered increased retirement benefits for employees who chose to retire early, payable out of the plan's assets. But as a condition to participate, Lockheed also required participants to waive any employment-related claims they might have against Lockheed. In other words, Lockheed arguably purchased a benefit for the corporation—releases of its potential liabilities—with retirement fund assets. The Ninth Circuit Court of Appeals had held that Lockheed had engaged in a prohibited transaction in violation of ERISA because the early retirement program used plan assets to purchase a significant benefit for Lockheed.²

The Supreme Court reversed the Ninth Circuit. It concluded that Lockheed did not act as a fiduciary when it adopted the early retirement program, and, therefore, Lockheed was not subject to the prohibitions of ERISA that apply to fiduciaries. Under ERISA, the court noted, a person is a fiduciary with respect to a plan if he or she exercises any discretionary authority or control over its management, administration, the management or disposal of its assets, or renders investment advice for a fee. 29 U.S.C. sec. 1002(21)(A). Accordingly, “only when fulfilling certain defined functions, including the exercise of discretionary authority or control over plan management or administration, does a person become fiduciary under 3(21)(A).” *Id.* at 890, quoting, *Siskind v. Sperry Retirement Program Unisys*, 47 F.3d 498, 505 (1995). A fiduciary, the court explained,

² 29 U.S.C. sec. 1106(a)(1)(D) mandates, in part, that “[a] fiduciary with respect to a plan shall not cause the plan to engage in a transaction, if he knows or should know that such transaction constitutes a direct or indirect . . . transfer to, or use by or for the benefit of a party in interest, or any assets of the plan.”

Bernard J. Allen

June 21, 2010

Page 5

is not, strictly speaking, a person. Rather it is a status that attaches to a person who exercises certain forms of discretion, authority, or control. ERISA sec. 3(21)(A) provides that:

[A] person is a fiduciary with respect to a plan to the extent (i) he exercises any discretionary authority or discretionary control respecting management of such plan or exercises any authority or control respecting management or disposition of its assets, . . . (iii) he has any discretionary authority or discretionary responsibility in the administration of such plan.

This definition emphasizes the actual role and conduct of the individual, not the individual's title. Because the defined functions in the definition of fiduciary do not include plan design, an employer may decide to amend an employee benefit plan without being subject to fiduciary review. *Id.* Lockheed, therefore, the court concluded, acted as a settlor and not as a fiduciary when it amended the terms of the plan.³

ERISA sec. 408(c)(3) expressly permits a plan fiduciary to be the employer (or union, if a union sponsored plan), or one of its officers, employees, agents, or other representative. The rationale for this is plain. In the end it is the employer's or union's money that is used to pay benefits and expenses. Accordingly, an employer or union would want to maintain oversight of the plan's funds, and employers or unions would be reluctant to establish or maintain plans if they were unable to maintain oversight.

How does one distinguish between an employer's fiduciary and non-fiduciary roles? The court in *Lockheed* distinguished between an employer's plan administration, which is a fiduciary function, and plan design, which is a non-fiduciary role. The court refers to the non-fiduciary role as the settlor function, a term taken from the law of trusts, which refers to the authority of the donor of property to determine the terms of the trust. Some courts formulate the distinction as the "two-hat doctrine." ERISA requires "the fiduciary with two hats [to] wear only one at a time, and [to] wear the fiduciary hat when making fiduciary decisions." *Pegram v. Herdrich*, 530 U.S. 211, 225 (2000). Employers who act as plan administrators "assume fiduciary status only when and to the

³An employer, however, does not have a free hand in amending plans because other portions of ERISA govern plan amendments, e.g., 29 U.S.C. sec. 1054(g), amendments may not decrease accrued benefits; sec. 1085b, if an amendment results in underfunding of a defined benefit plan, the sponsor must post security for the amount of the deficiency; 1103(c)(1), "the assets of a plan shall never inure to the benefit of any employer and shall be held for the exclusive purpose of providing benefits to participants of the plan." The City is similarly constrained by the Chapter 441, Laws of 1947, provisions of Chapter 36, which create a contractual right to benefits, sec 36-13, and the law of trusts.

Bernard J. Allen

June 21, 2010

Page 6

extent that they function in their capacity as plan administrators, not when they conduct business that is not regulated by ERISA.” *Barnes V. Lacy*, 927 F.2d 539, 544 (11th Cir 1991).⁴

Contractual Limitations to Funding Changes

In *Wisconsin Professional Police Association v. Lightbourn*, 2001 WI 59, 243 Wis. 2d 512, 627 N.W.2d 807, the court, in an exhaustive opinion concerning the state’s pension plan reviewed all prior applicable Wisconsin cases. The court held that participants in a public pension plan have contractual rights to their benefits, but the participants do not have “a property right to determine exactly how employers fulfill their benefit commitments . . . without showing some tangible injury.” *Id.* Par. 179. The court also held the participants have no “right in a particular regimen of employer funding . . . or the timing of employer required contributions” unless the changes threaten “the security of the trust fund.” *Id.* Par. 176.

The *Lightbourn* case does not identify what kind of changes to a funding policy would constitute a tangible injury. Nevertheless, the case supports the conclusion that a change to a public pension funding policy that is reasonable, that is within the bounds of responsible actuarial practice, and that modifies certain policy components within actuarially sound parameters, is a lawful change because it does not deprive participants of their contractual rights to benefits or cause tangibly injure to their property rights.

Our Conclusion

We will now address whether the action of the Common Council and the Mayor in adopting File No. 091274 infringed on the fiduciary responsibilities of the board, and whether the board members could be held liable in the event of impairment of the fund. Based upon the above discussion, we believe we can justifiably conclude the following:

1. The Common Council was acting as a settlor, and not as a fiduciary, when it amended Chapter 36 to adopt the new funding policy. The amendment was directed to a change in plan design, and did not involve either investment or expenditure of fund assets. We note that if the Common Council and the Mayor were held to the same standards as a fiduciary,

⁴ Accordingly, when a member of the common council, who is also a member of the pension board, votes as a common council member on changes to plan design, he or she is not acting as a plan fiduciary because he or she is not acting in his or her capacity as a plan administrator. The same is true of a member of a union board, who is also a member of the pension board, voting on the position his or her union should take on pension benefits in collective bargaining.

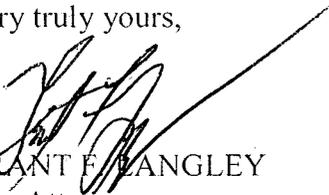
Bernard J. Allen
June 21, 2010
Page 7

their actions would not have raised any issues concerning breach of fiduciary duty because the changes to the funding policy codified had been approved by the system's actuary and the pension board, complied with the federal tax law, and did not violated the contractual rights of members or beneficiaries.

2. The action of the Common Council, in adopting a funding policy change that had been previously approved by the board, did not infringe upon the fiduciary responsibility of the board because the board has no fiduciary responsibilities concerning plan design. In the future, both the board and the Common Council must approve any change in the funding policy.

3. Accordingly, there is no basis for any liability of board members arising out of the Common Council's adoption of the amendment.

Very truly yours,



GRANT F. VANGLEY
City Attorney



RUDOLPH M. KONRAD
Deputy City Attorney

RMK:lmb
1054-2010-1215:158459



August 14, 2009

Annuity and Pension Board
Employees' Retirement System
City of Milwaukee
Attn: Jerry Allen
789 North Water Street
Suite 300
Milwaukee, WI 53202

Re: City of Milwaukee Employees' Retirement System -- Proposed Funding Policy

Board Members:

As you are aware, Buck Consultants has reviewed the proposed funding policy for the City of Milwaukee Employees' Retirement System and finds it to be a reasonable funding policy, within the bounds of responsible actuarial practice. The proposed 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 undersigned is a member of the American Academy of Actuaries and meets the Academy's Qualification Standards to issue this Statement of Actuarial Opinion.

The undersigned is available for the special meeting of the Board scheduled for August 27, 2009. In the interim, if you have any questions regarding funding policy, please call me at (312) 846-3669.

Sincerely,

Larry Langer, ASA, EA, MAAA
Principal, Consulting Actuary

LL:pl
12736/C6678RET01-Prop-Fund-Policy.doc

cc: Marco Ruffini, Buck Consultants



City of Milwaukee
Employees' Retirement System

Bernard J. Allen
Executive Director

Thomas A. Rick, CFA
Chief Investment Officer

Martin Matson
Deputy Director

April 28, 2010

Mr. Grant F. Langley, City Attorney
200 E Wells St, Rm 800
Milwaukee, WI 53202

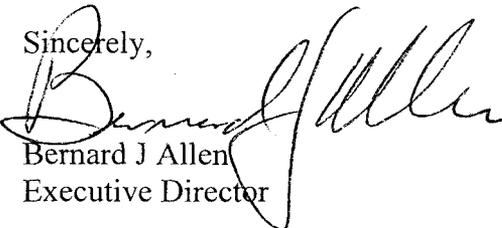
Attn: Rudolph M. Konrad, Deputy City Attorney

**RE: ANNUAL VALUATIONS OF THE ASSETS AND LIABILITIES OF THE ERS
(CCFN 091274)**

Dear Mr. Konrad:

At the April 26, 2010 meeting of the Annuity and Pension Board, it was requested that legal counsel for the Board be asked to advise whether the recent action of the Mayor and Common Council in adopting File 091274 (adopted March 2, 2010), infringes on the fiduciary responsibilities of the Pension Board trustees; and, under terms of the ordinance and acts of the City, can the Pension Board trustees be held liable in the event of Fund impairment?

Thank you for your attention to this matter. If you have any questions, please do not hesitate to contact Martin Matson at 286-2673.

Sincerely,

Bernard J Allen
Executive Director

BJA:MTM:kml
cc: Beth Conradson Cleary, Assistant City Attorney

From: [Larry Langer](#)
To: [Yaccarino, Dennis](#)
Cc: [Allen, Jerry](#); [Pat Beckham](#); [Aaron Chochon](#); [Ryan Gundersen](#); [CMC CMERS Team](#)
Subject: Impact of Closing CMERS to New Hires effective January 1, 2023
Date: Friday, January 22, 2021 9:10:41 AM

Dennis

Consideration is being given to closing CMERS to new hires. You have asked us to estimate the impact on contributions if that were to occur. We have estimated the employer contribution for all of CMERS for calendar year 2023 if CMERS is closed to new hires on that date to be \$315 million. The City's portion tends to be about 80 – 85% of the total. We have based this on the following:

- We have used the modelling tool we are developing for you to estimate key components of the estimated employer contribution. Note - the model currently does not model this directly – we can discuss this afternoon. The modelling tool is based on the January 1, 2020 actuarial valuation.
- We have assumed experience will match assumptions, including a 7.50% return during calendar years 2020 through 2022.
- No changes in assumptions will occur during the experience review scheduled to be effective with the January 1, 2023 valuation.
- The closing of CMERS would result in the following:
 - A shorter amortization period
 - We have used a ten year level dollar amortization
 - Note that research papers below suggest shortening amortization period or the use of the aggregate method. The aggregate method would likely result in a contribution close to a ten year amortization of the unfunded
 - A potentially lower discount rate to reflect the shorter time horizon. For the figure above we have used a return of 7.00%. Based on the input of the investment consultants, Callan, we may find that closing CMERS may require a lower return. For example, if a 6.5% return is more appropriate, the total employer contribution would be \$380 million.
 - Note that these two items are practices that can be found in the following research papers/best practices:
 - https://www.cactuaries.org/Portals/0/pdf/CCA_PPC_White_Paper_on_Public_Pension_Funding_Policy.pdf - This is a painful read suitable for actuaries
 - <https://www.gfoa.org/materials/core-elements-of-a-funding-policy> - an easier read suitable for humans

Note that a portion of the increase from the current contribution levels can be attributed to the reduction in discount rate that happened in early 2019 but will not take effect until Calendar 2023 as noted in previous projections.

We are available to discuss.

CMC

Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary
Cavanaugh Macdonald Consulting, LLC
819 North Brainard Street
Naperville, IL 60563
Cell 630.632.8668
Fax 678.388.1730
LarryL@CavMacConsulting.com
www.CavMacConsulting.com

NOTICE: This communication may contain confidential, proprietary or legally privileged information. It is intended only for the person(s) to whom it is addressed. If you are not an intended recipient, you may not use, read, retransmit, disseminate or take any action in reliance upon it. Please notify the sender that you have received it in error and immediately delete the entire communication, including any attachments. Cavanaugh Macdonald Consulting, LLC does not encrypt and cannot ensure the confidentiality or integrity of external e-mail communications and, therefore, cannot be responsible for any unauthorized access, disclosure, use or tampering that may occur during transmission. This communication is not intended to create or modify any obligation, contract or warranty of Cavanaugh Macdonald Consulting, LLC, unless the firm clearly expresses such an intent.

DISCLAIMER:

This e-mail and any attachments to it may contain confidential and proprietary material and is solely for the use of the intended

recipient. Any review, use, disclosure, distribution or copying of this transmittal is prohibited except by or on behalf of the intended recipient. If you have received this transmittal in error, please notify the sender and destroy this e-mail and any attachments and all copies, whether electronic or printed.



Whyte Hirschboeck Dudek S.C.

James W. Greer
414-978-5408
jgreer@whdlaw.com



February 7, 2011

Annuity and Pension Board
Employees' Retirement System
City of Milwaukee
Attn: Jerry Allen
789 North Water Street
Suite 300
Milwaukee, WI 53202

Re: Opinion Regarding Unlawful Impairment of ERS Benefits

To: Annuity and Pension Board

By letter dated November 18, 2010 (copy attached), we have been requested to provide the Annuity and Pension Board ("Board") of the City of Milwaukee Employees' Retirement System ("ERS" or "Plan") with an opinion regarding the following:

In the event the City of Milwaukee or State of Wisconsin adopts legislation which in the opinion of Board's counsel, unlawfully impairs retirement benefits of City of Milwaukee active employees or retirees as set forth in the court approved (2001) Global Pension Settlement and/or Chapter 36 of the Milwaukee City Charter, in order to fulfill their fiduciary role, what steps would the Pension & Annuity Board Trustees be required to take in such a matter?

The opinions set forth herein are subject to and limited by information that has been made available to us by the City, the City Attorney's Office and the ERS staff. In rendering these opinions we have relied on the accuracy of the information provided to us, including the facts summarized below, and our opinions are based upon and subject to those facts.

SUMMARY OF THE FACTS

The ERS is a defined benefit retirement plan for employees of the City of Milwaukee and participating City Agencies (collectively, the "City"). The Plan was created in 1937 by the Employees' Retirement Act ("Act") which, as subsequently amended by the City, is incorporated in Chapter 36 of the Milwaukee City Charter ("Chapter 36" or "Charter"). Members of the Plan receive defined benefits which are determined in accordance with the terms and conditions of Chapter 36.

The Board is responsible for the administration and proper operation of the Plan and "for making effective the provisions of this [A]ct. . . ." § 36-15-1-a, Charter. The City is "empowered to amend or alter the provisions of this [A]ct in the manner prescribed by s. 66.0101, Wis. Stats., provided that no such amendment or alteration shall modify the annuities, benefits or other rights of any persons who are members of the system prior to the effective date of such amendment or alteration." § 36-14, Charter.

Based on publicly discussed budget shortfalls on both the State and municipal level, some Board members have expressed concern that the City may amend Chapter 36 or the State may pass legislation that unlawfully impairs ERS member benefits. Although no such amendment or legislation has been passed to date, the Board has requested a legal opinion on what steps it should take in order to fulfill its fiduciary role if such an enactment were to occur.

ANALYSIS AND DISCUSSION

Step 1: The Board must make an initial determination whether an amendment to Chapter 36 or State Legislation lawfully impairs ERS member benefits.

As an initial matter, the Board must determine whether the legislative enactment in question effects a lawful impairment of ERS member benefits. The Board is responsible for administering the Plan in accordance with the terms of Chapter 36. § 36-15-1-a, Charter. As discussed below, if the Board reasonably determines that an amendment to Chapter 36 or State Legislation is lawful, then the Board may proceed to implement the same regardless of the fact that such legislative enactment may impair ERS member benefits.

Whether legislation *lawfully* impairs an ERS member benefit may not be clear. The legality of legislation presents a question of law. The first step and the prudent

course of action for the Board is to obtain a legal opinion regarding the legality of the legislative enactment in question.

With respect to amendments to Chapter 36, the City Attorney is charged by law with the responsibility of passing on the legality and enforceability of any proposed ordinance. § 50-3-2-b, Milwaukee Code of Ordinances. (“[T]he ordinance shall be submitted by the city clerk to the city attorney for approval as to legality and enforceability.”) The City Attorney is also the statutory legal advisor of the Board. § 36-15-10, Charter. In the ordinary course, the City Attorney advises the Board on the legality of enacted legislation.

Thus, if it appears that an ordinance may unlawfully impair ERS benefits, the Board should seek a legal opinion from the City Attorney. If the City Attorney concludes that the ordinance is legal and enforceable, the Board may in good faith rely on the opinion of its statutory legal counsel. *Wisconsin Retired Teachers Assn v. Employee Trust Funds Bd.*, 207 Wis. 2d 1, 26, 558 N.W.2d 83 (1997) (“[T]he trustees upheld their fiduciary duties by implementing Act 27 in good-faith reliance on the opinion of constitutionality rendered by the attorney general.”) *See, also, State v. Davis*, 63 Wis. 2d 75, 82, 216 N.W.2d 31 (1974) (“[T]he good-faith authorized legal advice of governmental counsel and defendant’s good-faith reliance thereupon is a defense to a prosecution . . .”).

Similarly, the Board should seek — and may rely upon — a legal opinion from the City Attorney regarding the legality and enforceability of State legislation. In the event the City Attorney declines or is unable to render an opinion, the Board should retain other legal counsel to advise it. The Board then may adopt a position, in reliance on that legal opinion, regarding the legality and enforceability of the legislation.

The extent to which an opinion of legal counsel may protect a fiduciary under such circumstances was clarified in *Marquardt v. Milwaukee County*, 2002 WI App 12, 249 Wis. 2d 780, 639 N.W.2d 762. In that case, an employee of Milwaukee County sought recovery of his attorneys’ fees because, as he alleged, the County Pension Board had interpreted a County ordinance in “bad faith” and in violation of trust law. *Id.* ¶¶ 8–15. As a result of prior litigation, the employee had qualified for and received worker’s compensation benefits under ch. 102, Stats. *Id.* ¶ 3. He had also proved that the County had committed a safety violation under s. 102.57, Stats., which qualified him for increased compensation of fifteen percent pursuant to the terms of that statute. *Id.* When the employee later applied for and received a disability pension, the County Pension Board was required to interpret MCC 201.24(11.9), a County ordinance requiring the Board to offset the employee’s worker’s compensation benefits against his

pension benefits. *Id.* ¶ 4. The Board interpreted this offset to include the 15% increase under s. 102.57. *Id.*

The County Pension Board had misgivings about the application of the ordinance. Its meeting minutes noted that “[T]he offset . . . was not equitable but the governing Ordinance gives no latitude as to the offset requirements.” *Marquardt v. Milwaukee County*, 2000 WI App 77, ¶ 6, 234 Wis. 2d 294, 610 N.W.2d 496. The Court determined that these misgivings had been justified in that the Board, in fact, had incorrectly interpreted the ordinance as requiring an offset for the 15% increase in worker’s compensation benefits. *Id.* ¶ 15.

Nonetheless, the Court in *Marquardt* denied the request for recovery of attorneys’ fees. The Court found that the County Pension Board had *not* acted in bad faith because an opinion of legal counsel had provided the Board with a reasonable basis for its actions:

This dispute dealt with the interpretation of a county ordinance. The pension board, while noting its distaste for the ordinance’s operation as it affected Marquardt, followed the advice of its legal counsel and refused to exempt the 15% increase in worker’s compensation benefits from the setoff. The pension board acted reasonably when it denied Marquardt’s request to exempt his 15% increase in benefits from the offset. The board believed, as did its legal counsel, that the ordinance obligated the board to do so.

Marquardt, 249 Wis. 2d 780, ¶ 11. The Court also rejected the alleged violation of trust law on similar grounds (“Nowhere in the pleadings is there an allegation that the pension board breached its fiduciary duty to Marquardt. Nor could there be, as the pension board’s ordinance interpretation, while eventually found to be incorrect, was, nevertheless, properly undertaken.”). See *id.* ¶ 14. Thus, the *Marquardt* decision underscores the importance of relying on an opinion of statutory legal counsel as a reasonable basis for the Board’s actions when the interpretation of a legislative enactment is in question.

If, on the other hand, in reviewing an ordinance or other enacted legislation under §§ 50-3-2-b and/or 36-15-10, Charter, the City Attorney (or retained counsel, if the City Attorney declines or is unable to render an opinion) provides an opinion questioning the legality of such enactment, then the Board may adopt the position that the enacted legislation is not legal or enforceable. As discussed below, the Board has

available remedies to address the issue if enacted legislation unlawfully impairs ERS member benefits.

Step 2: The Board must take action if it receives a legal opinion from the City Attorney or retained counsel that the amendment to Chapter 36 or State Legislation unlawfully impairs the benefits of members of the ERS.

The Board acts as a fiduciary to the members of the ERS. Most of the duties of a trustee to the beneficiary are determined by the terms of the trust, in this case the provisions of Chapter 36. In addition to the duties imposed by Chapter 36, the Board has, among other things, a fiduciary duty of loyalty to the ERS members, a fiduciary duty to exercise reasonable care and skill, a fiduciary duty to preserve the Plan's assets and a fiduciary duty to pay the benefits due ERS members. The Restatement (Second) of Trusts, Ch. 7 (1959). A discussion of the Board's fiduciary duties is set forth in a City Attorney Legal Opinion dated September 5, 1995 (copy attached).

As a fiduciary, the Board cannot permit an unlawful impairment of ERS member benefits. If statutory counsel concludes that enacted legislation unlawfully impairs ERS member benefits, or if statutory counsel concludes that the legality of the impairment is not clear, the Board has available remedies to address the issue.

The Board may simply choose not to follow or implement the impairing legislation in good faith reliance on the legal opinion of its counsel. For example, in *Association of State Prosecutors v. Milwaukee County*, 199 Wis. 2d 549, 544 N.W.2d 888 (1996), Milwaukee County refused to follow a newly enacted state statute requiring that certain pension funds be transferred from the Milwaukee County Employee Retirement System to the Wisconsin Retirement System. *Id.* at 556. ("Milwaukee County refused to make the transfer from the County Plan to the State Plan on the ground that such a transfer would have misappropriated funds held in trust exclusively for the benefit of vested employees and retirees."). The case does not specifically mention that the County Pension Board relied on legal counsel in making its decision; however, the Board would have made its decision after having researched the matter. In litigation initiated by a class of affected employees, the County's decision to refuse to follow the statute was ultimately vindicated when the Supreme Court of Wisconsin overturned the statute as unconstitutional and ordered the funds to remain in the County plan.

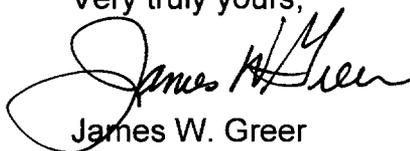
Alternatively, the Board may initiate its own lawsuit seeking court determination of the illegality and unenforceability of the enacted legislation or other court instructions regarding the administration of the Plan as a result of the unlawful enactment. The

Annuity and Pension Board
February 7, 2011
Page 6

Board has sought direction from the Courts in the past. See *Milwaukee Employes' Ret. Sys. and Annuity and Pension Bd. v. City of Milwaukee*, No. 98-1497, 1999 Wisc. App. LEXIS 772 (Wis. Ct. App. July 20, 1999) (unpublished decision). In a case where the legality of the impairment is not clear, seeking direction from the courts would appear to be particularly prudent. What the Board cannot do is to permit an unlawful impairment of ERS member benefits.

If you have any questions regarding this letter or the legal opinions included above, please direct them to the undersigned.

Very truly yours,



James W. Greer

JWG/pal

Enclosures



City of Milwaukee
Employees' Retirement System

Bernard J. Allen
Executive Director

Thomas A. Rick, CFA
Chief Investment Officer

Martin Matson
Deputy Director

ATTORNEY-CLIENT PRIVILEGED INFORMATION

November 18, 2010

Mr. James Greer, Esq.
Whyte Hirschboeck Dudek S.C.
555 East Wells Street
Suite 1900
Milwaukee, WI 53202

Dear Jim,

As we discussed this morning the Pension & Annuity Board requests your opinion on the following question:

In the event the City of Milwaukee or State of Wisconsin adopts legislation which in the opinion of Board's counsel, unlawfully impairs retirement benefits of City of Milwaukee active employees or retirees as set forth in the court approved (2001) Global Pension Settlement and/or Chapter 36 of the Milwaukee City Charter, in order to fulfill their fiduciary role, what steps would the Pension & Annuity Board Trustees be required to take in such a matter?

Also as requested, attached for your reference are copies of relevant City Attorney opinions pursuant to Chapter 36.

Best regards,

A handwritten signature in black ink, appearing to read "Bernard J. Allen", is written over a printed name and title.

Bernard J. Allen
Executive Director

CITY OF MILWAUKEE

Form CA-43*

GRANT F. LANGLEY
City Attorney

RUDOLPH M. KONRAD
Deputy City Attorney

THOMAS E. HAYES
PATRICK B. McDONNELL
CHARLES R. THEIS
Special Deputy City Attorneys



OFFICE OF CITY ATTORNEY
800 CITY HALL
200 EAST WELLS STREET
MILWAUKEE, WISCONSIN 53202-3551
TELEPHONE (414) 286-2601
TDD 286-2025
FAX (414) 286-8550

BEVERLY A. TEMPLE
THOMAS O. GARTNER
LINDA ULISS BURKE
BRUCE D. SCHRIMPF
ROXANE L. CRAWFORD
THOMAS G. GOELDER
SUSAN D. BICKERT
HAZEL MOSLEY
HARRY A. STEIN
STUART S. MUKAMAL
THOMAS J. BEAMISH
JOHN J. HEINEN
MICHAEL G. TOBIN
M. JOSEPH DONALD
DAVID J. STANOSZ
MARY M. KUHNHAUENCH
SUSAN E. LAPPEN
DAVID R. HALBROOKS
JAN A. SMOKOWICZ
PATRICIA A. FRICKER
HEIDI A. WICK
VINCENT J. BOBOY
KURT A. BEHLING
LAURIE A. EBEL
GREGG C. HAGOPIAN
ELLEN H. TANGEN
MELANIE R. SWANK
TRACY M. JOHNSON
Assistant City Attorneys

September 5, 1995

Mr. Robert G. Nehls
Secretary and Executive Director
Employes' Retirement System
Room 610 - City Hall

Dear Mr. Nehls:

On March 9, 1995, you wrote the City Attorney requesting a written opinion relative to Board members' responsibilities, specifically, whether those responsibilities extend beyond investments, counseling, disbursing payments to such matters as adequacy of retiree benefits, funding and pension plan design. You requested we include the answers to the following questions:

1. Who are the fiduciaries for the Employes' Retirement System?
2. Is it the duty of a Board member to perform their duties and make decisions "solely" in the interests of the participants?

A fiduciary relationship is one founded on trust or confidence reposed by one person in the integrity and fidelity of another. The term is a broad one embracing both technical and fiduciary relations as those informal relations which exist whenever one man trusts and relies on another. Lake Forest v. Black, 128 N.W.2d 535 at 538 (Mich.). Fiduciaries generally include those specifically created by contract and formal legal relationships such as principal and agent and trust and trustee and those implied by law due to factual situations surrounding their activities. Production Credit Association of Lancaster v. Croft, 143 N.W.2d 746 at 752 (C.A. Wis. 1987). However, the employer - employe relationship is not in and of itself a fiduciary relationship. 225 Wis. 281 at 282

Mr. Robert G. Nehls

September 5, 1995

(1937). It has been held that the mere fact that an employer offers a pension program for the benefit of its employes does not give rise to a fiduciary relationship. Lohren v. Crank, 48 F.Supp. 1127 (E.D. Penn. 1978). An employer who has surrendered all control over a disposition of claims for benefits to a trust is not a fiduciary. Celandi v. Purcol Computer Co., 761 F.2d 1233 (C.A. 1985). Likewise, a union does not create a fiduciary relationship with respect to a pension plan through collective bargaining. United Flight Officers v. United Airlines, 572 F.Supp. 963 (N.D. Ill. 1983).

ERISA which applies to all private pension plans contains well defined standards as to who are fiduciaries in respect to a pension plan. It does not apply to state and local governmental plans such as the Employees' Retirement System. Under ERISA a person is a fiduciary to the extent that the person either (1) exercises discretionary authority or discretionary control in respect to the management of the plan or respecting management of disposition of its assets, (2) renders investment advice for a fee or other compensation, direct or indirect, concerning any money or other properties of the plan or has authority or responsibility to do so, or (3) has discretionary responsibility in the administration of a plan. 29 U.S.C.S. § 1002(21). Administrative regulations of the Department of Labor in the implementation of ERISA go further in defining who is and who is not a fiduciary. These regulations state that persons who have no power to make any decisions as to plan policy, interpretations, practices or procedures, but who perform administrative functions for an employee benefit within the framework of policies, interpretations, rules, practices and procedures made by others, are not fiduciaries. Thus, according to these rules, persons whose responsibilities are (1) application of rules determining eligibility for participation or benefits, (2) calculation of services and compensation credit for benefits, (3) preparation of employe communications material, (4) maintenance of participant's service and employment records, (5) preparation of reports required by government agencies, (6) calculation of benefits, (7) orientation of new participants and advising participants of their rights and options under the plan, (8) collection of contributions and application of contributions as provided in the plan, (9) preparation of reports concerning participant benefits, (10) processing of claims, and (11) making recommendations to others for decision with respect to plan administration are not fiduciaries. 29 C.F.R. § 2509.75-8. Attorneys, accountants, actuaries or consultants who render legal, accounting, actuarial or consulting services to the plan will not ordinarily be considered fiduciaries. 29 C.F.R. § 2509.75-5. If these professionals exercise control over plan assets, the result may be different. Cf. Mertens v. Hewitt, 948 F.2d 607, 610 (Ct. App. 1991).

Mr. Robert G. Nehls

September 5, 1995

Under the ERISA rules, a fiduciary with respect to a plan may rely on information, data, statistics or analysis furnished by persons performing ministerial functions for the plan provided that the fiduciary has exercised prudence in the selection and retention of such persons. The plan fiduciary will be deemed to have acted prudently in such selection and retention if in the exercise of ordinary care in such situation he or she has no reason to doubt the competence, integrity or responsibility of such persons. 29 C.F.R. § 2509.75-8.

Under ERISA, named fiduciaries such as trustees, may designate persons who are not named fiduciaries to carry out fiduciary duties. 29 C.F.R. § 2509.75-A, FR-12. When this occurs, named fiduciaries will not be liable for acts and omissions of the person who is not a named fiduciary in carrying out fiduciary responsibilities which such person has been designated to carry out, provided the Plan document contains a procedure for the delegation to take place. *Ibid.*, FR-14. Under ERISA, authority and discretion to manage Plan assets may be delegated to investment managers qualified under the requirements of the Investment Advisors Act of 1940. 29 C.F.R. § 25.09.75-7, FR-6.

Under ERISA, where a majority of trustees appear to take action which would be clearly contrary to prudence requirements, it is incumbent on the minority trustees to take all reasonable and legal steps to prevent the action. If having taken all reasonable and legal steps to prevent the action, the minority trustees have not succeeded, they will not incur liability for the action of the majority. 29 C.F.R. § 25.09.75-5, FR-10. More generally, trustees should take great care to document adequately all meetings where actions are taken with respect to management and control of Plan assets and written minutes of all actions taken should be kept describing the action taken and stating how each trustee voted on each matter. If a trustee objects to a proposed action on the grounds of violation of fiduciary responsibilities, the trustee so objecting should insist that their objections and responses to such objections be included in the record of the meeting. *Ibid.*

Although ERISA does not apply to the ERS, one may logically look to the ERISA for guidance on fiduciary issues because ERISA purports to follow common law principles. NLRB v. Amex Coal Company, a Division of Amex, Inc., 453 U.S. 322, 328-330 (1981). For example, if a trustee has reason to suspect that a co-trustee is committing or attempting to commit a breach of trust, the trustee must take reasonable steps to prevent the co-trustee from so doing. The Restatement of the Law, 2d, Trusts 2d, § 183.

Under Chapter 36 of the Charter, the Board shall contract with investment managers. 36-09-1. The Board may also contract for performance evaluation services. § 36-09-1-c. In each of the instances mentioned, the Board has contracted to delegate fiduciary responsibilities to the person so selected. Although the selection of an investment manager does not relieve the Board of all liability or responsibility. The Board's contract seeks to protect the Board by requiring indemnification of the Board from liability for the consequences of the contractor's decision.

Many of the duties of a trustee to the beneficiary are determined by the terms of the trust. Some of the duties may not be imposed by the terms of the trust but may rise from the fiduciary nature of the relationship. If the trust does not provide otherwise, the trustee has a fiduciary duty to:

1. administer the trust;
2. a duty of loyalty;
3. a duty not to delegate;
4. a duty to keep and render accounts;
5. a duty to furnish information;
6. a duty to exercise reasonable care and skill;
7. a duty to keep and control;
8. a duty to preserve the trust property;
9. a duty to enforce claims;
10. a duty to defend actions;
11. a duty to keep trust property separate;
12. a duty with respect to bank deposits;
13. a duty to make the trust property protective;
14. a duty to pay income to a beneficiary;
15. a duty to deal impartially with beneficiaries;
16. a duty with respect to co-trustees;
17. a duty with respect to person holding power of control.

The Restatement of the Law, 2d, Trusts 2d, Ch. 7.

The existence and the extent of a trustee's duty of loyalty may be determined by the fiduciary standards governing the conduct of a trustee. The fiduciary's duty of loyalty requires, as an adjunct, that the trustee administer the trust solely in the interest of the beneficiary. Restatement of the Law, 2d, Trust 2d, § 170. The cases dealing with this duty deal primarily with two situations. One involves self-dealing. A trustee is under a duty not to profit at the expense of the beneficiary or to enter into substantial competition with the beneficiary. Ibid, Comment A.

The other involves actions serving the interests of third-party persons or a non-trust objective. In administering the trust, the trustee is under a duty to the beneficiary not to be influenced by the interests of any third person or by motives other than the accomplishment of the purposes of the trust. Ibid, Comment G. A trustee bears an unwavering duty of complete loyalty to the beneficiaries of the trust to the exclusion of the interests of all other parties. To deter the trustee from all temptation, to prevent any possible injury to the beneficiary, the rule against the trustee dividing his loyalty is enforced with uncompromising rigidity. NLRB v. Amex Coal Company, supra.

The terms of the trust may, of course, limit the extent of the trustee's fiduciary duties. As a general rule, the trustee is under a duty to the beneficiary to comply or attempt to comply with the terms of the trust. There are certain exceptions:

1. The trustee is not under a duty to the beneficiary to comply or attempt to comply with a term of the trust requiring the trustee to do an act, the performance of which is impossible;
2. The trustee is not under a duty to the beneficiary to comply with a term of the trust which is illegal;
3. The trustee may deviate from a term of the trust if, owing to circumstances not known to the settler and not anticipated by him, compliance would defeat or substantially impair the accomplishment of the purposes of the trust. In such circumstances, the trustee must ordinarily seek permission of the court and the trustee may be liable to the beneficiary if he neglects to apply to the court for permission to deviate from the terms of the trust.

Restatement of the Law, 2d, Trust 2d § 167.

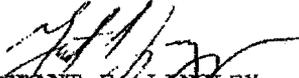
You have requested an opinion regarding the Board members' responsibilities and, specifically, whether the responsibilities extend beyond investments, counseling, disbursing payments to such matters as adequacy of retiree benefits, funding and pension plan design. In our opinion, the trustee is not permitted to deviate from the terms of the trust based upon the trustee's considered opinion of the inadequacy of retiree benefits, inadequate funding or inadequate pension plan design. Although the trust establishes the funding requirement, the trustee bears responsibility to

Mr. Robert G. Nehls

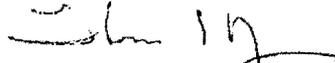
September 5, 1995

administer the law and to make sure the requested contribution is forthcoming. NLRB v. Amex Coal Company, supra. On the other hand, there appears to be nothing which would suggest the trustee cannot make suggestions and recommendations to the settlor relative to these issues, so long as the trustee's recommendations treat all beneficiaries impartially.

Very truly yours,



GRANT E. LANGLEY
City Attorney



THOMAS E. HAYES
Special Deputy City Attorney

TEH.KAN.FIDUSHRY.ERS

CITY OF MILWAUKEE

Form CA-49

GRANT F. LANGLEY
City Attorney

RUDOLPH M. KONRAD
Deputy City Attorney

THOMAS E. HAYES
PATRICK B. McDONNELL
CHARLES R. THEIS
Special Deputy City Attorneys



OFFICE OF CITY ATTORNEY
800 CITY HALL
200 EAST WELLS STREET
MILWAUKEE, WISCONSIN 53202-3551
TELEPHONE (414) 286-2601
TDD 286-2025
FAX (414) 286-8550

February 6, 1995

BEVERLY A. TEMPLE
THOMAS O. GARTNER
LINDA LILES BURKE
BRUCE D. SCHRAFF
ROXANE L. CRAWFORD
THOMAS C. GOELDNER
SUSAN D. BICKERT
HAZEL MOSLEY
HARRY A. STEN
STUART S. MUKAMAL
THOMAS J. BEAMISH
JOHN J. HEINEN
MICHAEL G. TOBIN
M. JOSEPH DONALD
DAVID J. STANOSZ
MARY M. KUHNMUENCH
SUSAN E. LAPPEN
DAVID R. HALBROOKS
JAN A. SMOKOWICZ
PATRICIA A. FRICKER
HEIDI A. WICK
VINCENT J. BOBOT
KURT A. BENLING
LAURI A. EBEL
GREGG C. HAGOPIAN
ELLEN H. TANGEN
MELANIE R. SWANK
TRACY M. JOHNSON
Assistant City Attorneys

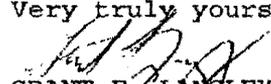
Mr. Robert G. Nehls
Secretary and Executive Director
Employes' Retirement System
Room 610 - City Hall

Dear Mr. Nehls:

On December 5, 1994, you wrote the City Attorney stating that at its November 21, 1994 Pension Board meeting there was a discussion of the responsibilities of Board members. As we recall of the discussion, the issue was whether the Board members were obligated to administer the law or to represent the interests of those who either elected or appointed them. In your letter you stated that we had indicated that there were cases that dealt with that issue. You asked that we furnish you with applicable case law.

Enclosed for your information, please NLRB v. Amax Coal Co., United Mine Workers of America v. NLRB, 453 U.S. 322, 69 L.Ed. 2d 672, 101 S.Ct. 2789 (1981). In that case, the courts held that employer appointed representatives who were pension trustees had an unwavering duty of complete loyalty, such that the trustee may not administer a trust fund in the interests of the party that appointed him. Also enclosed please find UMWA Health & Retirement Funds v. Robinson, 455 U.S. 562, 71 L.Ed. 2d 419, 102 S.Ct. 1226 (1982), wherein the Court held that trustees who were obligated to follow the terms of the trust did not violate their fiduciary duties.

Very truly yours,


GRANT F. LANGLEY
City Attorney

THOMAS E. HAYES
Special Deputy City Attorney

Enc.



City of Milwaukee
Employees' Retirement System

Bernard J. Allen
Executive Director

Thomas A. Rick, CFA
Chief Investment Officer

Martin Matson
Deputy Director

ATTORNEY-CLIENT PRIVILEGED INFORMATION

November 18, 2010

Mr. James Greer, Esq.
Whyte Hirschboeck Dudek S.C.
555 East Wells Street
Suite 1900
Milwaukee, WI 53202

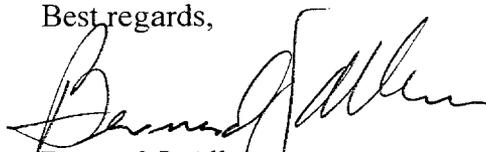
Dear Jim,

As we discussed this morning the Pension & Annuity Board requests your opinion on the following question:

In the event the City of Milwaukee or State of Wisconsin adopts legislation which in the opinion of Board's counsel, unlawfully impairs retirement benefits of City of Milwaukee active employees or retirees as set forth in the court approved (2001) Global Pension Settlement and/or Chapter 36 of the Milwaukee City Charter, in order to fulfill their fiduciary role, what steps would the Pension & Annuity Board Trustees be required to take in such a matter?

Also as requested, attached for your reference are copies of relevant City Attorney opinions pursuant to Chapter 36.

Best regards,



Bernard J. Allen
Executive Director

*Code 36.15 - Admin; Capacity & Pension Bldg. Bd.
Indefinite Fiduciary Responsibilities*

*9-25-95 SA. NEER
Indefinite Fiduciary
Responsibilities
Form CA-43*

CITY OF MILWAUKEE

GRANT F. LANGLEY
City Attorney

RUDOLPH M. KONRAD
Deputy City Attorney

THOMAS E. HAYES
PATRICK B. McDONNELL
CHARLES R. THEIS
Special Deputy City Attorneys



OFFICE OF CITY ATTORNEY
800 CITY HALL
200 EAST WELLS STREET
MILWAUKEE, WISCONSIN 53202-3551
TELEPHONE (414) 286-2801
TDD 286-2025
FAX (414) 286-8560

BEVERLY A. TEMPLE
THOMAS O. GARTNER
LINDA ULISS BURKE
BRUCE D. SCHRAMPF
ROXANE L. CRAWFORD
THOMAS C. GOELDER
SUSAN D. BECKERT
HAZEL MOSLEY
HARRY A. STEIN
STUART S. MUKAMAL
THOMAS J. BEAMAN
JOHN J. HEWEN
MICHAEL G. TOBIN
M. JOSEPH DONALD
DAVID J. STANOEZ
MARY M. KUSHNARENCH
SUSAN E. LAPPEN
DAVID R. HALBROCKS
JAN A. SMOKOWOZ
PATRICIA A. FRICKER
HEIDI A. WICK
VINCENT J. BOBOT
KURT A. BEHLING
LAW A. EBEL
GREGG G. MAGOPIAN
ELLEN H. TANGEN
MELANIE A. SWANK
TRACY M. JOHNSON
Assistant City Attorneys

September 5, 1995

Mr. Robert G. Nehls
Secretary and Executive Director
Employes' Retirement System
Room 610 - City Hall

Dear Mr. Nehls:

On March 9, 1995, you wrote the City Attorney requesting a written opinion relative to Board members' responsibilities, specifically, whether those responsibilities extend beyond investments, counseling, disbursing payments to such matters as adequacy of retiree benefits, funding and pension plan design. You requested we include the answers to the following questions:

1. Who are the fiduciaries for the Employes' Retirement System?
2. Is it the duty of a Board member to perform their duties and make decisions "solely" in the interests of the participants?

A fiduciary relationship is one founded on trust or confidence reposed by one person in the integrity and fidelity of another. The term is a broad one embracing both technical and fiduciary relations as those informal relations which exist whenever one man trusts and relies on another. Lake Forest v. Black, 128 N.W.2d 535 at 538 (Mich.). Fiduciaries generally include those specifically created by contract and formal legal relationships such as principal and agent and trust and trustee and those implied by law due to factual situations surrounding their activities. Production Credit Association of Lancaster v. Croft, 143 N.W.2d 746 at 752 (C.A. Wis. 1987). However, the employer - employe relationship is not in and of itself a fiduciary relationship. 225 Wis. 281 at 282

Mr. Robert G. Nehls

September 5, 1995

(1937). It has been held that the mere fact that an employer offers a pension program for the benefit of its employees does not give rise to a fiduciary relationship. Lohren v. Crank, 48 F.Supp. 1127 (E.D. Penn. 1978). An employer who has surrendered all control over a disposition of claims for benefits to a trust is not a fiduciary. Celandi v. Purcol Computer Co. 761 F.2d 1233 (C.A. 1985). Likewise, a union does not create a fiduciary relationship with respect to a pension plan through collective bargaining. United Flight Officers v. United Airlines, 572 F.Supp. 963 (N.D. Ill. 1983).

ERISA which applies to all private pension plans contains well defined standards as to who are fiduciaries in respect to a pension plan. It does not apply to state and local governmental plans such as the Employees' Retirement System. Under ERISA a person is a fiduciary to the extent that the person either (1) exercises discretionary authority or discretionary control in respect to the management of the plan or respecting management of disposition of its assets, (2) renders investment advice for a fee or other compensation, direct or indirect, concerning any money or other properties of the plan or has authority or responsibility to do so, or (3) has discretionary responsibility in the administration of a plan. 29 U.S.C.S. § 1002(21). Administrative regulations of the Department of Labor in the implementation of ERISA go further in defining who is and who is not a fiduciary. These regulations state that persons who have no power to make any decisions as to plan policy, interpretations, practices or procedures, but who perform administrative functions for an employee benefit within the framework of policies, interpretations, rules, practices and procedures made by others, are not fiduciaries. Thus, according to these rules, persons whose responsibilities are (1) application of rules determining eligibility for participation or benefits, (2) calculation of services and compensation credit for benefits, (3) preparation of employee communications material, (4) maintenance of participant's service and employment records, (5) preparation of reports required by government agencies, (6) calculation of benefits, (7) orientation of new participants and advising participants of their rights and options under the plan, (8) collection of contributions and application of contributions as provided in the plan, (9) preparation of reports concerning participant benefits, (10) processing of claims, and (11) making recommendations to others for decision with respect to plan administration are not fiduciaries. 29 C.F.R. § 2509.75-8. Attorneys, accountants, actuaries or consultants who render legal, accounting, actuarial or consulting services to the plan will not ordinarily be considered fiduciaries. 29 C.F.R. § 2509.75-5. If these professionals exercise control over plan assets, the result may be different. Cf. Mertens v. Hewitt, 948 F.2d 607, 610 (Ct. App. 1991).

Mr. Robert G. Nehls

September 5, 1995

Under the ERISA rules, a fiduciary with respect to a plan may rely on information, data, statistics or analysis furnished by persons performing ministerial functions for the plan provided that the fiduciary has exercised prudence in the selection and retention of such persons. The plan fiduciary will be deemed to have acted prudently in such selection and retention if in the exercise of ordinary care in such situation he or she has no reason to doubt the competence, integrity or responsibility of such persons. 29 C.F.R. § 2509.75-8.

Under ERISA, named fiduciaries such as trustees, may designate persons who are not named fiduciaries to carry out fiduciary duties. 29 C.F.R. § 2509.75-A, FR-12. When this occurs, named fiduciaries will not be liable for acts and omissions of the person who is not a named fiduciary in carrying out fiduciary responsibilities which such person has been designated to carry out, provided the Plan document contains a procedure for the delegation to take place. *Ibid.*, FR-14. Under ERISA, authority and discretion to manage Plan assets may be delegated to investment managers qualified under the requirements of the Investment Advisors Act of 1940. 29 C.F.R. § 25.09.75-7, FR-6.

Under ERISA, where a majority of trustees appear to take action which would be clearly contrary to prudence requirements, it is incumbent on the minority trustees to take all reasonable and legal steps to prevent the action. If having taken all reasonable and legal steps to prevent the action, the minority trustees have not succeeded, they will not incur liability for the action of the majority. 29 C.F.R. § 25.09.75-5, FR-10. More generally, trustees should take great care to document adequately all meetings where actions are taken with respect to management and control of Plan assets and written minutes of all actions taken should be kept describing the action taken and stating how each trustee voted on each matter. If a trustee objects to a proposed action on the grounds of violation of fiduciary responsibilities, the trustee so objecting should insist that their objections and responses to such objections be included in the record of the meeting. *Ibid.*

Although ERISA does not apply to the ERS, one may logically look to the ERISA for guidance on fiduciary issues because ERISA purports to follow common law principles. NLRB v. Amex Coal Company, a Division of Amex, Inc., 453 U.S. 322, 328-330 (1981). For example, if a trustee has reason to suspect that a co-trustee is committing or attempting to commit a breach of trust, the trustee must take reasonable steps to prevent the co-trustee from so doing. The Restatement of the Law, 2d, Trusts 2d, § 183.

Under Chapter 36 of the Charter, the Board shall contract with investment managers. 36-09-1. The Board may also contract for performance evaluation services. § 36-09-1-c. In each of the instances mentioned, the Board has contracted to delegate fiduciary responsibilities to the person so selected. Although the selection of an investment manager does not relieve the Board of all liability or responsibility. The Board's contract seeks to protect the Board by requiring indemnification of the Board from liability for the consequences of the contractor's decision.

Many of the duties of a trustee to the beneficiary are determined by the terms of the trust. Some of the duties may not be imposed by the terms of the trust but may rise from the fiduciary nature of the relationship. If the trust does not provide otherwise, the trustee has a fiduciary duty to:

1. administer the trust;
2. a duty of loyalty;
3. a duty not to delegate;
4. a duty to keep and render accounts;
5. a duty to furnish information;
6. a duty to exercise reasonable care and skill;
7. a duty to keep and control;
8. a duty to preserve the trust property;
9. a duty to enforce claims;
10. a duty to defend actions;
11. a duty to keep trust property separate;
12. a duty with respect to bank deposits;
13. a duty to make the trust property protective;
14. a duty to pay income to a beneficiary;
15. a duty to deal impartially with beneficiaries;
16. a duty with respect to co-trustees;
17. a duty with respect to person holding power of control.

The Restatement of the Law, 2d, Trusts 2d, Ch. 7.

The existence and the extent of a trustee's duty of loyalty may be determined by the fiduciary standards governing the conduct of a trustee. The fiduciary's duty of loyalty requires, as an adjunct, that the trustee administer the trust solely in the interest of the beneficiary. Restatement of the Law, 2d, Trust 2d, § 170. The cases dealing with this duty deal primarily with two situations. One involves self-dealing. A trustee is under a duty not to profit at the expense of the beneficiary or to enter into substantial competition with the beneficiary. Ibid, Comment A.

Mr. Robert G. Nehls

September 5, 1995

The other involves actions serving the interests of third-party persons or a non-trust objective. In administering the trust, the trustee is under a duty to the beneficiary not to be influenced by the interests of any third person or by motives other than the accomplishment of the purposes of the trust. Ibid, Comment G. A trustee bears an unwavering duty of complete loyalty to the beneficiaries of the trust to the exclusion of the interests of all other parties. To deter the trustee from all temptation, to prevent any possible injury to the beneficiary, the rule against the trustee dividing his loyalty is enforced with uncompromising rigidity. NLRB v. Amex Coal Company, supra.

The terms of the trust may, of course, limit the extent of the trustee's fiduciary duties. As a general rule, the trustee is under a duty to the beneficiary to comply or attempt to comply with the terms of the trust. There are certain exceptions:

1. The trustee is not under a duty to the beneficiary to comply or attempt to comply with a term of the trust requiring the trustee to do an act, the performance of which is impossible;
2. The trustee is not under a duty to the beneficiary to comply with a term of the trust which is illegal;
3. The trustee may deviate from a term of the trust if, owing to circumstances not known to the settler and not anticipated by him, compliance would defeat or substantially impair the accomplishment of the purposes of the trust. In such circumstances, the trustee must ordinarily seek permission of the court and the trustee may be liable to the beneficiary if he neglects to apply to the court for permission to deviate from the terms of the trust.

Restatement of the Law, 2d, Trust 2d § 167.

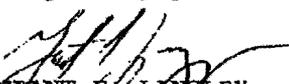
You have requested an opinion regarding the Board members' responsibilities and, specifically, whether the responsibilities extend beyond investments, counseling, disbursing payments to such matters as adequacy of retiree benefits, funding and pension plan design. In our opinion, the trustee is not permitted to deviate from the terms of the trust based upon the trustee's considered opinion of the inadequacy of retiree benefits, inadequate funding or inadequate pension plan design. Although the trust establishes the funding requirement, the trustee bears responsibility to

Mr. Robert G. Nehls

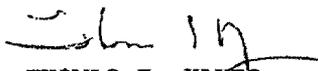
September 5, 1995

administer the law and to make sure the requested contribution is forthcoming. NLRB v. Amex Coal Company, supra. On the other hand, there appears to be nothing which would suggest the trustee cannot make suggestions and recommendations to the settlor relative to these issues, so long as the trustee's recommendations treat all beneficiaries impartially.

Very truly yours,



GRANT E. LANGLEY
City Attorney



THOMAS E. HAYES
Special Deputy City Attorney

TEH.KAN.FIDUSHRY.ERS

COMMITTEE ASSIGNMENTS

CHAIR

- Finance and Personnel Committee
- Housing Trust Fund Advisory Board
- Milwaukee Arts Board

VICE CHAIR

- Steering and Rules Committee

MEMBER

- Judiciary and Legislation Committee



MICHAEL J. MURPHY
ALDERMAN, 10TH DISTRICT

June 25, 2021

Pension Task Force Members,

As you work to address the current challenges of the pension system, I thought it would be helpful to pass along the final report from the 2012 Pension Task Force of which I Chaired. Hopefully you will find it informative and useful as you begin your review. Many of the recommendations presented by the task force were approved by the Council, but a significant difference as you move forward on your recommendations is that Act 10 permitted changes to be made without collective bargaining.

Additionally, I am attaching a letter I sent to the budget office in September of 2020 detailing concerns surrounding the City's current pension liabilities.

Please let me know of any questions you may have.

Sincerely,

A handwritten signature in black ink that reads 'Michael J. Murphy'. The signature is written in a cursive style.

Ald. Michael J. Murphy
10th District

COMMITTEE ASSIGNMENTS

CHAIR

- Finance and Personnel Committee
- Housing Trust Fund Advisory Board
- Milwaukee Arts Board

VICE CHAIR

- Steering and Rules Committee

MEMBER

- Judiciary and Legislation Committee



MICHAEL J. MURPHY
ALDERMAN, 10TH DISTRICT

September 18, 2020

Dennis Yaccarino, Budget and Management Director
City Hall
200 E. Wells Street
Room 603
Milwaukee, WI 53202

Mr. Yaccarino,

Perhaps the most important responsibility the Common Council is charged with is to adopt a budget every year which balances the City's duty to provide services to the public against the revenues available to it.

The City's pension liability, and, particularly, adequately funding pension liabilities incurred on behalf of members of the City's protective services, is already straining the City's resources. The 2019 reduction in the Pension Fund's assumed rate of return, combined with the stable policy contribution reset scheduled for 2023, means that the City's annual contribution is expected to more than double to \$158 million in 2023 and continue to increase to \$171 million by 2027. While draws from the Pension Reserve Fund will help to smooth the added tax levy burden in 2023, the City will still be faced with tens of millions in increased pension liability every year.

The State property tax freeze and diminishing receipt of Shared Revenue have created a long-term structural imbalance in the City's budgets which is unlikely to be remedied by the State Legislature. Nor has the State Legislature moved forward with the Mayor's push for an increase in the local sales tax. Given the unlikelihood of significant new revenue streams being made available to the City by 2023, plans must be made for funding pension liabilities and potential shortfalls after the reset in 2023 and beyond.

To date, however, the Common Council remains in the dark about the Mayor's plans for addressing pension funding after the reset in 2023. This places the Council in the untenable position of adopting annual budgets without a full understanding of the City's long-term fiscal condition.

Please provide a written report of the Administration's plans for addressing Pension Fund contributions and shortfalls over the next 5-10 years. Please include a discussion of any plans for issuing pension obligation bonds, changing Chapter 36, decreasing pension benefits, or joining the Wisconsin Retirement System, as well as any realistic plans for increasing City revenues. If any

planned strategy requires enabling State legislation to implement, please report on the degree of political commitment you have or reasonably expect to receive.

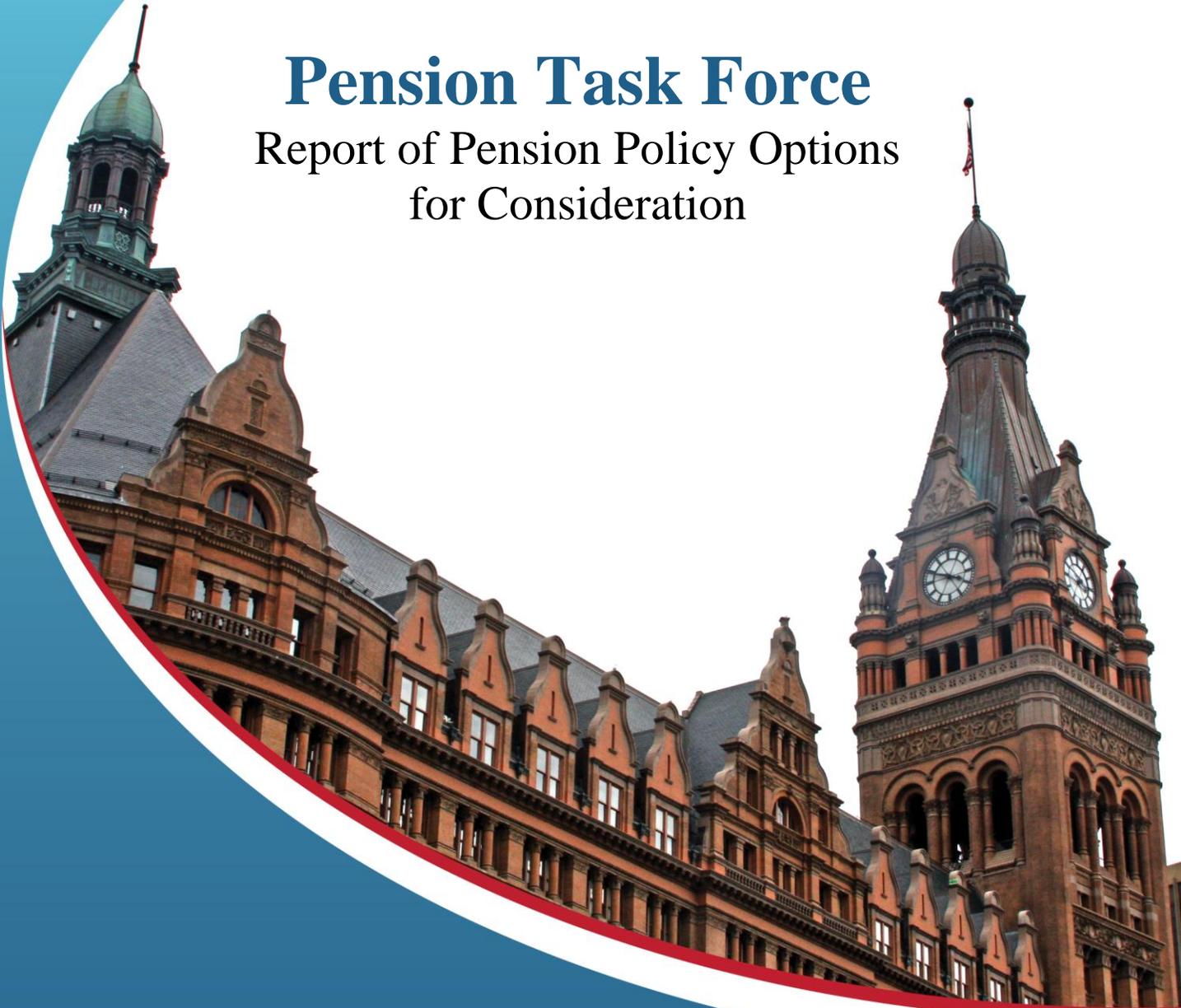
I look forward to receiving your response.

Sincerely,



Michael J. Murphy
Alderman 10th District

cc: Mayor Tom Barrett
Comptroller Aycha Sawa
Common Council



Pension Task Force

Report of Pension Policy Options for Consideration



Submitted December 12, 2012

*Prepared by: Aaron Cadle
Legislative Reference Bureau*

Table of Contents

Task Force Mission.....	Page 3
Executive Summary.....	Page 4
Financing Policy Options.....	p. 4
General City Employee Options.....	p. 5
Protective Service Employee Options....	p. 5
Option Predications.....	Page 5
Background & Overview.....	Page 7
Options For Consideration.....	Page 9
Financing Policy Options.....	p. 9
General City Employee Options.....	p. 10
Task Force Commentary.....	p. 12
Protective Service Employee Options.....	p. 14
Task Force Commentary.....	p. 15
“Streamline” Pension Benefit Programs.....	Page 17

Reports and presentations made to the Pension Task Force may be found in Common Council Resolution File Number 110115.

Task Force Mission - Future Pension Funding Obligations

The Milwaukee Employees' Retirement System (ERS) uses a forecasting model developed by the Plan's actuary. The model projects the City's annual pension contribution obligations beginning in 2014 could be as high as \$91 million, or roughly 37% of the City's \$248 million tax levy for 2012. This contribution includes annual normal costs and the amortized costs of unfunded accrued pension liabilities resulting from pension fund portfolio value fluctuations. Pension contribution obligations of this magnitude could overwhelm the City's financial resources potentially triggering service cuts or rendering the City unable to fund ERS at 100% of projected liabilities.

The City's ability to meet these increasing pension contribution obligations is further jeopardized by Milwaukee's weakening capacity for generating revenues. Two of the City's major revenue sources – property taxes and state shared revenues – have declined in recent years and are to continue their downward trend. The new economic reality after the 2008 home mortgage meltdown has seriously, and perhaps permanently, eroded Milwaukee's property tax base.

Residential property values are down 13.37% according to the 2012 reassessment from the Assessor's Office, and commercial property values are down 0.66%, for a combined decline of 8.93%. Manufacturing property in the city is assessed by the State, not the City, but if manufacturing property declines by the same 0.66% as Commercial property, the City's overall property tax base will decline 8.71% for the 2013 budget year.

Declining revenues at the state level due to the economy's sluggish recovery threatens further cuts to shared revenues for the City.

The impetus for the Pension Task Force was to explore pension funding and benefit alternatives to avert a pension funding crisis.

This report outlines options for changing the City's Pension Plan which the Task Force, after careful deliberation, suggests for thoughtful consideration.

Executive Summary of Options for Consideration

The Pension Task Force identified three pension policy reforms with the potential reducing pension costs that promise, if judiciously implemented, to keep future pension costs from overwhelming the City's financial resources.

1. Increase Retirement Age
2. Decrease Service Multiplier
3. Change Cost of Living Adjustment (CoLA) Policy

The Task Force further suggests specific retirement age, service multiplier and CoLA policies for Common Council consideration which the Task Force believes balance the City's desire to provide a reasonable retirement benefit package for retirees with the City's pressing financial need to contain and reduce pension costs. It should be understood, the specific changes suggested for consideration by the Task Force are one of many options and combinations available, and the Common Council may ultimately agree on other options which promise to reduce pension costs while maintaining an attractive retirement benefit for employees.

No attempt was made to quantify the impact on the City's pension costs of the specific pension change options suggested for consideration by the Task Force because computer modeling the various pension policy menus is prohibitively expensive. The Task Forces recommends the Common Council direct the Plan's actuary to model the potential pension savings once the list of menu options has been narrowed.

In addition, the Task Force suggests three financing policy options for consideration which do not affect pension cost, but make managing and budgeting for pension costs easier.

Financing Policy Options

- Increase "Asset Smoothing" from 5 to 10 years.
- Eliminate Full-Funding Limit so normal costs are contributed annually regardless of portfolio value.
- "Fix" City Contributions over a 5-year period and "true-up" the fixed contribution amount for the subsequent 5-year period.

General City Employee Options:

General City	Current	Suggested Option	Comptroller's Option
Retirement Age			
Regular	60	65	62
Early	55	60	60
Service Multiplier	2.0%	1.6%	1.8%
Employee Contribution	5.5%	5.5%	6.0%

Protective Service Employees Options*:

Protective Services	Current	Suggested Option	Comptroller's Option
Retirement Age	Varies	51	52
Service Multiplier	2.50%	2.25%	2.25%
Employee Contribution	7.0%	7.0%	8.0%

* Subject to Collective Bargaining Agreement

Option Predications

All options presented in this report are predicated on the following:

1. **Affects Only New Employees:** Per interpretation of Chapter 36 of the City Charter by the City Attorney and the courts, all options concerning pension benefits in this report are applicable solely to new general City employees and "sworn" fire and police employees (if approved by labor contracts) hired after November 23, 2011.
2. **Continuing Employee Contributions:** The Task Force recommends the current level of City employee contributions to the pension fund continue without change for employees hired after January 1, 2010, regardless of employee class. These employee contributions include 5.5% paid by General City Employees, 7% paid by Protective Service Employees and percentages stipulated by the Global Pension Settlement or as stipulated by other sources. These contributions are expected to reduce the City's pension costs in the future as normal staffing turnover increases the proportion of City employees making pension contributions.

The City Comptroller's Option recommends employee contributions made by General City Employees increase from 5.5% to 6.0%, and for Protective Service Employees from 7.0% to 8.0% with the City funding the increased contribution.

3. **Income-Replacement Ratio:** Benefit change options for General City Employees target an 85% to 95% income-replacement ratio for a "typical" employee retiring at age 62 after 35 years of service. An income-replacement ratio is the percentage of a retiree's final average salary received in total retirement benefits including pension payouts and Social Security benefits.
4. **Option Categories:** Options for General City Employees and Protective Service Employees fall into following two categories:
 - a) **Retirement Policy:** Options for retirement eligibility can significantly change the City's long-term pension liability, but will not change the annual dollar amount of benefits paid to individual retirees.
 - b) **Benefit Policy:** While options for the service multiplier and Cost of Living Adjustment policy can significantly change the City's long-term pension liability, **they are also the only options suggested for consideration by the Pension Task Force that can change the dollar amount of benefits paid to individual retirees.**

Background & Overview

The Pension Task Force was established by Common Council Resolution File Number 100416, adopted September 21, 2010, to analyze funding and benefits options for the City's defined benefit pension program, and to suggest options for how the City can best meet its future pension obligations without overburdening the City's financial resources.

The members of the Task Force were:

Ald. Michael Murphy	Chair
Patrick Cronin	Robert W. Baird & Co.
Rudolph Konrad	Deputy City Attorney
Martin Matson*	City Comptroller
Dean Muller	Morgan Stanley
Mark Nicolini	City Budget & Management Director
Derek Tyus	Northwestern Mutual Life

* Replaced former City Comptroller, W. Martin Morics, who retired in December, 2011. Mr. Matson was elected City Comptroller on April 3, 2012. The Comptroller's designee served between December, 2011, and April, 2012.

Employees' Retirement System Review

ERS is a \$4.8 billion (December, 2010, valuation) defined-benefit pension fund responsible for paying retirement benefits for City, Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Water Works, Milwaukee Public Schools (excluding teachers), and Milwaukee Area Technical College retirees from retirement to death. The City and each covered group makes its own, separate contribution to the fund.

ERS is managed consistent with the highest and best practices of pension fund management, and was cited in 2007 as the best-funded public retirement system in the nation by R. V. Kuhns' & Associates. At year-end December, 2010, the ERS was funded at 112.8% of projected liabilities.

Despite its fiscal strength and vitality, the ERS fund can be subject to sudden investment market fluctuations beyond the control of even the most expert fund managers as evidenced by the recent, precipitous and persistent downturn of the U.S. economy which triggered a decrease of over \$1 billion, or 21.5%, in the actuarial value of ERS pension fund assets from January, 2008, to January, 2009.

In addition, the lengthening life expectancies of City retirees and other factors continue to push pension fund liabilities upward.

The City has prudently built up a pension contribution reserve, with a projected year-end 2012 balance of approximately \$56 million. The City expects to use this reserve to blunt the sticker-shock of pension contribution increases projected for years in 2013-2015, by spending \$18 million in reserves to defray part of the \$59.3 million City pension contribution obligation projected for 2013, and use the remaining \$41.3 million reserves to smooth out future increases.

As mentioned above, the forecasting model developed by ERS's actuary projects the City's future annual pension contribution obligations beginning in 2014 could range from \$60 to \$100 million, or roughly 24 to 40% of the City's \$248 million tax levy for 2012.

Meeting Dates

Meetings of the Pension Task Force were held on the following dates:

- May 10, 2011
- June 16, 2011
- August 25, 2011
- December 15, 2011
- February 9, 2012
- May 11, 2012
- September 28, 2012

Options for Consideration

1. Financing Policy Options
2. General City Employee Options
3. Protective Service Employee Options

1. **Financing Policy Options:** Options for financing policy affect how the City “finances” or funds its long-term pension liability **for all participating employees**. Financing policy does not change the dollar amount of benefits paid to individual retirees. Changes in techniques used to annually value the pension fund must be approved by the Annuity and Pension Board, while annual contribution policy is under the purview of the Common Council.

The Pension Task Force suggests consideration of the following financing policy options:

- Increase “Asset Smoothing” from 5 to 10 years.
- Eliminate Full-Funding Limit – contribute annual normal cost regardless of portfolio value.
- “Fix” City Contributions as a percentage of payroll over a 5-year period, and adjust per the actuary’s recommendations, for the ensuing 5-year period.

Financing Policy Options - Task Force Commentary

While the City’s initiative, taken 2 years ago in March, 2010, to increase asset “smoothing” from 2 years to 5 years is laudable, the Task Force suggests the Common Council consider further extending the asset “smoothing” period to 10 years. This action will decouple calls for unfunded accrued liability contributions from the normal, and sometimes wide, fluctuations in portfolio value that can result from valuing the Pension Fund portfolio on a single day at the end of each year.

Eliminating the Full Funding Limit, which essentially prohibits the City from contributing normal annual pension costs to the Pension Fund when the portfolio’s performance outpaces total liabilities, will discipline the City to annually budget fairly stable and flat normal cost obligations. Thus, bull-market portfolio performance will be dedicated to offsetting market downturns over time, while the City will fund the non-volatile annual normal costs.

Projecting and “fixing” the City’s annual normal cost and unfunded accrued liability payments over a 5-year period as a percentage of payroll is expected to make annual budgeting easier and less volatile. At the end of the 5-year period, the City should adjust its contribution rate per the actuary’s recommendations for the ensuing 5-year period. Analysis by the Plan actuary indicates a fixed contribution policy based on a percentage of payroll, combined with elimination of the full funding limit, can be expected to achieve the same funding results over time as the City’s current contribution strategy.

2. **General City Employee Options:** The City has considerable latitude to change benefits for General City Employees hired after January 1, 2010, and is effectively free to implement changes for this class of City employee at will. Therefore, the Task Force proffers a set of options for consideration of retirement policy and benefit changes for this employee class which can be directly implemented by the City.

The Pension Task Force suggests the following funding and benefits options for General City Employees are for consideration by the Common Council:

General City	Current	Suggested Option	Comptroller's Option
Retirement Age			
Regular	60	65	62
Early*	55	60	60
Service Multiplier	2.0%	1.6%	1.8%
Employee Contribution	5.5%	5.5%	6.0%

* plus years of service

Cost of Living Adjustment – CoLA

The Task Force suggests the Common Council consider adjusting Cost of Living Adjustments – CoLA’s – every 3 years (or 2 years under the Comptroller’s option) to match increases in the Consumer Price Index, replacing the Plan’s current policy of increasing benefits 1.5% in the 3rd, 4th and 5th years of retirement and a flat 2.0% CoLA per year after the 5th year.

“Dividend Sharing” – CoLA Alternative

An optional “Dividend Sharing” program should also be considered as an alternative to a Cost of Living Adjustment. Under such an alternative, the Employees’ Retirement System would develop a program to allow members, who so elect, to participate in portfolio earnings, effectively receiving earnings-generated from Plan investments in lieu of cost of living adjustments. A “dividend sharing” program will allow members to share in the pension fund’s portfolio performance. All retirees in the Wisconsin Retirement System participate in that plan’s dividend sharing program in lieu of CoLA’s.

General City Employees Options - Task Force Commentary

Increased Retirement Age

A 5-year increase in retirement age will significantly reduce overall plan liabilities and costs, and the Task Force believes such an increase is well within reason based on the Centers for Disease Control's May, 2012, report that the average American man lives to age 76, and the average American woman lives to just shy of 81. The Task Force is aware the tasks of some General City Employees are physically demanding, but feels advances in health maintenance and strength training, and job ergonomics training give employees access to skills to make retirement at 60 reasonable.

Decreased Service Multiplier

Benefit changes to the service multiplier and CoLA are the only options suggested by the Pension Task Force that directly affect the dollar amount of benefits paid to future retirees.

The Task Force suggests targeting an 85% to 95% income-replacement ratio for a "typical" 62-year-old retiree with 35 years of service (i.e., pension benefits paid and Social Security payments should sum to 85% to 95% of the retiree's final average salary).

A service multiplier of 1.60 produces a 92.36% income-replacement ratio as indicated by the following based on data provided by the City's Budget Office:

62 year-old retiree					
	Option 1	Option 2	Option 3	Option 4	Option 5
FAS	\$55,000	\$55,000	\$55,000	\$55,000	\$55,000
Service	35	35	35	35	35
Multiplier	2.00%	1.75%	1.60%	1.35%	1.10%
Benefit	\$38,500	\$33,688	\$30,800	\$25,988	\$21,175
Soc Sec*	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
TL Benefit	\$58,500	\$53,688	\$50,800	\$45,988	\$41,175
% of FAS	106.36%	97.61%	92.36%	83.61%	74.86%
	* including 25% early retirement penalty				

It should be noted, a 67-year-old retiree, also with 35 years of service, will have a 104.50% income-replacement ratio based on a 1.60 service multiplier, because such a retiree is eligible for 100% of Social Security benefits rather than the 75% a 62-year-old early retiree receives.

Setting the service multiplier at 1.60 ensures an adequate retirement income while incentivizing City employees to delay retirement until they are eligible for full Social Security benefits and the chance to “earn” more in retirement than they earned on the job. Delaying retirement generally reduces overall pension costs by reducing long-term accrued pension liabilities.

Cost of Living Adjustment

Mindful that the buying power of fixed pension payment benefits may decline in a period of rising prices, the Task Force suggests the Common Council consider CoLA payments be adjusted every 3 years (or 2 years under the Comptroller’s option) to match increases in the Consumer Price Index. Setting these adjustments to a 3-year or 2-year interval, rather than an annual adjustment, reduces the impact of temporary consumer price fluctuations.

“Dividend Sharing” – CoLA Alternative

A dividend sharing alternative in lieu of Cost of Living Adjustments ensures that retiree benefit increases are affordable by tying such increases to the fund’s earnings. The idea is when fund earnings are up, the cost of living is also rising, and retirees are able to keep pace with the increasing cost of living by receiving dividends on earnings. When fund earnings are flat or declining, the cost of living is also expected to be flat or declining, so the buying power of retirees is not eroding, and dividends are not needed to maintain lifestyle standards.

3. **Protective Service Employee Options:** The City’s freedom to directly change pension funding and benefits for Protective Service Employees is limited for this employee class. It is understood the options proffered by this report for consideration of retirement policy and benefit changes are subject to collective bargaining approval.

The Task Force believes costs of changes to the City’s pension program to ensure financial health and viability of the fund must be ultimately borne equitably by all participating City employees, General City and Protective Service Employees alike. Therefore, the Task Force recommends the City vigorously pursue whatever options are ultimately chosen as best for the City in the future labor contract negotiations with Protective Service Employees hired on or after November 23, 2011.

The Pension Task Force suggests the following funding and benefits options for Protective Service Employees are for consideration by the Common Council:

Protective Services	Current	Suggested Option	Comptroller's Option
Retirement Age*	Varies	51	52
Service Multiplier	2.50%	2.25%	2.25%
Employee Contribution	7.0%	7.0%	8.0%

* plus 5 years of service

Cost of Living Adjustment – CoLA

The Task Force suggests the Common Council consider adjusting Cost of Living Adjustments – CoLA’s – every 3 years (or 2 years under the Comptroller’s option) to match increases in the Consumer Price Index, replacing the Plan’s current policy of an annual CoLA of the lesser of 3.0% or Consumer Price Index.

“Dividend Sharing” – CoLA Alternative

An optional “Dividend Sharing” program should also be considered as an alternative to a Cost of Living Adjustment. Under such an alternative, the Employees’ Retirement Service would develop a program to allow members, who so elect, to participate in portfolio earnings, effectively receiving earnings-generated from Plan investments in lieu of cost of living adjustments. A “dividend sharing” program will allow members to share in the pension fund’s portfolio performance. All retirees in the Wisconsin Retirement System participate in that plan’s dividend sharing program in lieu of CoLA’s.

Protective Service Employee Options - Task Force Commentary

Increased Retirement Age

A retirement at 51 with 5 years of service is lower than the retirement age for local government employees participating in the Wisconsin Retirement System.

Increasing retirement to age 51 for Protective Service Employees will significantly reduce overall plan liabilities and costs, and the Task Force believes such an increase is well within reason based on the Centers for Disease Control's May, 2012, report that the average American man lives to age 76, and the average American woman lives to just shy of 81. The Task Force is aware the tasks of many Protective Service Employees are physically demanding, but feels advances in health maintenance and strength training, and job ergonomics training give employees access to skills to make retirement at 51 reasonable.

Decreased Service Multiplier

Benefit changes to the service multiplier and CoLA are the only options suggested by the Pension Task Force that directly affect the dollar amount of benefits paid to retirees.

The Task Force suggests a service multiplier reduction from 2.5 to 2.25 be considered for Protective Service Employees.

The Task Force recognizes that Protective Service Employees often have shorter careers than General City Employees, so the recommended 85% to 95% income-replacement ratio may not be applicable because these employees regularly retire well before they are eligible for any Social Security benefits. However, the Task Force's suggested option of a 10% decrease in ERS pension benefits for Protective Service Employees strives for equity among City employees considering the Task Force's suggested option that the ERS pension benefits of other City employees, namely the General City Employees, be reduced 22.5%.

Cost of Living Adjustment

Mindful that the buying power of fixed pension payment benefits may decline in a period of rising prices, the Task Force suggests the Common Council consider CoLA payments be adjusted every 3 years (or 2 years under the Comptroller's option) to match increases in the Consumer Price Index. Setting these adjustments to a 3-year or 2-year interval, rather than an annual adjustment, reduces the impact of temporary consumer price fluctuations.

"Dividend Sharing" – CoLA Alternative

A dividend sharing alternative in lieu of Cost of Living Adjustments ensures that retiree benefit increases are affordable by tying such increases to the fund's earnings. The idea is when fund earnings are up, the cost of living is also rising, and retirees are able to keep pace with the increasing cost of living by receiving dividends on earnings. When fund earnings are flat or declining, the cost of living is also expected to be flat or declining, so the buying power of retirees is not eroding, and dividends are not needed to maintain lifestyle standards.

“Streamline” Pension Benefit Programs

Employee Retirement System staff report the provisions in Chapter 36 of the City Charter and elsewhere governing benefit calculations, especially for Protective Service Employees, are onerously complex. For example, there are:

- 10 different types of retirement.
- 37 rules governing the conversion of disability retirement to regular retirement.
- 27 permutations covering what happens when a member or survivor dies.

Many of these “individualized” retirement rules grew out of changes tailored as concessions or sweeteners during negotiations to gain approval of new labor agreements.

The Pension Task Force recommends and vigorously encourages the City administration to work closely with the Employees’ Retirement System during future labor contract negotiations to minimize the number of “individualized” retirement rule carve-outs, with an ultimate goal of simplifying and streamlining retirement program options provided by the Pension Fund.

It is self-evident such simplifications will significantly reduce the burdens and costs of administering pension benefit payouts, allowing the Pension Fund to focus more energy and resources on liability and portfolio management.



CMERS & WRS: EVER SO NEAR, EVER SO FAR

Presentation for City of Milwaukee
Pension Task Force

June 18, 2021

(Draft)

Presentation Rationale

- Mayor's Office requested background regarding the Wisconsin Retirement System (WRS)
- The request also included an inquiry into why the City of Milwaukee never joined the WRS
- This presentation addresses those interests

Pension Plans in Wisconsin: Origins

1. The Wisconsin Legislature's 1st pension initiative (1891): directs City of Milwaukee to create a pension fund for retired and disabled Milwaukee police and firefighters
2. Formed the basis for:
 - Policemen's Annuity & Benefit Fund (Chapter 589, Laws of 1921)
 - Firemen's Annuity & Benefit Fund (Chapter 423, Laws of 1923)
3. 1907: Legislature authorizes ~ 60 local police and firefighter pension funds
4. 1909: Legislature creates a plan for Milwaukee Teachers
5. 1911: Legislature creates plan for non-Milwaukee teachers
6. Plans for other non-teaching employes (e.g. Conservation Wardens, County Sheriffs) followed

Wartime & Post War Pension Developments

1. 1937: Legislature creates the City of Milwaukee Employes Retirement System (Chapter 396, Laws of 1937)

- All City employes, except teachers
- Legislature created Milwaukee County Employes Retirement System in the same year

2. Legislature envisioned the City & County Plans would become part of a statewide plan

3. 1943: Two more plans established

- Wisconsin Municipal Employes Retirement Fund
- Wisconsin State Employes Retirement Fund

4. These two plans merged into the Wisconsin Retirement Fund (WRF)

Home Rule Grants & WRS Creation

“When you reach the fork in the Road, take it.”

Yogi Berra

1. 1947: Legislature grants CMERS home rule status.
2. 1965: Legislature grants Milwaukee County ERS home rule status
3. 1975: Merger of Wisconsin Retirement Fund, State Teachers Retirement Fund, and Milwaukee Teachers Retirement Fund => Wisconsin Retirement System
4. Local police and fire plans, x-Milwaukee, merged into WRS in 1977
5. Complete statewide retirement plan consolidation alternative abandoned (apparent concerns with financing of Milwaukee plans)
6. 1981: Wisconsin Retirement System (WRS) established
 - WRS covers all state and local employees except those in the Milwaukee City & County home rule plans
 - All K-12 teachers, including Milwaukee teachers, are part of WRS

Other Items to Note

1. Statutes allow Milwaukee City and County Plans to invest assets with WRS funds (State of Wisconsin Investment Board)
2. Reciprocity between CMERS & WRS reduce disincentives for a public employe to move from one system to the other (limited portability)
3. Common Council provided funding in 1998 for purpose of analyzing WRS/CMERS consolidation but no study was completed

Summary

1. WRS is product of many mergers and consolidations of predecessor systems
 - “Money purchase” approach formed initial financial basis of the WRS predecessor plans
2. “Carve outs” of Milwaukee-based plans into home rule status
 - Milwaukee plans resembled more of a defined benefit approach

POST-2008 CMERS FUNDING

Pension Task Force

June 18, 2021

PRESENTATION GOALS

1. Summarize significant post-2008 policy changes affecting CMERS funding
2. Summarize impacts on City contributions
 - City government accounts ~ 81% of contributions
 - City “agencies” include MPS, MMSD, RACM, HACM, WCD
3. Identify future funding challenges

Timing Issues

1. CMERS Finance runs on a January-December fiscal year
 - 3 funding sources: investment return; employe contributions; employer contributions
2. Annual Valuations drive financing requirements
 - Valuations connect investment results and contributions to promised benefits
 - Valuations are based on prior year experience, e.g., 2008 experience drives 2009 valuation
3. Employer Contributions due January 31 in year following valuation
 - So, e.g., 2008 experience => 2009 valuation => contribution due 1/31/2010
4. From City Budget perspective (calendar fiscal year), some “lag” is built into system
5. Implications for interest cost

2010: Employer Contributions & Policy Adjustments

1. 2008 CMERS Market Return: - **31.7%**
2. 1996-2009: No Employer Contributions required
3. 2009 valuation for 2010 Employer Contributions:
 - **\$60.3 million** total
 - City: **\$49 million** (\$2 million from Water Works)
4. Board's 2009 Funding Policy Changes => more "smoothing" of asset changes, longer amortization period, closed amortization approach, level % of payroll target
5. File 091274 (May 2010) codified the funding policy
 - Interest in annual contributions becoming (a) less variable (b) more predictable
6. New General City employees hired on/after 1/1/2010 pay the 5.5% employee contribution themselves—no "employer pickup"

2011-2012: Contribution Pause & Policy Transitions

1. 2011 & 2012: No Employer Contributions Required (“Full Funding Limit”)
2. Budget Office Model projected contribution requirements for 2013 and beyond
3. Mayor & Common Council collaboration on financial planning:
 - \$44.4 million of voluntary contributions to the Employer’s Pension Reserve over two years
 - Actuary’s identification of the desirability for normal cost funding regardless of funded status
4. Payment of employe contributions emerged as an issue from Act 10
 - Legal battle over “employer pick up” of general city employe contribution for employes hired prior to 1/1/2010

2013-2021: The New Normal Emerges

1. State fiscal policy continues to constrain City
 - 2013: State Shared Revenue payment to City \$78.6 m < 2003 in real terms
2. File 121701: second tier established for General City employees hired **on/after 1/1/2014**
 - Normal Retirement age to 65/60 with 30 years
 - 1.6% multiplier
 - Post-retirement escalator after 5 years
 - Employee contribution reduced from 5.5% to 4%
 - \$93 million liability reduction impact/20 years
3. 2013 Total Employer Contributions: **\$79.5 million**
 - City Employer Contributions: **\$60.7 million** (\$1.4 m from Water Works)

The New Normal Emerges (continued)

1. Stable Contribution Plan enacted in 2013 for 2014-2018 contributions: File 121417
2. Key elements:
 - Reduce hyper-responsiveness of contribution to asset changes through a five year planned percent of payroll contribution level
 - Employer pays its share of normal cost regardless of funded status
 - Maintain asset coverage for retired lives
 - Reduce unfunded liability
 - Percent of payroll contributions established for three employe categories
 - ✓ General City: 8.48%
 - ✓ Police: 22.63%
 - ✓ Fire: 24.83%

2014-2015: Funding Innovations & Policy Changes

1. 2014 Employer Contributions: **\$78.7 million total**
\$61.6 million City
2. City accelerates contribution to avoid interest cost
 - Annual savings of ~ \$4 million
3. Supreme Court Decision: “employee contributions are a matter of statewide concern”
 - Affirms Act 10 prohibition of “employer pickup” for general employes
 - All General City employes, regardless of hire date, pay the employee contribution (\$7.5 million annual City Budget savings)
4. 2015 Employer Contributions: **\$79.8 million total**
\$60 million City
5. By 2015 Budget, ~ 500 funded FTE reductions since 2010

2016-2017: Progress Toward Pension Financial Sustainability

1. 2016 Employer Contributions: **\$80.1 million total** **\$60 million City**

2. Collective Bargaining agreements end “employer pick up” of 7% employee contributions for Police and Fire (\$12.2 million annual Budget savings beginning in 2017)

“Credit is due City leaders for their approach to funding their pension obligations, restructuring health care options, and downsizing the City’s workforce {since 2009} in the face of some enormous fiscal challenges.”

Public Policy Forum, September, 2016

3. 2017 Employer Contributions: **\$89.4 million total** **\$61 million City**

4. No use of pension reserve by City

5. Employee Health Care Budget for 2018 ` \$32 million < 2011 actual expense

6. Mayor’s sales tax proposal

2018-2021: Huge New Challenges

1. 2018: new experience study establishes revised contribution rates for next 5 years:
 - 7.47% General City
 - 25.23% Police
 - 26.85% Fire
2. Investment return assumption reduced from 8.25% to 8%
- 3. BUT** After the experience study was completed, Board revised investment return assumption to 7.5%
4. Therefore, beginning in 2023 new contribution rates will apply:
 - 16.47% General City
 - 46.43% Police
 - 52.25% Fire

Planning for the Unsustainable Future ...

1. New rates imply a City employer contribution of at least \$150 million by 2023, and \$163 million by 2027.
2. 2020 and 2021 City employer contributions: \$71 million each year
3. \$42 million resides in Pension Reserve
4. Clearly, this means the existing level of City services must be reduced drastically to meet this level of employer contribution
5. City has utilized practically all of its revenue alternatives
6. State fiscal policy towards local governments offers no relief (Shared Revenue payment has declined more than \$110 million in inflation-adjusted terms since 2003)
7. Funded ratio is strong: 84.1% as of 1/1/2020 (market basis)
8. 1/1/21 Market Value of Assets: \$5.557 billion

CMERS INVESTMENT RETURNS 2008-2020

2008: - **30.84%** 2009: + 23.3% 2010: + 13.86%

2011: - 1.43% 2012: + 13.88% 2013: + 19.29%

2014: + 5.09% 2015: + 0.54% 2016: + 8.83%

2017: + 16.38% 2018: - 2.91% 2019: + 18.44%

2020: + 6.6%

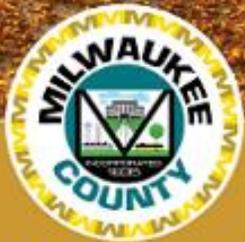
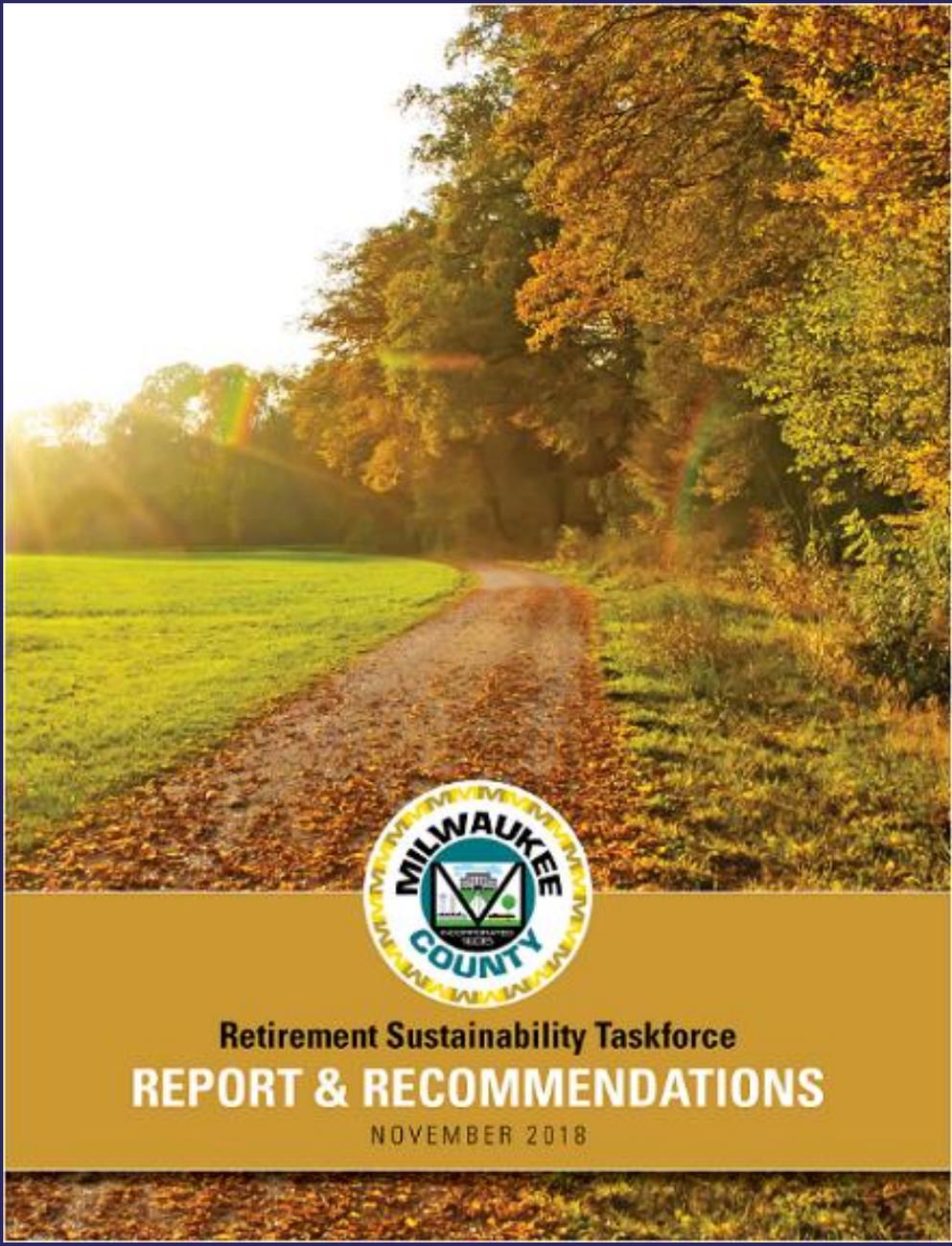
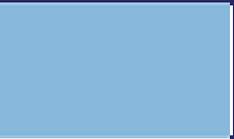


WISCONSIN

POLICY FORUM

MAYOR'S PENSION TASK FORCE

JULY 8, 2021

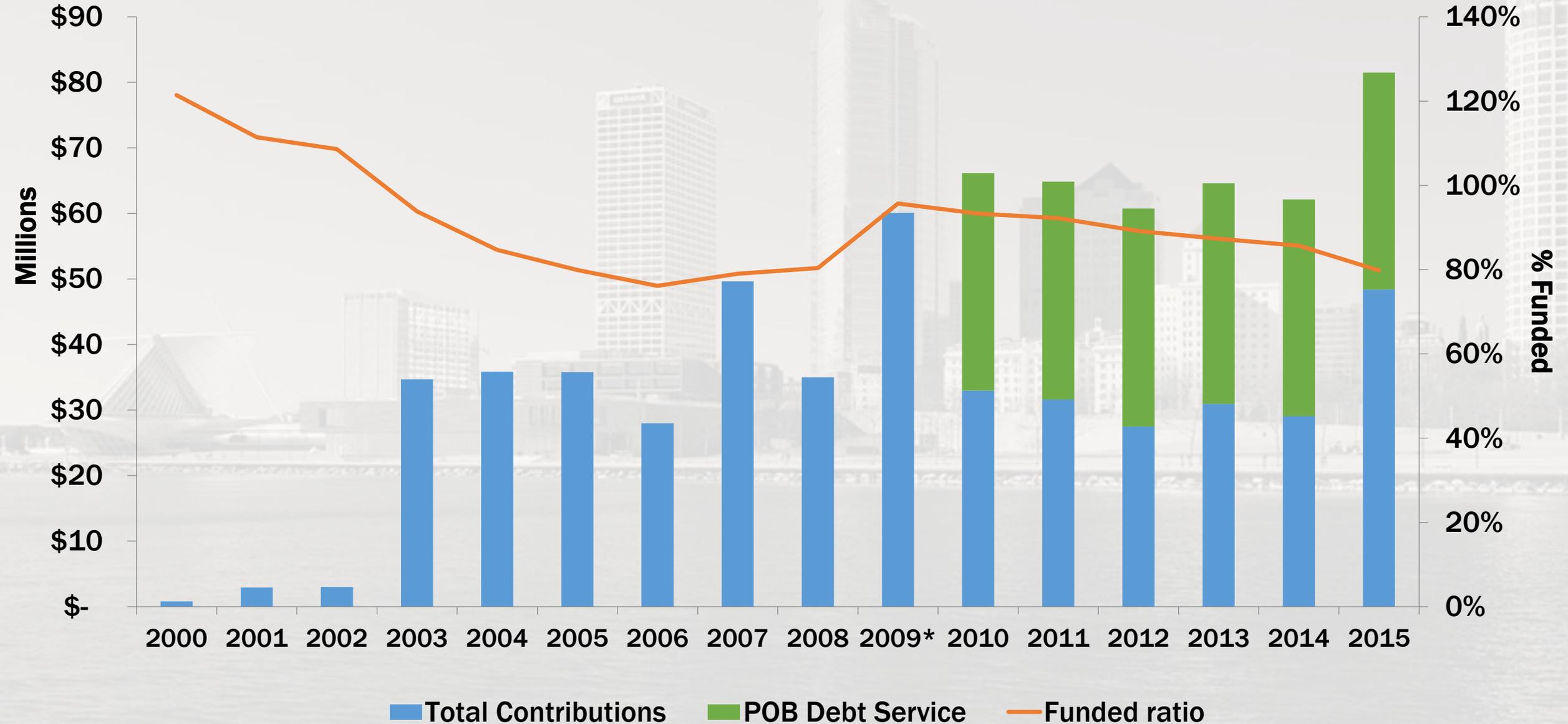


Retirement Sustainability Taskforce
REPORT & RECOMMENDATIONS
NOVEMBER 2018

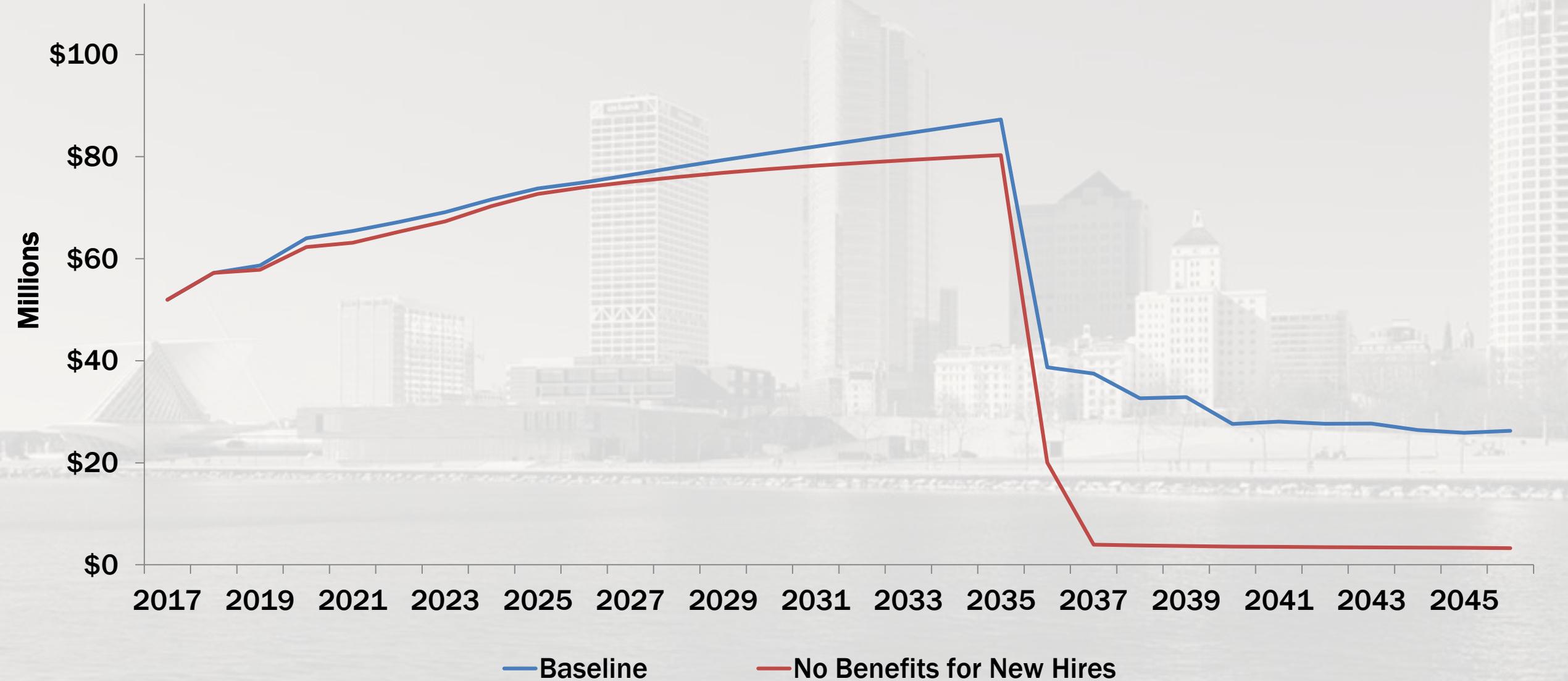
BACKGROUND

- ❑ Created by County Executive to study ERS modifications that would “ensure retirement security for future retirees and long-term fiscal sustainability for the County.” Met 14 times from Aug. 2017-Nov. 2018.
- ❑ Comprised of 20 members from County, State of Wisconsin (legislators and WRS), business/civic leaders, retired pension experts.
- ❑ Pew provided extensive technical assistance, WPF facilitated and provided research and writing.

ERS CONTRIBUTIONS AND FUNDED RATIO OVER TIME



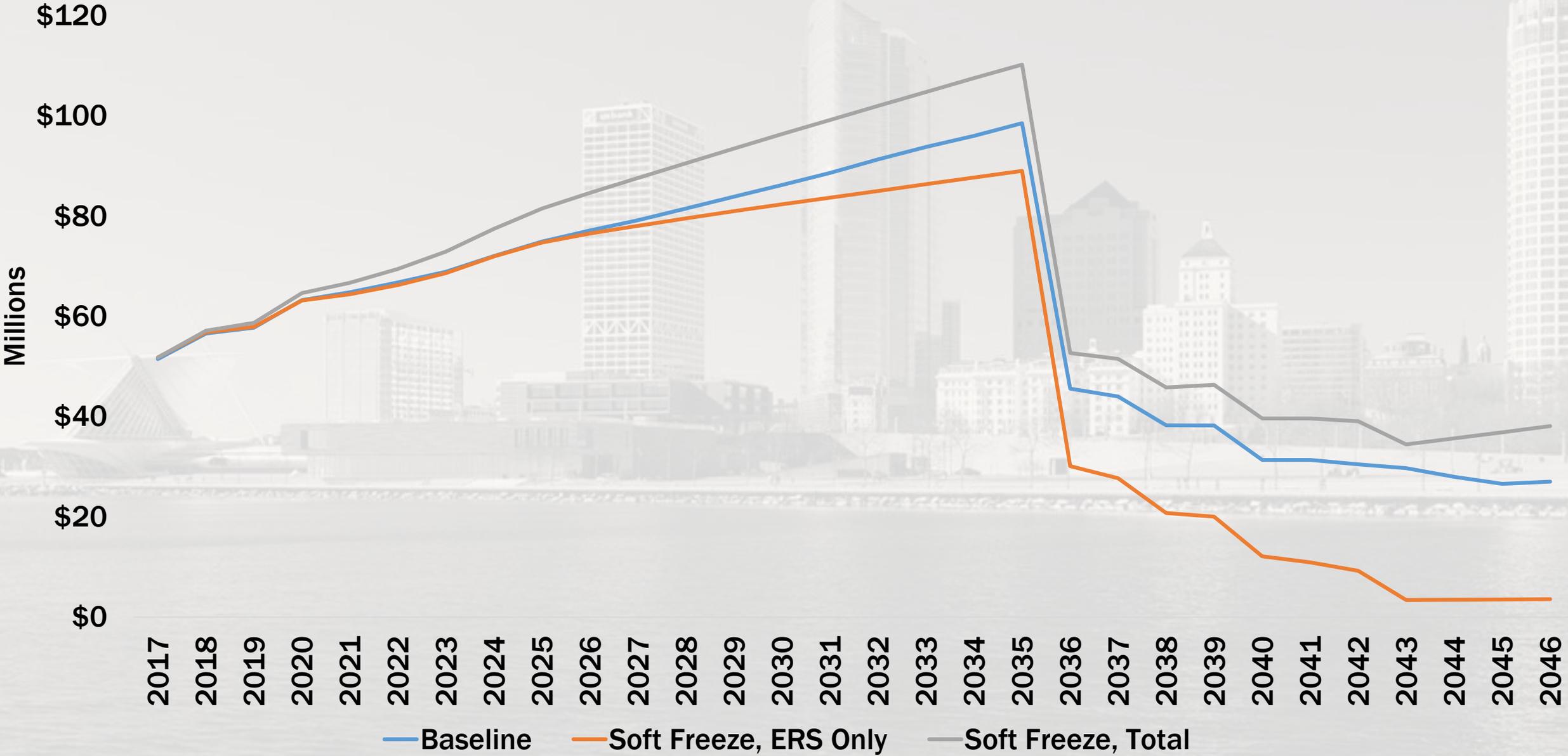
MAJORITY OF PROJECTED EMPLOYER COSTS ARE FOR EXISTING PROMISES



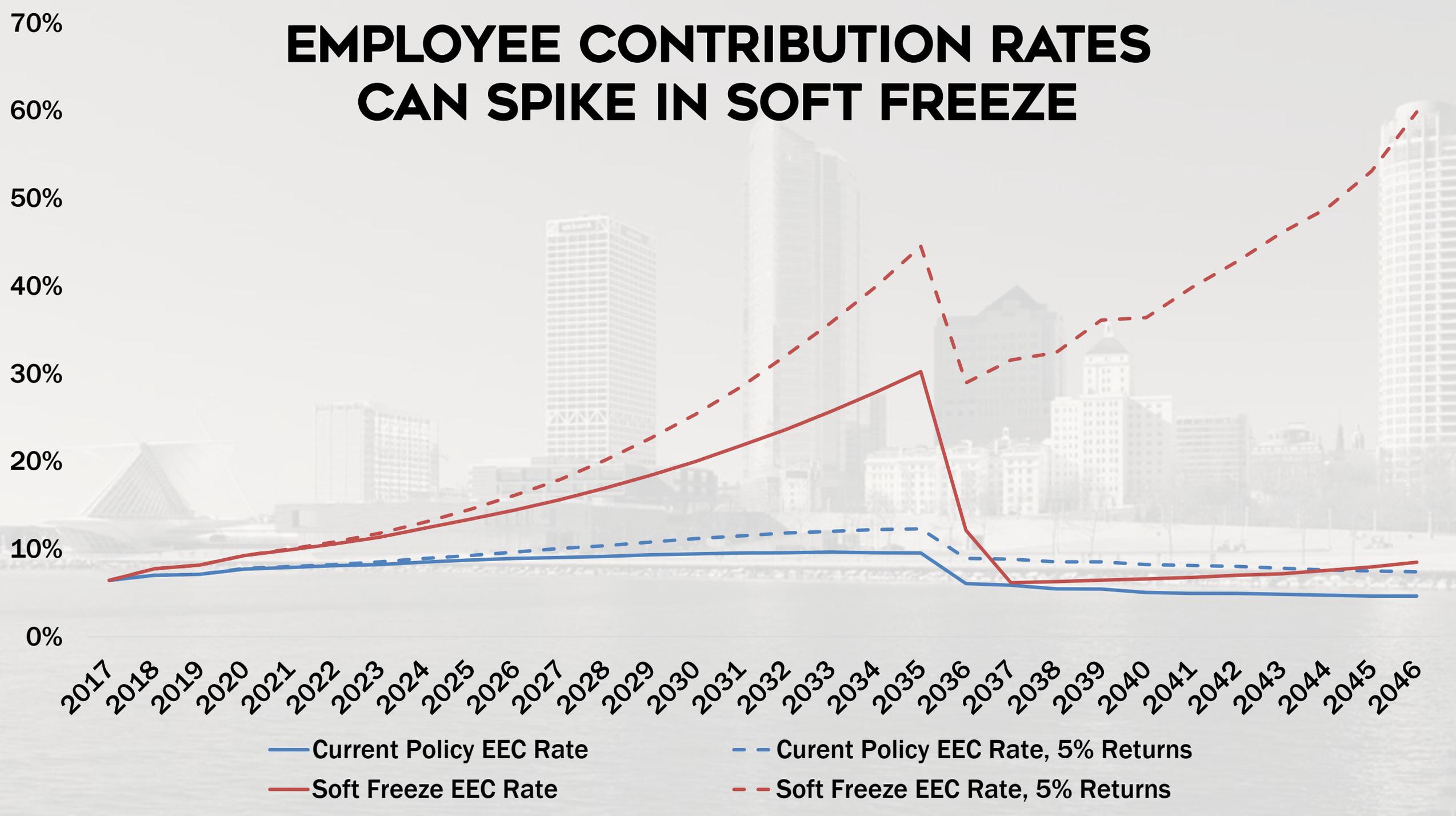
PLAN REDESIGN OPTIONS

- ❑ **Shift to WRS – either soft freeze or partial freeze.**
 - **Pros: Less risk for County, eventually eliminates administrative burden, better benefit for new hires**
 - **Con: Would increase costs to County through 2046**
- ❑ **Defined Contribution**
 - **Pros: Could be less costly, greater predictability for County; possible advantages for shorter-term employees**
 - **Con: Greater risk and volatility for employees**
- ❑ **Hybrid**
 - **Pros: Could keep costs about the same but enhance predictability; possible advantages for short-term employees**
 - **Con: Greater risk and volatility for employees**

EXPECTED EMPLOYER COSTS FOR ERS AND WRS COMBINED



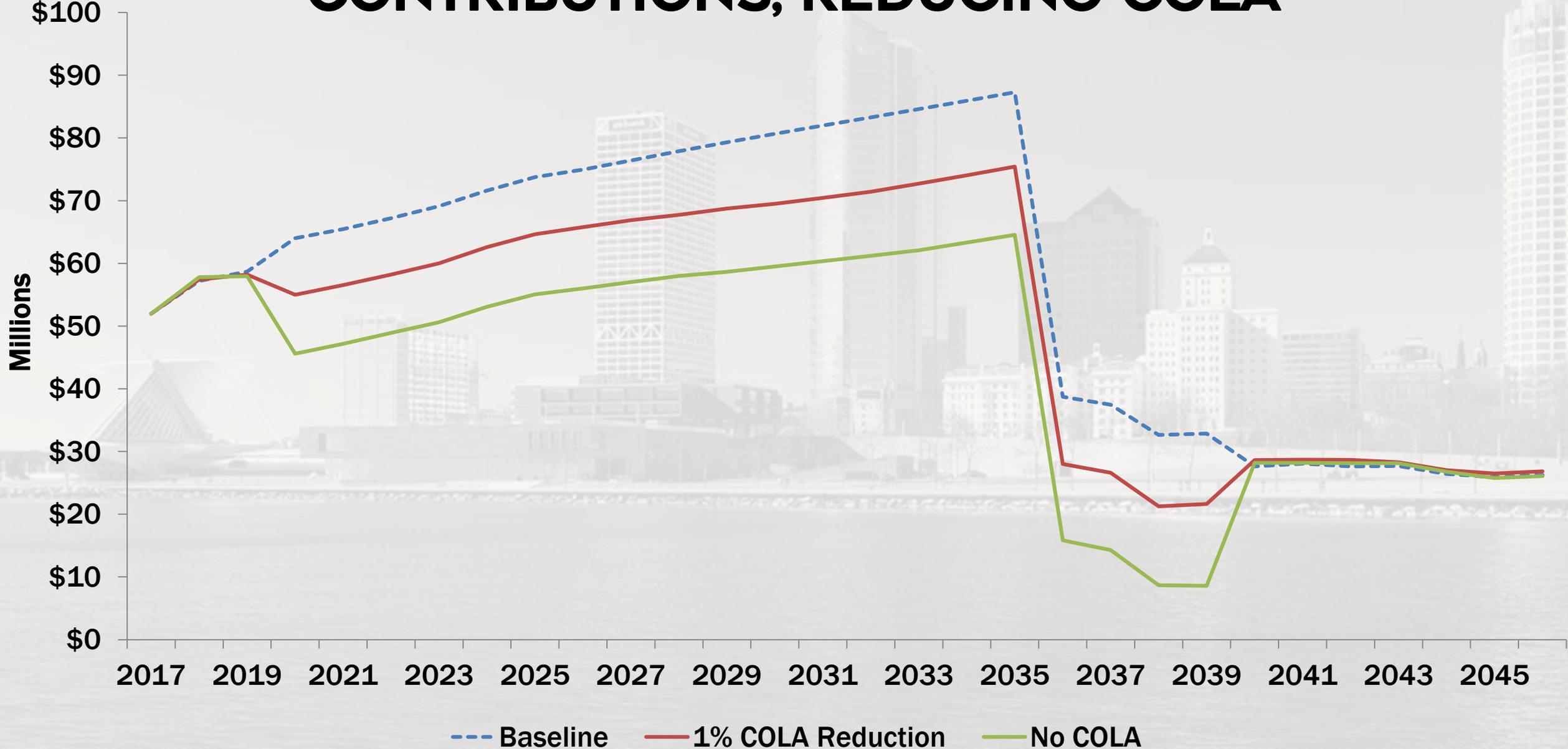
EMPLOYEE CONTRIBUTION RATES CAN SPIKE IN SOFT FREEZE



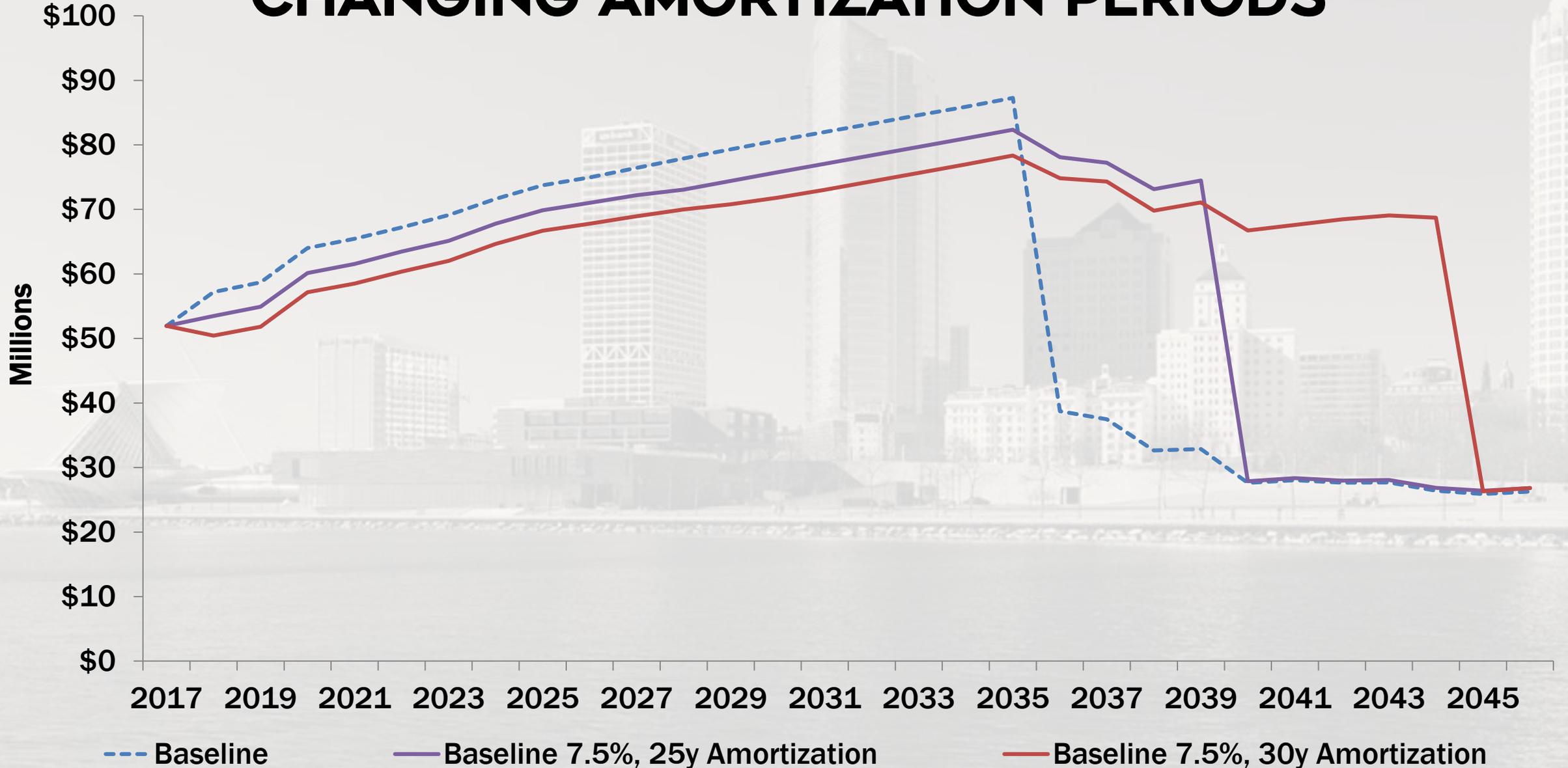
UNFUNDED LIABILITY

- ❑ *Because of already promised benefits, no new plan design would have appreciable impact on employer costs through at least 2037.*
- ❑ RST asked Pew to model four options to adjust employer cost: increase employee contributions; reduce annual COLA/adopt WRS approach; adjust discount rate; increase amortization period.
- ❑ Reducing the 2% COLA could reduce employer contribution by \$10-\$20 million annually, balance risk between taxpayers, employees, retirees; but could have detrimental impact on retirees.

PROJECTED EMPLOYER CONTRIBUTIONS, REDUCING COLA



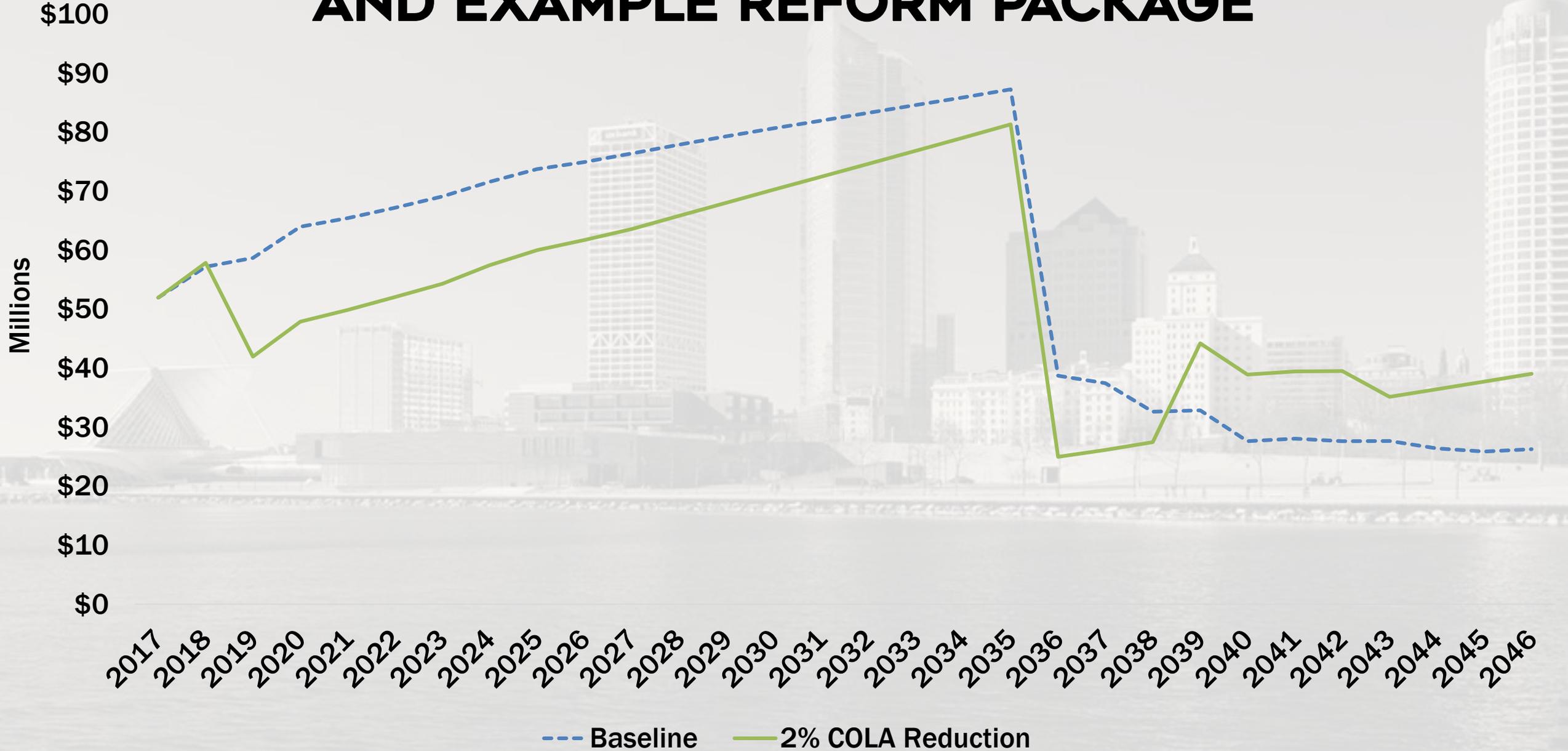
PROJECTED EMPLOYER CONTRIBUTIONS, CHANGING AMORTIZATION PERIODS

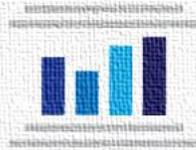


REFORM PACKAGE

- ❑ Per RST, Pew modeled a reform “package”: soft freeze transition to WRS, full 2% COLA reduction, reduction in discount rate to 7%, 9% cap on employee contributions.
- ❑ Following motions ultimately passed:
 - New hires moved to WRS.
 - Non-vested employees potentially moved to WRS and vested workers potentially receive future service through WRS.
 - Employee contribution rates capped (may require change in State law).
 - COLA reductions/modifications applied to reduce unfunded liability & share risk.

COMPARING COSTS OVER TIME: BASELINE AND EXAMPLE REFORM PACKAGE





WISCONSIN

POLICY FORUM

BRIDGING THE PENSION GAP:

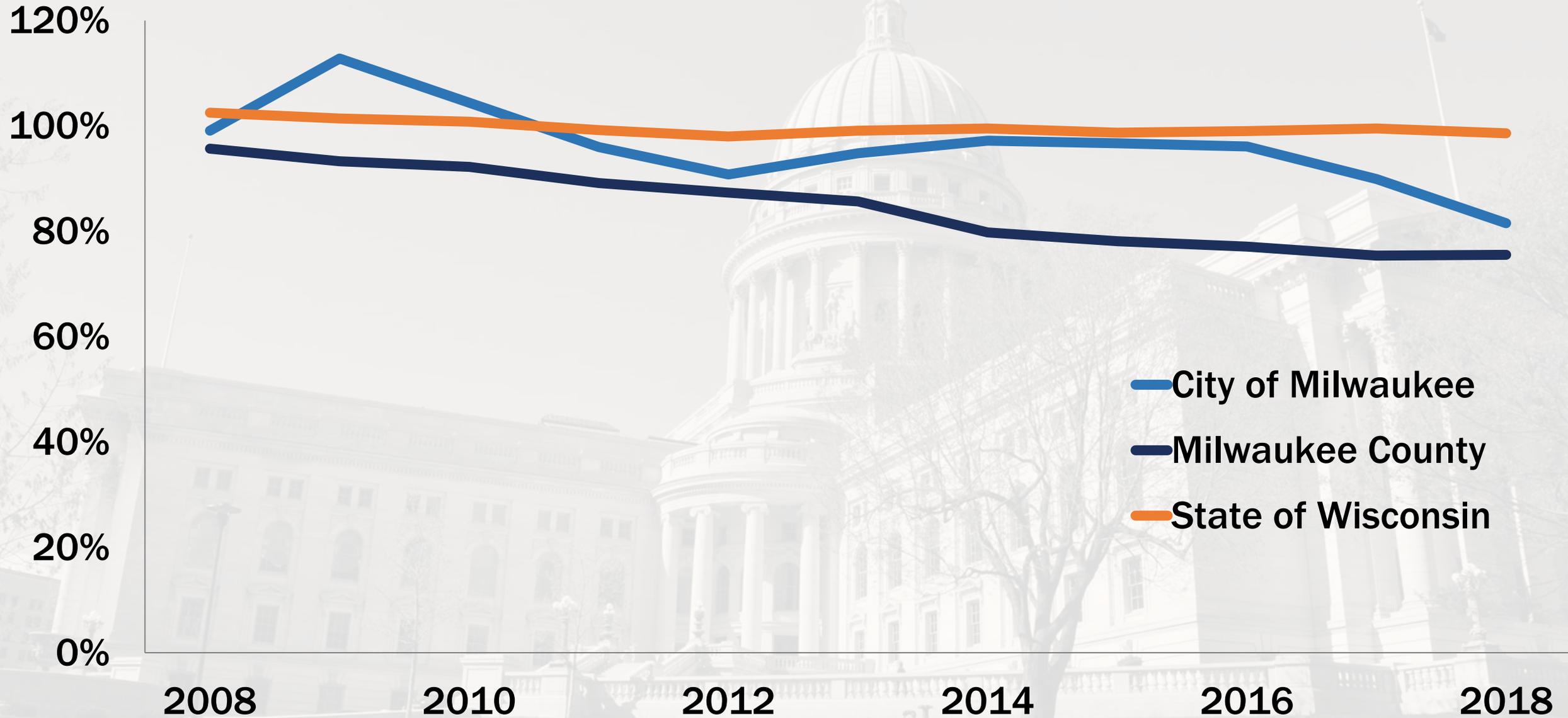
Strong state plan may show Milwaukee the way

The Wisconsin Retirement System (WRS) is one of the few public pension systems nationally to avoid the funding gaps that have beset other plans like those in the city and county of Milwaukee. Adopting elements of the WRS approach would be challenging in the short term but could aid the Milwaukee plans in the long run.

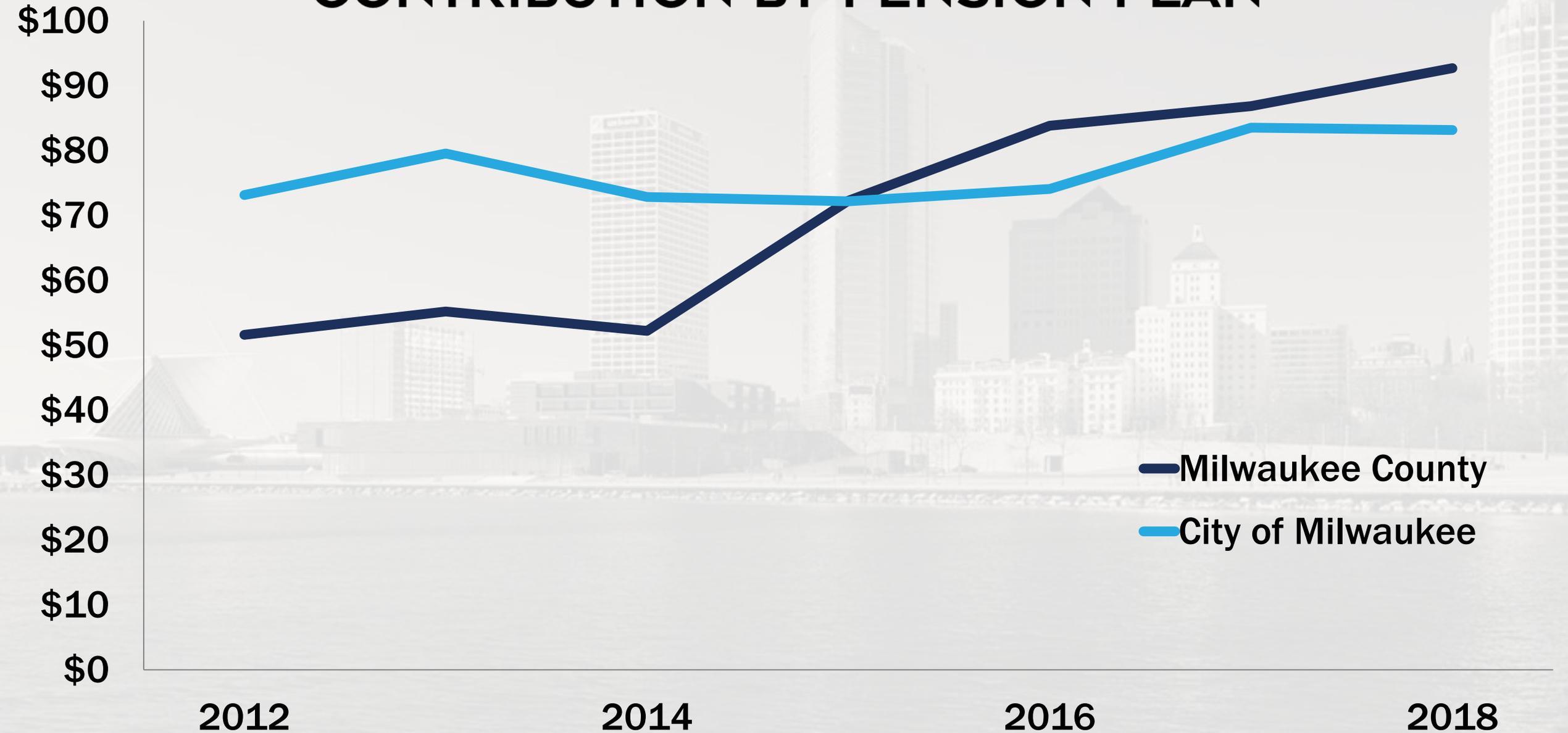
In recent years, Wisconsin's state pension system has won acclaim while its two counterparts in Milwaukee have faced stark challenges. The fiscal impacts of those challenges have contributed to the elimination of city police positions, a huge county infrastructure repair backlog, and a push for a new local sales tax.

contributions that are placing severe pressure on city and county finances. In the 2020 budget, for example, Milwaukee Mayor Tom Barrett and the city council cut 60 police positions to help prepare for a huge increase in the city's employer contribution to its pension plan in 2023.

RATIO OF ASSETS TO LIABILITIES BY RETIREMENT SYSTEM

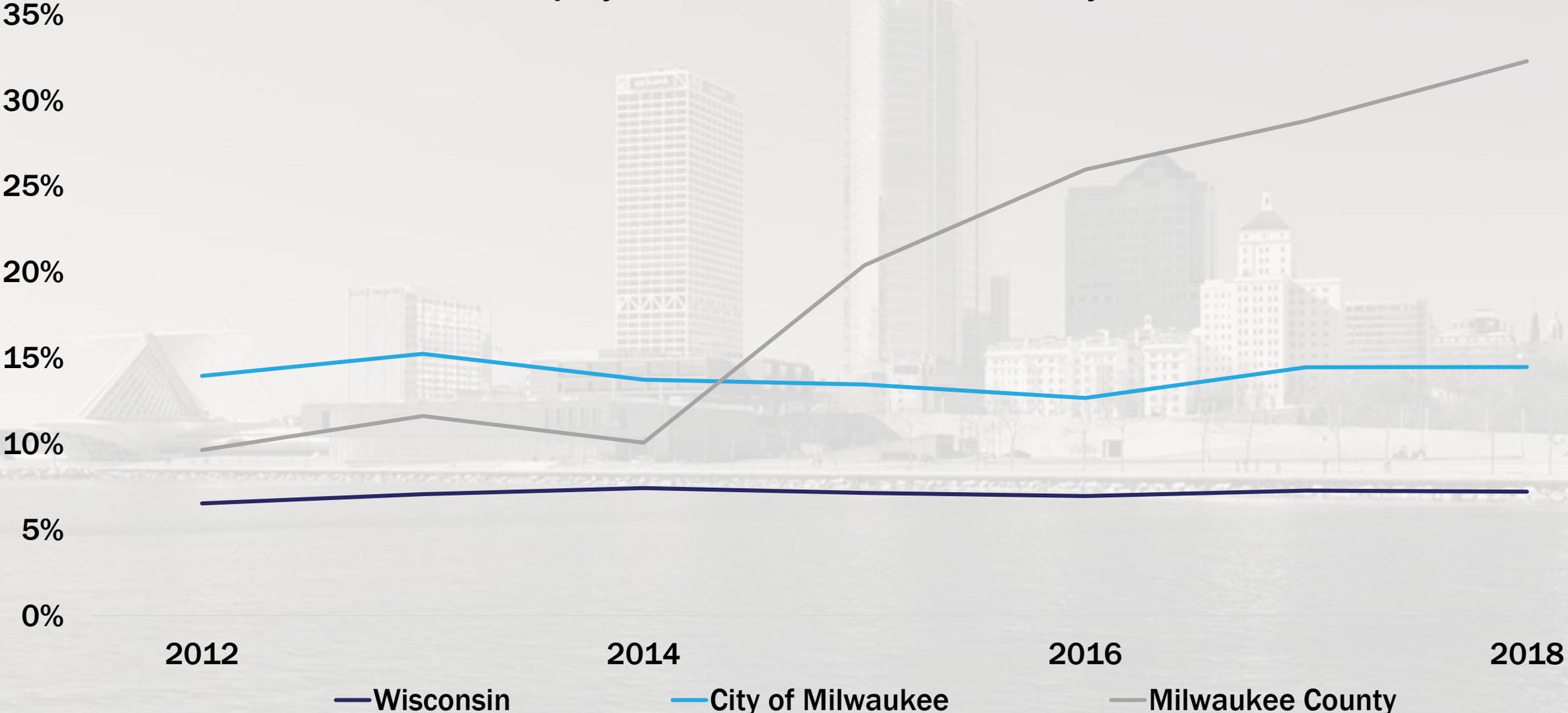


ANNUAL EMPLOYER REQUIRED CONTRIBUTION BY PENSION PLAN



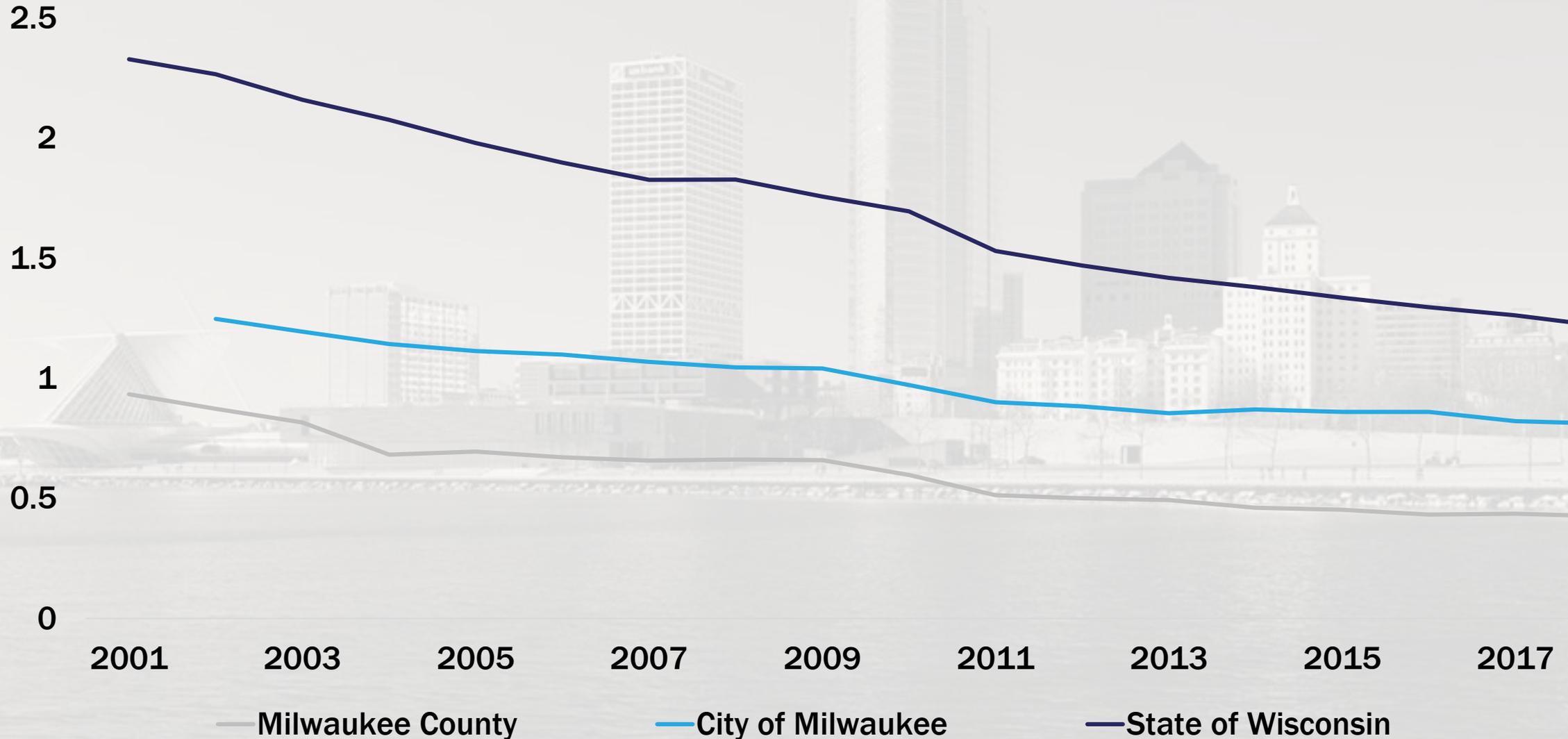
EMPLOYER CONTRIBUTION RATES HIGHER IN MILWAUKEE

Employer Contributions as a % of Payroll



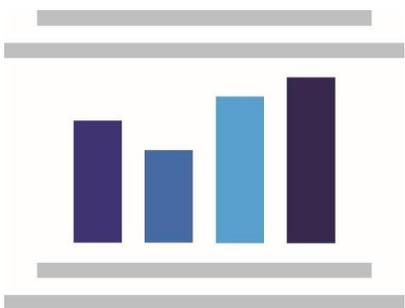
RETIREES OUTNUMBER EMPLOYEES IN MILWAUKEE

Ratio of Active Employees to Retirees and Other Beneficiaries by Plan, 2001-18



OPTIONS

- ❑ Reducing automatic COLAs or tying them to investment performance.
- ❑ Issuing POBs to stabilize annual contributions and shore up funding levels.
- ❑ Reducing pension benefits or increasing employee contributions.
- ❑ Transferring either new city and county hires or both new hires and the future benefits of current workers into the WRS.
- ❑ Partnering with the state to make a merger with the WRS feasible.



WISCONSIN

POLICY FORUM

WISPOLICYFORUM.ORG



THE PEW CHARITABLE TRUSTS

Milwaukee Pension Task Force Meeting

**Greg Mennis, Director
Strengthening Public Sector Retirement Systems
The Pew Charitable Trusts**

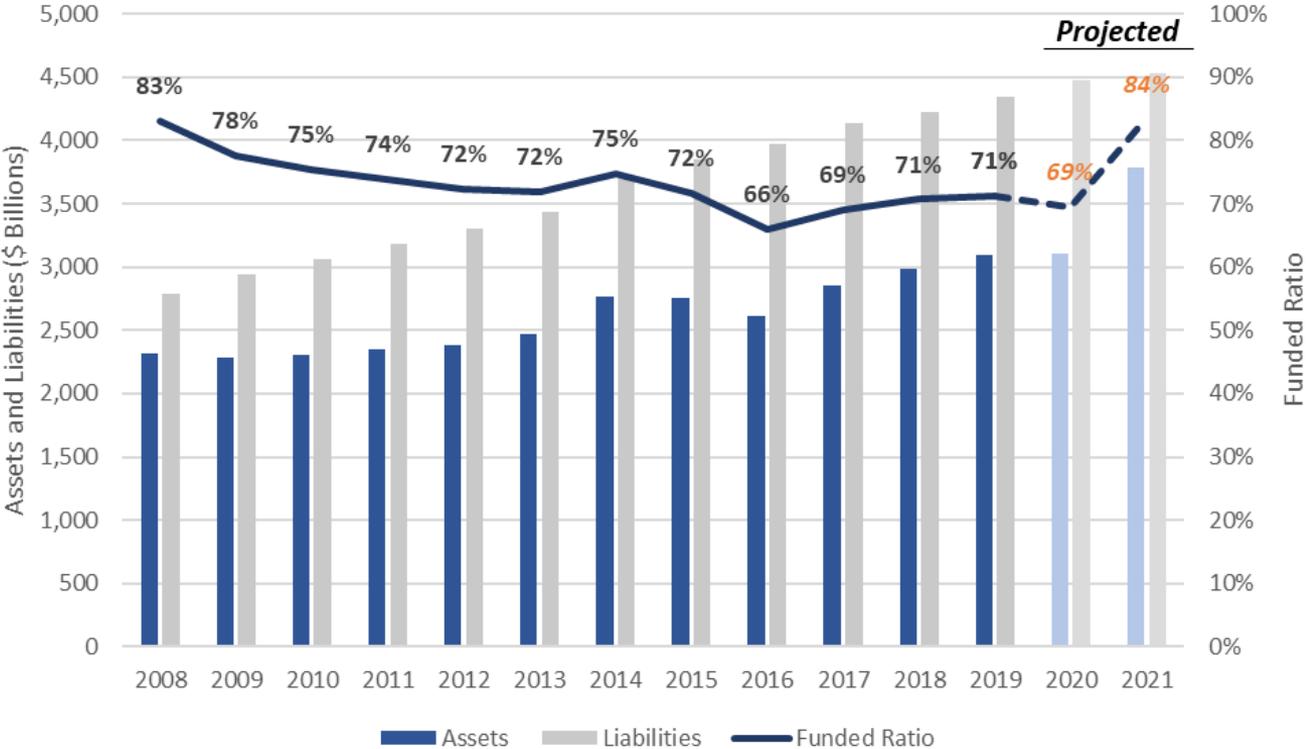
July 8, 2021

Overview

- Introduction to Pew
 - Prior work (Milwaukee County) and current research (WRS) in Wisconsin
- National trends on pensions
- Situation in Milwaukee
- Commentary on options

Key Trends

Public Pension Funding Projected to Reach Highest Level in Over a Decade as of 6/30/21
Investment Returns over past year and Increased Contributions over a decade are key drivers



Key Trends

Stock Market Experienced Historic Volatility During the Pandemic

Initial 34% drop followed by a once-in-a-generation rally – pension funds returned 25%+ in fiscal year 2021



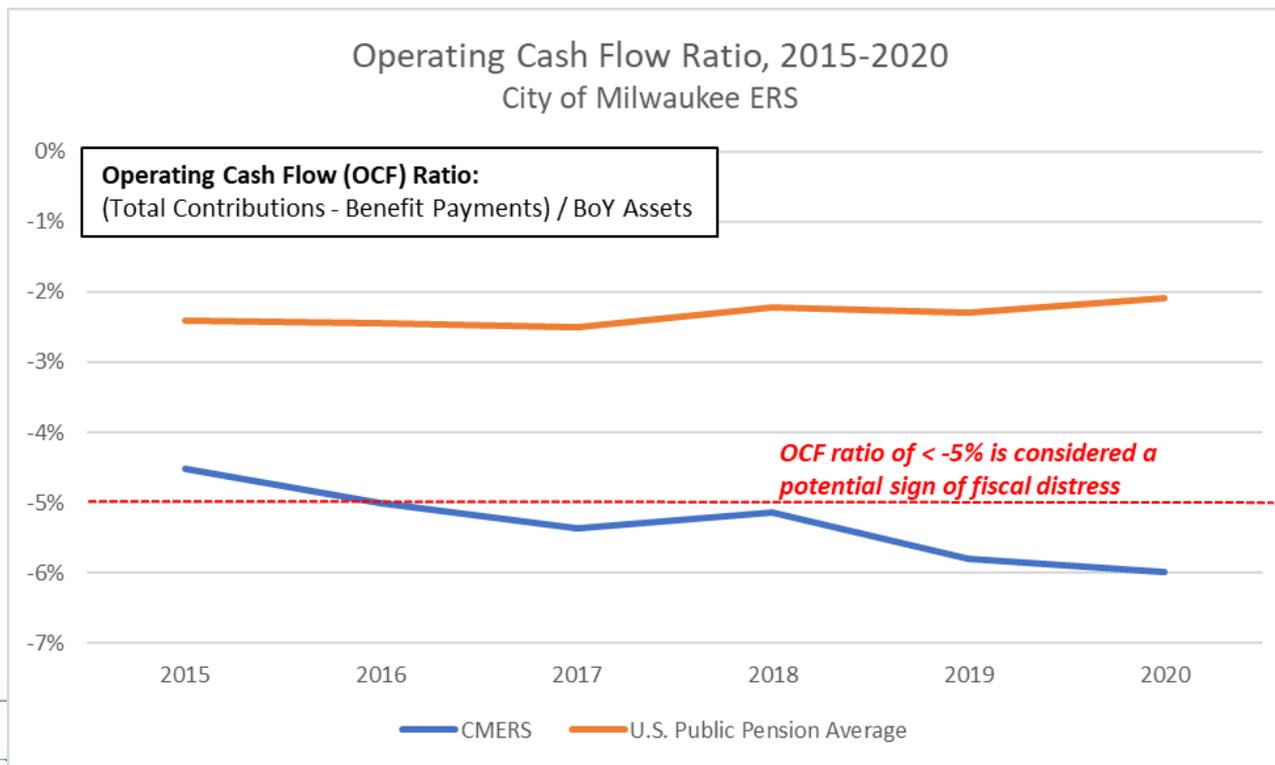
Situation in Milwaukee

- The city faces a doubling of required contributions beginning in 2023 in a highly constrained revenue environment per the Wisconsin Policy Forum [report](#), “On The Money?”.
- Pew’s analysis indicates that financial (including cash flow) ratios have been declining in recent years; both on an absolute and comparative basis.
- The Mayor’s Task Force on Milwaukee’s Pension System has been established to “address the imminent and ominous financial challenges stemming from the City’s Employees’ Retirement System”.
- Our commentary will focus on initial thoughts around options, based mainly on the very comprehensive list included in the Pension Task Force Report from the Milwaukee Employees’ Retirement System.

Key Trends

Operating Cash Flow (OCF) Ratio: CMERS vs. Other Public Pension Plans

CMERS trending negative, falling below -5%, while nationwide average has largely stabilized



Commentary on Options

- There are no panaceas
- Commentary does not constitute recommendations
- Deference to the plan, actuaries, and investment consultants
- Need/potential value of further assessing “consequences of inaction”
- Increased funding, new revenue streams, changes to benefits
 - See ERS Task Force Report

Source: Pension Task Force Report by the Milwaukee Employees’ Retirement System, Pew Research and Analysis

Commentary on Options (continued)

- Pension Obligation Bonds (POBs)
 - Financial Risk and risk analysis
 - Recent uptick in volume driven by low interest rates, heavily concentrated in California
- Dedicated Revenue Streams and Asset Transfers
 - Frequently accounting driven, unless new revenue streams are identified (New Jersey Lottery, Jacksonville, FL sales tax)
 - Limited examples of “economic” transactions (Scranton, PA sale of city sewer system)
- Changes to funding policy
 - Current “Stable Contribution Policy” as per an amendment to Milwaukee City Charter (MCC) adopted in 2013.
 - MCC 36-08 and 36-15 also pertain to the retirement system’s funding policy

Source: Pension Task Force Report by the Milwaukee Employees’ Retirement System, Pew Research and Analysis

Questions?



Cavanaugh Macdonald
CONSULTING, LLC

The experience and dedication you deserve

Employees' Retirement System of the City of Milwaukee

Actuarial Valuation Report
Prepared as of January 1, 2021

June 10, 2021





TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
Actuarial Certification Letter	
Section I – Executive Summary	1
Section II – Scope of the Report	11
Section III – Member Data Summary	13
Table 1 – Member Counts by Vested Status	13
Table 2 – Member Counts by Consent Status	14
Table 3 – Member Data Summary	15
Section IV – Asset Data	17
Table 4 – Market Value of Assets	18
Table 5 – Actuarial Value of Assets	19
Table 6 – Historical Asset Returns	20
Table 7 – Allocation of Assets Among Funds	21
Table 8 – Allocations Between Non-Consenters Who Consented to GPS During 2020 and Those Who Did Not	22
Section V – System Liabilities	23
Table 9 – Actuarial Accrued Liability by Agency	24
Table 10 – Funded Status on Actuarial and Market Value by Fund	25
Table 11 – Reconciliation of Unfunded Actuarial Accrued Liability	26
Table 12 – Actuarial Balance Sheet	27
Table 13 – Calculation of Actuarial Gain/(Loss)	28
Table 14 – Expected Benefit Payments	29
Table 15 – Schedule of Funding Progress	30
Section VI – System Contributions	31
Table 16 – Normal Cost by Group	32
Table 17 – Amortization of the Unfunded Actuarial Accrued Liability	33
Table 18 – Comparison of Stable Contribution Policy to the Actuarial Determined Rate for Combined Fund	37
Table 19 – Allocation of 2021 Contribution to Agencies for Combined Fund	38
Table 20 – Allocation of 2022 Contribution to Agencies for Combined Fund	39
Table 21 – Determination of Employer Contribution to Retirement Fund	40
Table 22 – Determination of Employer Contribution to Duty Disability Fund	41
Table 23 – Determination of Employer Contribution to Heart and Lung Fund	42
Table 24 – Allocation of 2021 Contribution to Agencies for the Retirement, Duty Disability and Heart and Lung Funds	43
Table 25 – Determination of Employer Contribution to Combined Retirement and Disability Fund	44
Table 26 – Allocation of 2021 Contribution to Employee Groups for Combined Retirement and Disability Fund	45
Table 27 – Contribution Requirements for FY 2021 by Combined Fund Group	46



TABLE OF CONTENTS (CONT.)

<u>Section</u>	<u>Page</u>
Section VII – Risk Considerations	47
Table 28 – Historical Asset Volatility Ratios	51
Table 29 – Ratio of Active to Retiree Count	52
Table 30 – Historical Cash Flows	53
Table 31 – Liability Maturity Measurements	54
Table 32 – Comparison of Valuation Results for the Combined Fund under Alternate Investment Return Assumptions	55
<u>Appendices</u>	
A. Membership Data	57
B. Summary of Benefit Provisions	87
C. Summary of Actuarial Methods and Assumptions	109
D. Glossary of Terms	117



Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

June 10, 2021

Annuity and Pension Board
Employees' Retirement System of the City of Milwaukee
789 North Water Street, Suite 300
Milwaukee, WI 53202

Members of the Board:

At your request, we performed an actuarial valuation of the Employees' Retirement System of the City of Milwaukee (referred to as "ERS" or "System") as of January 1, 2021. The report has been prepared in accordance with Section 36-15-15 of the Milwaukee City Charter (MCC). The major findings of the valuation are contained in this report, which reflects the benefit and funding provisions in place on January 1, 2021. The benefit provisions, actuarial assumptions and actuarial methods remain unchanged from the prior valuation.

The valuation was based on the actuarial assumptions and methods adopted by the Annuity and Pension Board, as specified by the Charter. An amendment to the MCC was adopted by the Common Council on April 30, 2013 to establish the Stable Employer Contribution Policy. Under that Policy, an actuarial contribution rate is separately calculated for three groups: Policemen, Firemen, and General Employees of the Combined Fund, and is applicable for the subsequent five-year period. These rates are established every five years following the Experience Study, performed by the actuary. The actuarial determined employer contribution rates under the Stable Contribution Policy for Policemen, Firemen, and General Employees are 25.22%, 26.83% and 7.48% of covered payroll, respectively, through December 31, 2022.

The primary purposes of the valuation report are to determine the actuarial contribution rate, to describe the current financial condition of ERS, and to analyze changes in such condition. Use of this report for any other purposes, or by anyone other than ERS and its auditors, may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the report for that purpose. The attached pages should not be provided without a copy of this cover letter. Because of the risk of misinterpretation of actuarial results, you should ask Cavanaugh Macdonald Consulting (CMC) to review any statement you wish to make on the results contained in this report. CMC will not accept any liability for any such statement made without prior review.



In preparing our report, we relied, without audit, on information (some oral and some in writing) supplied by ERS staff. This information includes, but is not limited to, statutory provisions, member data and financial information. Although reviewed for reasonableness and consistency with the prior valuation, these elements have not been audited by CMC and we cannot certify as to the accuracy and completeness of the data supplied. The valuation results depend on the integrity of this information. If any of the information is inaccurate or incomplete, our results may be different and our calculations may need to be revised. Sometimes assumptions are made to interpret membership data that is imperfect. The valuation is also based on benefit and contribution provisions as presented in this report. If you have reason to believe that the plan provisions are incorrectly described, that important plan provisions relevant to this valuation are not described, or that conditions have changed since the calculations were made, you should contact the authors of this actuarial report prior to relying on this information.

The Board has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in Appendix C. We believe that these assumptions are appropriate and reasonable and also comply with all applicable Actuarial Standards of Practice (ASOPs). We certify that all costs and liabilities have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the plan and reasonable expectations) and which, in combination, offer the best estimate of anticipated experience affecting the plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

In order to prepare the results in this report, we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results. Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period) and changes in plan provisions or applicable law. Due to the limited scope of this assignment, CMC has not performed an analysis of the potential range of such future measurements.

Actuarial computations presented in this report are for purposes of evaluating the funding of the Plan and determining an actuarial contribution rate. Actuarial computations for purposes of fulfilling financial accounting requirements under Governmental Accounting Standard Number 67 and 68 are provided in separate reports. The calculations in the enclosed report have been made on a basis consistent with our understanding of the Plan's funding requirements and goals. Determinations for other purposes may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

As we prepare this report, the world is starting to recover from the Covid-19 pandemic. We have considered available information, but do not believe there is sufficient data yet to warrant the modification of any of our assumptions at this time. We will continue to monitor the situation and advise the Board in the future of any adjustments we believe would be appropriate.



On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualifications Standards to render the actuarial opinions contained in this report. In addition, this report has been prepared in accordance with all applicable Actuarial Standards of Practice. We are available to answer questions about it or to provide additional information, as needed.

Respectfully submitted,

A handwritten signature in blue ink, consisting of stylized, overlapping letters 'L' and 'L'.

Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary

A handwritten signature in blue ink, written in a cursive style that reads 'Patrice Beckham'.

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary





SECTION I: EXECUTIVE SUMMARY

Introduction and Background

The law governing the Employees' Retirement System (ERS) requires the Actuary and Pension Board to "...prepare an annual valuation of the assets and liabilities of the funds of the retirement system" (Section 36-15-15 of the Milwaukee City Charter (MCC)). Cavanaugh Macdonald Consulting, the Actuary, has completed the eighty-third annual actuarial valuation of the ERS as of January 1, 2021. The primary purposes of performing a valuation are to:

- estimate the liabilities for future benefits expected to be paid by the System;
- determine the employer contribution rate required to fund the System on an actuarial basis and compare that rate to the Stable Contribution Policy;
- disclose certain asset and liability measures, and the funded status, as of the valuation date;
- assess and disclose the key risks associated with funding the System;
- monitor any deviation between actual plan experience and experience projected by the actuarial assumptions, and
- analyze and report on any significant trends in contributions, assets and liabilities over the past several years.

Stable Contribution Policy

An amendment to the MCC was adopted by the Common Council on April 30, 2013 to establish the Stable Employer Contribution Policy. Under that Policy, an actuarial contribution rate is separately calculated for three groups: Policemen, Firemen, and General Employees of the Combined Fund, and is applicable for the subsequent five-year period. The Policy is designed to:

- (a) Fully fund all current costs for active members, determined under the funding method, which is irrespective of the funded status of the System. The result is that the Employer Normal Cost is always funded; and
- (b) Liquidate the unfunded actuarial accrued liability (UAAL), if any, over the amortization period adopted by the Board and based on methodology specified in the MCC. Effective with the January 1, 2019 actuarial valuation, the Board adopted a 25-year closed period to amortize the UAAL as of January 1, 2019. At each subsequent valuation date, any changes to the UAAL arising from actual experience that is different than assumed are amortized over a fixed 15-year period and any changes to the UAAL arising from changes in benefit provisions, actuarial assumptions or actuarial methods are amortized over a fixed 25-year period.

These rates are established every five years following the completion of the Experience Study performed by the actuary. The actuary establishes these contribution rates based on the most recent actuarial assumptions adopted by the Annuity and Pension Board of the ERS and the actuarial methods specified in the Charter. The rates are established in conformity with applicable Actuarial Standards of Practice and result in a funded status at the end of the five years that is at least actuarially equivalent to the expected funded status if contributions were based on the recalculation of the employer contribution rates annually under the same assumptions and methods. The current contribution rates under the Stable Employer Contribution Policy for calendar years 2018 through 2022 are:

- General Employees: 7.48%
- Policemen: 25.22%
- Firemen: 26.83%.

The results of the January 1, 2021 actuarial valuation are among the information used to monitor the impact of the Stable Employer Contribution Policy on the System's funding and anticipate possible adjustments when the rate is reset in 2023.



SECTION I: EXECUTIVE SUMMARY

Events Impacting the January 1, 2021 Valuation:

- **Investment Experience:** There was favorable investment experience on the market value of assets during calendar year 2020. This favorable experience, combined with the recognition of deferred asset gains, resulted in a return on the actuarial value of assets of 9.22%, which is above the assumed rate of return of 7.50%. This resulted in an actuarial gain on assets.
- **Liability Experience:** Liability gains (losses) result from actual experience that is more (less) favorable than anticipated based on the actuarial assumptions. Overall, there was favorable experience during 2020 for the System's liabilities, as expressed by a smaller actuarial accrued liability than expected. The largest source of favorable experience was mortality experience during 2020 (greater rates of mortality than expected).
- As part of Cavanaugh Macdonald Consulting's transition as the System's new retained actuary in 2019, a review of the actuarial assumptions used in the 2018 valuation was performed. In our professional judgment, a reduction to the investment return assumption was necessary in order to comply with applicable actuarial standards of practice. Our recommendation to lower the investment return assumption from 8.00% in calendar years 2018 through 2022 and 8.25% thereafter to 7.50% for all years was adopted by the Board and reflected in the January 1, 2019 valuation. This resulted in a significant increase in the actuarially determined contribution rate. The employer contribution rates, which are reset every five years under Stable Contribution Policy, had just been reset in 2018 in concurrence with the completion of the experience study and subsequent adoption of a new set of assumptions. The timing of the reduction to the investment return assumption in the January 1, 2019 valuation was "off cycle" from the regular experience study. As a result, the Stable Contribution Policy rate was much lower than the actuarially determined contribution rate for 2020 which impacted the System's funded ratio.
- In total, the size of the active membership declined by 3.7% during 2020, from 10,974 to 10,567 which also impacted the total covered payroll which declined by 1.7%. The actuarial assumption reflects an expectation that covered payroll will increase 2.0% per year. As a result, the dollar amount of the unfunded actuarial accrued liability payments increases by 2.0% each year. To the extent actual increases in the covered payroll do not occur as expected, it results in a higher unfunded actuarial accrued liability contribution rate.
- The Global Pension Settlement (GPS) provides that members enrolled through June 28, 2000, must provide written consent to the ERS in order to be eligible for the benefit enhancements of GPS. Members enrolled after June 28, 2000 are automatically participants in the Combined Fund. Since the January 1, 2020 valuation, eight individuals who were eligible for ERS benefits as of June 28, 2000 – and who had not previously consented to GPS – have now consented. As a result, assets will be transferred from the non-consenter funds in which these members previously participated to the Combined Fund.

Fiscal Impact of Events

Actual Rate of Return for 2020: There was favorable investment experience on the market value of assets during calendar year 2020. This favorable experience, combined with the recognition of deferred asset gains, resulted in a return on the actuarial value of assets of 9.22%, which is above the assumed rate of return of 7.50%. As a result, the unfunded actuarial accrued liability decreased by \$91 million, the funded ratio increased by 1.3% and the actuarial employer contribution rate decreased by 1.45% of pay for the



SECTION I: EXECUTIVE SUMMARY

Combined Fund. Due to the recognition of a portion of prior investment gains through the asset smoothing method, the net deferred investment gain of \$272 million in last year's valuation has decreased to \$209 million in the current valuation. Absent offsetting unfavorable experience in the future, this experience will flow through the asset smoothing method, increasing the funded ratio and decreasing the actuarial contribution rate.

Liability Experience: The purpose of conducting an actuarial valuation of a retirement system is to estimate the costs and liabilities for the benefits provided by the system, to determine the annual level of contributions required to support these benefits and, finally, to analyze the system's actual experience as it compares with the actuarial assumptions used in the valuation. The costs and liabilities reported in the valuation depend not only upon the dollar amount of the benefits to be paid, but also upon factors such as mortality rates, termination rates, and retirement rates. The net liability experience for the System during 2020 was a small actuarial gain of \$5 million. The most significant source of the net favorable liability experience during 2020 was more deaths than expected, based on actuarial assumptions.

Stable Contribution Rate Policy: As discussed earlier, largely due to lowering the investment return assumption in the 2019 valuation, there was a significant difference between the stable policy contribution rate and the actuarial determined employer contribution rate for 2020 for all three membership groups. This difference resulted in employer contributions that were \$88.5 million less than the actuarially determined employer contribution. As a result, the unfunded actuarial accrued liability did not decline as scheduled in the amortization table (see Table 11).

Decline in Covered Payroll during 2020: Covered payroll in the current valuation decreased by 1.7% from the covered payroll in the January 1, 2020 valuation. The UAAL contribution rate is developed with an assumed increase of 2% in covered payroll each year. When the covered payroll does not increase, as assumed, it results in a higher unfunded actuarial accrued liability contribution rate.

GPS Consenters during 2020: There were eight individuals who elected to participate in the Combined Fund during 2020. They represent about 3% of the total non-consenters. Due to the small number of individuals who consented and the associated liability, this did not have a significant impact on the valuation results.

A summary of the changes to the unfunded actuarial accrued liability for the Combined Fund only from the January 1, 2020 valuation to the January 1, 2021 valuation is shown in the table below:

Combined Fund	(\$ in millions)
Unfunded Actuarial Accrued Liability (UAAL) as of 01/01/2020	\$ 1,347.1
- Expected Change in UAAL	(5.8)
- Actual Contributions Versus Actuarial Contributions	88.5
- Investment Experience	(90.5)
- Demographic Experience	(5.4)
- Other Experience	9.2
Unfunded Actuarial Accrued Liability (UAAL) as of 01/01/2021	\$ 1,343.1



SECTION I: EXECUTIVE SUMMARY

Due to the Stable Employer Contribution Policy, these events and the resulting increase in the unfunded actuarial accrued liability had no impact on the employer contribution rates for the 2021 plan year. However, their impact is reflected in the actuarially determined employer contribution rate for the Combined Fund as shown in the following table.

Combined Fund	Rate
Actuarial Determined Employer Rate as of 01/01/2020	28.21%
- Change in Employer Normal Cost Rate	(0.26%)
- Actual Contributions Versus Actuarial Contributions	1.42%
- Investment Experience	(1.45%)
- Demographic Experience	(0.09%)
- Payroll Growth Rate Lower than Expected	0.62%
- Other Experience	0.28%
Actuarial Determined Employer Rate as of 01/01/2021	28.73%

As a result of the increase in the actuarially determined employer contribution rate in the 2021 valuation, the shortfall between the actuarially determined contribution and the Stable Contribution Policy has increased. A summary of the employer contribution rates for all three groups is shown in the table below.

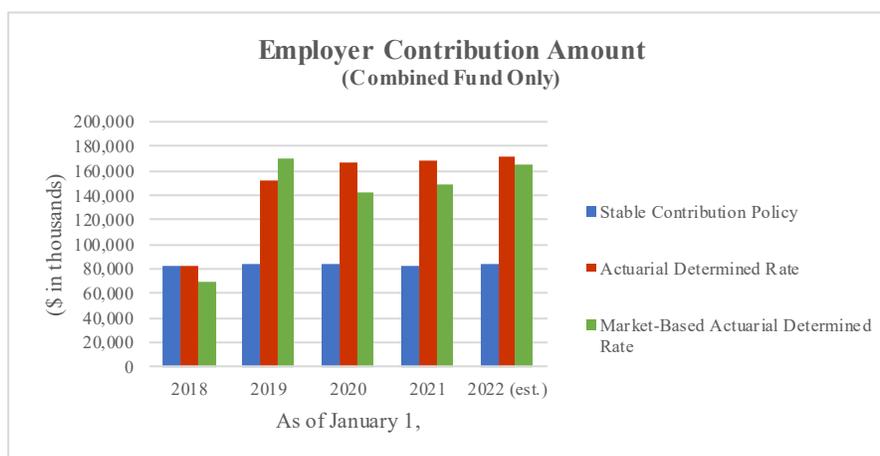
	January 1, 2021	January 1, 2020	January 1, 2019	January 1, 2018
<u>General:</u>				
a. Actuarial Determined Rate	17.22%	16.47%	15.57%	7.46%
b. Stable Contribution Policy	7.48%	7.48%	7.48%	7.48%
c. Difference	9.74%	8.99%	8.09%	(0.02%)
<u>Policemen:</u>				
a. Actuarial Determined Rate	47.47%	46.63%	41.31%	25.13%
b. Stable Contribution Policy	25.22%	25.22%	25.22%	25.22%
c. Difference	22.25%	21.41%	16.09%	(0.09%)
<u>Firemen:</u>				
a. Actuarial Determined Rate	51.44%	52.25%	48.71%	26.74%
b. Stable Contribution Policy	26.83%	26.83%	26.83%	26.83%
c. Difference	24.61%	25.42%	21.88%	(0.09%)

Under the Stable Contribution Policy, the employer contribution rate is reset every five years following the completion of the Experience Study and adoption of updated actuarial assumptions. The employer contribution rate was most recently set for calendar years 2018 through 2022, based on the actuarially determined contribution in the 2018 valuation. However, because of the significant reduction in the investment return assumption in the 2019 valuation (moving from 8.24% to 7.50%), the actuarially determined employer contribution rate was much higher than the Stable Contribution Policy rate in the 2020 valuation. That contribution shortfall (actuarially determined contribution less stable contribution policy amount) increased the unfunded actuarial accrued liability.



SECTION I: EXECUTIVE SUMMARY

The difference between the actuarially determined employer contribution rate and the Stable Contribution Policy rate increased in the 2021 valuation. The Stable Contribution Policy amount is expected to continue to be significantly less than the actuarially determined contribution amount until 2023, when the Stable Contribution Policy rate will be reset for another five years. The following graph, which assumes that all actuarial assumptions are met each year in the future, illustrates the difference between the Stable Contribution Policy amounts and the actuarially determined contribution amounts in the past as well as through 2022.



Although the recognition of the deferred investment experience is expected to result in a small decrease in the actuarial contribution rate, the impact is more than offset by the shortfall in contributions from the Stable Contribution Policy. As a result, a significant increase is expected when the Stable Contribution Policy rate is reset in 2023.

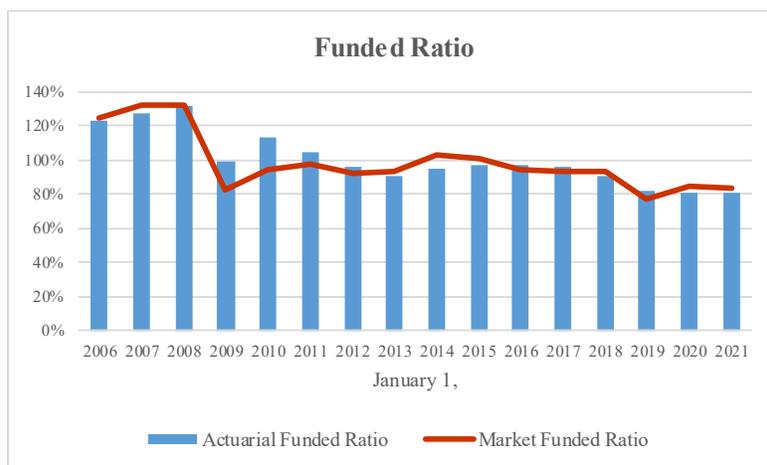
Given the magnitude of the difference between the actuarially determined employer contributions and the stable contribution policy contributions, we strongly encourage the City and other participating agencies to start preparing now for much higher contributions when the Stable Contribution Policy is reset for calendar year 2023. The City contributed an additional \$3.0 million during 2020 to the Reserve Fund, which when added to the initial balance of \$30.3 million and \$0.9 million in investment return increased the balance to \$34.2 million. The Reserve Fund represents advance contributions, above the stable contribution policy, which can be used by employers to meet future contribution levels, if needed.

Funded Ratio

As was discussed earlier, the funded ratio (actuarial assets divided by actuarial liability) in the 2021 valuation was positively impacted by actual experience during 2020 that was favorable for both the System's actuarial assets and liabilities. The funded ratio increased from 80.1% in the 2020 valuation to 80.7% in the 2021 valuation. However, due to the difference between the actuarially determined employer contributions and the stable contribution policy contributions, the funded ratio, on a market value basis, declined from 84.2% in the prior valuation to 83.8% in the current valuation. The following graph shows the historical funded ratio using both the market value and actuarial value of assets.



SECTION I: EXECUTIVE SUMMARY



Note that the funded ratio does not necessarily indicate whether or not additional funding is needed, nor does it indicate whether or not the plan has sufficient funds to settle all current obligations.

A number of factors impact the funded ratio from year to year. The major drivers of the change in the funded ratio from the January 1, 2020 valuation to the January 1, 2021 valuation are shown in the following table on both an actuarial value and market value basis.

	Funded Ratio Based On	
	Actuarial Value of Assets	Market Value of Assets
January 1, 2020 Funded Ratio	80.1%	84.2%
- Expected Change	(0.1%)	0.2%
- Actual Contributions Versus Actuarial Contributions	(0.7%)	(0.8%)
- Investment Experience	1.3%	0.1%
- Demographic Experience	0.1%	0.1%
- Other Experience	<u>0.0%</u>	<u>0.0%</u>
- Total change	0.6%	(0.4%)
January 1, 2021 Funded Ratio	80.7%	83.8%



SECTION I: EXECUTIVE SUMMARY

Summary of Key Valuation Results

This report, prepared as of January 1, 2021, presents the results of the eighty-third annual valuation of the System. The principal results of the valuation, reflecting the Stable Contribution Funding Policy and contribution amounts as of January 31, 2022, are summarized below:

Fund	General			Total
	Employees	Policemen	Firemen	
Combined Fund	\$ 29,914,982	\$ 42,138,266	\$ 17,380,669	\$ 89,433,917
Retirement Fund	0	0	0	0
Duty Disability Fund	0	0	0	0
Heart & Lung Fund	N/A	N/A	0	0
Combined Retirement & Disability Fund	177,000	40,000	0	217,000
Total Contribution	\$ 30,091,982	\$ 42,178,266	\$ 17,380,669	\$ 89,650,917
Covered Compensation	\$ 371,863,000	\$ 154,607,000	\$ 59,899,000	\$ 586,369,000
Total Contribution as a Percentage of Covered Compensation	8.09%	27.28%	29.02%	15.29%

Key Takeaways

- Due to the recognition of a portion of prior investment gains through the asset smoothing method, the net deferred investment gain (market value of assets greater than actuarial value) of \$272 million in last year's valuation has decreased to \$209 million in the current valuation. Absent unfavorable asset experience in the future, this net deferred investment gain will flow through the asset smoothing method and be recognized in the valuation results over the next four years. While this will have a positive impact on future valuation results, other actuarial experience may be unfavorable and offset the impact of the deferred investment gains.
- The shortfall between the actuarially determined contribution and the stable contribution policy for 2020 resulted in an increase in the unfunded actuarial accrued liability of \$88.5 million which was then amortized over 15 years. This increased the UAAL contribution in the current valuation. A similar pattern is expected to occur until the employer contribution rate is reset in 2023.
- **Given the significant difference between the actuarially determined employer contribution and the stable contribution policy in this valuation, the City and participating agencies should give serious consideration to increasing contributions and planning for a major increase in the contribution rate when it is reset in 2023.**



SECTION I: EXECUTIVE SUMMARY

A typical retirement plan faces many different risks. The term “risk” is most commonly associated with an outcome with undesirable results. However, in the actuarial world risk can be translated as uncertainty. The actuarial valuation process uses many actuarial assumptions to project how future contributions and investment returns will meet the cash flow needs for future benefit payments. Of course, we know that actual experience will not unfold exactly as anticipated by the assumptions and that uncertainty, whether favorable or unfavorable, creates risk. Actuarial Standard of Practice Number 51 defines risk as the potential of actual future measurements to deviate from expected results due to actual experience that is different than the actuarial assumptions. Risk evaluation is an important part of managing a defined benefit plan. Please see the Risk Considerations section of this report for an in-depth discussion of the specific risks facing CMERS.

As we prepare this report, the world is starting to recover from the Covid-19 pandemic. We have considered available information, but do not believe there is sufficient data yet to warrant the modification of any of our assumptions at this time. We will continue to monitor the situation and advise the Board in the future of any adjustments we believe would be appropriate.

We conclude this executive summary by presenting comparative statistics and actuarial information from both the January 1, 2020 and January 1, 2021 valuations.



SECTION I: EXECUTIVE SUMMARY

Summary of Principal Results

	January 1, 2021	January 1, 2020	% Change
1. Membership Data			
a. Active Members			
(i) Count			
- General Employees	8,135	8,442	(3.6%)
- Policemen	1,735	1,827	(5.0%)
- Firemen	<u>697</u>	<u>705</u>	(1.1%)
- Total	10,567	10,974	(3.7%)
(ii) Total Estimated Payroll			
- General Employees	\$371,863,000	\$376,656,000	(1.3%)
- Policemen	154,607,000	158,596,000	(2.5%)
- Firemen	<u>59,899,000</u>	<u>61,134,000</u>	(2.0%)
- Total	\$586,369,000	\$596,386,000	(1.7%)
b. Retirees, Beneficiaries and Disabled Members			
(i) Number	13,647	13,555	0.7%
(ii) Total Annual Benefits	\$417,668,000	\$399,601,000	4.5%
(iii) Average Annual Benefit	\$30,605	\$29,480	3.8%
2. Assets and Liabilities			
a. Asset Values (includes contributions receivable)			
(i) Actuarial Value of Assets (AVA)	\$5,440,867,000	\$5,285,205,000	2.9%
(ii) Market Value of Assets (MVA)	\$5,649,734,000	\$5,557,077,000	1.7%
b. Actuarial Accrued Liability (AAL)	\$6,745,299,000	\$6,597,457,000	2.2%
c. Funded Status			
(i) Unfunded AAL (Based on AVA)	\$1,304,432,000	\$1,312,252,000	(0.6%)
(ii) Funded Ratio (Based on AVA)	80.66%	80.11%	0.7%
(iii) Unfunded AAL (Based on MVA)	\$1,095,565,000	\$1,040,380,000	5.3%
(iv) Funded Ratio (Based on MVA)	83.76%	84.23%	(0.6%)
3. Employer Contribution Rates (Combined Fund)			
a. General Employees			
(i) Stable Contribution Policy Rate	7.48%	7.48%	0.0%
(ii) Actuarial Determined Rate	17.22%	16.47%	4.6%
(iii) Market-Based Actuarial Determined Rate	14.98%	13.71%	9.3%
b. Policemen			
(i) Stable Contribution Policy Rate	25.22%	25.22%	0.0%
(ii) Actuarial Determined Rate	47.47%	46.63%	1.8%
(iii) Market-Based Actuarial Determined Rate	42.28%	39.95%	5.8%
c. Firemen			
(i) Stable Contribution Policy Rate	26.83%	26.83%	0.0%
(ii) Actuarial Determined Rate	51.44%	52.25%	(1.6%)
(iii) Market-Based Actuarial Determined Rate	46.02%	44.89%	2.5%
4. Total Employer Contribution (All Funds)	Due 01/31/2022	Due 01/31/2021	
(i) Annual Cost	\$89,651,000	\$91,536,000	(2.1%)
(ii) As a % of Covered Payroll	15.29%	15.35%	(0.4%)



SECTION I: EXECUTIVE SUMMARY

This Page Intentionally Left Blank



SECTION II: SCOPE OF THE REPORT

This report presents the actuarial valuation of the Employees' Retirement System of the City of Milwaukee as of January 1, 2021. This valuation was prepared at the request of the System's Pension and Annuity Board. The report is based on the plan provisions, actuarial assumptions and actuarial methods in effect as of January 1, 2021.

Please pay particular attention to our cover letter, where the guidelines employed in the preparation of this report are outlined. We also comment on the sources and reliability of both the data and the actuarial assumptions upon which our findings are based. Those comments are the basis for our certification that this report is complete and accurate to the best of our knowledge and belief.

A summary of the findings resulting from this valuation is presented in the previous section. Section III summarizes the membership data as of the valuation date. Section IV describes the assets and investment experience of the System. Section V discloses the obligations (liabilities) of the System and Section VI includes the calculation of contributions for the current fiscal year. Section VII discloses key maturity measurements and discusses the key risks facing the funding of the System.

This report includes several appendices:

- Appendix A Schedules of valuation data classified by various categories of members.
- Appendix B A summary of the current benefit structure, as determined by the provisions of governing law on the valuation date.
- Appendix C A summary of the actuarial methods and assumptions used to estimate liabilities and determine contribution rates.
- Appendix D A glossary of actuarial terms.



SECTION II: SCOPE OF THE REPORT

This Page Intentionally Left Blank

**SECTION III: MEMBER DATA SUMMARY****TABLE 1****Member Counts by Vested Status**

Number of Members	1/1/2021			1/1/2020
	Vested	Non-Vested	Total	Total
Active				
- General Employees	5,302	2,833	8,135	8,442
- Policemen	1,399	336	1,735	1,827
- Firemen	<u>540</u>	<u>157</u>	<u>697</u>	<u>705</u>
- Total Active Members	7,241	3,326	10,567	10,974
Inactive				
- Deferred Retirees			3,188	3,028
- Refunds Payable			<u>1,796</u>	<u>1,540</u>
- Total Inactive Members			4,984	4,568
Benefit Recipients				
- Combined Fund				
General Employees			9,695	9,700
Policemen			2,539	2,471
Firemen			<u>1,402</u>	<u>1,372</u>
- Combined Fund Subtotal			13,636	13,543
- Retirement Fund			11	12
- Duty Disability Funds				
General Employees			0	0
Policemen			0	0
Firemen			<u>0</u>	<u>0</u>
- Duty Disability Funds Subtotal			0	0
- Firemen's Heart & Lung Fund			<u>0</u>	<u>0</u>
- Total Benefit Recipients			13,647	13,555
Total Membership			29,198	29,097

Note: Members are vested once they attain four years of service.



SECTION III: MEMBER DATA SUMMARY

TABLE 2

Member Counts by Consent Status

1/1/2021 Membership			
Number of Members	Consenters	Others	Total
Active			
- General Employees	8,088	47	8,135
- Policemen	1,734	1	1,735
- Firemen	<u>697</u>	<u>0</u>	<u>697</u>
- Total Active Members	10,519	48	10,567
Inactive			
- Deferred Retirees	2,986	202	3,188
- Refunds Due	<u>1,792</u>	<u>4</u>	<u>1,796</u>
- Total Inactive Members	4,778	206	4,984
Benefit Recipients			
- Combined Fund	13,636	NA	13,636
- Retirement Fund	NA	11	11
- Duty Disability Funds			
General Employees	0	0	0
Policemen	0	0	0
Firemen	<u>0</u>	<u>0</u>	<u>0</u>
- Duty Disability Funds Subtotal	0	0	0
- Firemen's Heart & Lung Fund	<u>0</u>	<u>0</u>	<u>0</u>
- Total Benefit Recipients	13,636	11	13,647
Total Membership	28,933	265	29,198

- Notes: (1) In addition to the above, there are members who have separated from service without vested rights to either a pension or a refund of accumulated contributions. There is no current actuarial liability for such individuals, and their membership will be terminated if they do not return to active service within five years of their date of separation from ERS covered employment.
- (2) Active members who worked fewer than 100 hours in the prior year, but who have not officially terminated employment are included in the count of inactives in Table 1 and Table 2. These members are not assumed to earn additional service in future years.



SECTION III: MEMBER DATA SUMMARY

TABLE 3

Member Data Summary

	1/1/2021	1/1/2020
Projected Annual Earnings		
- General Employees	\$ 371,863,000	\$ 376,656,000
- Policemen	154,607,000	158,596,000
- Firemen	<u>59,899,000</u>	<u>61,134,000</u>
- Total Projected Annual Earnings	\$ 586,369,000	\$ 596,386,000
Average Projected Earnings		
- General Employees	\$ 45,711	\$ 44,617
- Policemen	\$ 89,111	\$ 86,807
- Firemen	\$ 85,938	\$ 86,715
Annual Benefit Payments Currently Being Made		
- Combined Fund	\$ 417,456,609	\$ 399,390,281
- Retirement Fund	\$ 211,239	\$ 210,823
- Duty Disability Funds		
General Employees	\$ 0	\$ 0
Policemen	0	0
Firemen	<u>0</u>	<u>0</u>
- Duty Disability Funds Subtotal	\$ 0	\$ 0
- Firemen's Heart & Lung Fund	\$ 0	\$ 0
- Total Benefit Payments	\$ 417,667,848	\$ 399,601,104

- Notes: (1) "Projected Annual Earnings" represents the expected earnable compensation for the year following the valuation date.
(2) "Annual Benefit Payments Currently Being Made" equals 12 times the full December monthly payment. The amounts shown include all amounts payable by the ERS and have been reduced by workers' compensation offsets for members who are currently repaying a workers' compensation award.



SECTION III: MEMBER DATA SUMMARY

This Page Intentionally Left Blank



SECTION IV: ASSET DATA

In many respects, an actuarial valuation can be thought of as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is January 1, 2021. On that date, the assets available for the payment of benefits are appraised. The assets are compared with the liabilities of the System, which are generally in excess of assets. The actuarial process then leads to a method of determining the contributions needed by members and the employer in the future to balance the System's assets and liabilities.

Market Value of Assets

The current market value represents the "snapshot" or "cash-out" value of System assets as of the valuation date. In addition, the market value of assets provides a basis for measuring investment performance during the year. Table 4 summarizes the change in the market value of assets from January 1, 2020 to January 1, 2021.

Actuarial Value of Assets

Neither the market value of assets, representing a "cash-out" value of System assets, nor the book values of assets, representing the cost of investments, may be the best measure of the System's ongoing ability to meet its obligations.

To arrive at a suitable value of assets for the actuarial valuation, a technique for determining the actuarial value of assets is used which dampens swings in the market value while still indirectly recognizing market values. Under the asset smoothing methodology, the difference between the actual and assumed investment return on the market value of assets is recognized evenly over a five-year period.

Table 5 shows the development of the actuarial value of assets (AVA) as of the valuation date.



SECTION IV: ASSET DATA

TABLE 4

Market Value of Assets
(Dollars in thousands)

	Global Combined Fund	Retirement Fund	Combined Retirement Fund	General Employees' Duty Disability Fund	Employers' Reserve Fund	Securities Lending Fund	Total
1. Market Value of Assets as of January 1, 2020	\$ 5,507,658	\$ 12,237	\$ 5,860	\$ 104	\$ 30,334	\$ 884	\$ 5,557,077
2. Transfer of Assets as of January 1, 2020	\$ 1,512	\$ (1,492)	\$ (11)	\$ (9)	\$ 0	\$ 0	\$ 0
3. Contributions During Year							
a. Member	\$ 32,182	\$ 9	\$ 0	\$ 0	\$ 0	\$ 0	\$ 32,191
b. Employer	84,361	0	300	0	3,000	0	87,661
c. Total	\$ 116,543	\$ 9	\$ 300	\$ 0	\$ 3,000	\$ 0	\$ 119,852
4. Disbursements During Year							
a. Monthly Annuities	\$ 425,296	\$ 67	\$ 32	\$ 0	\$ 0	\$ 0	\$ 425,395
b. Refunds	3,526	29	0	0	0	0	3,555
c. Administrative Expenses	6,566	0	0	0	0	815	7,381
d. Total	\$ 435,388	\$ 96	\$ 32	\$ 0	\$ 0	\$ 815	\$ 436,331
5. Investment Return (net of Investment Expenses)	\$ 406,185	\$ 876	\$ 435	\$ 8	\$ 862	\$ 770	\$ 409,136
6. Transfer of Assets as of December 31, 2020	\$ 1,097	\$ (391)	\$ (703)	\$ (3)	\$ 0	\$ 0	\$ 0
7. Market Value of Assets as of December 31, 2020 (1) + (2) + (3c) - (4d) + (5) + (6)	\$ 5,597,607	\$ 11,143	\$ 5,849	\$ 100	\$ 34,196	\$ 839	\$ 5,649,734
8. Rate of Return, as Reported by Northern Trust* (ERS' Custodian)							6.62%

* The December 31, 2020 asset balance was revised upwards by \$77.0 million in May 2021. The rate of return disclosed by Northern Trust does not reflect this upward revision and, therefore, understates the true rate of return during 2020.

**SECTION IV: ASSET DATA**

TABLE 5
Actuarial Value of Assets
(Dollars in thousands)

1. Preliminary Actuarial Value as of January 1, 2020	\$ 5,283,651
2. Market Value January 1, 2020 (Unaudited)	\$ 5,557,077
3. Market Value January 1, 2021 (Unaudited)	\$ 5,649,734
4. Contributions	
a. Member	\$ 32,191
b. Employer	87,661
c. Total	\$ <u>119,852</u>
5. Benefit Payments and Administrative Expenses	\$ 436,331
6. Actual Market Return, Net of Investment Expenses	\$ 409,136
7. Expected Market Return Based on 7.50%	\$ 405,127
8. Excess of Actual over Expected Return	
a. 2020	\$ 4,009
b. 2019	532,533
c. 2018	(580,714)
d. 2017	387,130
e. 2016	\$ (6,461)
9. Excess Recognized in the Current Valuation	
a. 2020	\$ 802
b. 2019	106,507
c. 2018	(116,143)
d. 2017	77,426
e. 2016	(1,293)
f. Total	\$ <u>67,299</u>
10. Preliminary Value as of January 1, 2021 (1) + (4c) - (5) + (7) + (9f)	\$ 5,439,598
11. Ratio of Preliminary Value to Market Value (10)/(3)	96.28%
12. Balance in Employers' Reserve Fund and Securities Lending Fund	\$ 35,035
13. Market Value Excluding Employers' Reserve Fund and Securities Lending Fund (3) - (12)	\$ 5,614,699
14. Actuarial Value as of January 1, 2021 (11) * (13) + (12)	\$ 5,440,867
15. Estimated Rate of Return	9.22%



SECTION IV: ASSET DATA

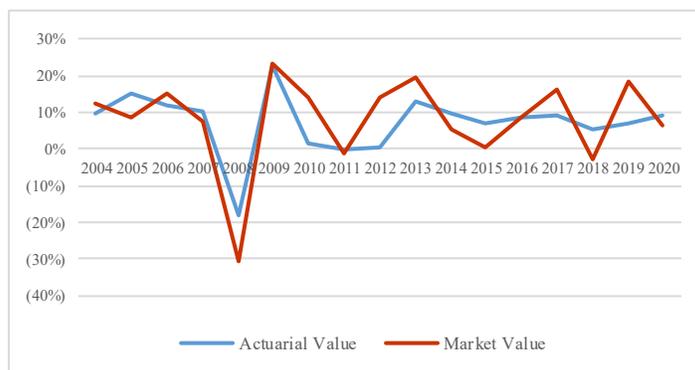
**TABLE 6
Historical Asset Returns**

Beginning with the January 1, 2019 valuation, the investment return assumption is 7.50%. The table below provides a history of the rate of return on the actuarial value and market value of assets. Note that the System utilized a 10% asset corridor prior to 2009, which impacted the calculation of the actuarial value of assets and, therefore, the return on the actuarial value of assets. Rates of return on a market value basis are provided by the System’s custodian, Northern Trust.

Year	Actuarial Value of Assets	Market Value of Assets
2004	9.49%	12.61%
2005	15.34%	8.46%
2006	11.83%	15.13%
2007	10.17%	7.21%
2008	(17.88%)	(30.84%)
2009	22.62%	23.30%
2010	1.34%	13.86%
2011	(0.09%)	(1.43%)
2012	0.43%	13.88%
2013	12.85%	19.29%
2014	9.91%	5.09%
2015	7.00%	0.54%
2016	8.33%	8.83%
2017	9.09%	16.38%
2018	5.33%	(2.91%)
2019	6.94%	18.44%
2020	9.22%	6.62%
Average*	6.83%	7.11%
Max	22.62%	23.30%
Min	(17.88%)	(30.84%)
Range	40.50%	54.14%

Note: Rates of return on Actuarial Value of Assets prior to 2018 were provided by the prior actuary.

* Average is calculated on a geometric basis.





SECTION IV: ASSET DATA

TABLE 7

Allocation of Assets Among Funds
(Dollars in thousands)

As part of the financial statements, the System provides a breakdown of the total market value of assets by Fund. The Employer Reserve Fund and Security Lending Fund are valued at market value for actuarial purposes and earmarked for specific purposes other than directly funding the benefits of the System’s members. The actuarial value of assets is determined in total and then adjusted by subtracting the Employer Reserve Fund and Security Lending Fund. The remaining actuarial value of assets is then allocated to each Fund based on its portion of the total market value.

Fund	Market Value	Actuarial Value
1. Combined Fund	\$ 5,597,607	\$ 5,389,377
2. Employers' Reserve Fund	\$ 34,196	\$ 34,196
3. Retirement Fund	\$ 11,143	\$ 10,728
4. General Employees' Duty Disability Fund	\$ 100	\$ 96
5. Fire & Police Duty Disability Fund	\$ 0	\$ 0
6. Firemen's Heart & Lung Fund	\$ 0	\$ 0
7. Combined Retirement & Disability Fund	\$ 5,849	\$ 5,631
8. Securities Lending Fund	\$ 839	\$ 839
9. Total All Funds	\$ 5,649,734	\$ 5,440,867

Note: Values shown include January 31, 2021 contributions receivable.



SECTION IV: ASSET DATA

TABLE 8
Allocations Between Non-Consenters Who Consented to GPS During 2020 and Those Who Did Not
(Dollars in thousands)

The Global Pension Settlement (GPS) provides that members enrolled through June 28, 2000 must provide written consent to the ERS in order to be eligible for the benefit enhancements of GPS. Members enrolled after June 28, 2000 are automatically participants in the Combined Fund. Since the January 1, 2020 valuation, eight individuals who were eligible for ERS benefits as of June 28, 2000 – and who had not previously consented to GPS – have now consented.

GPS provides that the market value of the assets in the funds for Non-Consenters be divided among Consenters and Non-Consenters. The division is based on the actuarial accrued liability covered by each fund under the pre-GPS plan provisions. The required division of assets for members who consented during 2020 was calculated as of January 1, 2020. As a result, assets will be transferred from the non-consenter Funds in which these members previously participated to the Global Combined Fund, as shown below.

Fund	Allocation of 1/1/2020 Market Value of Assets in Funds for Non-Consenters in Proportion to 1/1/2020 Actuarial Accrued Liability			Allocation of 1/31/2021 Employer Contribution to Funds for Non-Consenters in Proportion to 1/1/2020 Covered Compensation		
	Consenters in 2020	Others	Total (Audited)	Consenters in 2020	Others	Total
1. Retirement Fund	\$ 391	\$ 11,846	\$ 12,237	\$ 0	\$ 0	\$ 0
2. General Employees' Duty Disability Fund	2	102	104	0	0	0
3. Fire & Police Duty Disability Fund	0	0	0	0	0	0
4. Firemen's Heart & Lung Fund	0	0	0	0	0	0
5. Combined Retirement & Disability Fund	703	5,157	5,860	28	243	271
6. Total Funds for Non-Consenters	\$ 1,096	\$ 17,105	\$ 18,201	\$ 28	\$ 243	\$ 271

Notes: (i) January 1, 2020 assets allocated to members who consented to Global Settlement during 2020 are transferred to the Combined Fund as of January 1, 2020.
(ii) January 31, 2021 Employer Contributions allocated to members who consented to Global Settlement during 2020 are credited to the Combined Fund instead of to the funds for non-consenters.



SECTION V: SYSTEM LIABILITIES

In the previous section, an actuarial valuation was compared with an inventory process, and an analysis was given of the inventory of the System's assets as of the valuation date, January 1, 2021. In this section, the discussion will focus on the commitments (future benefit payments) of the System, which are referred to as its liabilities.

Table 9 contains an analysis of the actuarial present value of all future benefits (PVFB) for contributing members, inactive members, retirees and their beneficiaries.

The liabilities summarized in Table 9 include the actuarial present value of all future benefits expected to be paid with respect to each member. For an active member, this value includes the measurement of both benefits already earned and future benefits to be earned. For all members, active and retired, the value extends over benefits earnable and payable for the rest of their lives and for the lives of the surviving beneficiaries.

All liabilities reflect the benefit provisions in place as of January 1, 2021.

Actuarial Accrued Liability

A fundamental principle in financing the liabilities of a retirement program is that the cost of its benefits should be related to the period in which benefits are earned, rather than to the period of benefit distribution. An actuarial cost method is a mathematical technique that allocates the present value of future benefits into annual costs. In order to do this allocation, it is necessary for the funding method to "breakdown" the present value of future benefits into two components:

- (1) that which is attributable to the past and
- (2) that which is attributable to the future.

Actuarial terminology calls the part attributable to the past the "past service liability" or the "actuarial accrued liability." The portion allocated to the future is known as the present value of future normal costs, with the specific piece of it allocated to the current year being called the "normal cost." Table 9 contains the calculation of actuarial accrued liability for the System. The Entry Age Normal actuarial cost method is used to develop the actuarial accrued liability.

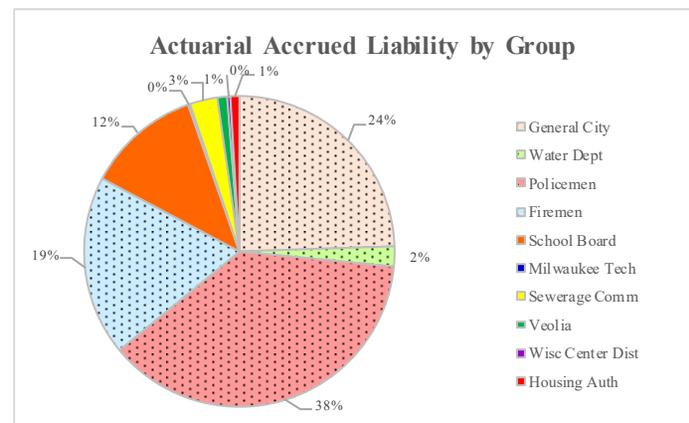


SECTION V: SYSTEM LIABILITIES

TABLE 9
Actuarial Accrued Liability by Agency
 (Dollars in thousands)

	General City*	Water Department	School Board	Milwaukee Technical College	Sewerage Commission	Veolia	Wisconsin Center District	Housing Authority	Policemen	Firemen	Total
1. Present Value of Future Benefits for Active Members											
a. Retirement Benefits	443,291	46,025	256,922	0	50,933	7,700	6,971	22,021	979,479	361,226	2,174,568
b. Withdrawal Benefits	34,426	3,421	21,480	0	3,974	11	649	1,262	41,396	20,176	126,795
c. Disability Benefits	11,302	1,208	6,663	0	1,238	42	210	457	29,413	54,877	105,410
d. Death Benefits	5,630	674	3,259	0	654	78	114	290	6,415	3,117	20,231
Total	494,649	51,328	288,324	0	56,799	7,831	7,944	24,030	1,056,703	439,396	2,427,004
2. Present Value of Future Normal Costs	115,087	12,724	77,860	0	12,315	499	2,369	4,809	379,193	165,137	769,993
3. Actuarial Accrued Liability (AAL) for Active Members (1) - (2)	379,562	38,604	210,464	0	44,484	7,332	5,575	19,221	677,510	274,259	1,657,011
4. Present Value of Future Benefits for Inactive Members											
- Members with Deferred Benefits	53,116	2,981	46,473	0	2,789	347	1,920	2,577	53,148	14,554	177,905
- Members with Refunds Payable	1,086	86	1,711	0	28	0	34	17	166	10	3,138
- Retirees, Beneficiaries and Disabled Members	1,217,643	97,875	542,397	15,176	146,186	60,596	14,878	40,036	1,797,955	974,503	4,907,245
Total	1,271,845	100,942	590,581	15,176	149,003	60,943	16,832	42,630	1,851,269	989,067	5,088,288
5. Total Actuarial Accrued Liability (3) + (4)	1,651,407	139,546	801,045	15,176	193,487	68,275	22,407	61,851	2,528,779	1,263,326	6,745,299

* Includes Elected Officials and Redevelopment Authority





SECTION V: SYSTEM LIABILITIES

TABLE 10

Funded Status on Actuarial and Market Value by Fund
(Dollars in thousands)

Fund	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Unfunded Actuarial Accrued Liability Based on AVA (UAAL)	Unfunded Actuarial Accrued Liability Based on MVA (UAAL)	Percent Funded Based on AVA	Percent Funded Based on MVA
1. Combined Fund	\$ 6,732,479	\$ 5,389,377	\$ 5,597,607	\$ 1,343,102	\$ 1,134,872	80.1%	83.1%
2. Employers' Reserve Fund	0	34,196	34,196	(34,196)	(34,196)	N/A	N/A
3. Retirement Fund	5,726	10,728	11,143	(5,002)	(5,417)	187.4%	194.6%
4. General Employees' Duty Disability Fund	15	96	100	(81)	(85)	640.0%	666.7%
5. Fire & Police Duty Disability Fund	0	0	0	0	0	N/A	N/A
6. Firemen's Heart & Lung Fund	0	0	0	0	0	N/A	N/A
7. Combined Retirement & Disability Fund	7,079	5,631	5,849	1,448	1,230	79.5%	82.6%
8. Securities Lending Fund	0	839	839	(839)	(839)	N/A	N/A
9. Total All Funds	\$ 6,745,299	\$ 5,440,867	\$ 5,649,734	\$ 1,304,432	\$ 1,095,565	80.7%	83.8%



SECTION V: SYSTEM LIABILITIES

TABLE 11

Reconciliation of Unfunded Actuarial Accrued Liability

The table below provides a reconciliation of the unfunded actuarial accrued liability in the prior valuation to the current valuation for the Combined Fund.

Combined Fund	(\$ in thousands)
Unfunded Actuarial Accrued Liability (UAAL) as of 01/01/2020	\$ 1,347,109
- Expected Change in UAAL	(5,821)
- Actual Contributions Versus Actuarial Contributions	88,475
- Investment Experience	(90,530)
- Demographic Experience	(5,366)
- Other Experience	9,235
Unfunded Actuarial Accrued Liability (UAAL) as of 01/01/2021	\$ 1,343,102



SECTION V: SYSTEM LIABILITIES

TABLE 12

**Actuarial Balance Sheet
As of January 1, 2021**

The valuation balance sheet shows the assets and liabilities of ERS (in total, all groups and all Funds). The items shown in the balance sheet are present values actuarially determined as of the current valuation date.

ASSETS

Actuarial Value of Assets	\$	5,440,867,000
Unfunded Actuarial Accrued Liability		1,304,432,000
Present Value of Future Normal Costs	\$	<u>769,993,000</u>
Total Assets	\$	7,515,292,000

LIABILITIES

Present Value of Future Benefits			
Active members			
Retirement	\$	2,174,568,000	
Withdrawal		126,795,000	
Disability		105,410,000	
Death		<u>20,231,000</u>	
Total	\$	2,427,004,000	
Inactive members			181,043,000
Retirees, disabilities and beneficiaries			<u>4,907,245,000</u>
Total Liabilities	\$		7,515,292,000



SECTION V: SYSTEM LIABILITIES

TABLE 13

Calculation of Actuarial Gain/(Loss)

The overall actuarial gain/(loss) is comprised of both a liability gain/(loss) and an actuarial asset gain/(loss). Each of these represents the difference between the expected and actual values as of January 1, 2021.

Liabilities

1. Actuarial Accrued Liability as of January 1, 2020	\$6,597,457,000
2. Normal Cost for Plan Year Ending December 31, 2020	95,958,000
3. Benefit Payments During December 31, 2020	(428,950,000)
4. Interest on (1), (2) and (3) at 7.50%	486,211,000
5. Expected Actuarial Accrued Liability as of January 1, 2021	<u>\$6,750,676,000</u>
6. Actuarial Accrued Liability as of January 1, 2021	\$6,745,299,000

Assets

7. Actuarial Value of Assets as of January 1, 2020	\$5,285,205,000
8. Contributions for Plan Year Ending December 31, 2020	119,852,000
9. Benefit Payments and Administrative Expenses During December 31, 2020	(436,331,000)
10. Interest on (7), (8) and (9) at 7.50%	384,737,000
11. Expected Actuarial Value of Assets as of January 1, 2021	<u>\$5,353,463,000</u>
12. Actuarial Value of Assets as of January 1, 2021	\$5,440,867,000

Gain / (Loss)

13. Liability Gain/(Loss) (5) - (6)	\$5,377,000
14. Asset Gain/(Loss) (12) - (11)	\$87,404,000
15. Total Gain/(Loss) (13) + (14)	\$92,781,000



SECTION V: SYSTEM LIABILITIES

TABLE 14

Expected Benefit Payments

<u>Year End</u>	<u>Current Inactives</u>	<u>Current Actives</u>	<u>Total</u>
2021	\$422,023,000	\$16,792,000	\$438,815,000
2022	424,212,000	28,236,000	452,448,000
2023	425,648,000	40,326,000	465,974,000
2024	426,463,000	52,944,000	479,407,000
2025	426,860,000	64,864,000	491,724,000
2026	427,325,000	77,500,000	504,825,000
2027	426,978,000	91,278,000	518,256,000
2028	426,092,000	106,114,000	532,206,000
2029	424,963,000	121,197,000	546,160,000
2030	422,741,000	136,002,000	558,743,000
2031	419,916,000	151,346,000	571,262,000
2032	416,114,000	167,255,000	583,369,000
2033	411,999,000	184,090,000	596,089,000
2034	406,570,000	201,145,000	607,715,000
2035	400,647,000	217,229,000	617,876,000
2036	393,896,000	233,135,000	627,031,000
2037	386,612,000	248,990,000	635,602,000
2038	378,104,000	264,325,000	642,429,000
2039	369,055,000	279,560,000	648,615,000
2040	359,124,000	294,698,000	653,822,000

Note: Cash flows are the expected future non-discounted payments to current members. These numbers exclude refund payouts to current non-vested inactive members and assume all actuarial assumptions are met in the future, including the retirement assumption.



SECTION V: SYSTEM LIABILITIES

TABLE 15

Schedule of Funding Progress
(Dollars in thousands)

Valuation as of January 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2008	\$ 5,192,000	\$ 3,958,061	\$ 0	131.2%	\$ 532,412	0.0%
2009	4,076,297	4,113,089	36,792	99.1%	536,558	6.9%
2010	4,814,402	4,269,324	0	112.8%	553,846	0.0%
2011	4,641,425	4,447,548	0	104.4%	538,218	0.0%
2012	4,404,635	4,587,915	183,280	96.0%	525,181	34.9%
2013	4,259,889	4,689,814	429,925	90.8%	523,738	82.1%
2014	4,580,729	4,831,689	250,960	94.8%	521,651	48.1%
2015	4,797,437	4,935,482	138,045	97.2%	529,939	26.0%
2016	4,899,155	5,065,141	165,986	96.7%	535,802	31.0%
2017	5,055,700	5,259,300	203,600	96.1%	583,950	34.9%
2018	5,233,486	5,819,762	586,276	89.9%	577,118	101.6%
2019	5,219,184	6,400,901	1,181,717	81.5%	581,663	203.2%
2020	5,285,205	6,597,457	1,312,252	80.1%	596,386	220.0%
2021	5,440,867	6,745,299	1,304,432	80.7%	586,369	222.5%

Note: Information prior to 2019 is from the prior actuary.



SECTION VI: SYSTEM CONTRIBUTIONS

An amendment to the Milwaukee City Charter was adopted by the Common Council on April 30, 2013 to establish the Stable Employer Contribution Policy. Under that Policy, an actuarial contribution rate is separately calculated for three groups: Policemen, Fireman, and General Employees of the Combined Fund, and is applicable for the subsequent five-year period. The Policy is designed to:

- (a) Fully fund all current employer normal costs for active members, determined under the current funding method, which is irrespective of the funded status of the System. The result is that the Employer Normal Cost is always funded; and
- (b) Liquidate the unfunded actuarial accrued liability (UAAL), if any, over the amortization period adopted by the Board and based on methodology specified in the MCC. Effective with the January 1, 2019 actuarial valuation, the Board adopted a 25-year closed period to amortize the existing UAAL. At each subsequent valuation date, any changes to the UAAL arising from actual experience that is different than assumed will be amortized over a fixed 15-year period and any changes to the UAAL arising from changes in assumptions will be amortized over a fixed 25-year period.

These rates are established every five years following the Experience Study, performed by the actuary. The actuary establishes these rates based on the actuarial assumptions adopted by the Annuity and Pension Board of the ERS and the actuarial methods specified in the Charter. The rates are established in conformity with applicable Actuarial Standards of Practice and result in a funded status at the end of the five years that is at least actuarially equivalent to the expected funded status if contributions were based on the redevelopment of the employer contribution rates annually under the same assumptions and methods. The current stable contribution rates apply for calendar years 2018 through 2022.

The actuarially determined employer contribution consists of the employer portion of the normal cost, an allocation for administrative expense and a payment on the unfunded actuarial accrued liability. The employer normal cost is the employer's portion of the cost of benefits for active members, allocated to the current year, after reducing for the member contributions. The unfunded actuarial accrued liability payment is the contribution made in order to pay off the unfunded actuarial accrued liability over the scheduled amortization period.

Amortization methods determine the payment schedule for the unfunded actuarial accrued liability. ERS adopted a 25-year closed amortization period for the unfunded actuarial accrued liability as of January 1, 2019. A new amortization base will be created each year, based on the prior year's experience, and amortized over a closed 15-year period. Changes in the UAAL due to assumption changes, method changes or plan provision changes will be amortized over a closed 25-year period.

The exhibits in this Section show the calculation of the actuarially determined employer contribution for the current valuation. As discussed above, although the actuarial contribution rate is determined in the valuation, the actual employer contributions to ERS are derived from the Employer Stable Contribution Policy, set out in the Milwaukee City Charter.



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 16

Normal Cost by Group

Total – All Funds
(Dollars in thousands)

	General Employees	Policemen	Firemen	Total
1. Retirement Benefits	\$21,576	\$34,106	\$11,242	\$66,924
2. Withdrawal Benefits	12,269	2,874	1,271	16,414
3. Disability Benefits	1,382	2,542	4,384	8,308
4. Death Benefits	656	232	103	991
5. Total Normal Cost	\$35,883	\$39,754	\$17,000	\$92,637
6. Projected Payroll	\$371,863	\$154,607	\$59,899	\$586,369
7. Normal Cost Rate	9.65%	25.71%	28.38%	15.80%
8. Member Contribution Rate	(4.82%)	(7.00%)	(7.00%)	(5.62%)
9. Employer Normal Cost Rate	4.83%	18.71%	21.38%	10.18%



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 17A

Amortization of Unfunded Actuarial Accrued Liability (UAAL)

Combined Fund
(Dollars in thousands)

The tables below provide the calculation of the new amortization base and the amortization schedule for the current year’s valuation for the Combined Fund.

Calculation as of:	1/1/2021	1/1/2020
(a) Unfunded Actuarial Accrued Liability	\$ 1,343,102	\$ 1,347,109
(b) Prior Years' Outstanding Bases	\$ 1,341,288	\$ 1,204,407
(c) New Amortization Base: (a) - (b)	\$ 1,814	\$ 142,702
(d) New Amortization Payment	\$ 170	\$ 13,393

Amortization Base	Date Established	Original Amount	Outstanding Balance as of January 1, 2021	Remaining Amortization Period	Annual Payment*
2019 Initial UAAL Base	1/1/2019	\$ 1,204,699	\$ 1,202,281	23	\$ 87,726
2020 Experience Base	1/1/2020	142,702	139,007	14	13,661
2021 Experience Base	1/1/2021	1,814	1,814	15	170
Total			\$ 1,343,102		\$ 101,557

* Reflects beginning of year timing.



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 17B

Amortization of the Unfunded Actuarial Accrued Liability (UAAL)

Retirement Fund
(Dollars in thousands)

The tables below provide the calculation of the new amortization base and the amortization schedule for the current year’s valuation for the Retirement Fund.

Calculation as of:	1/1/2021	1/1/2020
(a) Unfunded Actuarial Accrued Liability	\$ (5,002)	\$ (5,672)
(b) Prior Years' Outstanding Bases	\$ (5,688)	\$ (6,763)
(c) New Amortization Base: (a) - (b)	\$ 686	\$ 1,091
(d) New Amortization Payment	\$ 64	\$ 102

Amortization Base	Date Established	Original Amount	Outstanding Balance as of January 1, 2021	Remaining Amortization Period	Annual Payment*
2019 Initial UAAL Base	1/1/2019	\$ (6,764)	\$ (6,751)	23	\$ (493)
2020 Experience Base	1/1/2020	1,091	1,063	14	104
2021 Experience Base	1/1/2021	686	686	15	64
Total			\$ (5,002)		\$ (325)

* Reflects beginning of year timing.



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 17C

Amortization of the Unfunded Actuarial Accrued Liability (UAAL)

General Employees Duty Disability Fund
(Dollars in thousands)

The tables below provide the calculation of the new amortization base and the amortization schedule for the current year’s valuation for the General Employees Duty Disability Fund.

Calculation as of:	1/1/2021	1/1/2020
(a) Unfunded Actuarial Accrued Liability	\$ (81)	\$ (82)
(b) Prior Years' Outstanding Bases	\$ (81)	\$ (92)
(c) New Amortization Base: (a) - (b)	\$ 0	\$ 10
(d) New Amortization Payment	\$ 0	\$ 1

Amortization Base	Date Established	Original Amount	Outstanding Balance as of January 1, 2021	Remaining Amortization Period	Annual Payment*
2019 Initial UAAL Base	1/1/2019	\$ (93)	\$ (91)	23	\$ (7)
2020 Experience Base	1/1/2020	10	10	14	1
2021 Experience Base	1/1/2021	0	0	15	0
Total			\$ (81)		\$ (6)

* Reflects beginning of year timing.



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 17D

Amortization of the Unfunded Actuarial Accrued Liability (UAAL)

Combined Retirement & Disability Fund
(Dollars in thousands)

The tables below provide the calculation of the new amortization base and the amortization schedule for the current year’s valuation for the Combined Retirement & Disability Fund.

Calculation as of:	1/1/2021	1/1/2020
(a) Unfunded Actuarial Accrued Liability	\$ 1,448	\$ 2,115
(b) Prior Years' Outstanding Bases	\$ 2,105	\$ 1,835
(c) New Amortization Base: (a) - (b)	\$ (657)	\$ 280
(d) New Amortization Payment	\$ (62)	\$ 26

Amortization Base	Date Established	Original Amount	Outstanding Balance as of January 1, 2021	Remaining Amortization Period	Annual Payment*
2019 Initial UAAL Base	1/1/2019	\$ 1,836	\$ 1,832	23	\$ 134
2020 Experience Base	1/1/2020	280	273	14	27
2021 Experience Base	1/1/2021	(657)	(657)	15	(62)
Total			\$ 1,448		\$ 99

* Reflects beginning of year timing.



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 18

Comparison of Stable Contribution Policy to the Actuarial Determined Rate for Combined Fund
(Dollars in thousands)

	General Employees	Police	Fire	Total
1. Active Members	\$ 8,088	\$ 1,734	\$ 697	\$ 10,519
2. Covered Compensation	\$ 369,796	\$ 154,492	\$ 59,899	\$ 584,187
3. Normal Cost				
a. Total	\$ 35,650	\$ 39,724	\$ 17,000	\$ 92,374
b. Estimated Member Contributions	17,829	10,814	4,193	32,836
c. Employer Normal Cost (a) - (b), not less than zero	\$ 17,821	\$ 28,910	\$ 12,807	\$ 59,538
4. Projected Administrative Expenses	\$ 2,850	\$ 2,761	\$ 1,119	\$ 6,730
5. Active Actuarial Accrued Liability	\$ 698,508	\$ 676,694	\$ 274,259	\$ 1,649,461
6. Assets				
a. Actuarial Value	\$ 129,736	\$ 125,684	\$ 50,939	\$ 306,359
b. Market Value (Net of Inactive Liabilities)	\$ 217,916	\$ 211,111	\$ 85,562	\$ 514,589
7. Unfunded Actuarial Accrued Liability				
a. Actuarial Value	\$ 568,772	\$ 551,010	\$ 223,320	\$ 1,343,102
b. Market Value (5) - (6)	\$ 480,592	\$ 465,583	\$ 188,697	\$ 1,134,872
8. Amortization of UAAL				
a. Actuarial Value	\$ 43,007	\$ 41,664	\$ 16,886	\$ 101,557
b. Market Value	\$ 34,731	\$ 33,646	\$ 13,637	\$ 82,014
9. Annual Contribution Payable January 1, 2021				
a. Actuarial Value	\$ 63,678	\$ 73,335	\$ 30,812	\$ 167,825
b. Market Value (3c) + (4) + (8)	\$ 55,402	\$ 65,317	\$ 27,563	\$ 148,282
10. Employer Rate as of January 1, 2021 based on				
a. Stable Contribution Policy Rate	7.48%	25.22%	26.83%	14.35%
b. Actuarial Determined Rate	17.22%	47.47%	51.44%	28.73%
c. Market-Based Actuarial Determined Rate	14.98%	42.28%	46.02%	25.38%



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 19

Allocation of 2021 Contribution to Agencies for Combined Fund

Group	Active Members	Covered Compensation	Employer Rate**	Dollar Amount Payable***								
				Jan 1, 2021	June 1, 2021	July 1, 2021	Aug 1, 2021	Sept 1, 2021	Oct 1, 2021	Nov 1, 2021	Dec 1, 2021	Jan 31, 2022
General City*	3,211	\$180,624,011	7.48%	\$13,510,676	\$13,923,998	\$14,008,167	\$14,092,845	\$14,178,035	\$14,263,740	\$14,349,963	\$14,436,707	\$14,611,772
Water Department	343	19,656,370	7.48%	1,470,296	1,515,276	1,524,436	1,533,651	1,542,922	1,552,249	1,561,632	1,571,072	1,590,123
School Board****	4,081	135,586,896	7.48%	10,141,900	10,452,163	10,515,345	10,578,909	10,642,858	10,707,193	10,771,917	10,837,032	10,968,446
Milwaukee Technical College	0	0	7.48%	0	0	0	0	0	0	0	0	0
Sewerage Commission	228	20,751,958	7.48%	1,552,246	1,599,733	1,609,403	1,619,132	1,628,920	1,638,767	1,648,673	1,658,639	1,678,752
Veolia	15	1,243,920	7.48%	93,045	95,891	96,471	97,054	97,641	98,231	98,825	99,422	100,628
Wisconsin Center District	87	4,157,794	7.48%	311,003	320,517	322,454	324,403	326,364	328,337	330,322	332,319	336,349
Housing Authority	123	7,774,310	7.48%	581,518	599,308	602,931	606,576	610,243	613,932	617,643	621,377	628,912
Policemen	1,734	154,491,917	25.22%	38,962,861	40,154,821	40,397,554	40,641,754	40,887,430	41,134,591	41,383,246	41,633,404	42,138,266
Firemen	<u>697</u>	<u>59,899,059</u>	26.83%	<u>16,070,918</u>	<u>16,562,563</u>	<u>16,662,682</u>	<u>16,763,407</u>	<u>16,864,740</u>	<u>16,966,686</u>	<u>17,069,248</u>	<u>17,172,430</u>	<u>17,380,669</u>
Total	10,519	\$584,186,235		\$82,694,463	\$85,224,270	\$85,739,443	\$86,257,731	\$86,779,153	\$87,303,726	\$87,831,469	\$88,362,402	\$89,433,917

* Includes Elected Officials and Redevelopment Authority

** Rates apply to Covered Compensation as of the beginning of the year, then credited with interest to payable date.

*** Actual contribution requirement will be adjusted for the actual payment date of the contribution.

**** Breakdown of contributions for MPS by normal cost and past service portion as follow:

Payable at:	Jan 1, 2021	June 1, 2021	July 1, 2021	Aug 1, 2021	Sept 1, 2021	Oct 1, 2021	Nov 1, 2021	Dec 1, 2021	Jan 31, 2022
Normal Cost	6,106,664	6,293,480	6,331,524	6,369,798	6,408,303	6,447,041	6,486,013	6,525,220	6,604,347
Past Service Portion	<u>4,035,236</u>	<u>4,158,683</u>	<u>4,183,821</u>	<u>4,209,111</u>	<u>4,234,555</u>	<u>4,260,152</u>	<u>4,285,904</u>	<u>4,311,812</u>	<u>4,364,099</u>
Total	10,141,900	10,452,163	10,515,345	10,578,909	10,642,858	10,707,193	10,771,917	10,837,032	10,968,446



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 20

Allocation of 2022 Contribution to Agencies for Combined Fund

Group	Estimated Active Members	Estimated Covered Compensation	Employer Rate**	Dollar Amount Payable***								
				Jan 1, 2022	June 1, 2022	July 1, 2022	Aug 1, 2022	Sept 1, 2022	Oct 1, 2022	Nov 1, 2022	Dec 1, 2022	Jan 31, 2023
General City*	3,211	\$184,236,491	7.48%	\$13,780,890	\$14,202,478	\$14,288,331	\$14,374,703	\$14,461,597	\$14,549,016	\$14,636,964	\$14,725,443	\$14,904,009
Water Department	343	20,049,497	7.48%	1,499,702	1,545,581	1,554,924	1,564,323	1,573,779	1,583,292	1,592,863	1,602,492	1,621,924
School Board*****	4,081	138,298,634	7.48%	10,344,738	10,661,207	10,725,653	10,790,489	10,855,717	10,921,339	10,987,358	11,053,776	11,187,818
Milwaukee Technical College	0	0	7.48%	0	0	0	0	0	0	0	0	0
Sewerage Commission	228	21,166,997	7.48%	1,583,291	1,631,727	1,641,591	1,651,514	1,661,497	1,671,541	1,681,645	1,691,810	1,712,326
Veolia	15	1,268,798	7.48%	94,906	97,809	98,400	98,995	99,593	100,195	100,801	101,410	102,640
Wisconsin Center District	87	4,240,950	7.48%	317,223	326,928	328,904	330,892	332,892	334,904	336,928	338,965	343,075
Housing Authority	123	7,929,796	7.48%	593,149	611,295	614,990	618,708	622,448	626,211	629,996	633,804	641,490
Policemen	1,734	157,581,755	25.22%	39,742,119	40,957,919	41,205,506	41,454,590	41,705,180	41,957,284	42,210,912	42,466,074	42,981,034
Firemen	<u>697</u>	<u>61,097,040</u>	26.83%	<u>16,392,336</u>	<u>16,893,814</u>	<u>16,995,936</u>	<u>17,098,675</u>	<u>17,202,035</u>	<u>17,306,020</u>	<u>17,410,633</u>	<u>17,515,879</u>	<u>17,728,283</u>
Total	10,519	\$595,869,958		\$84,348,354	\$86,928,758	\$87,454,235	\$87,982,889	\$88,514,738	\$89,049,802	\$89,588,100	\$90,129,653	\$91,222,599

* Includes Elected Officials and Redevelopment Authority

** Rates apply to Covered Compensation as of the beginning of the year, then credited with interest to payable date.

*** Actual contribution requirement will be adjusted for the actual payment date of the contribution.

**** The amounts shown above are estimates of the employer contribution requirements due by January 31, 2023. The actual employer contribution requirements due by January 31, 2023 will be based on the results of the January 1, 2022 actuarial valuation, which is scheduled to be approved at the June 2022 Board meeting.

To the extent that an employer wishes to contribute before the report is approved, the amounts above can serve as a guide. To the extent that the amount contributed is less than the final contribution requirements, the employer will be billed for the remainder, which is to be paid by the end of the year. To the extent that the amount already contributed is more than the required contribution, the employer will receive a credit, with interest, to the contribution for next year.

***** Breakdown of contributions for MPS by normal cost and past service portion as follows:

Payable at:	Jan 1, 2022	June 1, 2022	July 1, 2022	Aug 1, 2022	Sept 1, 2022	Oct 1, 2022	Nov 1, 2022	Dec 1, 2022	Jan 31, 2023
Normal Cost	6,228,797	6,419,350	6,458,154	6,497,193	6,536,468	6,575,980	6,615,731	6,655,723	6,736,433
Past Service Portion	<u>4,115,941</u>	<u>4,241,857</u>	<u>4,267,499</u>	<u>4,293,296</u>	<u>4,319,249</u>	<u>4,345,359</u>	<u>4,371,627</u>	<u>4,398,053</u>	<u>4,451,385</u>
Total	10,344,738	10,661,207	10,725,653	10,790,489	10,855,717	10,921,339	10,987,358	11,053,776	11,187,818



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 21

Determination of Employer Contribution to Retirement Fund
(Dollars in thousands)

	General			
	Employees	Policemen	Firemen	Total
1. Active Members	13	0	0	13
2. Covered Compensation	\$ 498	\$ 0	\$ 0	\$ 498
3. Normal Cost				
a. Total	\$ 67	\$ 0	\$ 0	\$ 67
b. Estimated Member Contributions	27	0	0	27
c. Employer Normal Cost	\$ 40	\$ 0	\$ 0	\$ 40
(a) - (b), not less than zero				
4. Projected Administrative Expenses	\$ 0	\$ 0	\$ 0	\$ 0
5. Active Actuarial Accrued Liability	\$ 2,184	\$ 0	\$ 0	\$ 2,184
6. Assets				
a. Actuarial Value	\$ 7,186	\$ 0	\$ 0	\$ 7,186
b. Market Value	\$ 7,601	\$ 0	\$ 0	\$ 7,601
(Net of Inactive Liabilities)				
7. Unfunded Actuarial Accrued Liability				
a. Actuarial Value	\$ (5,002)	\$ 0	\$ 0	\$ (5,002)
b. Market Value	\$ (5,417)	\$ 0	\$ 0	\$ (5,417)
(5) - (6)				
8. Amortization of UAAL				
a. Actuarial Value	\$ (325)	\$ 0	\$ 0	\$ (325)
b. Market Value	\$ (364)	\$ 0	\$ 0	\$ (364)
9. Annual Contribution Payable				
January 31, 2022				
a. Actuarial Value	\$ 0	\$ 0	\$ 0	\$ 0
b. Market Value	\$ 0	\$ 0	\$ 0	\$ 0
(3c) + (4) + (8), with interest to 01/31/2022				

**SECTION VI: SYSTEM CONTRIBUTIONS****TABLE 22****Determination of Employer Contribution to Duty Disability Fund**
(Dollars in thousands)

	General			
	Employees	Policemen	Firemen	Total
1. Active Members	13	0	0	13
2. Covered Compensation	\$ 498	\$ 0	\$ 0	\$ 498
3. Normal Cost				
a. Total	\$ 1	\$ 0	\$ 0	\$ 1
b. Estimated Member Contributions	0	0	0	0
c. Employer Normal Cost	\$ 1	\$ 0	\$ 0	\$ 1
(a) - (b), not less than zero				
4. Projected Administrative Expenses	\$ 0	\$ 0	\$ 0	\$ 0
5. Active Actuarial Accrued Liability	\$ 15	\$ 0	\$ 0	\$ 15
6. Actuarial Value of Assets	\$ 96	\$ 0	\$ 0	\$ 96
7. Unfunded Actuarial Accrued Liability (5) - (6)	\$ (81)	\$ 0	\$ 0	\$ (81)
8. Amortization of UAAL	\$ (6)	\$ 0	\$ 0	\$ (6)
9. Annual Contribution Payable January 31, 2022 (3c) + (4) + (8), with interest to 01/31/2022	\$ 0	\$ 0	\$ 0	\$ 0



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 23

Determination of Employer Contribution to Heart and Lung Fund
(Dollars in thousands)

	Amount
1. Active Members	0
2. Covered Compensation	\$ 0
3. Normal Cost	
a. Total	\$ 0
b. Estimated Member Contributions	0
c. Employer Normal Cost (a) - (b), not less than zero	\$ 0
4. Projected Administrative Expenses	\$ 0
5. Active Actuarial Accrued Liability	\$ 0
6. Actuarial Value of Assets	\$ 0
7. Unfunded Actuarial Accrued Liability (5) - (6)	\$ 0
8. Full Funding Limit (3) + (4) + (7), not less than zero, with interest to 01/31/2022	\$ 0
9. Annual Contribution Payable January 31, 2022	\$ 0



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 24

Allocation of 2021 Contribution to Agencies for the Retirement, Duty Disability and Heart & Lung Funds

Group	Active Members	Covered Compensation	Fund			January 31, 2022	
			Retirement	Duty Disability	Heart & Lung	Total Due	% of Pay
General City	3	\$150,581	\$0	\$0	\$0	\$0	0.00%
Water Department	0	0	0	0	0	0	0.00%
School Board	10	347,811	0	0	0	0	0.00%
Milwaukee Technical College	0	0	0	0	0	0	0.00%
Sewerage Commission	0	0	0	0	0	0	0.00%
Veolia	0	0	0	0	0	0	0.00%
Wisconsin Center District	0	0	0	0	0	0	0.00%
Housing Authority	0	0	0	0	0	0	0.00%
Policemen	0	0	0	0	0	0	0.00%
Firemen	0	0	0	0	0	0	0.00%
Total	13	\$498,392	\$0	\$0	\$0	\$0	0.00%

Note: Redevelopment Authority members are included in the General City group.



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 25

Determination of Employer Contribution to Combined Retirement and Disability Fund
(Dollars in thousands)

	General			
	Employees	Policemen	Firemen	Total
1. Active Members	34	1	0	35
2. Covered Compensation	\$ 1,569	\$ 115	\$ 0	\$ 1,684
3. Normal Cost				
a. Total	\$ 165	\$ 30	\$ 0	\$ 195
b. Estimated Member Contributions	85	8	0	93
c. Employer Normal Cost (a) - (b), not less than zero	\$ 80	\$ 22	\$ 0	\$ 102
4. Projected Administrative Expenses	\$ 0	\$ 0	\$ 0	\$ 0
5. Active Actuarial Accrued Liability	\$ 4,535	\$ 816	\$ 0	\$ 5,351
6. Assets				
a. Actuarial Value	\$ 3,308	\$ 595	\$ 0	\$ 3,903
b. Market Value (Net of Inactive Liabilities)	\$ 3,493	\$ 628	\$ 0	\$ 4,121
7. Unfunded Actuarial Accrued Liability				
a. Actuarial Value	\$ 1,227	\$ 221	\$ 0	\$ 1,448
b. Market Value (5) - (6)	\$ 1,042	\$ 188	\$ 0	\$ 1,230
8. Amortization of UAAL				
a. Actuarial Value	\$ 84	\$ 15	\$ 0	\$ 99
b. Market Value	\$ 67	\$ 12	\$ 0	\$ 79
8. Annual Contribution Payable January 31, 2022				
a. Actuarial Value	\$ 177	\$ 40	\$ 0	\$ 217
b. Market Value (3c) + (4) + (8), with interest to 01/31/2022	\$ 159	\$ 37	\$ 0	\$ 196



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 26

Allocation of 2021 Contribution to Employee Groups for Combined Retirement and Disability Fund

Group	Active Members	Covered Compensation	Fund		January 31, 2022	
			Combined Retirement & Disability	Heart & Lung	Total Due	% of Pay
General City	11	\$666,985	\$75,258	\$0	\$75,258	11.28%
Water Department	0	0	0	0	0	0.00%
School Board*	20	780,291	88,043	0	88,043	11.28%
Milwaukee Technical College	0	0	0	0	0	0.00%
Sewerage Commission	0	0	0	0	0	0.00%
Veolia	0	0	0	0	0	0.00%
Wisconsin Center District	1	7,061	797	0	797	11.29%
Housing Authority	2	114,341	12,902	0	12,902	11.28%
Policemen	1	115,395	40,000	0	40,000	34.66%
Firemen	0	0	0	0	0	0.00%
Total	35	\$1,684,073	\$217,000	\$0	\$217,000	12.89%

Note: Redevelopment Authority members are included in the General City group.

* Breakdown of contributions for MPS by normal cost and past service portion are as follows:

Payable at:	January 31, 2022
Normal Cost	43,891
Past Service Portion	44,152
Total	88,043



SECTION VI: SYSTEM CONTRIBUTIONS

TABLE 27

Contribution Requirements for FY 2021 by Group and Fund

Amounts shown are calculated as of January 31, 2022. Actual contribution requirements will be adjusted for the actual payment date of the contribution.

Fund	General Employees	Policemen	Firemen	Total
Combined Fund	\$ 29,914,982	\$ 42,138,266	\$ 17,380,669	\$ 89,433,917
Retirement Fund	0	0	0	0
Duty Disability Fund	0	0	0	0
Heart & Lung Fund	N/A	N/A	0	0
Combined Retirement & Disability Fund	177,000	40,000	0	217,000
Total Contribution	\$ 30,091,982	\$ 42,178,266	\$ 17,380,669	\$ 89,650,917
Covered Compensation	\$ 371,863,000	\$ 154,607,000	\$ 59,899,000	\$ 586,369,000
Total Contribution as a Percentage of Covered Compensation	8.09%	27.28%	29.02%	15.29%

Note: Reflects the Stable Contribution Policy for the Combined Fund.



SECTION VII: RISK CONSIDERATIONS

Actuarial Standards of Practice are issued by the Actuarial Standards Board and are binding on credentialed actuaries practicing in the United States. These standards generally identify what the actuary should consider, document and disclose when performing an actuarial assignment. In September, 2017, Actuarial Standard of Practice Number 51, *Assessment and Disclosure of Risk in Measuring Pension Obligations*, (ASOP 51) was issued as final with application to measurement dates on or after November 1, 2018. This ASOP, which applies to funding valuations, actuarial projections, and actuarial cost studies of proposed plan changes, was first applicable for the January 1, 2019 actuarial valuation for the Employees' Retirement System of the City of Milwaukee (System).

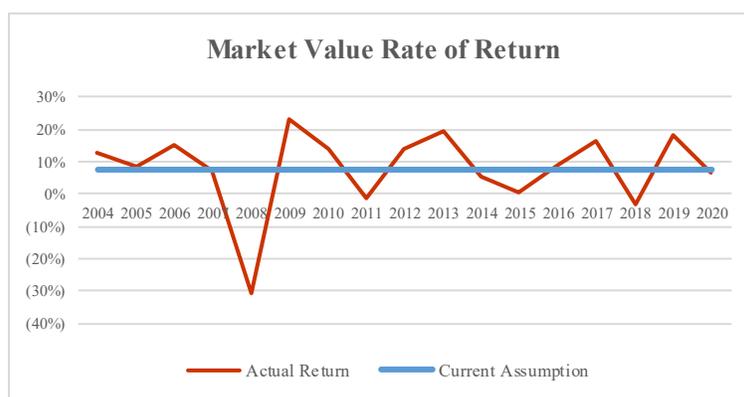
While actuarial assumptions allow for a projection of how future contributions and investment returns will meet the cash flow needs for future benefit payments, actual experience will not unfold exactly as anticipated by the assumptions. In this section, we discuss some of the risk factors that can have a significant impact – positive or negative – on the actuarial projection of liability and contribution rates.

There are a number of risks inherent in the funding of a defined benefit plan. These include:

- economic risks, such as investment return and inflation;
- demographic risks such as mortality, payroll growth, aging population, and retirement ages;
- contribution risk like volatility making it difficult for the plan sponsor to fund the plan; and
- external risks such as the regulatory and political environment (not included in ASOP 51).

The last two are not risks that the actuary must opine on under ASOP 51.

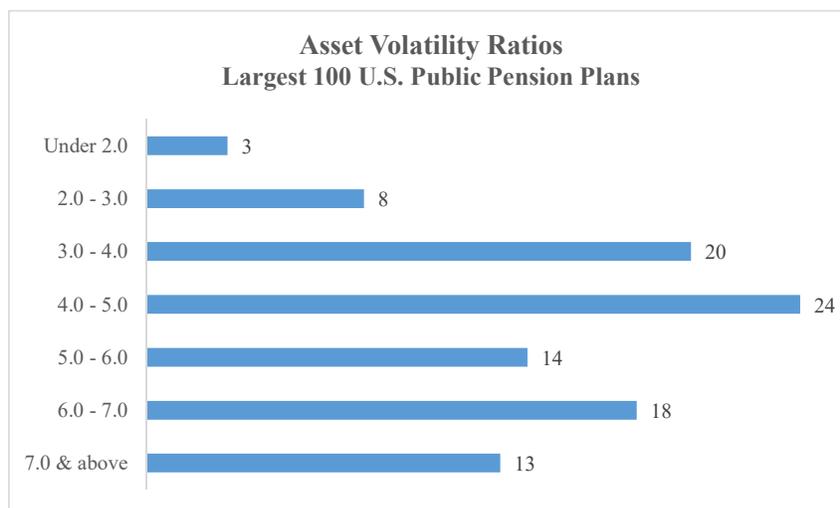
The most significant risk factor for most plans is investment return because of the volatility of the returns and the size of plan assets compared to payroll (see Table 28). A perusal of historical rates over 10-20 years reveals that the actual return each year is rarely close to the average return for the same period. This is an expected result given the underlying capital market assumptions and the asset allocation. However, the valuation is a measurement based on a single investment return, usually around the median of the distribution of returns. The magnitude of variations in investment returns and the short timeframe in which they occur makes the management of this risk very challenging. See the chart below for the historical rates of return over the past 17 years.



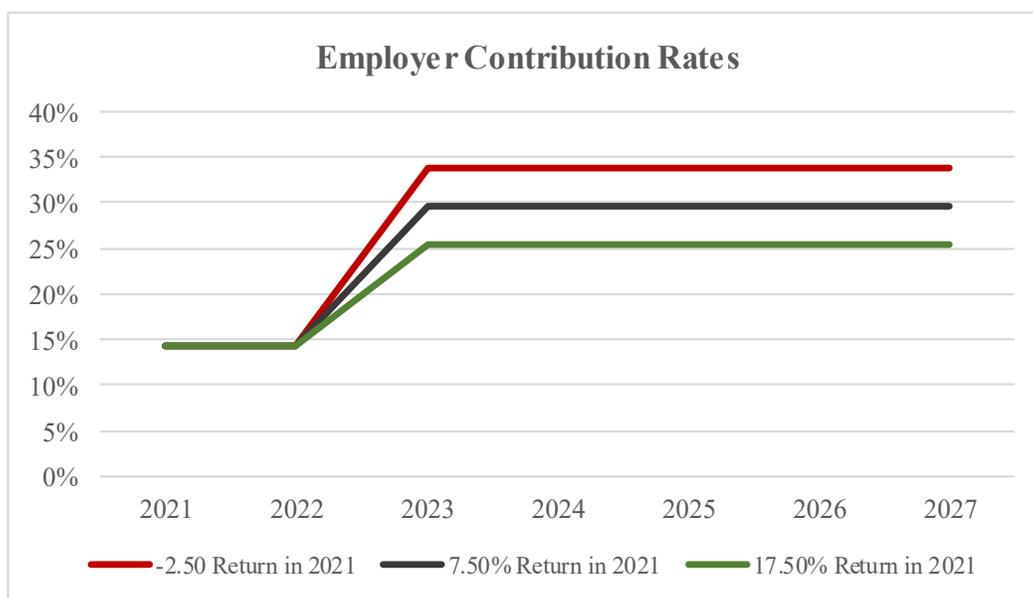


SECTION VII: RISK CONSIDERATIONS

The size of the plan assets relative to covered payroll, sometimes referred to as the asset volatility ratio, is an important indicator of the contribution risk for the System. The higher this ratio, the more sensitive a plan's contribution rate is to investment return volatility. In other words, it will be harder to recover from investment losses with increased contributions because of the magnitude of the increase. In the January 1, 2021 valuation, the asset volatility ratio was 9.50. Due to ERS' maturity, the asset volatility ratio is higher than the ratio for most large public plans, as shown in the following chart.



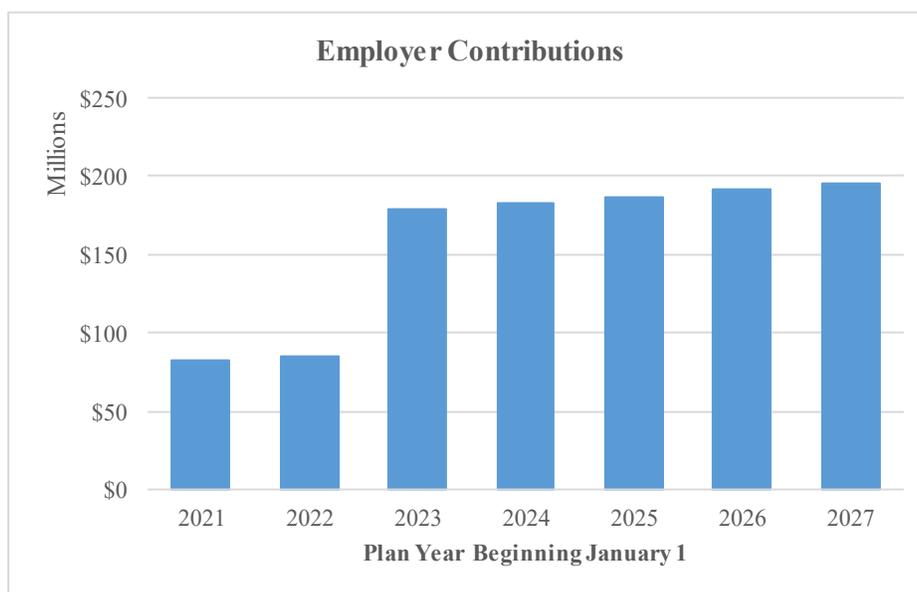
This metric means the same investment experience would move the actuarially determined contribution more significantly for CMERS as compared to most other public plans. For example, a return that is 10% lower than assumed (or -2.50%) equates to an actuarial loss of about \$560 million, or 95% of payroll. Given the asset volatility ratio and the amortization period of 15 years for actuarial gains and losses, an increase of 9.24% in the contribution rate, about \$54 million, over the next 15 years would be required to compensate for an investment return that is 10% below the assumed rate of return.





SECTION VII: RISK CONSIDERATIONS

The Stable Contribution Policy was designed to create stability in the actual employer contribution rates by avoiding annual adjustments that are the result of actuarial experience different than anticipated by the actuarial assumptions over the stable “five year” period. The stable contribution rate is usually set after the regular Experience Study is performed every five years and is set at a rate that results in the System being at the same funded ratio as if the projected actuarial contribution rates were made. However, if changes to the actuarial assumptions are made “off cycle” or a significant decline in the financial markets were to occur without a subsequent rebound, it could create a situation where the actual contributions to the System under the Stable Contribution Policy are much lower than the actuarially determined amounts. If this were to occur, as happened in 2019, the System’s funded status could be negatively impacted for a number of years. The difference between the actuarial contribution rate and the stable contribution policy rate each year results in an increase in the unfunded actuarial accrued liability and a corresponding increase in the UAAL contribution rate and actuarial contribution rate. If this persists for a period of years, it can result in a large adjustment to the contribution rate under the Stable Contribution Policy when the reset occurs. The following graph illustrates the estimate increase in the employer contribution rate in 2023:



Although we would expect this to happen infrequently, it could be problematic if the employers’ resources are limited and such contribution increases cannot be managed.

A key demographic risk for all retirement systems, including CMERS, is improvements in mortality (longevity) greater than anticipated. While the mortality assumption used in the valuation reflects some improvement in mortality experience and this assumption is evaluated and refined in each experience study, the risk arises because there is a possibility of some sudden shift, perhaps from a significant medical breakthrough that could rapidly improve mortality rates and increase liabilities. Likewise, there is some possibility of a significant public health crisis that could result in a significant number of additional deaths in a short time period, as experienced with the COVID-19 pandemic. This type of event is also significant, although more easily absorbed. While either of these events could happen, it represents a relative small probability and thus represents much less risk than the volatility associated with investment returns.

Finally, the unfunded actuarial accrued liability is amortized as a level percentage of payroll. The underlying assumption used in developing the payment schedule assumes an increasing payroll over time



SECTION VII: RISK CONSIDERATIONS

which is dependent on a stable employment level, i.e., active member count remains the same. When payroll does not grow as expected, the UAAL contribution rate will be higher than expected even if the dollar amount of the payment is the same as scheduled. The assumption for the anticipated increase in covered payroll has been declining and is currently 2.0%. A lower assumed growth in the covered payroll reduces this risk for the System's funding.

As plan demographics change over time, along with the funded status, the risk factors may also change. The following exhibits summarize certain historical information that provide an indication as to how key risk metrics have changed over time.

**SECTION VII: RISK CONSIDERATIONS****TABLE 28****Historical Asset Volatility Ratios**
(Dollars in thousands)

As a retirement system matures, the size of the market value of assets increases relative to the covered payroll of active members, on which the System is funded. The size of the plan assets relative to covered payroll, sometimes referred to as the asset volatility ratio, is an important indicator of the contribution risk for the System. The higher this ratio, the more sensitive a plan's contribution rate is to investment return volatility. In other words, it will be harder to recover from investment losses by increasing contributions. In the January 1, 2021 valuation, the asset volatility ratio was 9.50. Therefore, underperforming the investment return assumption by 10.00% (i.e., earn -2.50% for one year) is equivalent to about \$560 million, or 95% of payroll, and would ultimately result in a 9.24% increase to the ADC, or about \$54 million.

ERS is a very mature system as is evident by the fact this is the eighty-third valuation of the System. Therefore, this metric has held fairly stable over this entire period where often the trend is an increasing AVR as the System becomes more mature and its funding improves (assets grow more rapidly than covered payroll).

Actuarial Valuation Date	Market Value of Assets	Covered Payroll	Asset Volatility Ratio	Increase in ADC with a Return 10% Lower than Assumed*
1/1/2010	\$4,020,640	\$553,846	7.26	7.06%
1/1/2011	4,322,384	538,218	8.03	7.81%
1/1/2012	4,197,264	525,181	7.99	7.77%
1/1/2013	4,375,197	523,738	8.35	8.13%
1/1/2014	4,949,534	521,651	9.49	9.23%
1/1/2015	4,953,150	529,939	9.35	9.10%
1/1/2016	4,752,308	535,802	8.87	8.63%
1/1/2017	4,886,669	583,950	8.37	8.14%
1/1/2018	5,396,527	577,118	9.35	9.10%
1/1/2019	4,950,881	581,663	8.51	8.28%
1/1/2020	5,557,077	596,386	9.32	9.07%
1/1/2021	5,649,734	586,369	9.64	9.38%

* The impact on the Actuarial Determined Contribution (ADC) reflects a 15-year amortization of the actuarial gain/loss and no asset smoothing.



SECTION VII: RISK CONSIDERATIONS

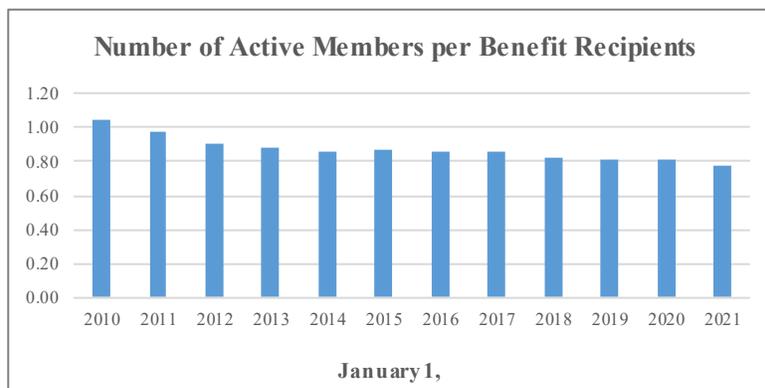
TABLE 29

RATIO OF ACTIVE TO RETIREE COUNT

The payment on the unfunded actuarial accrued liability is calculated anticipating covered payroll increases each year in the future. To the extent actual payroll does not meet the assumed rate of increase (currently 2.0%), a higher rate of pay is necessary to collect the same dollar amount of payment on the unfunded actuarial accrued liability. A reduction in the number of active members usually restricts the growth of covered payroll. ERS has experienced about a 10% decline in the active membership over the past 11 years which can create more volatility (risk) on the contributions to fund the System.

Valuation Date January 1	Active Count	In-Pay Count	Active/ In-Pay
2010	11,664	11,178	1.04
2011	11,247	11,542	0.97
2012	10,767	11,937	0.90
2013	10,714	12,109	0.88
2014	10,675	12,468	0.86
2015	10,964	12,580	0.87
2016	10,982	12,746	0.86
2017	11,083	12,872	0.86
2018	10,845	13,181	0.82
2019	10,851	13,355	0.81
2020	10,974	13,543	0.81
2021	10,567	13,636	0.77

Note the ratio of active members to benefit recipients is not as critical for ERS as it is for, say, Social Security. The Plan has been funded, in advance, precisely for this reason and those assets exist to help pay the benefits of members. It is, however, a sign of the maturity of the System.





SECTION VII: RISK CONSIDERATIONS

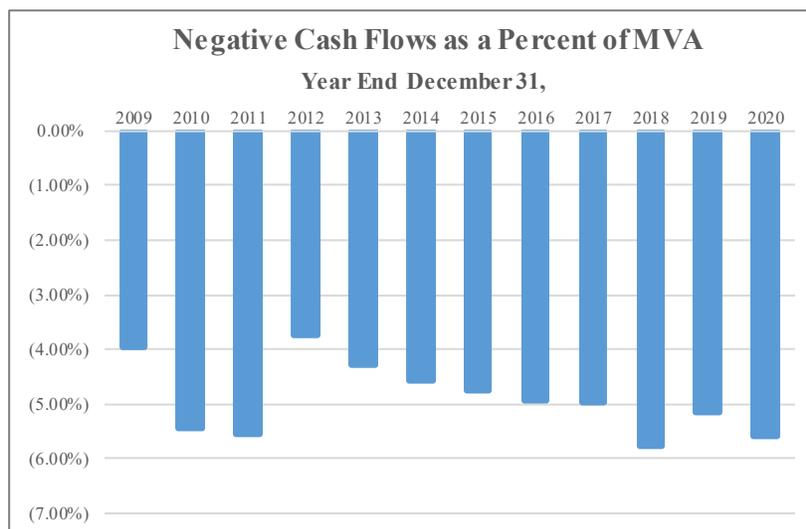
TABLE 30

HISTORICAL CASH FLOWS

(Dollars in thousands)

Plans with large negative cash flows generally experience increased sensitivity to investment return volatility. Cash flows, for this purpose, are measured as contributions minus benefit payments. If the System has negative cash flows and then experiences returns below the assumed rate, there are fewer assets to be reinvested to earn the higher returns that often follow. Negative cash flows can also impact the System’s asset allocation and is a consideration in setting the investment policy of the system. CMERS has a relatively high negative cash flow so this metric should be closely monitored. The higher the net cash flow is as a percent of the market value of assets, the greater the risk to the System’s funding.

Year End	Market Value of Assets (MVA)	Contributions	Benefit Payments and Expenses	Net Cash Flow	Net Cash Flow as a Percent of MVA
12/31/2009	\$4,020,640	\$95,992	\$255,014	(\$159,022)	(3.96%)
12/31/2010	4,322,384	35,699	271,710	(236,011)	(5.46%)
12/31/2011	4,197,264	52,675	285,565	(232,890)	(5.55%)
12/31/2012	4,375,197	138,968	302,439	(163,471)	(3.74%)
12/31/2013	4,949,534	122,157	334,858	(212,701)	(4.30%)
12/31/2014	4,953,150	116,507	342,569	(226,062)	(4.56%)
12/31/2015	4,752,308	121,751	347,888	(226,137)	(4.76%)
12/31/2016	4,886,669	110,013	351,303	(241,290)	(4.94%)
12/31/2017	5,396,527	116,018	385,331	(269,313)	(4.99%)
12/31/2018	4,950,881	115,251	400,707	(285,456)	(5.77%)
12/31/2019	5,557,077	129,022	416,104	(287,082)	(5.17%)
12/31/2020	5,649,734	119,852	436,331	(316,479)	(5.60%)





SECTION VII: RISK CONSIDERATIONS

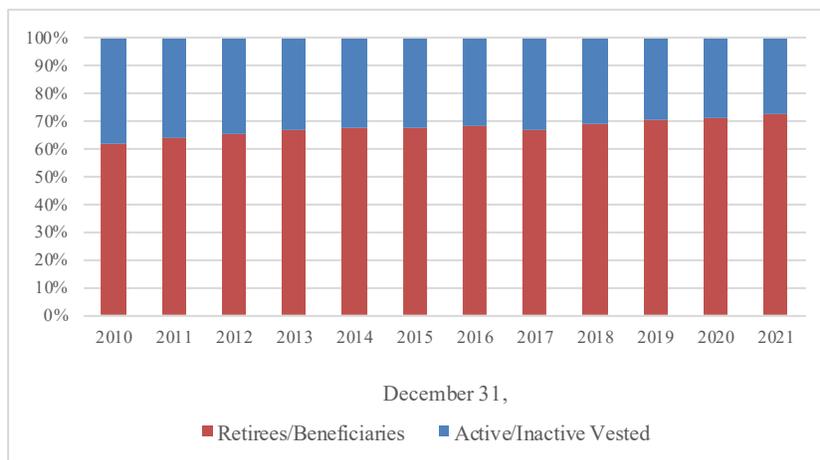
TABLE 31

LIABILITY MATURITY MEASUREMENTS

(Dollars in thousands)

Most public sector retirement systems have been in operation for many years. As a result, they have aging plan populations, and in some cases declining active populations, resulting in an increasing ratio of retirees to active members and a growing percentage of retiree liability. With more of the total liability residing with retirees, investment volatility has a greater impact on the funding of the system since it is more difficult to restore the system financially after losses occur when there is comparatively less payroll over which to spread the cost.

Actuarial Valuation Date	Retiree Liability (a)	Total Actuarial Accrued Liability (b)	Retiree Percentage (a / b)
1/1/2010	\$2,637,961	\$4,269,324	61.8%
1/1/2011	2,835,309	4,447,548	63.7%
1/1/2012	2,987,922	4,587,915	65.1%
1/1/2013	3,121,007	4,689,814	66.5%
1/1/2014	3,254,212	4,831,689	67.4%
1/1/2015	3,344,604	4,935,482	67.8%
1/1/2016	3,462,308	5,065,141	68.4%
1/1/2017	3,512,367	5,259,300	66.8%
1/1/2018	3,993,493	5,819,762	68.6%
1/1/2019	4,491,023	6,400,901	70.2%
1/1/2020	4,682,004	6,597,457	71.0%
1/1/2021	4,907,245	6,745,299	72.8%





SECTION VII: RISK CONSIDERATIONS

TABLE 32

Comparison of Valuation Results for the Combined Fund Under Alternate Investment Return Assumptions
(Dollars in thousands)

This exhibit compares the key January 1, 2021 valuation results for the Combined Fund under five (5) different investment return assumptions to illustrate the impact of different assumptions on the funding of the System. Note that only the investment return assumption is changed, as identified in the heading below. All other assumptions are unchanged for purposes of this analysis.

Investment Return Assumption	6.50%	7.00%	7.50%	8.00%	8.50%
Contributions					
- Total Normal Cost	\$115,535	\$103,088	\$92,374	\$83,129	\$75,123
- Member Contributions	(32,836)	(32,836)	(32,836)	(32,836)	(32,836)
- Employer Normal Cost	\$82,699	\$70,252	\$59,538	\$50,293	\$42,287
- Projected Administrative Expenses	\$6,730	\$6,730	\$6,730	\$6,730	\$6,730
- Unfunded Actuarial Accrued Liability	\$145,286	\$123,308	\$101,557	\$80,005	\$58,628
Total Employer Contribution	\$234,715	\$200,290	\$167,825	\$137,028	\$107,645
Actuarial Determined Employer Rate	40.18%	34.29%	28.73%	23.46%	18.43%
Actuarial Value of Assets	\$5,389,377	\$5,389,377	\$5,389,377	\$5,389,377	\$5,389,377
Actuarial Accrued Liability	7,536,782	7,115,540	6,732,479	6,383,289	6,064,236
Unfunded Actuarial Accrued Liability	\$2,147,405	\$1,726,163	\$1,343,102	\$993,912	\$674,859
Funded Ratio	71.5%	75.7%	80.1%	84.4%	88.9%

Note: All other assumptions are unchanged for purposes of this sensitivity analysis.



SECTION VII: RISK CONSIDERATIONS

This Page Intentionally Left Blank



APPENDIX A: MEMBERSHIP DATA

MEMBER DATA RECONCILIATION

January 1, 2020 to January 1, 2021

The number of members included in the valuation, as summarized in the table below, is in accordance with the data submitted by the System for members of the valuation date.

	Active Members	Refund Payable	Deferred Vested	Benefit Recipients			Total
				Disabled Members	Retirees	Beneficiaries	
Participants as of January 1, 2020	10,974	1,540	3,028	560	10,904	2,091	29,097
New Participants	815	135	52	0	0	174	1,176
Return to Work	54	(32)	(22)	0	0	0	0
Terminations							
- Refunded	(128)	(169)	(50)	0	0	0	(347)
- Refund Payable	(369)	369	0	0	0	0	0
- Deferred Vested	(308)	0	308	0	0	0	0
Service Retirements							
- Annuity	(418)	0	(146)	0	564	0	0
- Lump Sum	(8)	0	(7)	0	(33)	0	(48)
Disabilities							
- Duty-Related	(5)	0	(1)	6	0	0	0
- Non Duty-Related	(5)	0	(2)	7	0	0	0
Deaths	(35)	(1)	(17)	(15)	(426)	(183)	(677)
Benefit Payments Stopped	0	0	0	(2)	0	(1)	(3)
Reached Service Retirement Conversion Age*	0	0	0	(25)	25	0	0
Data Adjustments	0	(46)	45	1	0	0	0
Participants as of January 1, 2021	10,567	1,796	3,188	532	11,034	2,081	29,198

Notes: Duty disabled members who have reached their conversion age are included in the Retirees count.

Refund Payable counts include beneficiaries and estates that are owed a lump sum benefit as of January 1, 2021.

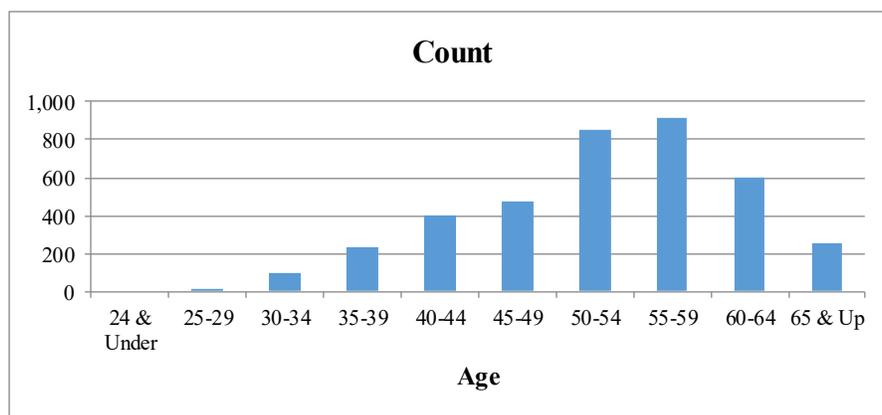


APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF ACTIVE MEMBERS
as of January 1, 2021**

General Employees – Tier 1

<u>Age</u>	<u>Count</u>			<u>Reported FY 2020 Earnings</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
24 & Under	0	0	0	\$ 0	\$ 0	\$ 0
25-29	5	3	8	212,389	100,175	312,564
30-34	41	53	94	2,288,976	2,368,127	4,657,103
35-39	117	122	239	7,176,194	5,332,567	12,508,761
40-44	183	219	402	10,754,132	10,998,697	21,752,829
45-49	226	246	472	13,960,991	10,429,772	24,390,763
50-54	419	428	847	24,936,770	18,349,943	43,286,713
55-59	421	492	913	25,464,002	21,230,699	46,694,701
60-64	287	315	602	17,160,517	12,278,458	29,438,975
65 & Up	<u>125</u>	<u>125</u>	<u>250</u>	<u>7,859,734</u>	<u>4,782,059</u>	<u>12,641,793</u>
Total	1,824	2,003	3,827	\$ 109,813,705	\$ 85,870,497	\$ 195,684,202



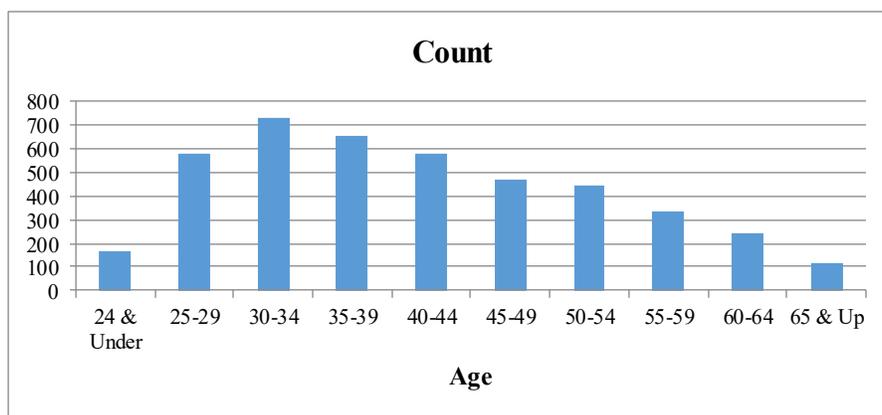
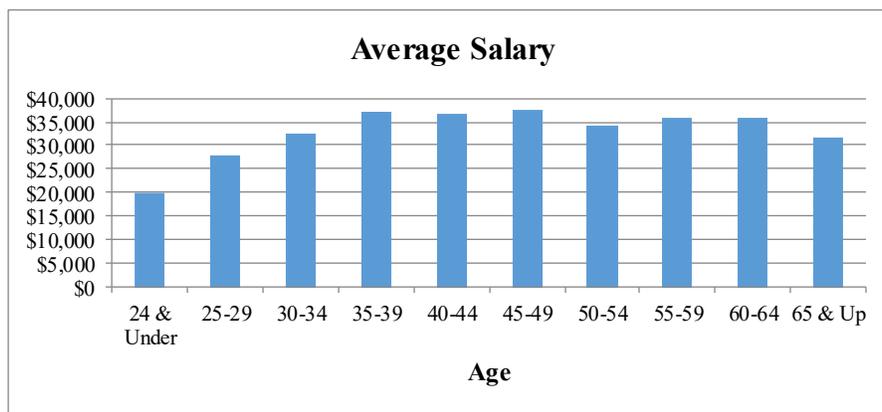


APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF ACTIVE MEMBERS
as of January 1, 2021**

General Employees – Tier 2

<u>Age</u>	<u>Count</u>			<u>Reported FY 2020 Earnings</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
24 & Under	69	98	167	\$ 1,593,014	\$ 1,725,268	\$ 3,318,282
25-29	205	369	574	6,633,301	9,461,837	16,095,138
30-34	264	468	732	10,493,120	13,182,411	23,675,531
35-39	250	403	653	11,559,948	12,675,080	24,235,028
40-44	221	357	578	9,509,552	11,582,745	21,092,297
45-49	188	281	469	8,327,334	9,273,447	17,600,781
50-54	196	249	445	7,966,161	7,254,043	15,220,204
55-59	148	185	333	6,383,043	5,504,579	11,887,622
60-64	114	125	239	5,041,474	3,482,575	8,524,049
65 & Up	<u>61</u>	<u>57</u>	<u>118</u>	<u>2,313,598</u>	<u>1,397,515</u>	<u>3,711,113</u>
Total	1,716	2,592	4,308	\$ 69,820,545	\$ 75,539,500	\$ 145,360,045



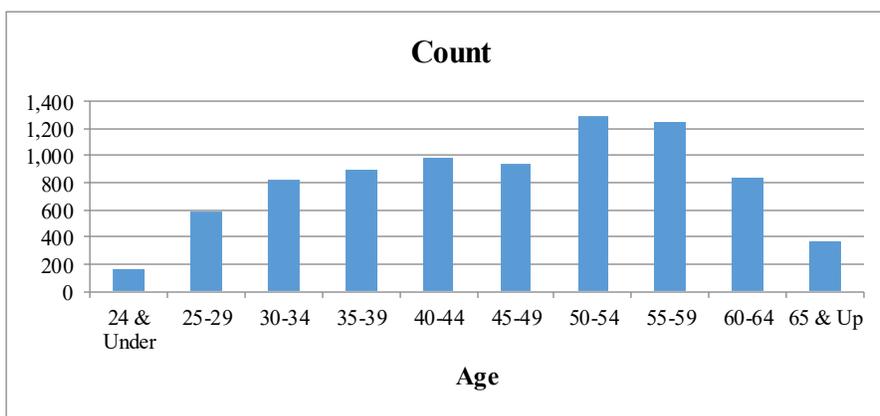
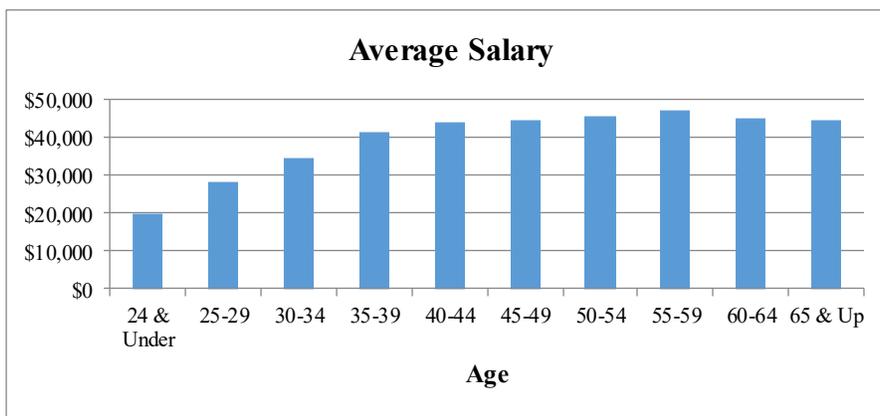


APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF ACTIVE MEMBERS
as of January 1, 2021**

General Employees – Total

Age	Count			Reported FY 2020 Earnings		
	Male	Female	Total	Male	Female	Total
24 & Under	69	98	167	\$ 1,593,014	\$ 1,725,268	\$ 3,318,282
25-29	210	372	582	6,845,690	9,562,012	16,407,702
30-34	305	521	826	12,782,096	15,550,538	28,332,634
35-39	367	525	892	18,736,142	18,007,647	36,743,789
40-44	404	576	980	20,263,684	22,581,442	42,845,126
45-49	414	527	941	22,288,325	19,703,219	41,991,544
50-54	615	677	1,292	32,902,931	25,603,986	58,506,917
55-59	569	677	1,246	31,847,045	26,735,278	58,582,323
60-64	401	440	841	22,201,991	15,761,033	37,963,024
65 & Up	<u>186</u>	<u>182</u>	<u>368</u>	<u>10,173,332</u>	<u>6,179,574</u>	<u>16,352,906</u>
Total	3,540	4,595	8,135	\$ 179,634,250	\$ 161,409,997	\$ 341,044,247



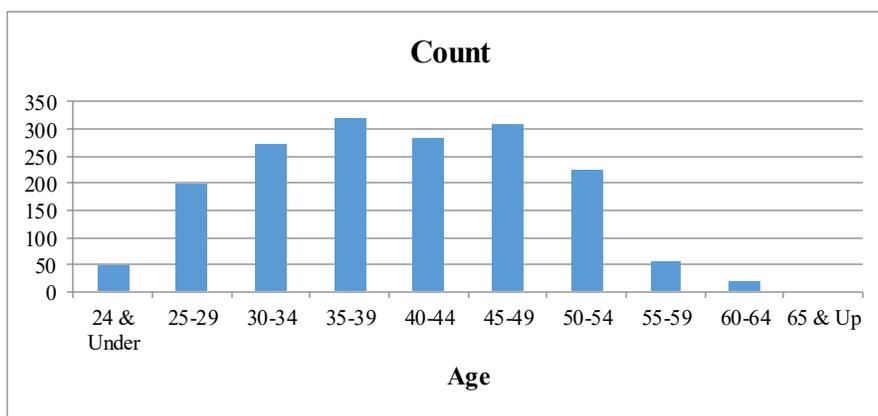
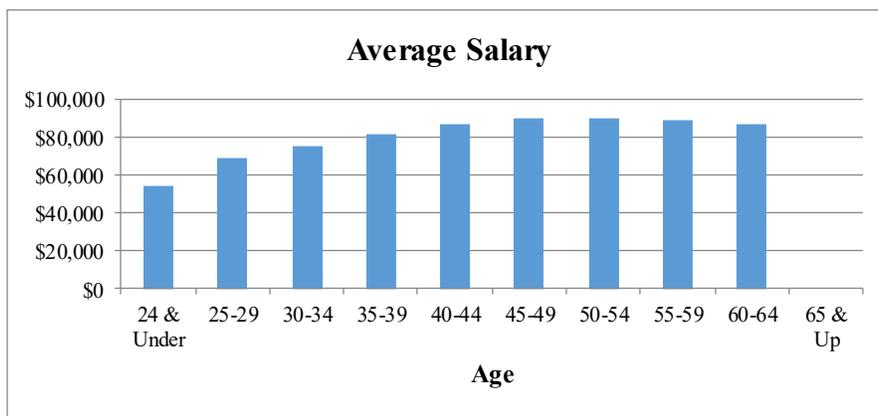


APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF ACTIVE MEMBERS
as of January 1, 2021**

Policemen

<u>Age</u>	<u>Count</u>			<u>Reported FY 2020 Earnings</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
24 & Under	38	10	48	\$ 2,115,102	\$ 510,740	\$ 2,625,842
25-29	168	31	199	11,650,766	2,046,825	13,697,591
30-34	233	41	274	17,405,622	3,076,188	20,481,810
35-39	275	45	320	22,432,010	3,778,512	26,210,522
40-44	228	57	285	19,721,338	4,854,345	24,575,683
45-49	264	44	308	23,609,360	4,089,327	27,698,687
50-54	188	38	226	16,834,205	3,415,196	20,249,401
55-59	42	14	56	3,674,275	1,318,706	4,992,981
60-64	18	1	19	1,568,158	85,311	1,653,469
65 & Up	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	1,454	281	1,735	\$ 119,010,836	\$ 23,175,150	\$ 142,185,986



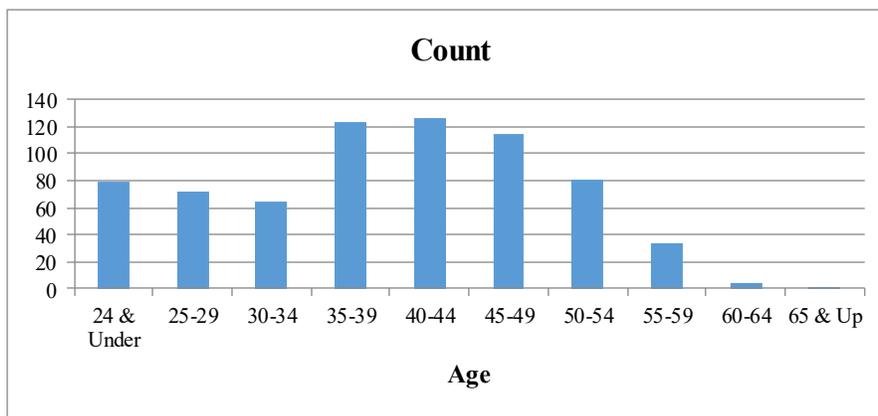
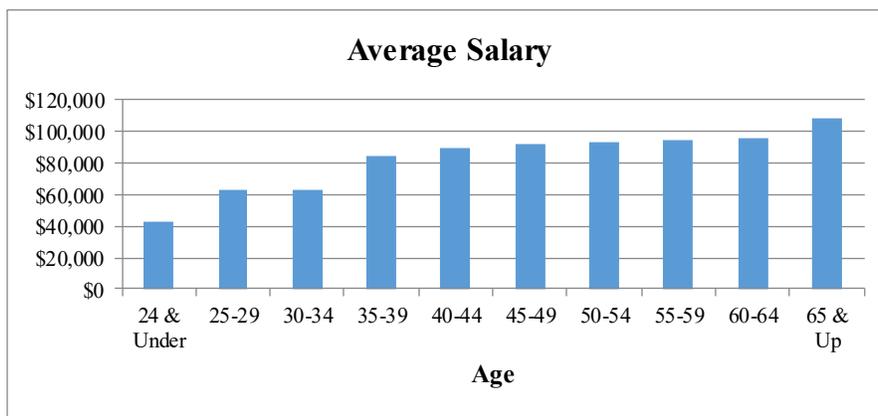


APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF ACTIVE MEMBERS
as of January 1, 2021**

Firemen

<u>Age</u>	<u>Count</u>			<u>Reported FY 2020 Earnings</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
24 & Under	65	14	79	\$ 2,753,135	\$ 590,814	\$ 3,343,949
25-29	67	5	72	4,092,426	415,450	4,507,876
30-34	57	7	64	3,645,367	356,324	4,001,691
35-39	118	5	123	10,082,111	296,935	10,379,046
40-44	124	2	126	10,994,134	171,114	11,165,248
45-49	112	2	114	10,347,332	172,219	10,519,551
50-54	79	1	80	7,341,823	116,361	7,458,184
55-59	32	1	33	3,024,951	97,214	3,122,165
60-64	4	0	4	382,936	0	382,936
65 & Up	<u>2</u>	<u>0</u>	<u>2</u>	<u>216,196</u>	<u>0</u>	<u>216,196</u>
Total	660	37	697	\$ 52,880,411	\$ 2,216,431	\$ 55,096,842





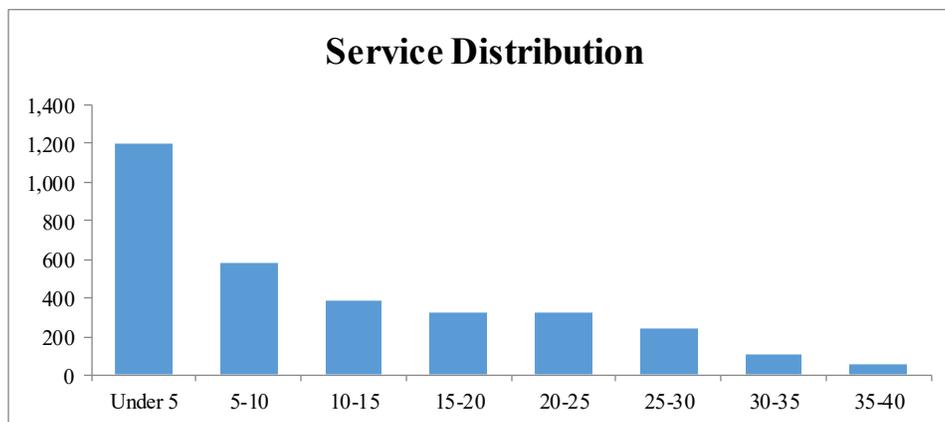
APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

General City*

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	24	0	0	0	0	0	0	0	24
25-29	155	12	0	0	0	0	0	0	167
30-34	215	73	15	0	0	0	0	0	303
35-39	183	122	47	22	1	0	0	0	375
40-44	171	102	81	55	19	0	0	0	428
45-49	158	68	50	58	74	11	1	0	420
50-54	127	80	82	78	101	72	21	1	562
55-59	87	66	55	61	75	95	42	14	495
60-64	55	49	40	32	40	50	35	22	323
65 & Up	22	12	18	19	19	10	13	15	128
Total	1,197	584	388	325	329	238	112	52	3,225

* Includes Elected Officials, General Employees of the City of Milwaukee, and Redevelopment Authority



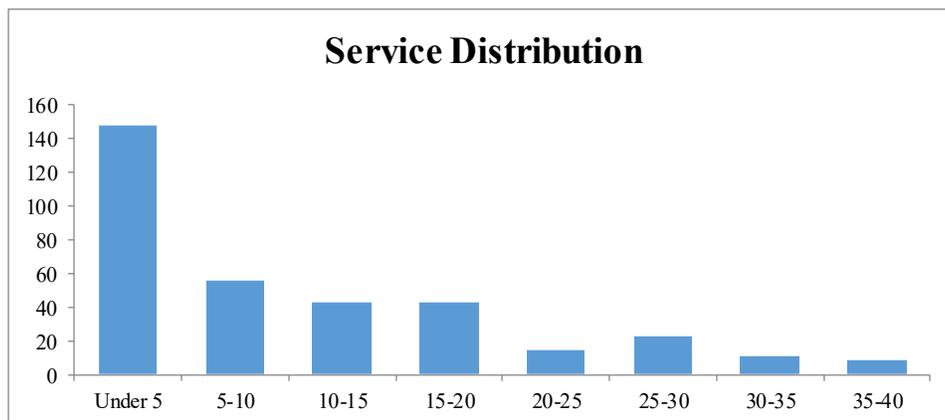


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

Water Department

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	4	0	0	0	0	0	0	0	4
25-29	19	0	0	0	0	0	0	0	19
30-34	20	7	1	0	0	0	0	0	28
35-39	31	10	3	3	0	0	0	0	47
40-44	23	7	9	9	2	0	0	0	50
45-49	24	7	7	5	2	0	0	0	45
50-54	12	11	10	10	3	10	1	0	57
55-59	6	10	9	12	4	7	5	3	56
60-64	7	4	3	1	1	5	5	4	30
65 & Up	1	0	0	2	2	1	0	1	7
Total	147	56	42	42	14	23	11	8	343



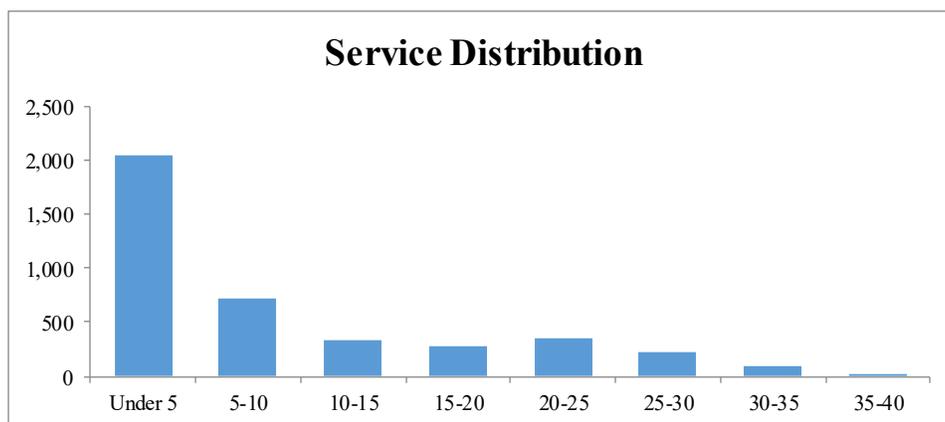


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

School Board

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	131	1	0	0	0	0	0	0	132
25-29	349	23	0	0	0	0	0	0	372
30-34	370	75	7	0	0	0	0	0	452
35-39	278	112	25	9	0	0	0	0	424
40-44	240	103	49	24	22	0	0	0	438
45-49	181	100	47	40	40	16	0	0	424
50-54	198	106	72	80	86	53	21	0	616
55-59	143	95	76	62	107	95	38	2	618
60-64	98	77	45	41	75	57	31	14	438
65 & Up	61	35	19	27	29	12	11	3	197
Total	2,049	727	340	283	359	233	101	19	4,111



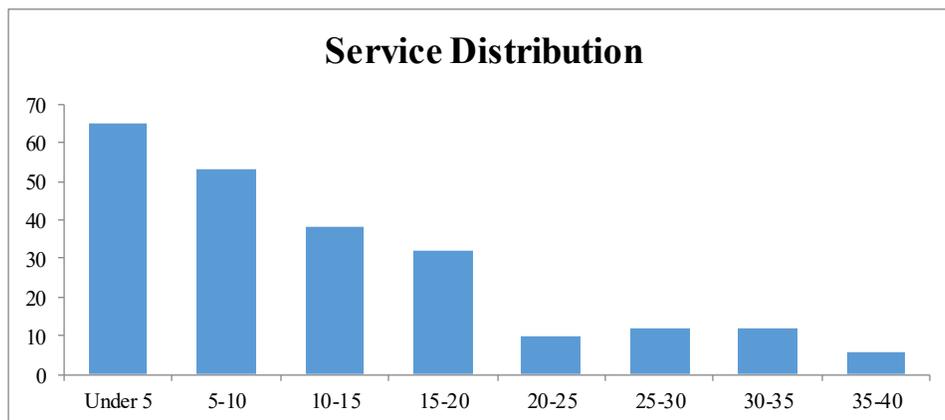


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

Sewerage Commission

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	0	0	0	0	0	0	0	0	0
25-29	12	1	0	0	0	0	0	0	13
30-34	14	14	1	0	0	0	0	0	29
35-39	12	14	8	0	0	0	0	0	34
40-44	8	7	8	4	0	0	0	0	27
45-49	7	7	9	6	0	0	0	0	29
50-54	6	2	6	5	3	0	2	0	24
55-59	2	4	3	8	1	8	6	1	33
60-64	2	2	1	3	4	4	3	3	22
65 & Up	2	2	2	6	2	0	1	2	17
Total	65	53	38	32	10	12	12	6	228



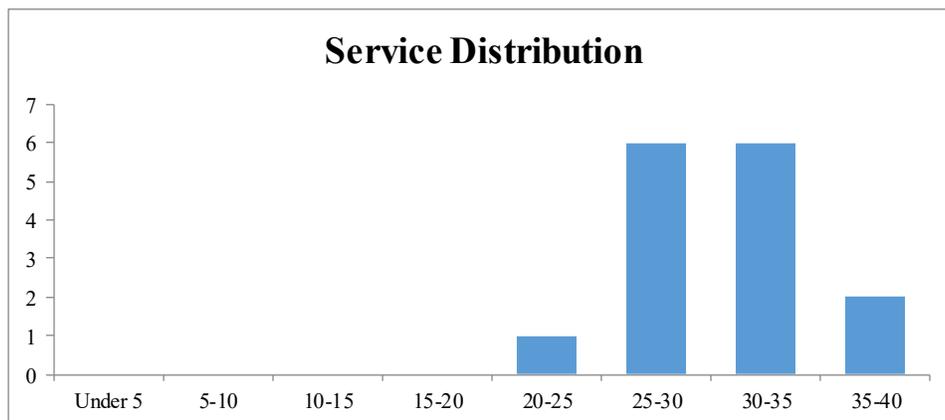


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

Veolia

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0
35-39	0	0	0	0	0	0	0	0	0
40-44	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0
50-54	0	0	0	0	1	0	0	0	1
55-59	0	0	0	0	0	4	3	0	7
60-64	0	0	0	0	0	2	2	1	5
65 & Up	0	0	0	0	0	0	1	1	2
Total	0	0	0	0	1	6	6	2	15



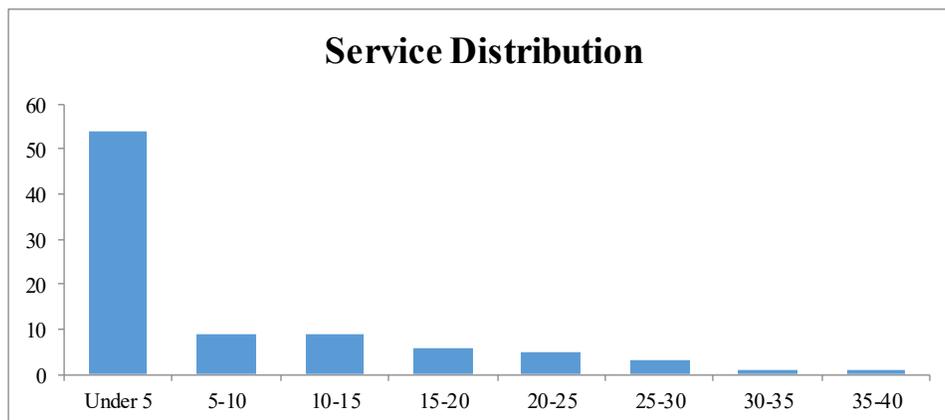


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

Wisconsin District Center

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	6	0	0	0	0	0	0	0	6
25-29	7	0	0	0	0	0	0	0	7
30-34	6	1	1	0	0	0	0	0	8
35-39	2	0	1	0	0	0	0	0	3
40-44	11	2	2	2	0	0	0	0	17
45-49	4	4	1	1	1	0	0	0	11
50-54	3	1	1	0	1	2	0	0	8
55-59	3	0	0	1	3	1	0	0	8
60-64	7	0	1	2	0	0	1	0	11
65 & Up	5	1	2	0	0	0	0	1	9
Total	54	9	9	6	5	3	1	1	88



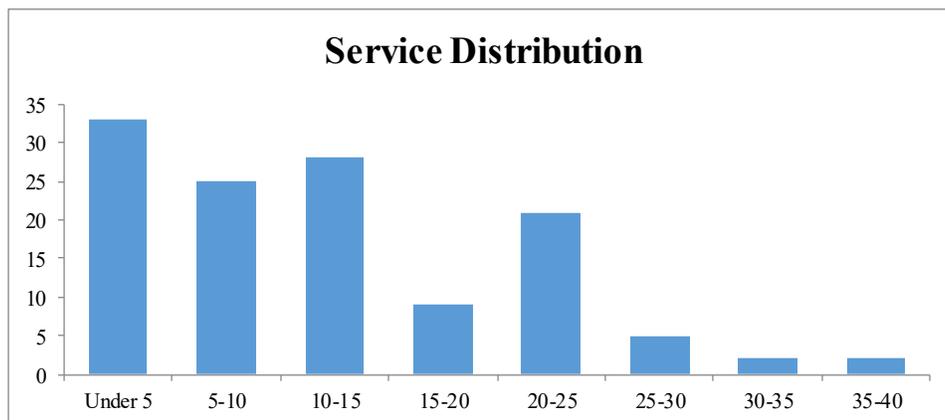


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

Housing Authority

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	1	0	0	0	0	0	0	0	1
25-29	2	2	0	0	0	0	0	0	4
30-34	2	2	2	0	0	0	0	0	6
35-39	5	3	1	0	0	0	0	0	9
40-44	10	4	4	1	1	0	0	0	20
45-49	6	4	2	0	0	0	0	0	12
50-54	2	4	6	4	7	0	1	0	24
55-59	2	6	4	3	6	5	1	2	29
60-64	2	0	5	0	5	0	0	0	12
65 & Up	1	0	4	1	2	0	0	0	8
Total	33	25	28	9	21	5	2	2	125



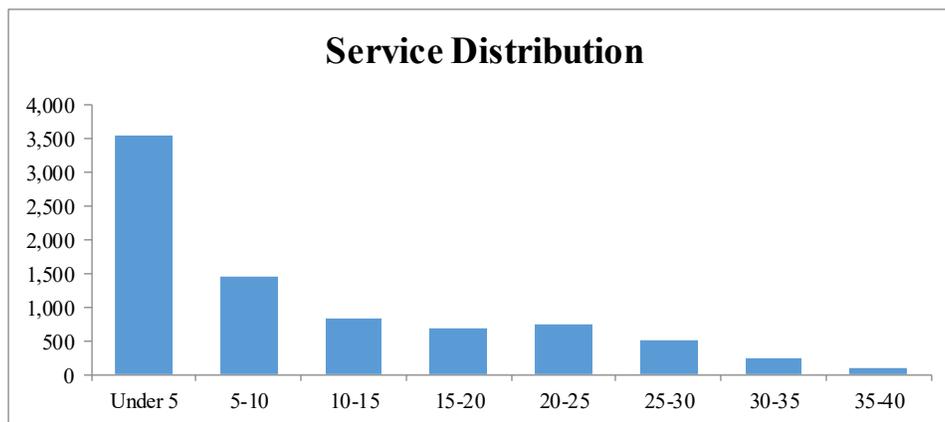


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

General Employees – Total

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	166	1	0	0	0	0	0	0	167
25-29	544	38	0	0	0	0	0	0	582
30-34	627	172	27	0	0	0	0	0	826
35-39	511	261	85	34	1	0	0	0	892
40-44	463	225	153	95	44	0	0	0	980
45-49	380	190	116	110	117	27	1	0	941
50-54	348	204	177	177	202	137	46	1	1,292
55-59	243	181	147	147	196	215	95	22	1,246
60-64	171	132	95	79	125	118	77	44	841
65 & Up	92	50	45	55	54	23	26	23	368
Total	3,545	1,454	845	697	739	520	245	90	8,135



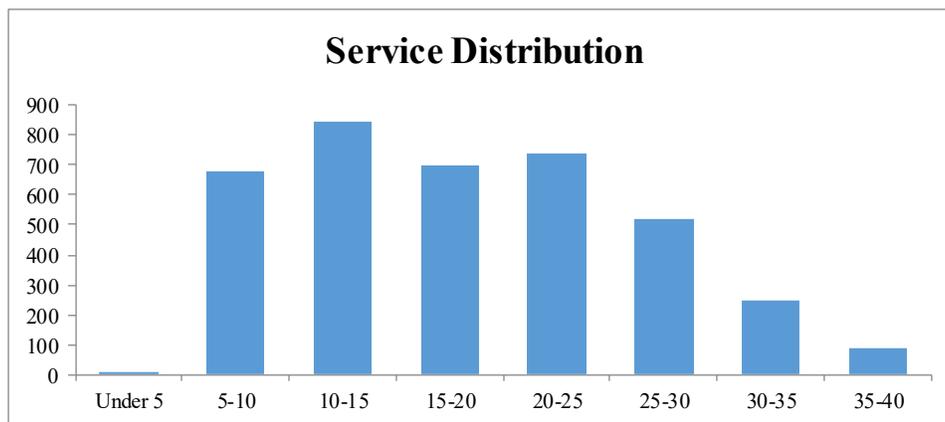


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

General Employees – Tier 1

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	0	0	0	0	0	0	0	0	0
25-29	0	8	0	0	0	0	0	0	8
30-34	2	65	27	0	0	0	0	0	94
35-39	1	118	85	34	1	0	0	0	239
40-44	0	110	153	95	44	0	0	0	402
45-49	4	97	116	110	117	27	1	0	472
50-54	1	106	177	177	202	137	46	1	847
55-59	1	90	147	147	196	215	95	22	913
60-64	2	62	95	79	125	118	77	44	602
65 & Up	0	24	45	55	54	23	26	23	250
Total	11	680	845	697	739	520	245	90	3,827



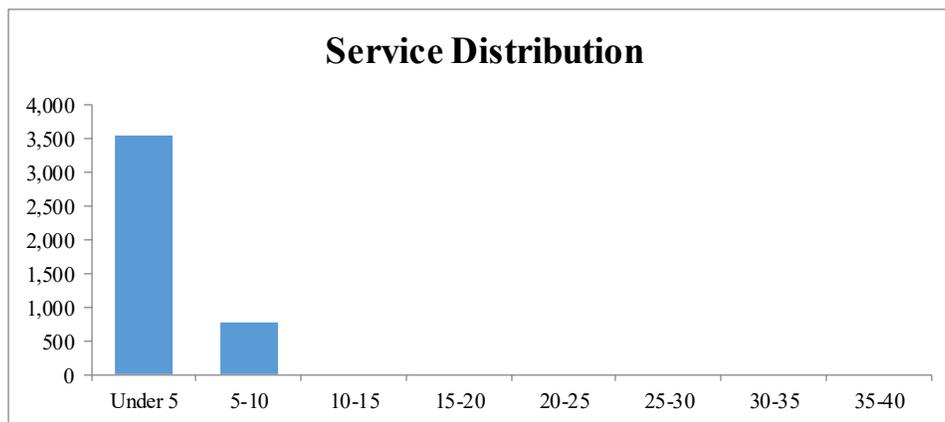


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

General Employees – Tier 2

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	166	1	0	0	0	0	0	0	167
25-29	544	30	0	0	0	0	0	0	574
30-34	625	107	0	0	0	0	0	0	732
35-39	510	143	0	0	0	0	0	0	653
40-44	463	115	0	0	0	0	0	0	578
45-49	376	93	0	0	0	0	0	0	469
50-54	347	98	0	0	0	0	0	0	445
55-59	242	91	0	0	0	0	0	0	333
60-64	169	70	0	0	0	0	0	0	239
65 & Up	92	26	0	0	0	0	0	0	118
Total	3,534	774	0	0	0	0	0	0	4,308



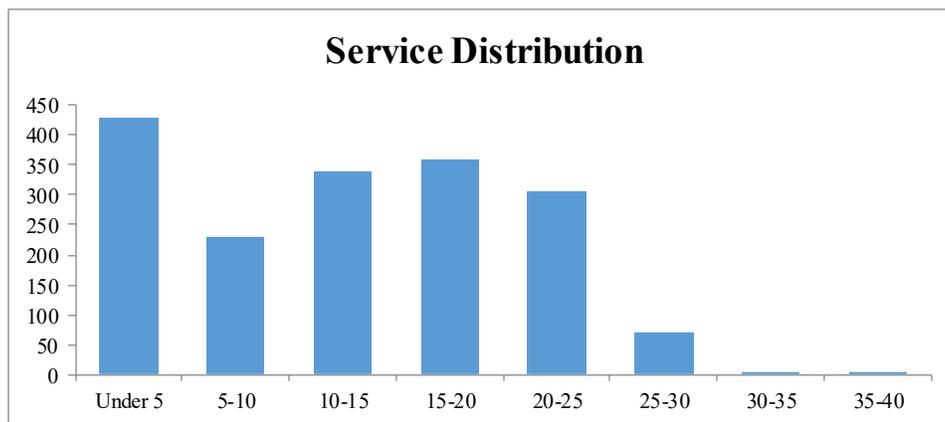


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

Policemen

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	48	0	0	0	0	0	0	0	48
25-29	145	43	11	0	0	0	0	0	199
30-34	128	76	59	11	0	0	0	0	274
35-39	62	78	122	46	12	0	0	0	320
40-44	29	17	86	106	46	1	0	0	285
45-49	13	9	34	116	117	19	0	0	308
50-54	2	4	20	58	102	39	1	0	226
55-59	1	2	4	20	21	8	0	0	56
60-64	0	0	2	3	7	3	3	1	19
65 & Up	0	0	0	0	0	0	0	0	0
Total	428	229	338	360	305	70	4	1	1,735



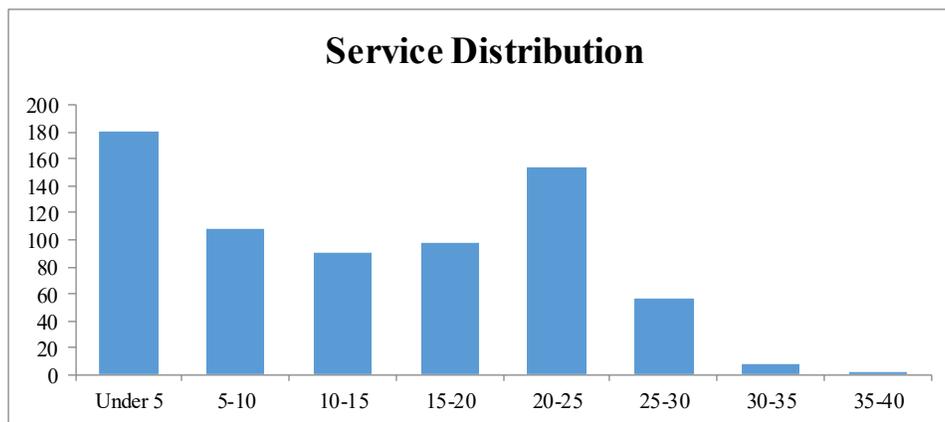


APPENDIX A: MEMBERSHIP DATA

**DISTRIBUTION OF ACTIVE MEMBERS
as of January 1, 2021**

Firemen

Age	Service								Total
	Under 5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	
24 & Under	79	0	0	0	0	0	0	0	79
25-29	40	32	0	0	0	0	0	0	72
30-34	34	12	8	10	0	0	0	0	64
35-39	14	32	33	34	10	0	0	0	123
40-44	9	21	28	15	46	7	0	0	126
45-49	2	8	15	24	52	13	0	0	114
50-54	2	3	7	10	32	24	2	0	80
55-59	0	0	0	4	11	12	6	0	33
60-64	0	0	0	0	2	1	0	1	4
65 & Up	0	0	0	1	0	0	0	1	2
Total	180	108	91	98	153	57	8	2	697



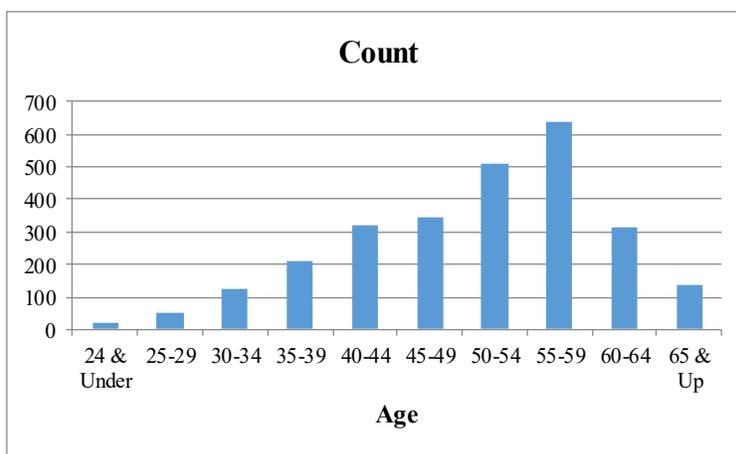
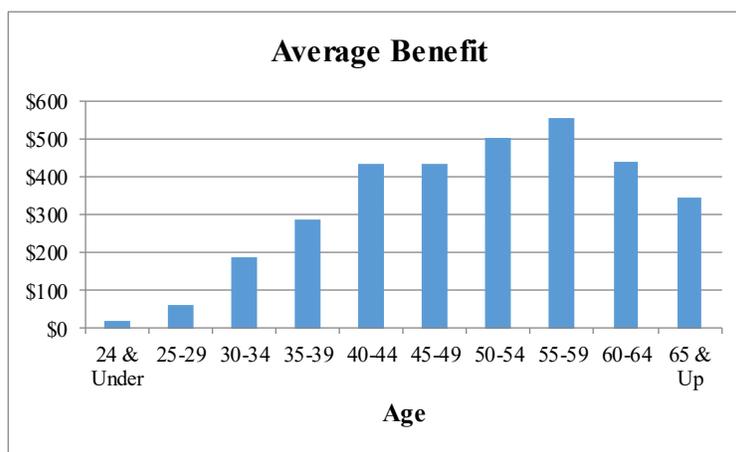


APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF INACTIVE VESTED MEMBERS
as of January 1, 2021**

General Employees

Age	Count			Estimated Monthly Benefits		
	Male	Female	Total	Male	Female	Total
24 & Under	5	13	18	\$ 215	\$ 114	\$ 329
25-29	20	33	53	1,504	1,801	3,305
30-34	49	73	122	9,965	13,044	23,009
35-39	74	136	210	27,078	32,910	59,988
40-44	118	203	321	55,971	82,881	138,852
45-49	146	199	345	72,775	76,268	149,043
50-54	197	312	509	112,322	141,769	254,091
55-59	242	399	641	166,833	186,644	353,477
60-64	119	198	317	61,202	77,133	138,335
65 & Up	<u>56</u>	<u>82</u>	<u>138</u>	<u>24,019</u>	<u>23,379</u>	<u>47,398</u>
Total	1,026	1,648	2,674	\$ 531,884	\$ 635,943	\$ 1,167,827



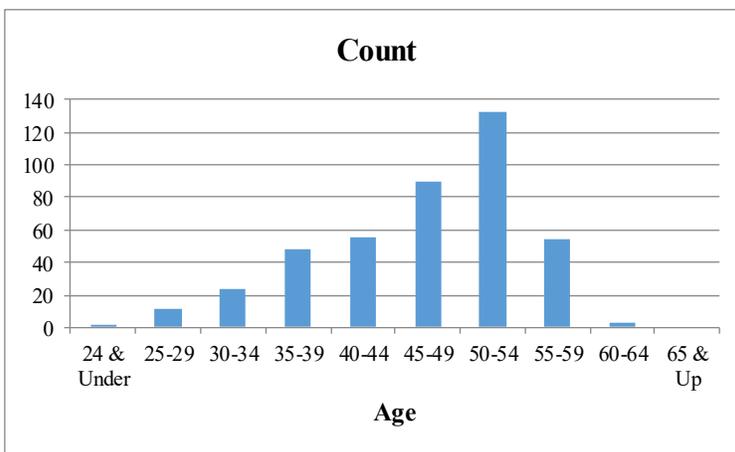
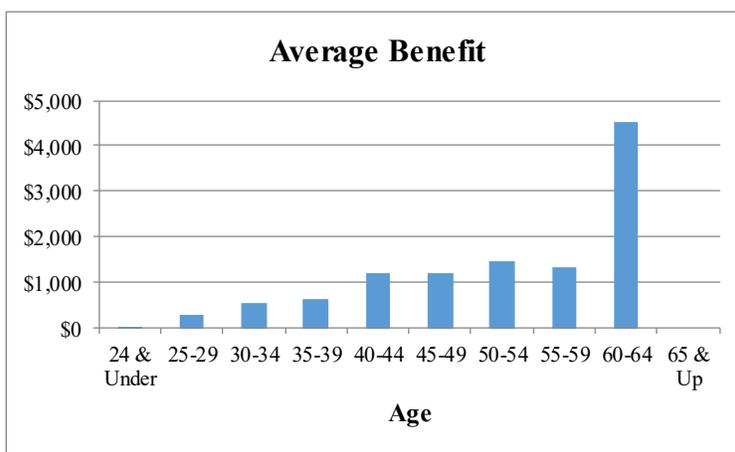


APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF INACTIVE VESTED MEMBERS
as of January 1, 2021**

Policemen

Age	Count			Estimated Monthly Benefits		
	Male	Female	Total	Male	Female	Total
24 & Under	0	1	1	\$ 0	\$ 1	\$ 1
25-29	9	2	11	2,555	510	3,065
30-34	18	6	24	9,273	3,851	13,124
35-39	37	11	48	25,715	5,745	31,460
40-44	39	17	56	47,996	18,470	66,466
45-49	65	25	90	91,765	17,002	108,767
50-54	97	36	133	143,747	49,310	193,057
55-59	45	9	54	57,098	14,695	71,793
60-64	3	0	3	13,623	0	13,623
65 & Up	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	313	107	420	\$ 391,772	\$ 109,584	\$ 501,356



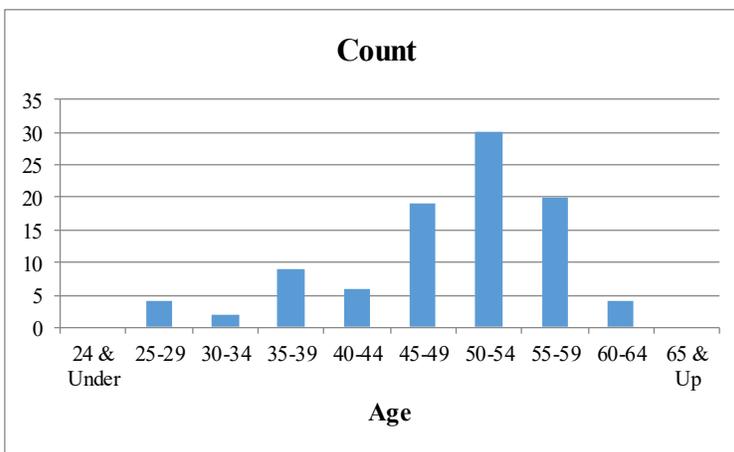
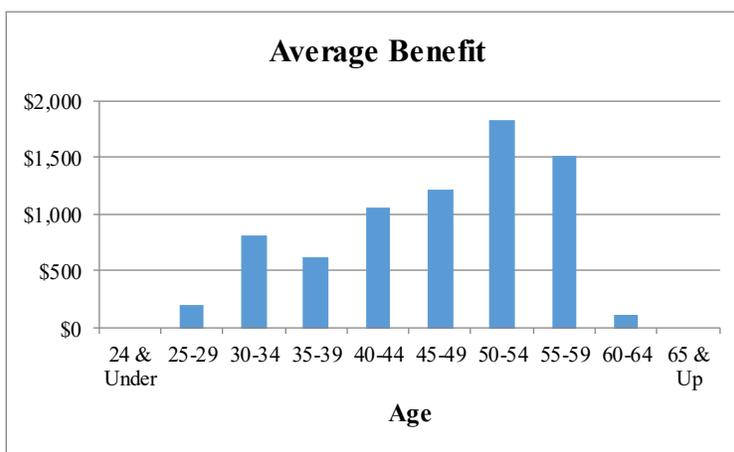


APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF INACTIVE VESTED MEMBERS
as of January 1, 2021**

Firemen

Age	Count			Estimated Monthly Benefits		
	Male	Female	Total	Male	Female	Total
24 & Under	0	0	0	\$ 0	\$ 0	\$ 0
25-29	3	1	4	807	13	820
30-34	2	0	2	1,644	0	1,644
35-39	9	0	9	5,595	0	5,595
40-44	6	0	6	6,366	0	6,366
45-49	18	1	19	22,958	10	22,968
50-54	28	2	30	53,272	1,499	54,771
55-59	20	0	20	30,136	0	30,136
60-64	4	0	4	451	0	451
65 & Up	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	90	4	94	\$ 121,229	\$ 1,522	\$ 122,751





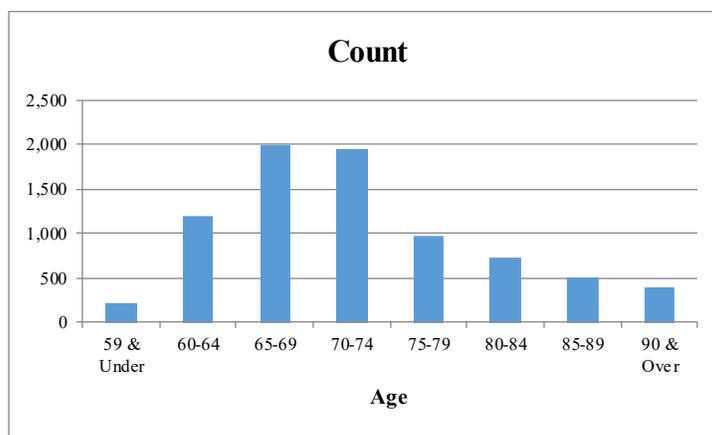
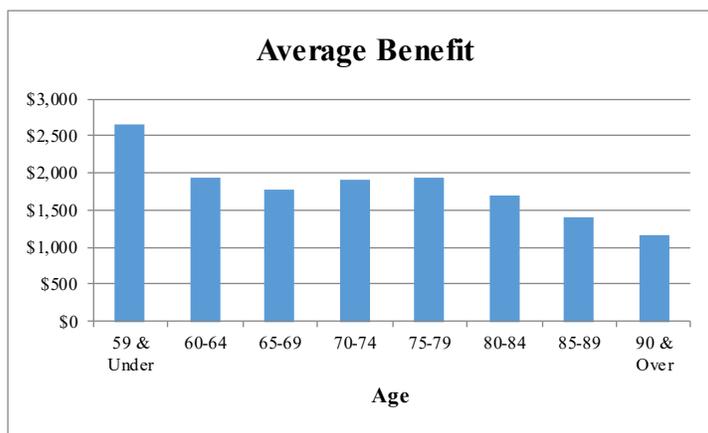
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF RETIRED MEMBERS
as of January 1, 2021**

General Employees

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
59 & Under	89	122	211	\$ 251,306	\$ 308,284	\$ 559,590
60-64	574	625	1,199	1,337,859	978,713	2,316,572
65-69	956	1,035	1,991	2,119,189	1,421,668	3,540,857
70-74	1,011	949	1,960	2,424,739	1,319,218	3,743,957
75-79	493	482	975	1,250,025	635,836	1,885,861
80-84	320	402	722	802,118	431,524	1,233,642
85-89	206	291	497	468,324	223,200	691,524
90 & Over	<u>149</u>	<u>254</u>	<u>403</u>	<u>293,389</u>	<u>172,176</u>	<u>465,565</u>
Total	3,798	4,160	7,958	\$ 8,946,949	\$ 5,490,619	\$ 14,437,568

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





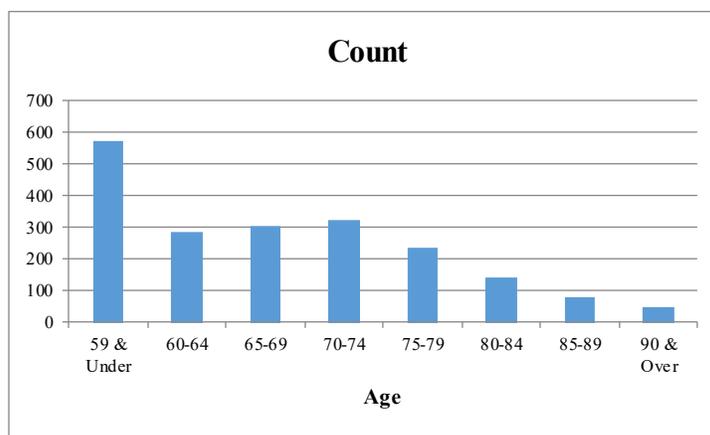
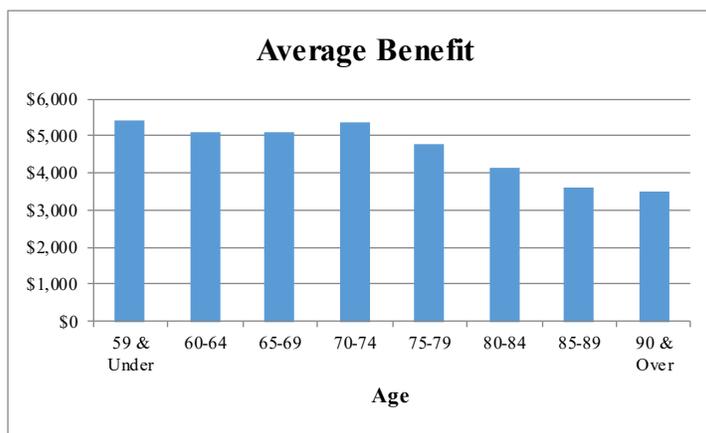
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF RETIRED MEMBERS
as of January 1, 2021**

Policemen

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
59 & Under	472	100	572	\$ 2,542,868	\$ 558,093	\$ 3,100,961
60-64	228	59	287	1,170,594	287,096	1,457,690
65-69	265	36	301	1,346,533	180,089	1,526,622
70-74	301	24	325	1,624,935	115,548	1,740,483
75-79	234	2	236	1,122,304	8,669	1,130,973
80-84	142	1	143	585,644	3,825	589,469
85-89	81	0	81	291,058	0	291,058
90 & Over	<u>44</u>	<u>2</u>	<u>46</u>	<u>156,343</u>	<u>4,872</u>	<u>161,215</u>
Total	1,767	224	1,991	\$ 8,840,279	\$ 1,158,192	\$ 9,998,471

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





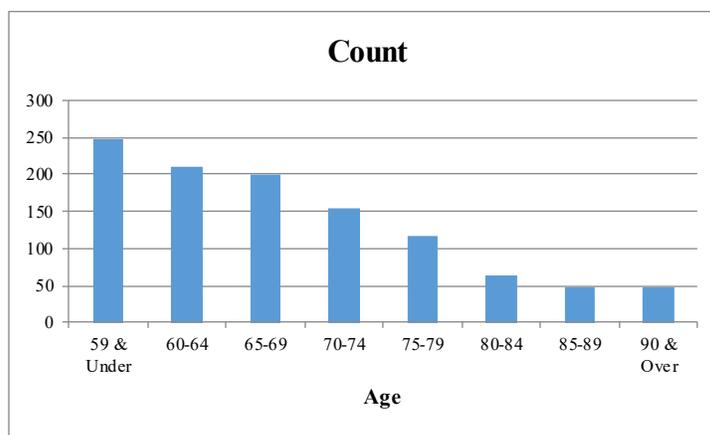
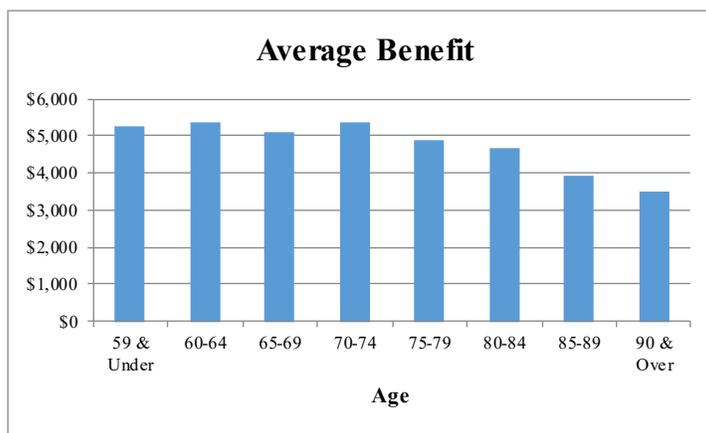
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF RETIRED MEMBERS
as of January 1, 2021**

Firemen

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
59 & Under	227	21	248	\$ 1,190,982	\$ 106,704	\$ 1,297,686
60-64	197	13	210	1,051,854	69,009	1,120,863
65-69	189	10	199	981,492	34,393	1,015,885
70-74	151	2	153	808,628	9,992	818,620
75-79	116	0	116	566,797	0	566,797
80-84	64	0	64	298,338	0	298,338
85-89	47	1	48	183,170	4,003	187,173
90 & Over	<u>47</u>	<u>0</u>	<u>47</u>	<u>163,345</u>	<u>0</u>	<u>163,345</u>
Total	1,038	47	1,085	\$ 5,244,606	\$ 224,101	\$ 5,468,707

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





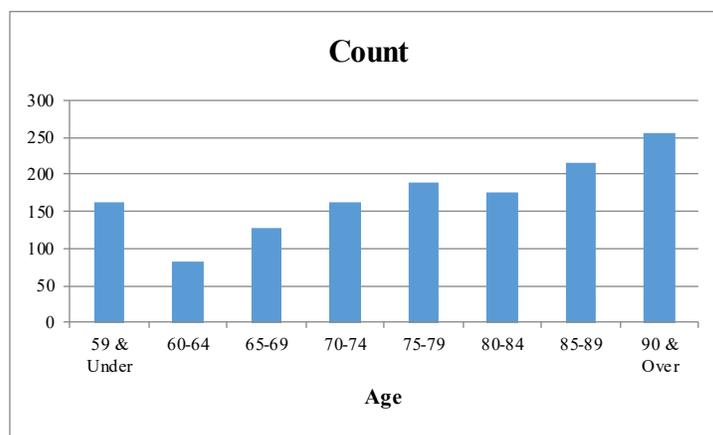
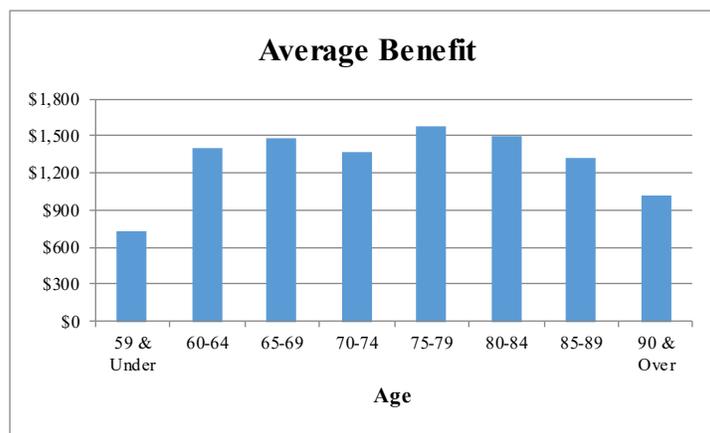
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF BENEFICIARIES
as of January 1, 2021**

General Employees

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
59 & Under	66	97	163	\$ 37,907	\$ 81,091	\$ 118,998
60-64	15	66	81	14,269	99,340	113,609
65-69	26	102	128	25,868	163,057	188,925
70-74	32	131	163	28,443	194,896	223,339
75-79	29	159	188	20,403	275,456	295,859
80-84	13	163	176	12,560	250,460	263,020
85-89	24	191	215	11,830	271,982	283,812
90 & Over	<u>30</u>	<u>225</u>	<u>255</u>	<u>17,731</u>	<u>241,559</u>	<u>259,290</u>
Total	235	1,134	1,369	\$ 169,011	\$ 1,577,841	\$ 1,746,852

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





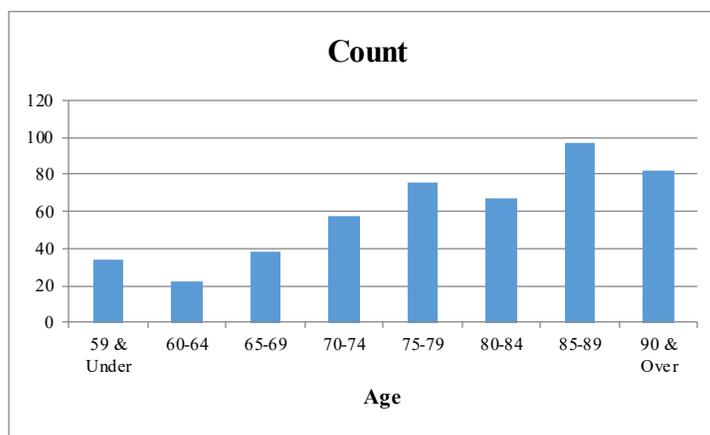
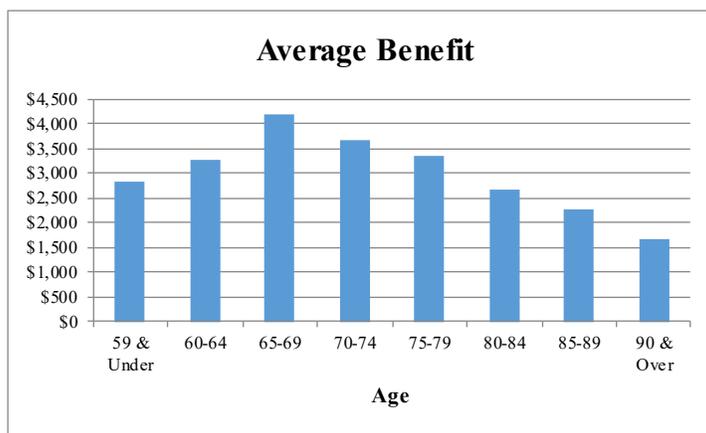
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF BENEFICIARIES
as of January 1, 2021**

Policemen

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
59 & Under	5	29	34	\$ 6,146	\$ 90,405	\$ 96,551
60-64	2	20	22	2,832	68,902	71,734
65-69	3	35	38	6,944	151,978	158,922
70-74	1	56	57	1,693	206,844	208,537
75-79	0	76	76	0	255,240	255,240
80-84	0	67	67	0	178,917	178,917
85-89	1	96	97	256	219,118	219,374
90 & Over	<u>1</u>	<u>81</u>	<u>82</u>	<u>1,076</u>	<u>135,438</u>	<u>136,514</u>
Total	13	460	473	\$ 18,947	\$ 1,306,842	\$ 1,325,789

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





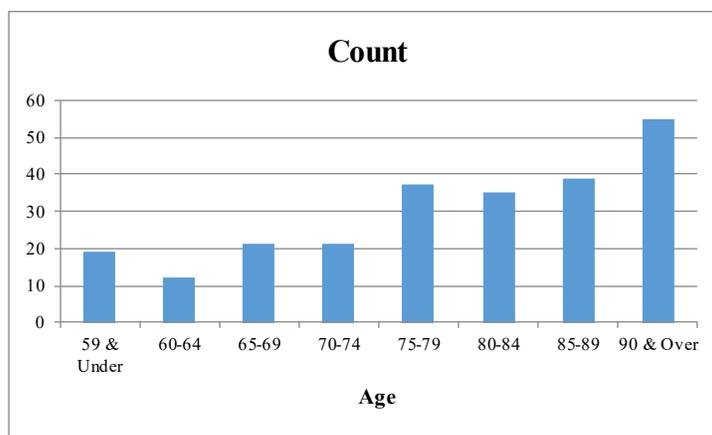
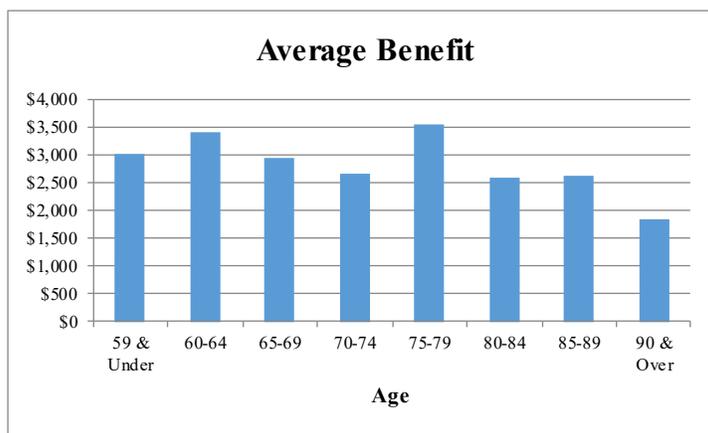
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF BENEFICIARIES
as of January 1, 2021**

Firemen

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
59 & Under	5	14	19	\$ 7,835	\$ 49,620	\$ 57,455
60-64	0	12	12	0	40,744	40,744
65-69	1	20	21	125	61,681	61,806
70-74	0	21	21	0	55,606	55,606
75-79	0	37	37	0	131,216	131,216
80-84	0	35	35	0	90,739	90,739
85-89	0	39	39	0	102,112	102,112
90 & Over	<u>0</u>	<u>55</u>	<u>55</u>	<u>0</u>	<u>100,844</u>	<u>100,844</u>
Total	6	233	239	\$ 7,960	\$ 632,562	\$ 640,522

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





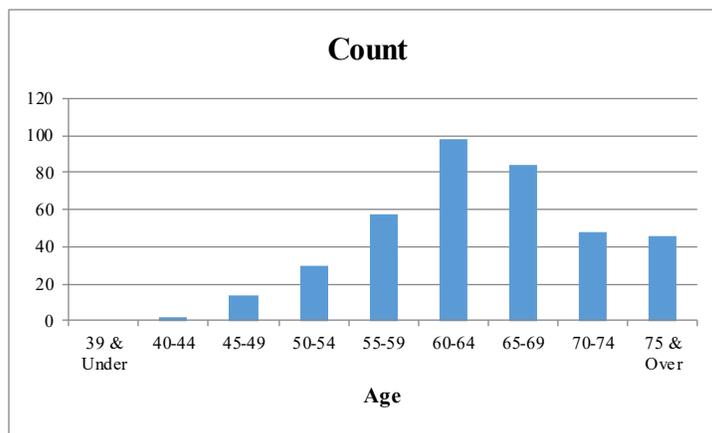
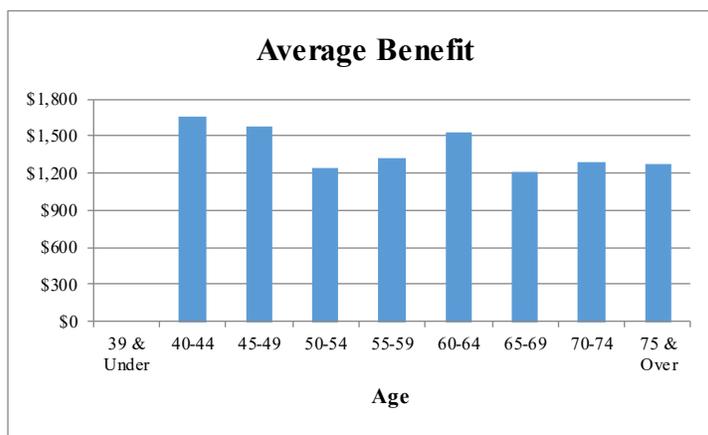
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF DISABLED MEMBERS
as of January 1, 2021**

General Employees

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
39 & Under	0	0	0	\$ 0	\$ 0	\$ 0
40-44	1	1	2	2,644	662	3,306
45-49	8	6	14	11,439	10,580	22,019
50-54	10	20	30	16,043	21,188	37,231
55-59	31	26	57	47,923	27,314	75,237
60-64	47	51	98	99,907	50,623	150,530
65-69	40	44	84	57,651	44,207	101,858
70-74	27	21	48	38,256	23,706	61,962
75 & Over	<u>26</u>	<u>20</u>	<u>46</u>	<u>42,122</u>	<u>16,109</u>	<u>58,231</u>
Total	190	189	379	\$ 315,985	\$ 194,389	\$ 510,374

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





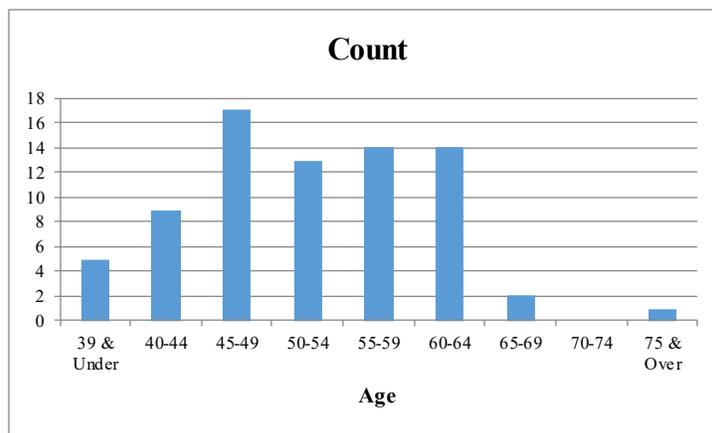
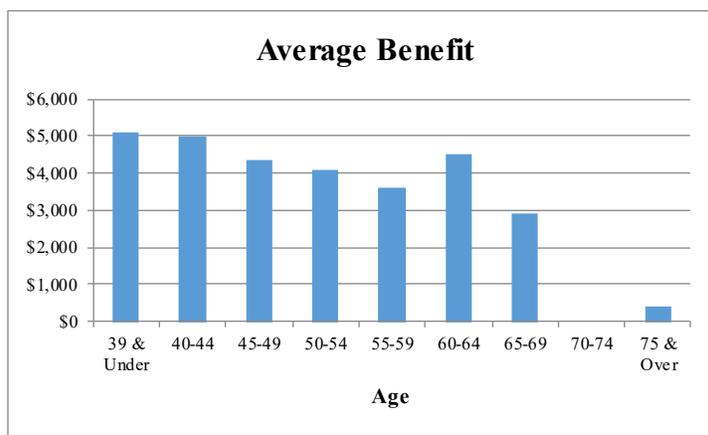
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF DISABLED MEMBERS
as of January 1, 2021**

Policemen

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
39 & Under	4	1	5	\$ 20,339	\$ 5,039	\$ 25,378
40-44	7	2	9	34,722	10,209	44,931
45-49	10	7	17	43,439	30,283	73,722
50-54	6	7	13	23,014	30,085	53,099
55-59	10	4	14	32,443	17,679	50,122
60-64	7	7	14	32,841	30,169	63,010
65-69	2	0	2	5,865	0	5,865
70-74	0	0	0	0	0	0
75 & Over	<u>1</u>	<u>0</u>	<u>1</u>	<u>416</u>	<u>0</u>	<u>416</u>
Total	47	28	75	\$ 193,079	\$ 123,464	\$ 316,543

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





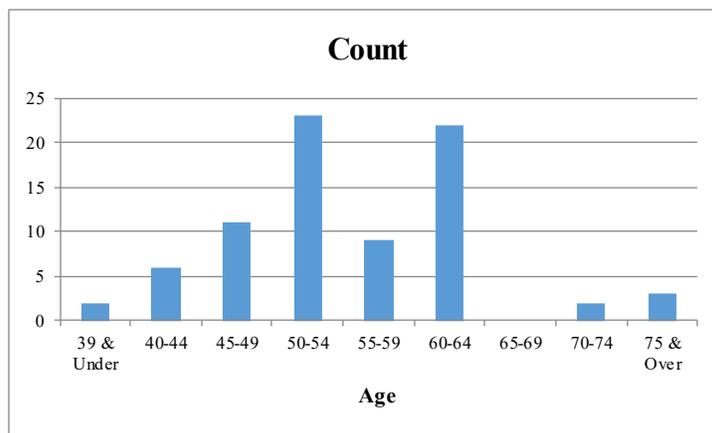
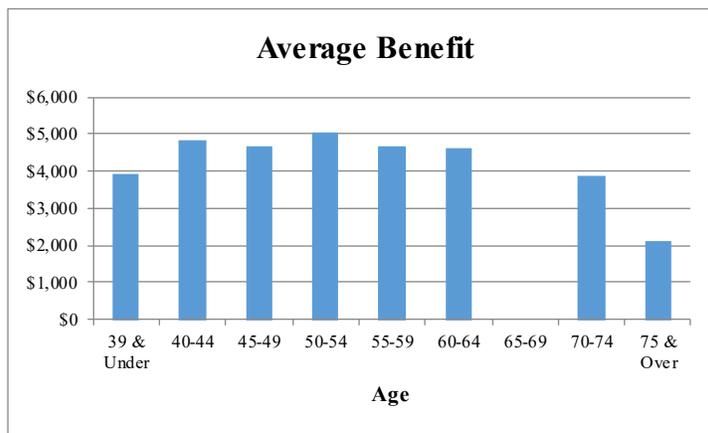
APPENDIX A: MEMBERSHIP DATA

**SUMMARY OF DISABLED MEMBERS
as of January 1, 2021**

Firemen

Age	Count			Monthly Benefits		
	Male	Female	Total	Male	Female	Total
39 & Under	2	0	2	\$ 7,848	\$ 0	\$ 7,848
40-44	6	0	6	28,904	0	28,904
45-49	11	0	11	51,238	0	51,238
50-54	20	3	23	101,030	14,829	115,859
55-59	8	1	9	36,874	5,041	41,915
60-64	15	7	22	73,947	27,066	101,013
65-69	0	0	0	0	0	0
70-74	2	0	2	7,729	0	7,729
75 & Over	<u>3</u>	<u>0</u>	<u>3</u>	<u>6,322</u>	<u>0</u>	<u>6,322</u>
Total	67	11	78	\$ 313,892	\$ 46,936	\$ 360,828

Note: The counts shown are for members who are receiving benefits as of January 1, 2021. Benefit amounts are the full December monthly payment and have been reduced for any workers' compensation offsets.





APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

SUMMARY OF BENEFIT PROVISIONS

A summary of the main benefit provisions of the Retirement System and of the sources of revenue from which benefits are paid is presented in the following digest. Items in parentheses in the text are the provisions applicable to law enforcement officers.

Eligibility for Membership

Membership is optional for all Employees that were in service as of January 1, 1938. New Employees are automatically members as a condition of employment. Membership is optional for elected officials. Note that unless specifically stated, elected officials follow the same rules as General Employees.

Additionally, effective January 1, 2014, there are two tiers of benefits. Tier 1 is for General Employees enrolled prior to January 1, 2014, and all Fire and Police Employees. Tier 2 is for General Employees enrolled on or after January 1, 2014.

Participation in the Combined Fund

On January 19, 2001 the Combined Fund was created and was retroactive to January 1, 2000. Individuals who participate in the Combined Fund may be eligible for certain benefit enhancements which are described in this Summary of Plan Provisions. Members who enroll in the ERS after June 28, 2000, and their eligible survivors, are automatically participants in the Combined Fund. Members enrolled in the ERS on or before June 28, 2000, and their eligible survivors, participate in the Combined Fund provided that the members consented in writing to the Global Pension Settlement. Eligible survivors of members or retirees who died on or before June 28, 2000 participate in the Combined Fund provided that the eligible survivors consented in writing to the Global Pension Settlement. Members or survivors whose benefit payments ceased prior to January 1, 2000, are not eligible for benefits from the Combined Fund.

Creditable Service

Creditable service equals prior service plus membership service. Prior service includes service as an employee prior to January 1, 1938, or prior to an amendment which made the employee eligible for membership in the ERS. Membership service means service as an employee since last becoming a member, on account of which contributions are made.

- For most Employees, 2080 hours of service constitute one year of creditable service. For prevailing wage Employees (carpenters and other tradespeople) 2000 hours constitute one year. For members employed by the school board for a 10-month school year, 1600 hours of service constitute a year of creditable service. After July 2006, for members serving as firefighters, 2590 hours of service constitutes one year of creditable service. After September 2016, for members serving as firefighters, 2756 hours of service constitutes one year of creditable service.
- Under certain conditions creditable service may be granted for periods of absence due to military service.
- For purposes of computing the service retirement allowance only, creditable service is granted for periods of eligibility for a duty disability retirement allowance.
- No more than one year of creditable service is granted for service in a single calendar year.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Imputed Service

Imputed service credit may be granted, under specified conditions, to members who consented to the Global Pension Settlement. Imputed service credit is used to calculate the amount of certain benefits, but is not used to determine eligibility for any kind of benefit. An individual may be eligible for one or more types of imputed service credit.

Eligibility for Imputed Service Credit

Only individuals participating in the Combined Fund can become eligible for the following types of imputed service credit.

- a) Imputed military service credit: The member must have been active in the armed forces of the United States of America prior to his or her enrollment in the ERS, and must have been honorably discharged. A member must be described as in 36-04-1-c. An individual eligible for imputed military service credit must apply for the credit.
- b) Imputed fire and police service credit: The member must be described as in 36-04-4-a. The member must have been in active ERS service as a fireman or policeman as of January 1, 2000, and must also retire from ERS service as a fireman or policeman, or die while a fireman or policeman eligible for protective survivorship option benefits. To be eligible, the member must retire or die as a policeman or fireman and must have attained the minimum service retirement requirements as outlined in 36-05-1.
- c) Imputed service credit under the dissolution of the Firemen and Policemen's Survivorship Fund, (the "Fund"): The member must be described as in 36-04-4-b. The member must have been a policeman who was an active member of the "Fund" as of January 1, 2000. If the policeman was in active ERS service as of January 1, 2000, he must either retire as a policeman on a service retirement allowance at the minimum service retirement age of 57 or after completing 25 years of creditable service as a fireman or policeman; or he must retire on a policeman's duty disability retirement allowance and subsequently convert to a service retirement allowance. If the policeman was retired on a duty disability retirement allowance as of January 1, 2000, then he must subsequently convert to a service retirement allowance.

Benefits Affected by Imputed Service Credit

- a) Imputed military service credit and/or imputed fire and police service credit: The amount of the service retirement allowance, the conversion service retirement allowance, protective survivorship option benefits, and the extended life duty disability retirement allowance are affected. If the eligible individual is also entitled to a 5% Lump Sum Bonus, and/or an 8.6% Dissolution Bonus that is based on the affected benefit, then the imputed service credit is included in calculating the base for the bonus payment(s).
- b) Imputed service credit under the dissolution of the Firemen and Policemen's Survivorship Fund: The amount of the service retirement allowance and the conversion service retirement allowance are affected. If the service retirement allowance is affected, then the imputed service credit is included in calculating the base for the 5% Lump Sum Bonus.

See the benefit descriptions later in this summary for further details on how imputed service credit is used.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Amount of Imputed Service Credit

- a) Imputed military service credit: A period of eligible military service consists of a period of at least 90 consecutive days of active service in the armed forces of the United States prior to enrollment in the ERS. Total eligible military service equals the sum of all periods of eligible military service. Imputed military service credit equals one-third of the member's total eligible military service, to a maximum of three years of imputed military service credit.
- b) Imputed fire and police service credit: For policemen and firemen with 20 years of creditable service as a fireman or policeman - 1.5 years. For firemen with less than 20 years of creditable service as a fireman or policeman: 1.5 years times the full years of creditable fire and police service, divided by 20.
- c) Imputed service credit under the dissolution of the Firemen and Policemen's Survivorship Fund: 2 years.

Seasonal Service

Seasonal service credit may be granted under specified conditions to certain General City Employees. Seasonal service credit is used to calculate the amount of certain benefits but is not used to determine eligibility for any kind of benefit.

Eligibility for Seasonal Service Credit

In order to be eligible for seasonal service credit, a member must be a General City employee with five or more years of City service credit, and a member of one of the groups as outlined in 36-04-1-d.

Benefits Affected by Seasonal Service Credit

Seasonal service credit affects the amount of the service retirement allowance, the conversion service retirement allowance and protective survivorship option benefits. If the eligible individual is also entitled to a 5% Lump Sum Bonus that is based on the affected benefit, then the seasonal service credit is included in calculating the base for the bonus payment.

Amount of Seasonal Service Credit

Seasonal service is based on the hours worked as a City Labor-Seasonal employee and/or Playground Laborer-Seasonal employee (MPS), but limited to one year of additional service credit.

Qualifying for an ERS Benefit

Rules regarding qualifying time are encapsulated in the ERS Board Rules & Regulations, XV.G. The rules have been adopted and applied prospectively for enrollments prior to 1995, 1995 to 2001 and post 2001. All members are fully vested after attaining four years of qualifying time.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Earnable Compensation

The annual regular base salary that would be payable to a member if he or she worked the full normal working time for his or her position as described in 36-02-12. Earnable compensation for the calendar year preceding retirement may also include special pays as negotiated in labor agreements such as longevity in rank pay, (limited) variable shift assignment pay, police liaison officer pay, and/or certification pay for policemen; and emergency medical technician pay for firemen. Earnable compensation for school board Employees represented by Local 950, OEIU, also includes site differential pay.

Final Average Salary

- a) For General Employees, final average salary means the average annual earnable compensation computed on the 3 years of creditable service preceding retirement, death or separation from service during which earnable compensation was the highest.
- b) For policemen and firemen, final average salary means the average annual earnable compensation computed on the year of creditable service preceding retirement, death or separation from service during which earnable compensation was the highest.
- c) For members converting from a duty disability retirement allowance to a service retirement allowance, the service retirement allowance is computed on the basis of the current compensation of the member's position at the service retirement date.

Service Retirement

Eligibility for Service Retirement

For Tier 1 Benefits (applicable to General Employees enrolled prior to January 1, 2014 and all Fire and Police Employees), eligibility for service retirement is as defined under 36-05-01 as follows:

- a) A service retirement allowance is payable to any member who elects to retire after attaining the minimum service retirement age, which is age 60 for General Employees and age 57 for policemen and firemen.
- b) General Employees that have attained age 55 and completed 30 years of qualifying time are eligible for service retirement.
- c) Policemen who participate in the Combined Fund are eligible for service retirement at any age after attaining 25 years of fire or police qualifying time, if they were hired prior to December 20, 2015.
- d) Policemen who participate in the Combined Fund, who have attained age 50 are eligible for service retirement after completing 25 years of police qualifying time, if they were hired on/after December 20, 2015.
- e) Firemen who participate in the Combined Fund, who have attained age 49 and completed 22 years of fire or police qualifying time, are eligible for service retirement, if they were hired prior to July 30, 2016.
- f) Firemen who participate in the Combined Fund, who have attained age 52 and completed 25 years of fire qualifying time, are eligible for service retirement, if they were hired on/after July 30, 2016.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

- g) Policeman and firemen who are not participants in the Combined Fund are eligible for service retirement after attaining age 52 and completing 25 years of fire or police qualifying time.

For Tier 2 Benefits (applicable to General Employees enrolled on or after January 1, 2014), eligibility for service retirement is as defined under 36-05-01 as follows:

- a) A service retirement allowance is payable to any member who elects to retire after attaining the minimum service retirement age, which is age 65 for General Employees.
- b) General Employees that have attained age 60 and completed 30 years of qualifying time are eligible for service retirement.

Amount of Service Retirement Allowance

The amount of a member's service retirement allowance under 36-05-01 is equal to the following:

- a) For General Employees, enrolled prior to January 1, 2014, 2% of final average salary for each year of creditable service, imputed military service, or seasonal service limited to 70% of final average salary. For General Employees, enrolled on or after January 1, 2014, 1.6% of final average salary for each year of creditable service, imputed military service, or seasonal service limited to 70% of final average salary.
- b) For firemen enrolled prior to March 1, 1989, and policemen enrolled prior to July 1, 1989, and who were in active service on or after January 1, 1995, 2.5% of final average salary for each year of creditable service or imputed service (of any kind).
- c) For firemen enrolled after February 28, 1989, and policemen enrolled after June 30, 1989, 2.5% of final average salary for each year of creditable service or imputed military service, limited to 90% of final average salary, plus 2.5% of final average salary for each year of imputed fire and police service or imputed service under the dissolution of the Firemen and Policemen's Survivorship Fund.
- d) For elected officials enrolled prior to January 1, 2014, 2.6% of final average salary for each year of creditable service as an elected official for years before 1996, limited to 70% of the final average salary; from 1996 forward the rate of accrual for creditable service, imputed military service, or seasonal service is 2.5% except for the mayor, who will have an accrual rate of 2.0%, limited to 70% of the final average salary, except for elected officials who were enrolled prior to 2014 and are first elected to office on or after January 1, 2014, in which case their accrual rate is 2% for each year if they contribute 5.5% of their earnable compensation, or 2.5% for each year if they contribute 7% of their earnable compensation. For elected officials enrolled on or after January 1, 2014, 1.6% of final average salary for each year of creditable service as an elected official limited to 70% of the final average salary.

Funds Charged with Service Retirement Allowance

For individuals participating in the Combined Fund, service retirement allowance payments are charged to the Combined Fund. For all other individuals, the service retirement allowance is charged to (i) the Retirement Fund if the member's enrollment date is prior to February 1, 1996, and (ii) the Combined Retirement and Disability Fund if the member enrolled on or after February 1, 1996.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Ordinary Disability Retirement Allowance

Eligibility for Ordinary Disability Retirement Allowance

A member who the medical council certifies is mentally or physically incapacitated for further performance of duty that such incapacity is likely to be permanent and that such member should be retired, is eligible for the ordinary disability retirement allowance. The ordinary disability allowance is not payable if the member qualifies for the duty disability allowance.

Amount of Ordinary Disability Retirement Allowance

Imputed service credit and seasonal service credit are not used in any part of the calculation of the Ordinary Disability Retirement Allowance. The “service retirement allowance” referred to below is calculated based on creditable service only.

- a) For General Employees, 90% of the service retirement allowance based on creditable service to date of disability retirement, but no less than 25% of final average salary, provided such amount does not exceed 90% of the retirement allowance payable had the member continued in service to the minimum service retirement age.
- b) For policemen and firemen hired after January 1, 1971, who have 5 years of service, 25% of final average salary plus 2% thereof for each year of creditable service in excess of 5 years up to a maximum of 50% of final average salary.
- c) For policemen and firemen hired before January 1, 1971, the greater of the benefit described in (a), or the benefit described in (b).
- d) The benefit is payable for life while the member remains disabled, except that for General Employees with less than 10 years of qualifying time, the duration is limited to one-fourth (1/4) of the period of the service accrued to the date of disability.
- e) Members receiving benefits for life may elect reduced benefits under an optional form of payment in order to provide a death benefit to a designated beneficiary.

Funds Charged with Ordinary Disability Retirement Allowance

Ordinary disability retirement allowance payments are charged to the Combined Fund if the eligible individual is a participant in the Combined Fund. Otherwise, the allowance is charged to (i) the Retirement Fund, if the member’s enrollment date is before February 1, 1996, and (ii) the Combined Retirement and Disability Fund, if the member’s enrollment date is on or after February 1, 1996.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Duty Disability Retirement Allowance

Eligibility for Duty Disability Retirement Allowance

If a member becomes permanently and totally incapacitated for duty as a result of the performance of his duty, and his mental or physical incapacitation is medically certified, such member is eligible for a duty disability retirement allowance. Unless the member is beyond his/her conversion age, in which case the member would be eligible for an extended lifetime Duty Disability benefit. The medical certification is made by the Medical Council for General Employees, for members of the MPA enrolled after June 28, 2005, and for members of the MPFFA enrolled after December 13, 2005 with disability based on a mental injury. For all other members, the medical certification is made by the Medical Panel, except as indicated below. There are certain diseases that are considered presumptive for purposes of duty disabilities.

All new duty disability applications are reviewed by the Medical Council effective June 19, 2016 for MPA members, effective January 1, 2016 for MPSO members, and effective July 29, 2016 for MPFFA members.

Effective July 14, 2015, a new state law was enacted related to duty disability benefits for mental injuries (section 62.624 Wis. Stat.). The ERS may only provide a duty disability benefit for a mental injury if the following criteria are met:

- a) The mental injury resulted from a situation of greater dimensions than the day-to-day mental stresses and tension and post-traumatic stress that all similarly situated Employees must experience as part of the employment, *and*
- b) The employer certifies that the mental injury is a duty-related injury.

Only if a duty-related mental injury has occurred, can the duty disability application be forwarded to the Medical Panel or Medical Council for the examination and requisite certification.

Amount of Duty Disability Related Benefits

Imputed service credit and seasonal service credit are not used when calculating a duty disability retirement allowance. Imputed service credit or seasonal service credit is used when calculating the conversion service retirement allowance referred to in paragraphs (a) - (c) below. Eligibility for imputed military service credit depends upon the date of the conversion, not upon the date of the duty disability retirement.

- a) For General Employees, the duty disability retirement allowance equals 75% of the member's final average salary. Members receive the allowance, while disability continues, until the later of age 65, or for a period of 5 years, at which time they convert to a service retirement allowance. General Employees receiving duty disability benefits may elect reduced benefits under an optional form of payment in order to provide a death benefit to a designated beneficiary.
- b) For firemen and policemen, the duty disability retirement allowance is 75% of the current annual salary for the position held by the member at retirement, plus \$40 per month for each child younger than age 18 (up to a maximum of 20% of the member's salary). In certain cases of extreme disability, when approved by a panel of physicians, the disability allowance will be 90% of such salary. Duty disability benefits paid to firemen on account of heart and lung disease are at the 75% level. In the event of the death of a policeman or fireman receiving a 75% or 90% disability



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

allowance, 70% or 75%, respectively, of the amount of the member's allowance shall be paid to the member's spouse during her lifetime.

The 90% duty disability allowances are payable for life. For policemen enrolled on or after January 1, 1990, and firemen enrolled on or after December 17, 1989, the 75% duty disability allowances are payable until the earlier of attainment of age 57, or completion of 25 years of service and attainment of age 52, at which time the member must either convert to a service retirement allowance or irrevocably elect to receive a recalculated duty disability allowance, referred to as an extended life duty disability allowance, as described in (c), below. Different conversion age requirements apply to policemen enrolled prior to January 1, 1990, and firemen enrolled prior to December 17, 1989, as discussed in (d), below. A fireman or policeman who becomes duty disabled on or after his conversion age may choose between a service retirement or extended life duty disability retirement.

- c) The extended life duty disability allowance referred to in (b), above, equals the lesser of the conversion service retirement allowance, or 75% of the current annual salary, provided further that the benefit will not be less than 57% of current annual salary for a fireman, or 60% of current annual salary for a policeman. "Current annual salary" here refers to the salary at the conversion age, for the position held by the member at the time of injury. The extended life duty disability allowance is payable for life and, unlike the duty disability allowance, is a fixed amount that does not change after the conversion age, notwithstanding any cost of living adjustments. Firemen or policemen receiving extended life duty disability benefits may elect reduced benefits under an optional form of payment in order to provide a death benefit to a designated beneficiary. Their spouses are not eligible to receive the 70% benefit payable to surviving spouses of firemen and policemen who die while in receipt of the 75% duty disability benefit.
- d) For policemen enrolled prior to January 1, 1990, and firemen enrolled prior to December 17, 1989, the conversion age determination depends upon the member's enrollment date and whether or not the member signed the DeBraska II release form.

Under Charter Ordinance 980130 Substitute 2 (DeBraska I), duty disabled firemen and policemen who retired on duty disability before October 17, 1992, have a conversion age equal to the greater of the conversion age in effect when they were enrolled, or the conversion age in effect at the time of their disability retirement.

Under Charter Ordinance 000789 (DeBraska II), duty disabled firemen and policemen who signed the DeBraska II release form are subject to the following conversion requirements: (i) members retired on duty disability prior to February 8, 1972, will receive duty disability benefits for life; (ii) members enrolled prior to February 8, 1972, who are either policemen who retired on duty disability on or after August 1, 1985, or firemen who retired on duty disability on or after March 1, 1984, will have a conversion age of 63; (iii) members enrolled on or after February 8, 1972, who retired on duty disability on or after October 17, 1992, will not be required to convert to service retirement prior to the conversion age requirements that were in effect when they enrolled; and (iv) for all other members who signed the DeBraska II release form, there is no difference between the conversion requirements of Charter Ordinance 980130 Substitute 2, and Charter Ordinance 000789. In general, only members who were duty disabled prior to January 1, 2001 were given the opportunity to sign the DeBraska II release form.

Under the Charter Ordinance (which reflects the Rehrauer decision) firemen and policemen who



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

retire (or previously retired) on duty disability and who did not sign the DeBraska II release form will convert at the highest conversion age agreed upon during their employment (Section 36-05-3). Members who enrolled prior to February 8, 1972, who are either policemen who retired on duty disability on or after November 1, 1976, or firemen who retired on duty disability on or after October 1, 1977, will receive duty disability for life if they did not sign the DeBraska II release form, and will have a conversion age of 63 if they did sign the DeBraska II release form.

Funds Charged with Duty Disability Related Benefits

- a) For participants in the Combined Fund, duty disability benefits paid to members, benefits paid to survivors of members who die while duty disabled, child allotment payments, conversion service retirement benefits, and extended life duty disability benefits are paid from the Combined Fund.
- b) For General Employees who do not participate in the Combined Fund, duty disability benefits, and survivor benefits paid to beneficiaries of General Employees who elect an optional form of payment and die while disabled, are paid from (i) the General Employees Duty Disability Fund if the member's enrollment date is prior to February 1, 1996, and (ii) the Combined Retirement and Disability Fund if the member's enrollment date is on or after February 1, 1996.
- c) For members who do not participate in the Combined Fund, benefits paid after conversion to either a service retirement allowance or an extended life disability benefit are charged to (i) the Retirement Fund if the member's enrollment date is prior to February 1, 1996, and (ii) the Combined Retirement and Disability Fund if the member's enrollment date is on or after February 1, 1996.

Ordinary Death Benefit

Eligibility and Amount of Ordinary Death Benefit

- a) In the event of death of a member while in service, a death benefit equal to the sum of the member's accumulated contributions, plus if the member has one or more years of active service, one-half his final average salary is payable to the designated beneficiary. Optional forms of payment of such benefit to the beneficiary are provided. If the member had elected a protective survivorship option – and duty death benefits are not payable – such option will become effective and the ordinary death benefit will not be payable. If a duty death benefit is payable the ordinary death benefit will not be paid.
- b) Unless the member elects an optional death benefit, the death benefit subsequent to retirement is the amount remaining, if any, of the member's contributions with interest to retirement less the sum of the allowance payments made prior to the member's death.

Funds Charged with Ordinary Death Benefits

Ordinary death benefits paid on behalf of a participant in the Combined Fund are charged to the Combined Fund. Otherwise, ordinary death benefits are charged to (i) the Retirement Fund if the member's enrollment date is prior to February 1, 1996, and (ii) the Combined Retirement and Disability Fund if the member's enrollment date is on or after February 1, 1996.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Protective Survivorship Option

Eligibility and Amount of Protective Survivorship Option

Firemen may elect a Protective Survivorship Option (PSO) during the 6 months that precede the earlier of attainment of age 49 and completion of 22 years of qualifying time as a fireman or policeman, or age 52 and 25 years of qualifying time as a fireman or policeman, or age 57. Policemen may elect a Protective Survivorship Option (PSO) during the 6 months that precede the earlier of attainment of age 57, or completion of 25 years of qualifying time as a policeman or fireman. Firemen and policemen who fail to elect a PSO during the eligible period are deemed to have elected an Option 2 PSO with the spouse as the named beneficiary.

General Employees who enrolled prior to January 1, 2014, may elect a PSO during the 6 months that precede the earlier of attainment of age 60 or completion of 30 years of qualifying time and attainment of age 55. General Employees who enrolled on or after January 1, 2014, may elect a PSO during the 6 months that precede the earlier of attainment of age 65, or completion of 30 years of qualifying time and attainment of age 60.

Firemen and policemen are allowed to reselect a PSO if they marry, or divorce, and to select a different option and/or beneficiary at retirement, if they wish. As of June 5, 2012, General Employees may also reselect a PSO if they marry, or divorce, or select a different option and/or beneficiary at retirement.

The PSO may be canceled if the joint annuitant predeceases the member before retirement; or if the member is divorced from the joint annuitant before retirement.

Under a PSO, if a member eligible to retire on a service retirement allowance dies prior to retirement, benefits begin to the named beneficiary just as if the member retired under such option immediately prior to his or her death, except that imputed service credit arising from the dissolution of the Firemen and Policemen's Survivorship Fund will not be used in the calculation of the PSO benefit. If a fireman eligible for PSO coverage dies prior to age 49, benefits for the named beneficiary will be deferred until the date the fireman would have attained age 49. Imputed military service, imputed fire and police service, and seasonal service credit may be used in the calculation of the deferred PSO benefit.

In all cases where the requirements are met for both a PSO benefit and a duty death benefit, the duty death benefit will be payable in lieu of the PSO.

Funds Charged with PSO Benefits

PSO benefits for participants in the Combined Fund are charged to the Combined Fund. Benefits for individuals who do not participate in the Combined Fund are charged to (i) the Retirement Fund if the member's enrollment date is prior to February 1, 1996, and (ii) the Combined Retirement and Disability Fund if the member's enrollment date is on or after February 1, 1996.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Duty Death Benefits

Eligibility and Amount of Duty Death Benefits

In the event the member's death occurs in the performance of his duty, a lump sum payment equal to the member's accumulated contributions, plus an annuity of 60% of such deceased member's final average salary will be paid to one of the following (payable in this order):

- The member's surviving spouse
- The member's children until their 21st birthday
- The member's dependent parents
- Death of a fireman that is due to heart or lung disease is considered a duty death.

Funds Charged with Duty Death Benefits

Benefits payable to participants in the Combined Fund are charged to the Combined Fund. Heart & Lung duty death benefits payable to individuals who are not participants in the Combined Fund are charged to the Heart & Lung Fund. Duty death benefits (other than Heart & Lung) payable to individuals who are not participants in the Combined Fund are charged to (i) the Retirement Fund for members whose enrollment dates are prior to February 1, 1996; and (ii) the Combined Retirement and Disability Fund for members whose enrollment dates are on or after February 1, 1996.

Member Contributions

Member contribution rates are the following percentages of annual salary:

General Employees	5.5% (tier 1 – enrolled prior to January 1, 2014) 4.0% (tier 2 – enrolled on or after January 1, 2014)
Firemen and Policemen-	7.0%
Elected Officials	7.0% (tier 1 – enrolled prior to January 1, 2014 and elected to an office prior to January 1, 2014; if enrolled prior to January 1, 2014, and elected or the first time to an office on or after January 1, 2014, and employee was paying contributions prior to being elected, employee pays contributions at the rate they were paying prior to becoming an elected official; if enrolled prior to January 1, 2014, and elected or the first time to an office on or after January 1, 2014, and employer was picking up contributions on behalf of the employee prior to being elected, employer pays 7.0%) 4.0% (tier 2 – enrolled on or after January 1, 2014)

Under state law, per 2011 Wisconsin Act 10, participating employers are no longer permitted to make contributions on the member's behalf (with the exception of contractually agreed upon arrangements).

Member contributions made for or by participants in the Combined Fund are credited to the Combined Fund. Member contributions made for or by individuals who are not participants in the Combined Fund are credited to (i) the Retirement Fund for members whose enrollment dates are prior to February 1, 1996; and (ii) the Combined Retirement and Disability Fund for members whose enrollment dates are on or after February 1, 1996.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Pension Escalators

Several different pension escalators are paid by the ERS as listed and described under section 36-05-1(h). They are as follows:

- Fire and Police \$50 Escalator

Eligible Groups and Amounts

- a) Firemen in Local 215 who retired under a service retirement allowance between March 1, 1990, and December 31, 1992; members of the Milwaukee Police Association (MPA) who retired under a service retirement allowance between January 1, 1990, and December 31, 1992; members of the Milwaukee Police Supervisors Organization who retired under a service retirement allowance between January 1, 1991, and December 31, 1992; and firemen in Local 215 or members of the MPA who elect a deferred retirement allowance after separating from service between January 1, 1993, and December 31, 1994, with 25 years of service; are eligible for a pension escalator which increases their allowance by \$50 per month on the 4th, 7th, and 10th anniversary of retirement.
- b) Members who both retired on duty disability and converted from duty disability to service retirement during the eligibility period are eligible for the escalators on the 4th, 7th, and 10th anniversaries of their conversion dates.
- c) The surviving spouses of eligible retirees, or of members who died during the eligibility period, are eligible provided that the member elected an optional benefit at retirement – or elected a protective survivorship option (PSO) prior to retirement – with the spouse as beneficiary. The member's surviving spouse receives increases on the member's 4th, 7th, and 10th anniversary of retirement (or spouse's retirement date in the case of a PSO) with the amount of the escalator adjusted to reflect the option elected by the member.

Funds Charged with Duty Death Benefits

Fire and Police \$50 escalators paid to participants in the Combined Fund are charged to the Combined Fund.

Fire and Police \$50 escalators paid to individuals who are not participants in the Combined Fund are charged to the Retirement Fund.

- January 1996 Catch-up COLA for pre-October, 1987 Retirees

Eligible Group

- a) General Employees that attained the minimum service retirement age and retired with a service retirement allowance prior to October 1, 1987, or who retired on a duty disability allowance and converted to a service retirement allowance prior to October 1, 1987.
- b) Firemen and policemen who retired prior to October 1, 1987, who became eligible to retire on service retirement at age 57, or after attaining age 52 and completing 25 years of service. Also,



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

firemen and policemen who retired on a duty disability allowance and converted to a service retirement allowance prior to October 1, 1987.

- c) Surviving spouses of eligible retirees, or of members who elected a PSO and died prior to October 1 1987, after naming their spouse as the designated beneficiary under Option 2, Option 3, or Option 4 with a percentage to the beneficiary.

Timing and Amount of Increase

The catch-up COLA was a permanent increase in the ERS monthly benefit which was granted effective January 1, 1996. The increase was an amount equal to (i) the total ERS benefit in payment, multiplied by the greater of (ii) the total percentage change in the cost of living for each full calendar month between the 8th anniversary of service retirement and October 1, 1995, and (iii) the total percentage change required to bring the member's allowance to 60% of its full inflation adjusted value considering inflation for the period from retirement to October 1, 1995. The percentage change in the cost of living was measured by the increase in the CPI-U, U.S. Cities, as reported by the U.S. Department of Labor, Bureau of Labor Statistics.

When the catch-up COLA was calculated, the factor was not applied to supplemental, pass through benefits, which are paid by the ERS but are not a liability of the ERS. These pass through benefits, which appear on the pension payroll data supplied to the actuary, are part of an old guaranteed minimum program. The ERS is a paying agent for these benefits, but is reimbursed by the City for all such payments.

Funds Charged

Catch-up COLA amounts paid to participants in the Combined Fund are charged to the Combined Fund. Catch-up COLA amounts paid to individuals who are not participants in the Combined Fund are charged to the Retirement Fund.

- 2% Escalator for pre-1993 Retirees

Eligible Group

- a) General Employees that attained the minimum service retirement age and retired with a service retirement allowance prior to January 1, 1993, or who retired on a duty disability allowance and converted to a service retirement allowance prior to January 1, 1993.
- b) Firemen and policemen who retired prior to January 1, 1993, who became eligible to retire on service retirement at age 57, or after attaining age 52 and completing 25 years of service. Also, firemen and policemen who retired on a duty disability allowance and converted to a service retirement allowance prior to January 1, 1993.
- c) Surviving spouses of eligible members who elected Option 3 with the spouse as the beneficiary, or of members who died prior to January 1, 1993 after electing an Option 3 PSO with the spouse as the beneficiary.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Timing and Amount of Increase

The first increase occurs with the later of the January 1996 installment or the installment next following the 8th anniversary of the member's service retirement date (or the 8th anniversary of the surviving spouse's retirement date in the case of a PSO). Thereafter, increases occur annually on the anniversary of the first increase.

The first increase is 2% of the total ERS benefit in payment. That is, the monthly benefit to which the increase is applied includes \$50 fire and police escalators, and the January, 1996 catch-up COLA amount, if any, but it excludes supplemental pass through payments, if any. Increases after the first are also 2%, and are compounded -- that is, they are applied to the total ERS benefit in payment, including all prior increases, and again, excluding any supplemental pass through payments. (The benefit initially payable to an eligible spouse upon the member's death includes 50% of any increases in payment at the member's death.)

Funds Charged

2% escalators paid to participants in the Combined Fund are charged to the Combined Fund. 2% escalators paid to individuals who are not participants in the Combined Fund are charged to the Retirement Fund.

- CPI Escalator for post-1992 Fire and Police Retirees who don't Participate in the Combined Fund and Pre-2000 CPI Escalator for post-1992 Fire and Police Retirees who do Participate in the Combined Fund

Eligible Group

- a) Firemen and policemen in active service on or after January 1, 1993, who become eligible to retire on service retirement at age 57 or after attaining age 52 and completing 25 years of service.
- b) Firemen and policemen who retire on either a 75% Fire & Police duty disability benefit or a Heart & Lung duty disability benefit (i) between January 1, 1993, and December 31, 1994, and thereafter convert to service retirement; or (ii) on or after January 1, 1995, and who are eligible to elect between service retirement and extended life duty disability benefits at their conversion age.
- c) Police in active service on or after January 1, 1995, who separate with 25 years of service and elect a deferred retirement allowance.
- d) Surviving spouses of eligible members who elect Option 2 or 3, or who elect Option 4 with a percentage to the spouse, or who elect a PSO with a percentage to the spouse.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Timing and Amount of Increase

For members who retired on service retirement between January 1, 1993, and December 31, 1994; or who retired on duty disability between January 1, 1993, and December 31, 1994, and later convert to service retirement; and for eligible surviving spouses of members who died prior to retirement between January 1, 1993, and December 31, 1994, with PSO coverage in effect; the first increase occurs for March of the year following the first full calendar year of service retirement. For all others, the first increase occurs one full year after the member's service retirement date. Thereafter, increases occur annually on the anniversary of the first increase.

The monthly benefit is increased by an amount equal to (i) the total allowance for the preceding December (including all prior increases), multiplied by the lesser of (ii) 3%, and (iii) the increase in the CPI-U, U.S. Cities Average, for the calendar year preceding the increase. (The benefit initially payable to an eligible spouse upon the member's death includes a proportionate share of any increases in payment at the member's death, based on the option elected.)

Funds Charged

Benefits payable to participants in the Combined Fund are charged to the Combined Fund. For individuals who are not participants in the Combined Fund: (i) benefits are charged to the Retirement Fund for members whose enrollment dates are prior to February 1, 1996; and (ii) benefits are charged to the Combined Retirement and Disability Fund for members whose enrollment dates are on or after February 1, 1996.

- Post-1999 CPI Escalator for post-1992 Fire and Police Retirees who Participate in the Combined Fund

Eligible Group

The eligible group is restricted to individuals who were firemen and policemen who retired on duty disability between October 17, 1992, and December 31, 1992; or who were in active service on or after January 1, 1993, who either retire as firemen or policemen, or who die in active service as firemen or policemen; and their eligible surviving spouses. The types of benefits that receive the CPI escalator include:

- a) The service retirement allowance and ordinary disability retirement allowance.
- b) Benefits paid to members after the duty disability conversion age: the conversion service retirement allowance or the extended life duty disability retirement allowance.
- c) Benefits paid to members after separation from service: the deferred retirement allowance, early retirement allowance, involuntary separation allowance, or the ERS allowance paid under the County transfer or State reciprocity provisions.
- d) The spouse survivor allowance paid to the surviving spouse of an eligible member who elects Option 2 or 3, or who elects Option 4 with a percentage to the spouse, or who elects a PSO with a percentage to the spouse.
- e) The fire and police or heart & lung duty disability surviving spouse allowance.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

- f) The duty death surviving spouse allowance.

Timing and Amount of Increases that occur after 1999

- a) The first post-1999 increase occurs the later of March 2000 and March of the year following the first full calendar year of retirement for: members who retired on service retirement or ordinary disability between January 1, 1993, and December 31, 1994; or who convert to service retirement after a period of duty disability which commenced between January 1, 1993, and December 31, 1994; or who separated from service between January 1, 1993, and December 31, 1994, and subsequently retire on a deferred, early, involuntary separation, or County transfer/ State reciprocity allowance; eligible spouse survivors of such members, including PSO spouse survivors when the member died between January 1, 1993, and December 31, 1994; duty death surviving spouses of members who died between January 1, 1993, and December 31, 1994; and duty disability surviving spouses where both the member's duty disability retirement date and duty disabled death date were between January 1, 1993, and December 31, 1994.
- b) The first post-1999 increase occurs the later of the year 2000 anniversary or the first anniversary of the member's date of death for: duty disability surviving spouses where the member's duty disability death date is on or after January 1, 1995.
- c) For all others, the first post-1999 increase occurs the later of the year 2000 anniversary or the first anniversary of the member's retirement or pre-retirement death. (Note: this group includes members who retired on duty disability between October 17, 1992, and December 31, 1994, who subsequently elect an extended life duty disability retirement allowance, and members who retired on duty disability between October 17, 1992, and December 31, 1992, who subsequently convert to service retirement.)

Thereafter, increases occur annually on the anniversary of the first post-1999 increase.

The monthly benefit is increased by an amount equal to (i) the total allowance for the preceding December (including all prior increases), multiplied by the lesser of (ii) 3%, and (iii) the increase in the CPI-U, U.S. Cities Average, for the calendar year preceding the increase. If the member retired on duty disability between October 17, 1992, and December 31, 1992, and subsequently converts to service retirement, then the 2nd, 3rd, and 4th increases will not be less than 1.5%, and the 5th and subsequent increases will not be less than 2%. (The benefit initially payable to an eligible spouse upon the member's death includes a proportionate share of any increases in payment at the member's death, based on the option elected.)

Funds Charged

The CPI escalator is charged to the Combined Fund.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

- 2% Guarantee for Fire and Police CPI Escalator for Participants in Combined Fund

The eligible group is restricted to firemen and policemen who retire on service retirement, their spouse survivors, and PSO spouse survivors. In addition, firemen members of Local 215 and policemen members of the MPA must have been in active service on or after January 1, 1998; policemen members of the MPSO must have been in active service on or after January 1, 1999; and non-represented firemen and policemen must have been in active service on or after January 1, 2000. The benefit is a guarantee that the CPI Escalator will not be less than 2% per annum.

- 2% Escalator for post-1992 General Employee Retirees who do Not Participate in Combined Fund

Eligible Group

- a) General Employees who retire on a service retirement allowance on or after January 1, 1993 who have either (i) attained age 60, or (ii) completed 30 years of service and attained age 55.
- b) General Employees receiving a duty disability retirement allowance who convert to service retirement on or after January 1, 1993.
- c) Spouses of eligible members who either elect Option 3 at retirement with the spouse as beneficiary, or who die after electing an Option 3 PSO with the spouse as beneficiary.

Timing and Amount of Increase

The first increase occurs with the installment next following the 8th anniversary of the member's service retirement or conversion to service retirement date (or the 8th anniversary of the surviving spouse's retirement date in the case of a PSO). Thereafter, increases occur annually on the anniversary of the first increase.

Each increase is 2%, and increases after the first are compounded -- that is, they are applied to the total benefit in payment, including all prior increases. (The benefit initially payable to an eligible spouse upon the member's death includes 50% of any increases in payment at the member's death.)

Funds Charged

For members whose enrollment dates are prior to February 1, 1996, the 2% escalator for post-1992 general employee retirees is paid from the Retirement Fund. For members whose enrollment dates are on or after February 1, 1996, the 2% escalator for post-1992 general employee retirees is paid from the Combined Retirement and Disability Fund.

- Post-1999 1.5% / 2% Escalator for General Employee Retirees and for Pre-1993 Fire and Police Retirees who Participate in the Combined Fund

Eligible Group

The eligible group includes (i) pre-1993 retirees and surviving spouses who are not eligible for either the 2% Escalator for pre-1993 retirees, or the Post-1999 CPI Escalator for post-1992 fire and police retirees; and (ii) post-1992 general employee retirees and their surviving spouses. The types of benefits that receive the 1.5%/2% escalator include:



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

- a) The service retirement allowance and ordinary disability retirement allowance for all members, and the duty disability retirement allowance for General Employees.
- b) Benefits paid to members after the duty disability conversion age: the conversion service retirement allowance for all members or the extended life duty disability retirement allowance for fire and police.
- c) Benefits paid to members after separation from service: the deferred retirement allowance, early retirement allowance, involuntary separation allowance, or the ERS allowance paid under the County transfer or State reciprocity provisions.
- d) The spouse survivor allowance paid to the surviving spouse of an eligible member who elects Option 2 or 3, or who elects Option 4 with a percentage to the spouse, or who elects a PSO with a percentage to the spouse.
- e) The fire and police or heart & lung duty disability surviving spouse allowance.
- f) The duty death surviving spouse allowance.

Timing and Amount of Increases that occur after 1999

- a) The first post-1999 increase occurs for January 2000 for eligible Option 2 and 4 spouse survivors of members retired on a service retirement allowance or a conversion service retirement allowance - and for eligible Option 2 and 4 PSO spouse survivors - when the member's date of retirement or pre-retirement death was prior to January 1988.
- b) The first post-1999 increase occurs the later of the year 2000 anniversary or the 2nd anniversary of the member's date of death for: duty disability surviving spouses of firemen and policemen.
- c) For all others, the first post-1999 increase occurs the later of the year 2000 anniversary or the 2nd anniversary of the member's retirement or pre-retirement death.

Thereafter, increases occur annually on the anniversary of the first increase.

All increases for the group described in paragraph (a) are 2% increases. For paragraphs (b) and (c), an increase which takes effect on the 2nd, 3rd, or 4th anniversary is a 1.5% increase. An increase which takes effect on the 5th or subsequent anniversary is a 2% increase. Increases after the first one are compounded -- that is, they are applied to the total benefit in payment, including all prior increases. (The benefit initially payable to an eligible spouse upon the member's death includes the spouse's proportionate share of any increases in payment at the member's death, based on the option elected.)

Tier 2 Employees receive an increase of 2% on the fifth anniversary of their retirement and on each anniversary that follows, but only for service retirement.

Fire and Police Survivorship Benefits Prior to the Global Pension Settlement

The survivors of firemen or policemen who die in active service or while in receipt of a disability allowance may be entitled to a survivorship benefit. The survivorship benefit is payable to the spouse of the deceased member provided the spouse has one or more eligible children in her care. Eligible children include unmarried children who are either under the age of 18, or are over age 18, but who suffer from a disability which commenced before the age of 18. The amount of the survivorship benefit for a death occurring in 2000 is \$600 monthly for the spouse and one child or for two or more eligible children. If there is no surviving widow and only one child, the benefit is \$300. Upon attainment of age 57, \$300 is payable to the spouse for her lifetime. Benefits payable to a spouse cease on remarriage and benefits payable in respect of children cease on attainment of age 18 (unless disabled prior to age 18) or marriage. For member deaths



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

that occurred prior to 2000 the monthly amount payable depends upon the plan provisions in effect at the member's death.

Fire and Police Survivorship Benefits for Survivors Participating in the Combined Fund

Survivors of firemen or policemen who died prior to 2000 while in active service or while retired on disability (and contributing to the Fire and Police Survivorship Fund) may be entitled to a survivorship benefit. The survivorship benefit is payable to the spouse of the deceased member provided the spouse has one or more eligible children in her care. For participants in the Combined Fund, the amount of the survivorship benefit for a death occurring prior to 2000 is \$600 monthly for the spouse and one child under age 18, or for two or more children under age 18. If there is no surviving widow and only one child, the benefit is \$300. The monthly amount payable to a disabled child over the age of 18 depends upon the plan provisions in effect at the member's death. Upon attainment of age 57, \$300 is payable to the spouse for her lifetime. Benefits payable to a spouse cease on remarriage and benefits payable in respect of children cease on attainment of age 18 (unless disability commenced prior to age 18) or marriage.

Survivorship Benefits for Participants in the Combined Fund are charged to the Combined Fund.

Separation Benefits

Eligibility and Amounts

Should a member separate from service, and no other benefit is payable, such a member will possibly be entitled to one of the options outlined below. Additional eligibility information about Separation Benefits is provided under 36-05-6.

- a) If the member has less than four years of creditable service, a refund of member contributions (not paid by the member's employer). Interest at 4.0% per annum on the 4%, 5.5%, or 7% member paid contributions is also payable.
- b) If the member has four years of creditable service, a deferred allowance payable at the minimum service retirement age.
- c) A refund of the member contributions and interest, including contributions paid on the member's behalf, is payable to (i) General Employees after 4 years of creditable service, or (ii) firemen or policemen after 10 years of creditable service.
- d) If the member's service is involuntarily terminated, or the member terminates voluntarily after attaining age 55 and completing 15 years of creditable service, such member may elect to receive a deferred allowance at the minimum service retirement age, or an immediate allowance that is the actuarial equivalent of the deferred allowance.
- e) If the member has 25 years of qualifying time as a fireman or policeman, and is not participating in the Combined Fund, a deferred allowance payable at age 52.
- f) If the member is a fireman with 25 years of qualifying time as a fireman or policeman, had not attained age 49 at the date of separation from service, and is participating in the Combined Fund, a deferred allowance payable at age 52.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Imputed service credit and seasonal service credit are not used when calculating separation benefits.

Funds Charged with Separation Benefits

Benefits paid to participants in the Combined Fund are charged to the Combined Fund. Separation benefits paid to individuals not participating in the Combined Fund are charged to (i) the Retirement Fund if the member's enrollment date is prior to February 1, 1996, and (ii) the Combined Fund if the member's enrollment date is on or after February 1, 1996.

Lump Sum Bonus Payments

Under the Global Pension Settlement, various lump sum bonus payments may be made to eligible individuals participating in the Combined Fund. An individual may be eligible for one or more types of lump sum bonus payments.

Eligibility for Lump Sum Bonus Payments

Only individuals participating in the Combined Fund can become eligible for the following types of lump sum bonus payments. In addition, the following conditions apply to the individual lump sum bonuses.

- a) 5% lump sum bonus: Members who are inactive as of January 1, 2000, will become eligible at the time that their deferred retirement allowance commences.

Members in active service as of January 1, 2000, will become eligible when they first retire.

If a member in active service as of January 1, 2000, dies prior to retirement and the member's surviving spouse is eligible for either a surviving spouse duty death benefit (including Heart & Lung duty death) or a PSO spouse survivor benefit then the surviving spouse is eligible for this bonus payment.

Only one 5% lump sum bonus will be paid on account of an individual member. Thus, if a member receiving a duty disability retirement allowance receives a 5% lump sum bonus on account of the duty disability benefit, then the member will not be eligible for an additional 5% lump sum bonus at the time of conversion.

- b) 8.6% lump sum bonus: A fireman or policeman in active service as of January 1, 2000, who (i) retires as a fireman or policeman on a service retirement allowance; or (ii) converts to service retirement or elects an extended life duty disability retirement allowance after retiring as a fireman or policeman on duty disability; (iii) attains age 63 while in receipt of an ordinary disability retirement allowance or a lifetime Fire & Police or Heart & Lung duty disability retirement allowance, is eligible for this bonus so long as the member did not receive 2 years of imputed service credit under the dissolution of the Firemen and Policemen's Survivorship Fund; (iv) or retires as a fireman or policeman on an extended life duty disability.

If a fireman or policeman in active service as of January 1, 2000, dies prior to retirement and the member's surviving spouse is eligible for either a surviving spouse duty death benefit (including Heart & Lung duty death) or a PSO spouse survivor benefit then the surviving spouse is eligible for this bonus payment.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

A fireman or policeman retired on disability as of January 1, 2000, who is also an active member of the Firemen and Policemen's Survivorship Fund as of January 1, 2000 - under age 57 at 1/1/2000, and made all required contributions to the Survivorship Fund – is eligible for this bonus if he (i) converts to service retirement or elects an extended life duty disability retirement allowance; or (ii) is ineligible to convert to service retirement and attains age 63 while in receipt of the disability retirement allowance; provided that he (iii) did not receive 2 years of imputed service credit under the dissolution of the Firemen and Policemen's Survivorship Fund.

Amount of Lump Sum Bonus Payments

Age factors are used in the 5% lump sum bonus and the 8.6% lump sum bonus calculations. The age factors for these bonus payments are contained in s. 36-05-11-a.

- a) 5% lump sum bonus: For members who are either inactive or active as of January 1, 2000, who retire in the future, the bonus payment equals 5% times their initial annual retirement allowance times a factor based on attained age on the retirement date. The retirement allowance used in the bonus calculation is to be reduced for early retirement, if applicable, but is not to be reduced for any optional election the member might have made under s. 36-05-7.

If a member in active service as of January 1, 2000 dies prior to retirement and the member's surviving spouse is eligible for this bonus payment, then the bonus will equal 5% times the spouse's initial annual benefit times a factor based on the spouse's attained age when the benefit commences.

- b) 8.6% lump sum bonus: In the explanation that follows, whenever an annual allowance is used in calculating a bonus due to a member, the allowance used is the allowance that would be paid if the member did not elect an option under s. 36-05-7.

For members who retire on service retirement: 8.6% times the annual service retirement allowance times a factor based on attained age at retirement.

For surviving spouses who receive either a PSO benefit or a duty death benefit: 8.6% times the initial annual allowance payable to the spouse times a factor based on the spouse's attained age when the benefit commences.

For a member who is retired on duty disability as of January 1, 2000 - or who retires on duty disability thereafter - and who is eligible to convert to service retirement: 8.6% times the annual conversion service retirement allowance earned as of the conversion age times a factor based on attained age at conversion.

For a member who is retired on disability as of January 1, 2000 – or who retired on disability thereafter – who is ineligible to convert to service retirement, and who is age 63 or younger at the later of 1/1/2000 or the disability retirement date: 8.6% times the “hypothetical” annual conversion service retirement allowance earned at age 63 times the attained age factor for age 63. The “hypothetical” allowance is calculated as if the member were eligible to convert at age 63.

For a member who retires on disability after January 1, 2000, who is older than age 63 at the disability retirement date: 8.6% times the annual disability allowance payable when the allowance commences times a factor based on the member's attained age at retirement.



APPENDIX B: SUMMARY OF BENEFIT PROVISIONS

Funds Charged

The 5% lump sum bonus and the 8.6% lump sum bonus are paid from the Combined Fund.

Benefits Not Valued

None.



APPENDIX C: SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods

The method of financing the ERS is prescribed in Section 36.08 of the MCC.

Actuarial Cost Method

The method used to determine Normal Cost and Accrued Actuarial Liability (AAL) is the Individual Entry Age Normal Cost Method. The UAAL, under this method, is the AAL over the Actuarial Value of Assets. The total Employer contribution is the sum of the Employer portion of the Normal Cost (Total Normal Cost less expected member contributions) plus an amount to amortize the UAAL according to the Amortization Method.

If the Actuarial Value of Assets exceeds the sum of the AAL and the Employer portion of the Normal Cost, there is no Employer contribution required for that year.

Asset Values

Two asset values are used in this report. A description of each and a brief explanation of where they are used follows:

- **Market Value**

The market value of assets is the value of investments if they were to be sold on the date valued. The market value of assets is used to develop the actuarial value of assets.

- **Actuarial Value**

The actuarial value of the assets in the Employers' Reserve Fund and the Securities Lending Fund is equal to the market value of assets. These Funds are not available to pay the benefits for ERS members so they are excluded from the allocation of the actuarial value of assets to the various funds and groups and the resulting calculations of employer contributions. The actuarial value of assets for the remaining funds is a smoothed value of assets (see Table 7). The difference between (1) the expected return on the actuarial value of assets at the beginning of the year, based on the investment return assumption and the net non-investment cash flows, and (2) the actual return on the market value of assets is smoothed equally over five years. As a result, there are five components of excess/shortfall returns to be smoothed each year.

The preliminary actuarial value for the current valuation is the preliminary actuarial value from the prior year plus non-investment cash flows (contributions less benefits and refunds) plus the expected return on the market value of assets at the applicable assumed investment return and the current year's recognition of each of the prior five year's excess/shortfall returns.

Amortization Method

Closed layered amortization method with amortization payments for each base increasing by 2.00% per year. The outstanding balance of the unfunded actuarial accrued liability (UAAL) as of January 1, 2019 is amortized over a fixed 25-year period. At each subsequent valuation date, any changes to the UAAL arising from actuarial gains or losses will be amortized over a fixed 15-year period and any changes to the UAAL arising from changes in assumptions, methods, or plan provisions will be amortized over a fixed 25-year period.



APPENDIX C: SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Assumptions are based on the experience investigation prepared as of December 31, 2016 and adopted by the Board of Trustees on October 23, 2017 for use beginning with the January 1, 2018 actuarial valuation. The investment return assumption of 7.50% was adopted by the Board of Trustees on April 29, 2019, for use in the January 1, 2019 actuarial valuation.

Investment Return Assumption: 7.50% per annum (net of investment expenses), compounded annually.

Inflation: 2.50% per annum.

Cost of Living Adjustments (COLA): For retirees whose COLA is defined as the lesser of 3.00% and CPI-U, the assumed COLA is 2.50% per annum.

Payroll Growth for UAAL amortization: UAAL amortization payments increase at 2.00% per annum.

Illustrative Rates of Salary Increase:

Age	Salary Increases	
	General Employees	Firemen and Policemen
25	4.93%	9.47%
30	3.79	7.72
35	3.78	5.78
40	2.89	4.68
45	2.50	4.28
50	2.50	4.08
55	2.50	4.00
60	2.50	4.00
65	2.50	4.00

Annual increases of 2.50% per annum is assumed for Policemen, Firemen and General Employees on duty disability. The increases for duty disabled Firemen and Policemen affect both current duty disability benefits and future service retirement or extended life conversion benefits. The increases for General Employees affect only service retirement conversion benefits.

Deaths After Retirement: For regular retirees and survivors, the RP-2014 Healthy Annuitant Mortality Table, using 111% of rates for males and 110% of rates for females, projected generationally using Scale MP-2016, was used. For duty and ordinary disability retirees, the RP-2014 Disability Mortality Table, using 102% of rates for males and 98% of rates for females, projected generationally using Scale MP-2016, was used.

Deaths Prior to Retirement: For death in active service, the RP-2014 Non-annuitant Mortality Table projected generationally with Scale MP-2016 was used.

Mortality Projection: All mortality rates are projected using generational improvement with Scale MP-2016.



APPENDIX C: SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Illustrative Rates of Termination:

Age	<u>Less than 5 Years of Service</u>		<u>At least 5 Years of Service</u>	
	Males	Females	Males	Females
<u>General Employees</u>				
20	17.62%	24.05%	13.00%	14.30%
25	15.93	24.12	12.68	14.30
30	11.31	16.77	6.92	8.45
35	10.66	15.60	7.19	7.27
40	8.78	10.40	4.51	8.45
45	9.10	9.23	2.99	4.67
50	8.32	8.58	2.38	3.38
55	6.83	7.80	1.99	3.64
60	-	-	-	-
<u>Firemen and Policemen</u>				
20	6.15%	5.55%	-	-
25	2.33	4.65	1.34%	2.33%
30	2.75	7.38	1.13	3.34
35	3.38	6.63	1.10	1.88
40	4.40	4.40	0.90	0.97
45	5.40	4.40	1.08	1.53
50	8.80	4.40	4.05	6.70
55	10.00	4.40	-	-
60	-	-	-	-

All terminations are assumed to be involuntary.

Members who terminate vested are assumed to take a refund if it is more valuable than their deferred benefit. Regular interest credited on contribution account balances is assumed to be 4.0%.



APPENDIX C: SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Illustrative Rates of Early and Normal Retirement:

Age	Early Retirement	Normal Retirement				
	General Employees	General Employees		Firemen	Not in Combined Fund	Policemen In Combined Fund
		Males	Females	All		
42						10%
43						25
44						25
45						25
46						32
47						32
48				10%		32
49				13		25
50				13		25
51				13	44%	25
52				18	44	25
53				18	24	25
54		35%	26%	20	24	25
55	4%	45	26	25	24	25
56	4	30	17	25	40	25
57	4	27	15	30	35	25
58	4	27	20	35	35	25
59	4	22	20	35	35	25
60	4	19	19	35	35	25
61	4	19	20	50	35	25
62	4	28	25	50	50	50
63	4	20	18	100	100	100
64	4	20	18	100	100	100
65		30	25	100	100	100
66		30	30	100	100	100
67		18	20	100	100	100
68		18	20	100	100	100
69		18	20	100	100	100
70		100	100	100	100	100



APPENDIX C: SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Illustrative Rates of Disability:

Age	Disability Rates		
	General Employees	Firemen	Policemen
20	0.050%	0.064%	0.030%
25	0.050	0.136	0.030
30	0.060	0.280	0.100
35	0.077	0.760	0.187
40	0.131	0.960	0.231
45	0.162	0.960	0.231
50	0.256	1.080	0.210
55	0.527	1.080	0.210
60	0.077	1.080	0.210
65	0.200	1.080	0.210

Elected officials are assumed to become disabled at the same rate as General Employees.

Duty Disabilities:

Employee Group	Percentage of Disabilities Incurred in the Performance of Duty	Percentage of Duty Disabilities Assumed		Assumption Adopted January 1
		Eligible For The 90% Benefit	Under The Heart & Lung Law	
General Employees	10.0%	N/A	N/A	2018
Police other than MPA	70.0%	5.0%	N/A	2018
MPA enrolled on or before 4/18/2005	70.0%	5.0%	N/A	2018
MPA enrolled after 4/18/2005	62.5%	7.5%	N/A	2008
Fire other than MPFFA	90.0%	5.0%	15.0%	2008
MPFFA enrolled on or before 10/3/2005	90.0%	5.0%	15.0%	2008
MPFFA enrolled after 10/3/2005	81.2%	6.9%	20.8%	2008

Upon reaching their service conversion date, 100% of Policemen and Firemen who become duty disabled are assumed to convert to a service retirement benefit.



APPENDIX C: SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Marriage Assumption and Duty Disability Child Allotments:

It is assumed that female spouses are three years younger than males. In absence of evidence to the contrary, it is assumed that 85% of General Employees and 95% of Policemen and Firemen are married, with dependent children, described by the following table:

Member's Age at Death or Disability	Number of Dependent Children	Age of Youngest Child
20	0.0	-
25	1.5	1
30	2.5	2
35	2.5	5
40	2.5	8
45	2.0	11
50	1.5	14
55	1.0	15
60 and Over	0.0	-

The percentage of retiring employees assumed to elect option 3, the subsidized 50% option, is 25% for males and 15% for females. The percentage of General Employees assumed electing the 100% PSO option before retirement is 40% for males and 15% for females. For Firemen and Policemen, 95% are assumed to elect the 100% PSO option before retirement.

Duty Deaths:

The following percentages of deaths in active service are assumed to incur in the performance of duty:

General Employees: 5%
 Police & Fire: 10%. In addition, amongst firemen, 25% of duty deaths are assumed to occur under the Heart and Lung Law.

Imputed Military Service:

The following percentages of eligible members are assumed to earn 1 year of imputed military service credit:

General Employees: 10%
 Police: 13%
 Fire: 13%

These percentages are based on troop strength statistics from the Department of Defense website. (Adopted 1/1/2003)



APPENDIX C: SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Seasonal Service Credit: The following percentages of eligible members are assumed to receive one year of reasonable service credit:

Member's Union or Bargaining Group	Percentage with Seasonal Service	Assumption Adopted January 1
District Council 48, AFSCME	27.09%	2005
Fire Equipment Dispatchers Local 494, IBEW	0.00%	2006
Electrical Group Local 494, IBEW	31.00%	2006
Machine Shop Local 494, IBEW	12.00%	2005
Bridge Operators Local 195, IBEW	28.57%	2005
Joint 129/48 Local 139, IOUE & DC48	100.00%	2005
Machinists Local 510, IAM	5.00%	2005
Sanitation Local 61, LIUNA	98.06%	2005
TEAM (Techs, Eng, Archs of Milw)	5.00%	2005
MBCTC (Bricklayers, Carpenters, Cement Masons, Painters, Iron Workers)	10.00%	2005
Police Sworn Management, Police Civilian Management, Managers, Elected Officials (except mayor)	3.13%	2005
Non-represented in the Police Department and General City non-represented	5.00%	2005

Miscellaneous

Future Service Accrual: For members active on the valuation date, credited service in each future year is assumed to be the greater of credited service earned in the year prior to the valuation, or the average of the three highest years of service credit out of the five years that preceded the valuation date. New hires are assumed to accrue a full year of service in each future year (adopted 1/1/2007).

Annualized Compensation: For active members, their prior year reported compensation amount is annualized based on their Future Service Accrual and further increased by a leap year adjustment factor of 1.0034 ($26.089285 \div 26$).

Deemed Inactives: Active members who worked less than 100 hours in the prior year, but who have not officially terminated employment are treated as Inactives. These members are not assumed to earn additional service credit in future years.

Decrement Timing: All withdrawals, deaths, disabilities, and retirements are assumed to occur mid-year.



APPENDIX C: SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Liability for Inactive Members: The data provided for inactive members does not contain all the elements to calculate the member's deferred benefit. The deferred benefit amounts for these members are estimated using the member's life-to-date earnings and assumed salary increases. For terminated members who are missing a termination date on their record, it is assumed that they terminated at age 35. The actuary is collecting data so that future members' deferred benefits can be estimated.

Administrative Expenses: Based on the most recent fiscal year end.

Normal Cost: Normal cost rate reflects the impact of new entrants during the year

Changes Since Prior Valuation: None.



APPENDIX D: GLOSSARY OF TERMS

Note that the first definitions given are the “official” definitions of the term. For some terms there is a second definition, in italics, which is the unofficial definition.

Actuarial Accrued Liability (AAL): The portion of the Present Value of Projected Benefits (PVFB) allocated to past service. Also difference between (i) the actuarial present value of future benefits, and (ii) the present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability.” *The amount of money that should be in the fund. The funding target.*

Actuarial Assumptions: Estimates of future plan experience with respect to rates of mortality, disability, retirement, investment income and salary increases. Demographic (“people”) assumptions (rates of mortality, separation, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic (“money”) assumptions (salary increases and investment income) consist of an underlying rate appropriate in an inflation- free environment plus a provision for a long-term average rate of inflation. *Estimates of future events used to project what we know now- current member data, assets, and benefit provisions – into an estimate of future benefits.*

Actuarial Cost Method: A mathematical budgeting procedure for allocating the dollar amount of the Present Value of Projected Benefits (PVFB) between the normal costs to be paid in the future and the actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

Actuarial Methods: The collective term for the Actuarial Cost Method, the Amortization Payment for UAAL Method, and the Asset Valuation Method used to develop the contribution requirements for the Retirement System. *The funding policy.*

Actuarial Equivalent: Benefits whose actuarial present values are equal.

Actuarial Present Value: The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Actuarial Value of Assets (AVA): A smoothed value of assets which is used to limit contribution volatility. Also known as the funding value of assets. *Smoothed value of assets.*

Amortization Payment for UAAL: Payment of the unfunded actuarial accrued liability by means of periodic contributions of interest and principal, as opposed to a lump sum payment. The components of the amortization payment for UAAL includes:

- Amortization Period Length – Generally amortization periods of up to 15 to 25 years (and certainly not longer than 30). Similar to a mortgage, the shorter the amortization period, the higher the payment and the faster the UAAL is paid off.
- Amortization payment increases – Future payments can be level dollar, like a mortgage, or as a level percent of pay. Most Retirement Systems amortize UAAL as a level percent of pay which when combined with the employer normal cost that is developed as a level percent of pay can result in contributions that are easier to budget.



APPENDIX D: GLOSSARY OF TERMS

- Amortization type – An amortization schedule can be closed or open. A closed amortization schedule is similar to a mortgage – at the end of the amortization period the UAAL is designed to be paid off. An open amortization period is similar to refinancing the UAAL year after year.
- Amortization schedule – UAAL can be amortized over a single amortization period, or it can be amortized over a schedule.

The amortization payment for UAAL can be thought of as the UAAL mortgage payment.

Asset Valuation Method: The components of how the actuarial value of assets is to be developed. TSERS uses a five-year smoothing of asset gains and losses, which is the most commonly used method.

Experience Gain (Loss): A measure of the difference between actual experience and experience anticipated by a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used. *The experience Gain (Loss) represents how much the actuary missed the mark in a given year.*

Funded Ratio: The percent of the actuarial accrued liabilities covered by the actuarial value of assets. Also known as the funded status. *The ratio of how much money you actually have in the fund to the amount you should have in the fund.*

Normal Cost: The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” An amortization payment toward the unfunded actuarial accrued liability is paid in addition to the normal cost to arrive at the total contribution in a given year. *The cost of benefits accruing during the year.*

Present Value of Future Normal Cost (PVFNC): The portion of the Present Value of Projected Benefits (PVFB) allocated to future service. *The value in today’s dollars of the amount of contribution to be made in the future for benefits accruing for members in the Retirement System as of the valuation date.*

Present Value of Future Benefits (PVFB): The projected future benefit payments of the plan are discounted into today’s dollars using an assumed rate of investment return assumption to determine the Present Value of Future Benefits (PVFB) of the Retirement System. The PVFB is the discounted value of the projected benefits promised to all members as of a valuation date, including future pay and service for members which has not yet been earned. *If the Retirement System held assets equal to the PVFB and all the assumptions were realized, there would be sufficient funds to pay off all the benefits to be paid in the future for members in the Retirement System as of the valuation date.*

Reserve Account: An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability (UAAL): The difference between the actuarial accrued liability (AAL) and actuarial value of assets (AVA). The UAAL is sometimes referred to as “unfunded accrued liability.” *Funding shortfall, or prefunded amount if negative.*

Valuation Date: The date that the actuarial valuation calculations are performed as of. *Also known as the “snapshot date”.*

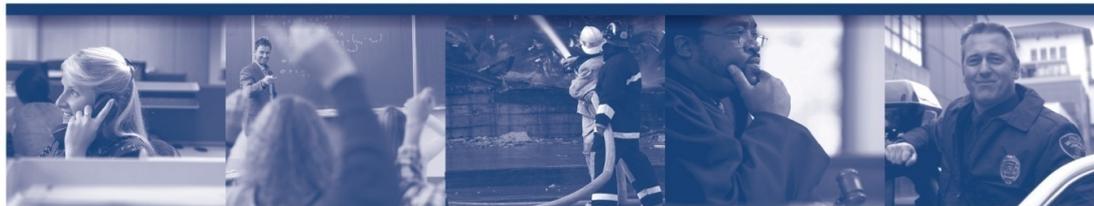


Cavanaugh Macdonald
CONSULTING, LLC

The experience and dedication you deserve

City of Milwaukee Employees' Retirement System Results of the January 1, 2021 Actuarial Valuation

**Presented by Cavanaugh Macdonald Consulting
June 21, 2021**



Section 36-15-15 of the Milwaukee City Charter requires the Actuary and Pension Board to “....prepare an annual valuation of the assets and liabilities of the funds of the retirement system”.

The primary purposes of performing a valuation are to:

- estimate the liabilities for future benefits expected to be paid by the System;
- determine the employer contribution rate required to fund the System on an actuarial basis and compare that rate to the Stable Contribution Policy;
- disclose certain asset and liability measures, including the funded ratio;
- assess and disclose the key risks associated with funding the System;
- monitor any deviation between actual plan experience and experience projected by the actuarial assumptions, and
- analyze and report on any significant trends in contributions, assets and liabilities over the past several years.

Actuarial Valuation Process Reserve Funding



Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

- Builds funds during working careers.
- Investment returns help pay for benefits.
- Actuarial valuation is mathematical model of financial future of system.
- Actuarial cost method's goal is level contributions as percent of payroll.
- Contribution equity among generations of active members and taxpayers.

Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

Stable Contribution Policy

Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

- Adopted by the Common Council on April 30, 2013. Contribution rate set for each group: Policemen, Firemen, and General Employees of the Combined Fund, and is applicable for the subsequent five-year period following the Experience Study performed by the actuary.
- The current actuarial contribution rates under the Stable Employer Contribution Policy in effect for calendar years 2018 through 2022 are:
 - General Employees: 7.48%
 - Policemen: 25.22%
 - Firemen: 26.83%.
- January 1, 2021 results are used to monitor the impact of the Stable Employer Contribution Policy on the System's funding and anticipate possible adjustments when the rate is reset for calendar years 2023 through 2027.

Events During 2020 Which Impacted the January 1, 2021 Actuarial Valuation Results

Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

- **Investment experience:** There was favorable investment experience on the market value of assets during calendar year 2020. This favorable experience, combined with the recognition of deferred asset gains, resulted in a return on the actuarial value of assets of 9.22%, which is above the assumed rate of return of 7.50%. This resulted in an actuarial gain on assets.
- **Liability experience:** net liability experience during 2020 was a small actuarial gain of \$5 million, primarily due to more deaths than expected.
- **Actual contributions:** contributions under the Stable Contribution Policy rate were \$88.5 million lower than the actuarially determined employer contribution rate. The actuarially determined employer contribution is higher than the Stable Contribution primarily due to the reduction in the investment return assumption in the January 1, 2019 valuation which was “off cycle” from the regular experience review.
- **Active membership:** the active membership declined by 3.7% and covered payroll decreased by 1.7% from the prior valuation. The UAAL contribution rate assumes an increase of 2.0% each year. When covered payroll decreases instead of increases as assumed, it results in a higher UAAL contribution rate.
- **GPS consenters:** since the January 1, 2020 valuation, eight individuals who were eligible for ERS benefits as of June 28, 2000 – and who had not previously consented to GPS – have now consented. As a result, \$1.1 million of assets has been transferred from the non-consenter funds in which these members previously participated to the Combined Fund.

Membership Data

Inputs

Membership Data

Asset Data

Benefit Provisions

Assumptions

Funding Methodology



Results

Actuarial Value of Assets

Actuarial Accrued Liability

UAAL/Funded Ratio

Net Actuarial Gain or Loss

Employer Contributions

Projections

	January 1, 2021	January 1, 2020	% Change
1. Membership Data			
a. Active Members			
(i) Count			
- General Employees	8,135	8,442	(3.6%)
- Policemen	1,735	1,827	(5.0%)
- Firemen	<u>697</u>	<u>705</u>	(1.1%)
- Total	10,567	10,974	(3.7%)
(ii) Total Estimated Payroll			
- General Employees	\$371,863,000	\$376,656,000	(1.3%)
- Policemen	154,607,000	158,596,000	(2.5%)
- Firemen	<u>59,899,000</u>	<u>61,134,000</u>	(2.0%)
- Total	\$586,369,000	\$596,386,000	(1.7%)
b. Retirees, Beneficiaries and Disabled Members			
(i) Number	13,647	13,555	0.7%
(ii) Total Annual Benefits	\$417,668,000	\$399,601,000	4.5%
(iii) Average Annual Benefit	\$30,605	\$29,480	3.8%

In total, the ERS active membership count declined this past year, decreasing by 3.7%. Payroll also decreased by 1.7%, which is lower than the 2.0% assumption. Smaller payroll results in lower contributions and decreased funding under the stable contribution policy.

Membership Data

Inputs

Membership Data

Asset Data

Benefit Provisions

Assumptions

Funding Methodology



Results

Actuarial Value of Assets

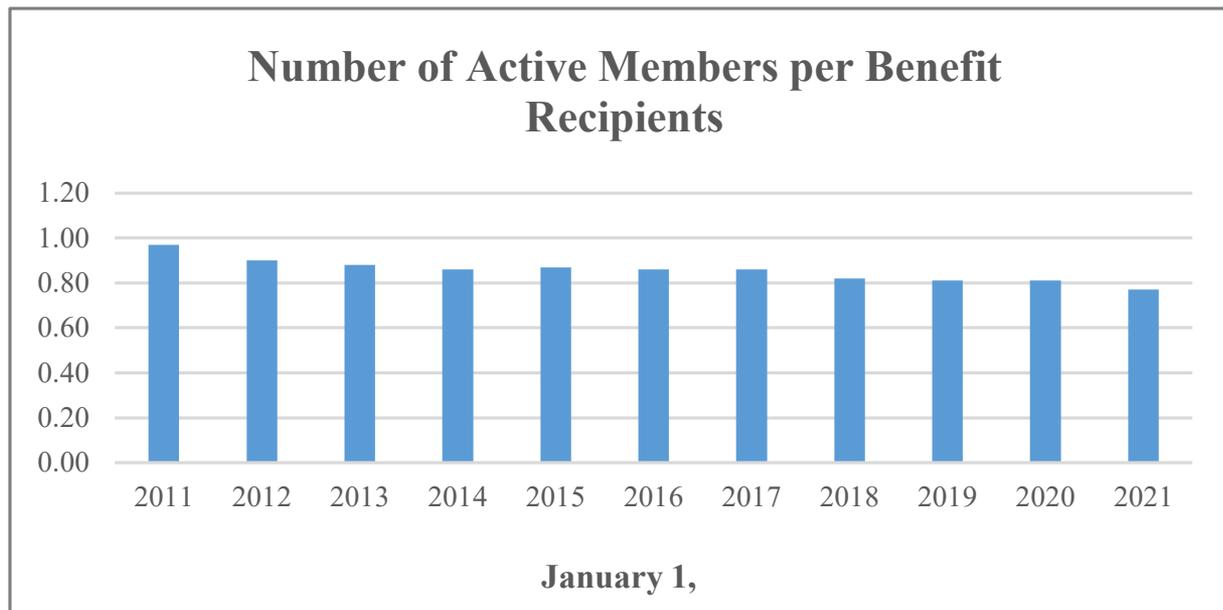
Actuarial Accrued Liability

UAAL/Funded Ratio

Net Actuarial Gain or Loss

Employer Contributions

Projections



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Active	11,247	10,767	10,714	10,675	10,964	10,982	11,083	10,845	10,851	10,974	10,567
In-Pay	11,542	11,937	12,109	12,468	12,580	12,746	12,872	13,181	13,355	13,543	13,636
Act/In-Pay	0.97	0.90	0.88	0.86	0.87	0.86	0.86	0.82	0.81	0.81	0.77

Beginning with the 2011 valuation, CMERS had more benefit recipients than active members. In a mature retirement plan, this is to be expected. Funding on an actuarial basis helps take financial pressure off the sponsoring entity. Since 2011, CMERS has experienced a 6% reduction in active headcount. This creates pressure on the contribution rate due to lower covered payroll.

Inputs

Membership Data

Asset Data

Benefit Provisions

Assumptions

Funding Methodology



Results

Actuarial Value of Assets

Actuarial Accrued Liability

UAAAL/Funded Ratio

Net Actuarial Gain or Loss

Employer Contributions

Projections

1. Market Value of Assets as of January 1, 2020	\$ 5,557,077
2. Transfer of Assets as of January 1, 2020	\$ 0
3. Contributions During Year	
a. Member	\$ 32,191
b. Employer	87,661
c. Total	\$ 119,852
4. Disbursements During Year	
a. Monthly Annuities	\$ 425,395
b. Refunds	3,555
c. Administrative Expenses	7,381
d. Total	\$ 436,331
5. Investment Return (net of Investment Expenses)	\$ 409,136
6. Transfer of Assets as of December 31, 2020	\$ 0
7. Market Value of Assets as of December 31, 2020 (1) + (2) + (3c) - (4d) + (5) + (6)	\$ 5,649,734
8. Rate of Return, as Reported by Northern Trust* (ERS' Custodian)	6.62%

Investment experience during 2020 was favorable.

Note the amount of contributions relative to disbursements. It is common in a mature plan for contributions to be less than disbursements, with investment returns and accumulated assets making up the difference.

Over 99% of the assets are in the Combined Fund.

* The December 31, 2020 asset balance was revised upwards by \$77.0 million in May 2021. The rate of return disclosed by Northern Trust does not reflect this upward revision and, therefore, understates the true rate of return during 2020.

Inputs

Membership Data

Asset Data

Benefit Provisions

Assumptions

Funding Methodology



Results

Actuarial Value of Assets

Actuarial Accrued Liability

UAAL/Funded Ratio

Net Actuarial Gain or Loss

Employer Contributions

Projections

General

- Tier I – Enrolled in Plan prior to January 1, 2014
 - Service Retirement:
 - Age 55 and 30 years of creditable service
 - Age 60
 - Member contributions: 5.5%
 - Pension Multiplier: 2.0%
- Tier II – Enrolled in Plan on or after January 1, 2014
 - Service Retirement:
 - Age 60 and 30 years of creditable service
 - Age 65
 - Member contributions: 4.0%
 - Pension Multiplier: 1.6%

Police

- Tier I – Enrolled in Plan prior to December 20, 2015
 - Service Retirement:
 - 25 years of fire or police creditable service (at any age)
 - Age 57
 - Member contributions: 7.0%
 - Pension Multiplier: 2.5%
- Tier II – Enrolled in Plan on or after December 20, 2015
 - Service Retirement:
 - Age 50 and 25 years of creditable service
 - Age 57
 - Member contributions: 7.0%
 - Pension Multiplier: 2.5%

Fire

- Tier I – Enrolled in Plan prior to July 30, 2016
 - Service Retirement:
 - Age 49 and 22 years of fire or police creditable service
 - Age 57
 - Member contributions: 7.0%
 - Pension Multiplier: 2.5%
- Tier II – Enrolled in Plan on or after July 30, 2016
 - Service Retirement:
 - Age 52 and 25 years of creditable service
 - Age 57
 - Member contributions: 7.0%
 - Pension Multiplier: 2.5%

The Milwaukee Employees' Retirement System (ERS) was created by Chapter 36 of the City Charter. We summarize the provisions in Appendix B of our report. Above we summarize differences in Tier Provisions.

Inputs

Membership Data

Asset Data

Benefit Provisions

Assumptions

Funding Methodology



Results

Actuarial Value of Assets

Actuarial Accrued Liability

UAAL/Funded Ratio

Net Actuarial Gain or Loss

Employer Contributions

Projections

- Demographic (future events that relate to people)
 - Retirement
 - Termination
 - Disability
 - Death
 - Note that new public sector mortality tables were published in 2019
 - We plan on implementing with the next experience study, but could be adopted sooner

- Economic (future events that relate to money)
 - Investment Return - 7.50% per year
 - Price Inflation - 2.50%
 - UAAL Payment Increase - 2.00%
 - Salary increase rate (net of inflation) varies with age

Other than the 7.50% investment return assumption, the current assumptions were adopted for use with the January 1, 2018 actuarial valuation based upon recommendations by the previous actuary. The 7.50% assumption was recommended by CMC and adopted by the Board at its April, 2019 meeting.

The next experience review will be completed in time for implementation with the January 1, 2023 actuarial valuation.

Funding Methodology

Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions

Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

- The Objectives of the Stable Contribution Policy include
 - Achieve stable and predictable contribution levels over the period between experience reviews that maintains the actuarial integrity of the ERS.
 - Comply with Actuarial Standards of Practice.
 - Budget annually for the normal cost; this was achieved by eliminating the Full Funding Limit.
 - Make progress on reducing unfunded liability at least as fast as the Prior Contribution Requirement at the median; said another way, the Stable Employer Contribution Policy is at least actuarially equivalent to the Prior Contribution Requirement over the period from 2018 through 2022.
 - Maintain asset coverage greater than or equal to the retired lives liabilities.
 - No changes to member contributions.

The following reading discusses elements of reasonable funding policies. The Stable Contribution Policy was designed with these elements in mind.

<https://www.gfoa.org/materials/core-elements-of-a-funding-policy>

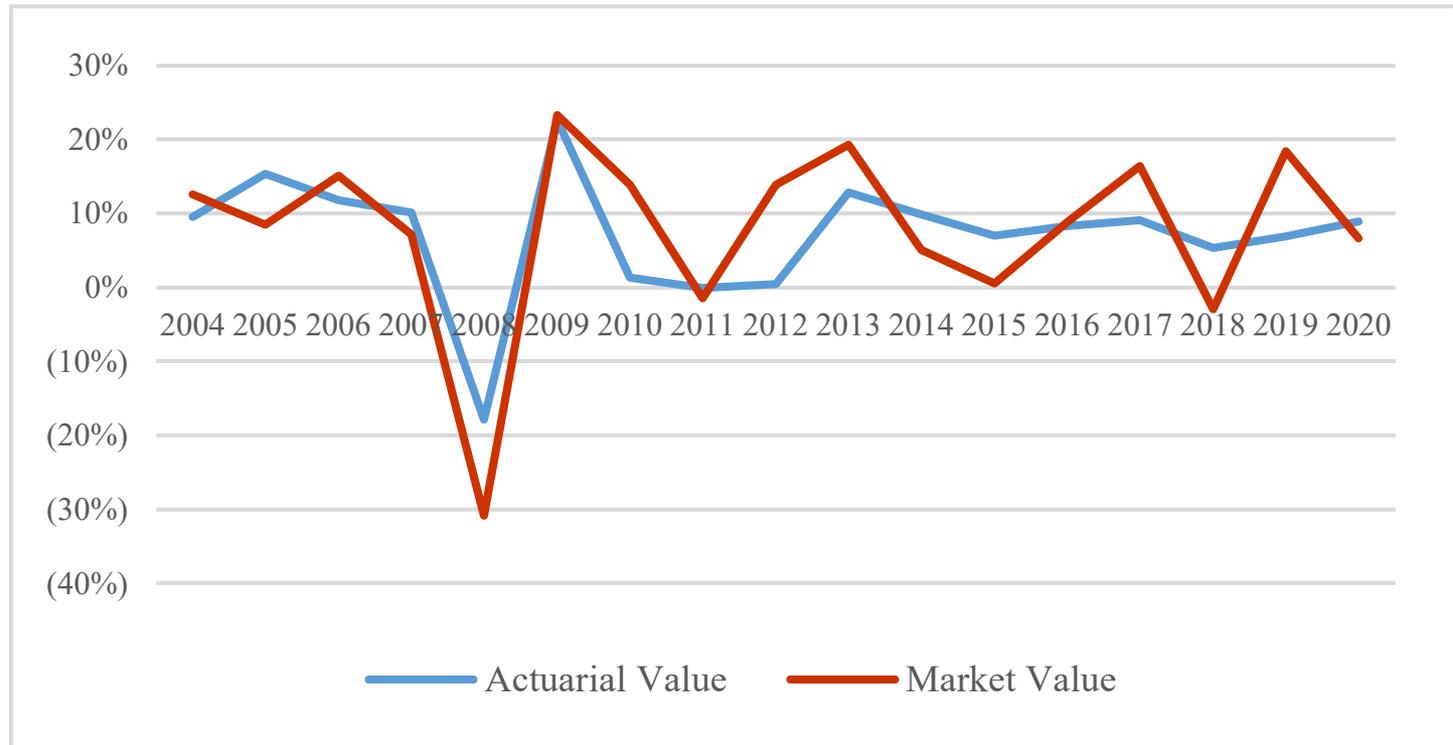
Historical Asset Returns

Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology

Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions
- Projections



Returns on an actuarial basis are smoother than on a market basis, which results in contribution stability when the stable contribution policy is set. Note that before 2010, a 10% corridor was used, resulting in more volatility. Use of an asset smoothing method is almost universal for public plans.

Actuarial Value of Assets

(\$ in Thousands)



Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

1. Actuarial Value of Assets as of January 1, 2020	\$ 5,285,205
2. Transfer of Assets as of January 1, 2020	\$ 0
3. Contributions During Year	
a. Member	\$ 32,191
b. Employer	87,661
c. Total	<u>\$ 119,852</u>
4. Disbursements During Year	
a. Monthly Annuities	\$ 425,395
b. Refunds	3,555
c. Administrative Expenses	<u>7,381</u>
d. Total	\$ 436,331
5. Investment Return (net of Investment Expenses)	\$ 472,141
6. Transfer of Assets as of December 31, 2020	\$ 0
7. Actuarial Value of Assets as of December 31, 2020 (1) + (2) + (3c) - (4d) + (5) + (6)	\$ 5,440,867
8. Estimated Rate of Return	9.22%

Returns during 2020 were above the 7.50% assumed rate of return. As a result, the funded ratio using the actuarial value of assets increased.

Note the amount of contributions relative to disbursements. It is common in a mature plan for contributions to be less than disbursements, with investment returns and accumulated assets making up the difference.

Over 99% of the assets are in the Combined Fund.

Actuarial Accrued Liability



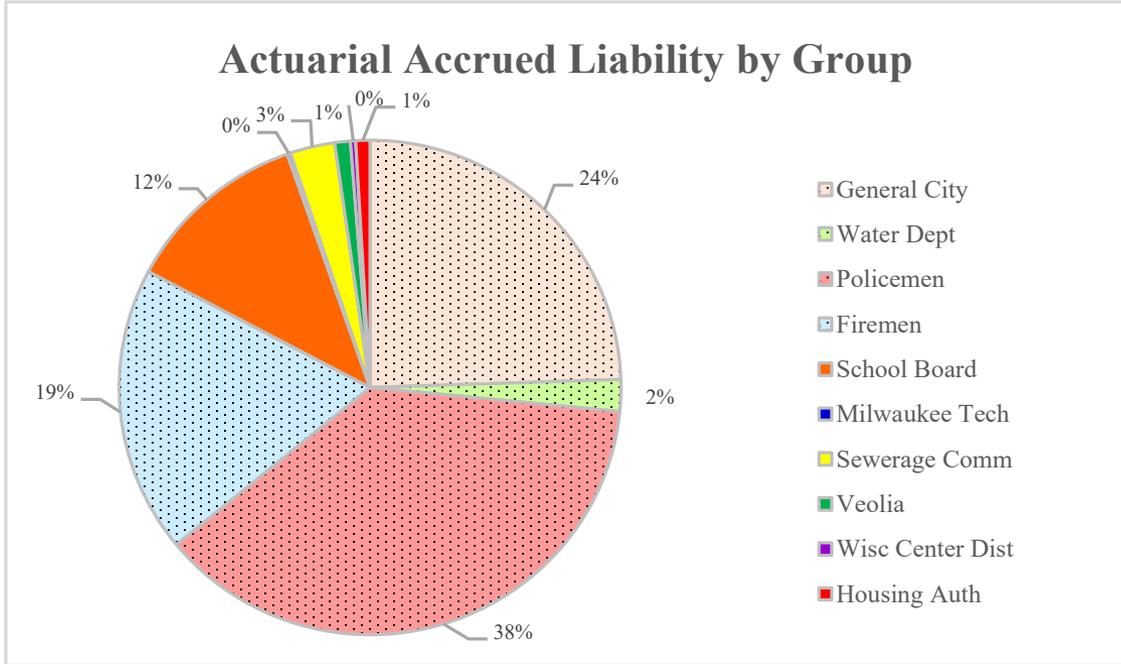
Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions
- Projections



The actuarial accrued liability (AAL) is the amount of money that should be in the fund to cover benefits allocated to service accrued to date. As of the valuation date, the AAL is \$6.7 billion.

The “shaded” area indicates AAL for the city of Milwaukee.

Just over 70% of the total is attributable to members in payment status.

Unfunded Actuarial Accrued Liability



Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

Fund	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Unfunded Actuarial Accrued Liability Based on AVA (UAAL)	Unfunded Actuarial Accrued Liability Based on MVA (UAAL)	Percent Funded Based on AVA	Percent Funded Based on MVA
1. Combined Fund	\$ 6,732,479	\$ 5,389,377	\$ 5,597,607	\$ 1,343,102	\$ 1,134,872	80.1%	83.1%
2. Employers' Reserve Fund	0	34,196	34,196	(34,196)	(34,196)	N/A	N/A
3. Retirement Fund	5,726	10,728	11,143	(5,002)	(5,417)	187.4%	194.6%
4. General Employees' Duty Disability Fund	15	96	100	(81)	(85)	640.0%	666.7%
5. Fire & Police Duty Disability Fund	0	0	0	0	0	N/A	N/A
6. Firemen's Heart & Lung Fund	0	0	0	0	0	N/A	N/A
7. Combined Retirement & Disability Fund	7,079	5,631	5,849	1,448	1,230	79.5%	82.6%
8. Securities Lending Fund	0	839	839	(839)	(839)	N/A	N/A
9. Total All Funds	\$ 6,745,299	\$ 5,440,867	\$ 5,649,734	\$ 1,304,432	\$ 1,095,565	80.7%	83.8%

The unfunded actuarial accrued liability is the difference between the AAL and the actuarial assets of the fund. These metrics are also shown on a market value basis for informational purposes.

Reconciliation of Unfunded Actuarial Accrued Liability



Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions
- Projections

Combined Fund	(\$ in millions)
Unfunded Actuarial Accrued Liability (UAAL) as of 01/01/2020	\$ 1,347.1
- Expected Change in UAAL	(5.8)
- Actual Contributions Versus Actuarial Contributions	88.5
- Investment Experience	(90.5)
- Demographic Experience	(5.4)
- Other Experience	9.2
Unfunded Actuarial Accrued Liability (UAAL) as of 01/01/2021	\$ 1,343.1

The table above shows the reconciliation of the unfunded actuarial accrued liability for the Combined Fund only.

Reconciliation of the Funded Ratio



Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio**
- Net Actuarial Gain or Loss
- Employer Contributions
- Projections

	Funded Ratio Based On	
	Actuarial Value of Assets	Market Value of Assets
January 1, 2020 Funded Ratio	80.1%	84.2%
- Expected Change	(0.1%)	0.2%
- Actual Contributions Versus Actuarial Contributions	(0.7%)	(0.8%)
- Investment Experience	1.3%	0.1%
- Demographic Experience	0.1%	0.1%
- Other Experience	<u>0.0%</u>	<u>0.0%</u>
- Total change	0.6%	(0.4%)
January 1, 2021 Funded Ratio	80.7%	83.8%

Note the difference in the impact of the “Investment Experience”. The Market Value column includes the full impact of actual returns while the Actuarial Value Column includes the impact of smoothed returns (experience reflected through the valuation date).

Historical Funded Ratio

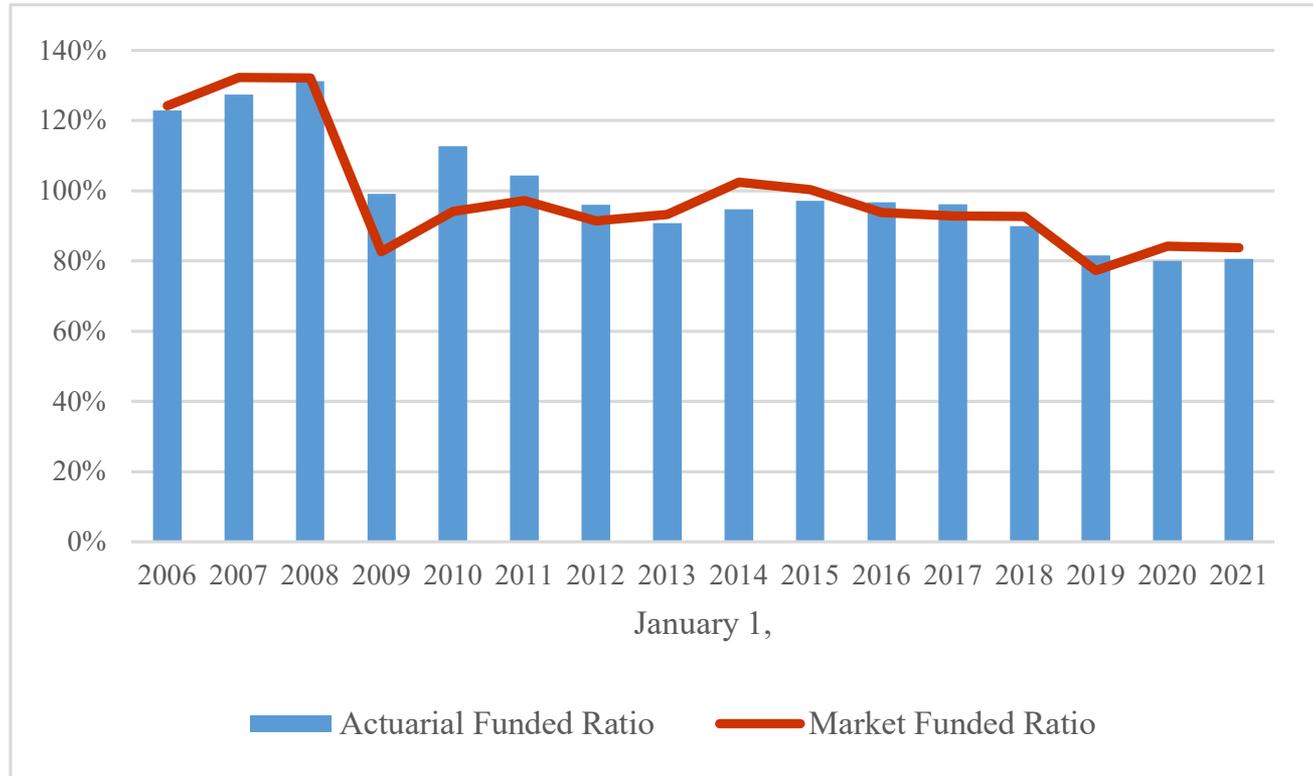
Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions
- Projections



The funded ratio in the 2021 valuation declined on a market value basis due to the difference between the actuarially determined employer contributions and the stable contribution policy contributions. Conversely, the funded ratio improved when measured on an actuarial value basis due to the recognition of deferred asset gains which resulted in favorable investment experience on the actuarial value of assets.

Employer Normal Cost Rate



Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

	General			Total
	Employees	Police men	Fire men	
1. Retirement Benefits	\$21,576	\$34,106	\$11,242	\$66,924
2. Withdrawal Benefits	12,269	2,874	1,271	16,414
3. Disability Benefits	1,382	2,542	4,384	8,308
4. Death Benefits	656	232	103	991
5. Total Normal Cost	\$35,883	\$39,754	\$17,000	\$92,637
6. Projected Payroll	\$371,863	\$154,607	\$59,899	\$586,369
7. Normal Cost Rate	9.65%	25.71%	28.38%	15.80%
8. Member Contribution Rate	(4.82%)	(7.00%)	(7.00%)	(5.62%)
9. Employer Normal Cost Rate	4.83%	18.71%	21.38%	10.18%

The normal cost is the cost of benefits accruing during the current year. Member contributions offset the normal cost to determine the employer normal cost. If CMERS were fully funded, the actuarial contribution rate would be the employer normal cost rate.

Actuarially Determined Employer Contribution

(Combined Fund only as of January 1, 2021)

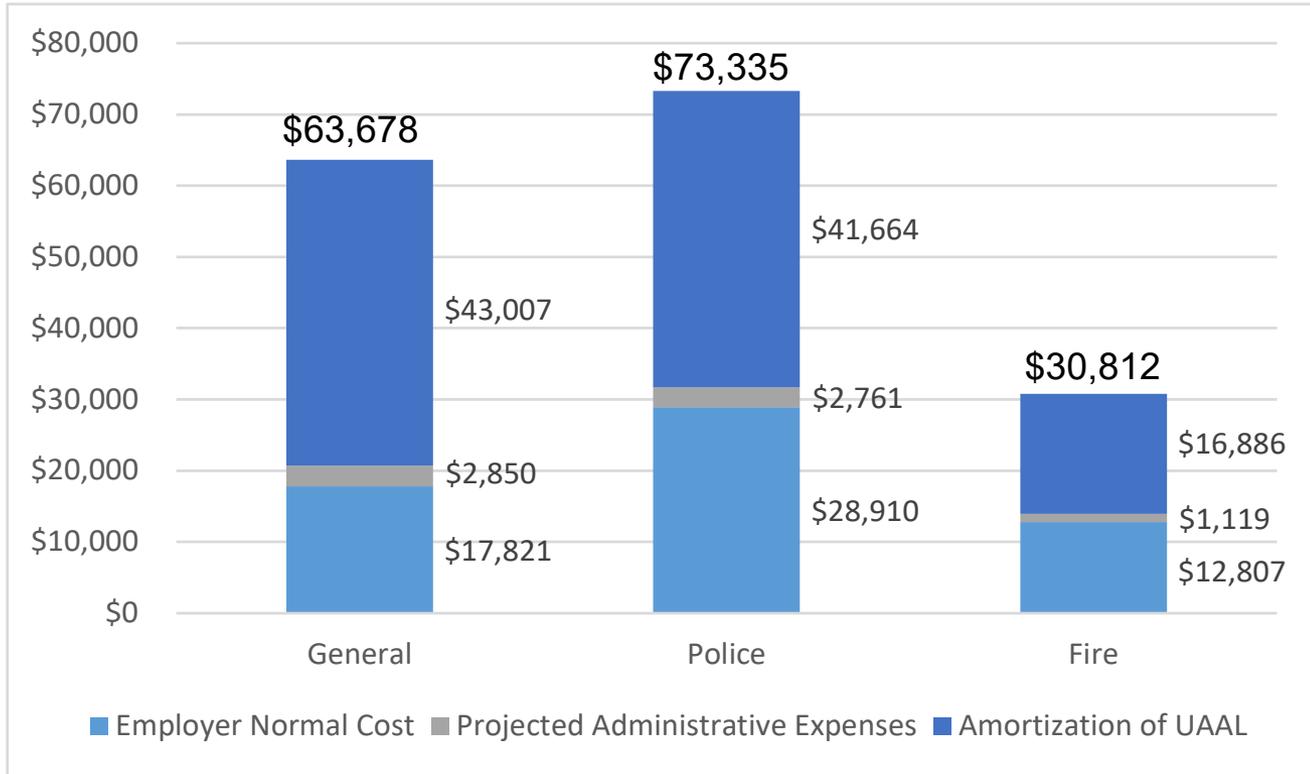
Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions**
- Projections



The normal cost is just part of the actuarially determined contribution. The amortization of the unfunded actuarial accrued liability (UAAL) is a major component of the actuarial determined contribution.

Reconciliation of the Actuarially Determined Employer Rate (Combined Fund only)



Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions
- Projections

Combined Fund	Rate
Actuarial Determined Employer Rate as of 01/01/2020	28.21%
- Change in Employer Normal Cost Rate	(0.26%)
- Actual Contributions Versus Actuarial Contributions	1.42%
- Investment Experience	(1.45%)
- Demographic Experience	(0.09%)
- Payroll Growth Rate Lower than Expected	0.62%
- Other Experience	0.28%
Actuarial Determined Employer Rate as of 01/01/2021	28.73%

The Actuarial Determined Employer Rate has increased by 0.79% of pay since the prior valuation. The largest factor was due to actual contributions being less than the actuarial determined amount.

Employer Contributions

Inputs

Membership Data
 Asset Data
 Benefit Provisions
 Assumptions
 Funding Methodology



Results

Actuarial Value of Assets
 Actuarial Accrued Liability
 UAAL/Funded Ratio
 Net Actuarial Gain or Loss
 Employer Contributions
 Projections

As part of Cavanaugh Macdonald Consulting’s transition as the System’s new retained actuary in 2019, a high level review of the actuarial assumptions used in the 2018 valuation was performed. In our professional judgment, a reduction to the investment return assumption was necessary in order to comply with applicable actuarial standards of practice. Our recommendation to lower the investment return assumption from 8.00% in calendar years 2018 through 2022 and 8.25% thereafter to 7.50% for all years was adopted by the Board and reflected in the January 1, 2019 valuation. This resulted in a significant increase in the actuarially determined contribution rate.

The employer contribution rates, which are reset every five years under Stable Contribution Policy, had just been reset in 2018 in concurrence with the completion of the experience study and subsequent adoption of a new set of assumptions. The timing of the reduction to the investment return assumption in the January 1, 2019 valuation was “off cycle” from the regular experience study. As a result, the Stable Contribution Policy rate was \$88.5 million lower than the actuarially determined contribution for 2020.

Employer Contributions

(Combined Fund only as of January 1, 2021)



Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

Group	Employer Rate Based On:		
	Stable Contribution Policy	Actuarial Determined Rate	Market-Based Actuarial Determined Rate
General	7.48%	17.22%	14.98%
Policemen	25.22%	47.47%	42.28%
Firemen	26.83%	51.44%	46.02%

As a result of the events mentioned earlier, there is a significant difference between the actuarially determined employer contribution rate and the stable contribution policy rate as shown above.

Employer Contributions

(Stable Contribution Policy vs Actuarial Rate)



Inputs

Membership Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
UAAL/Funded Ratio
Net Actuarial Gain or Loss
Employer Contributions
Projections

	January 1, 2021	January 1, 2020	January 1, 2019	January 1, 2018
General:				
a. Actuarial Determined Rate	17.22%	16.47%	15.57%	7.46%
b. Stable Contribution Policy	7.48%	7.48%	7.48%	7.48%
c. Difference	9.74%	8.99%	8.09%	(0.02%)
Policemen:				
a. Actuarial Determined Rate	47.47%	46.63%	41.31%	25.13%
b. Stable Contribution Policy	25.22%	25.22%	25.22%	25.22%
c. Difference	22.25%	21.41%	16.09%	(0.09%)
Firemen:				
a. Actuarial Determined Rate	51.44%	52.25%	48.71%	26.74%
b. Stable Contribution Policy	26.83%	26.83%	26.83%	26.83%
c. Difference	24.61%	25.42%	21.88%	(0.09%)

As a result of the events mentioned earlier, there is a significant difference between the actuarially determined employer contribution rate and the stable contribution policy rate. The difference has increased over the last three years.

Employer Contributions

As of January 31, 2022



Fund	General			
	Employees	Policemen	Firemen	Total
Combined Fund	\$ 29,914,982	\$ 42,138,266	\$ 17,380,669	\$ 89,433,917
Retirement Fund	0	0	0	0
Duty Disability Fund	0	0	0	0
Heart & Lung Fund	N/A	N/A	0	0
Combined Retirement & Disability Fund	177,000	40,000	0	217,000
Total Contribution	\$ 30,091,982	\$ 42,178,266	\$ 17,380,669	\$ 89,650,917
Covered Compensation	\$ 371,863,000	\$ 154,607,000	\$ 59,899,000	\$ 586,369,000
Total Contribution as a Percentage of Covered Compensation	8.09%	27.28%	29.02%	15.29%

Almost all of the contributions to ERS are for the Combined Fund. Note that as deferred investment gains are reflected in future valuations, the actuarial determined employer contributions will decrease absent unfavorable experience.

Employer Contributions

(Combined Fund only as of January 1, 2021)



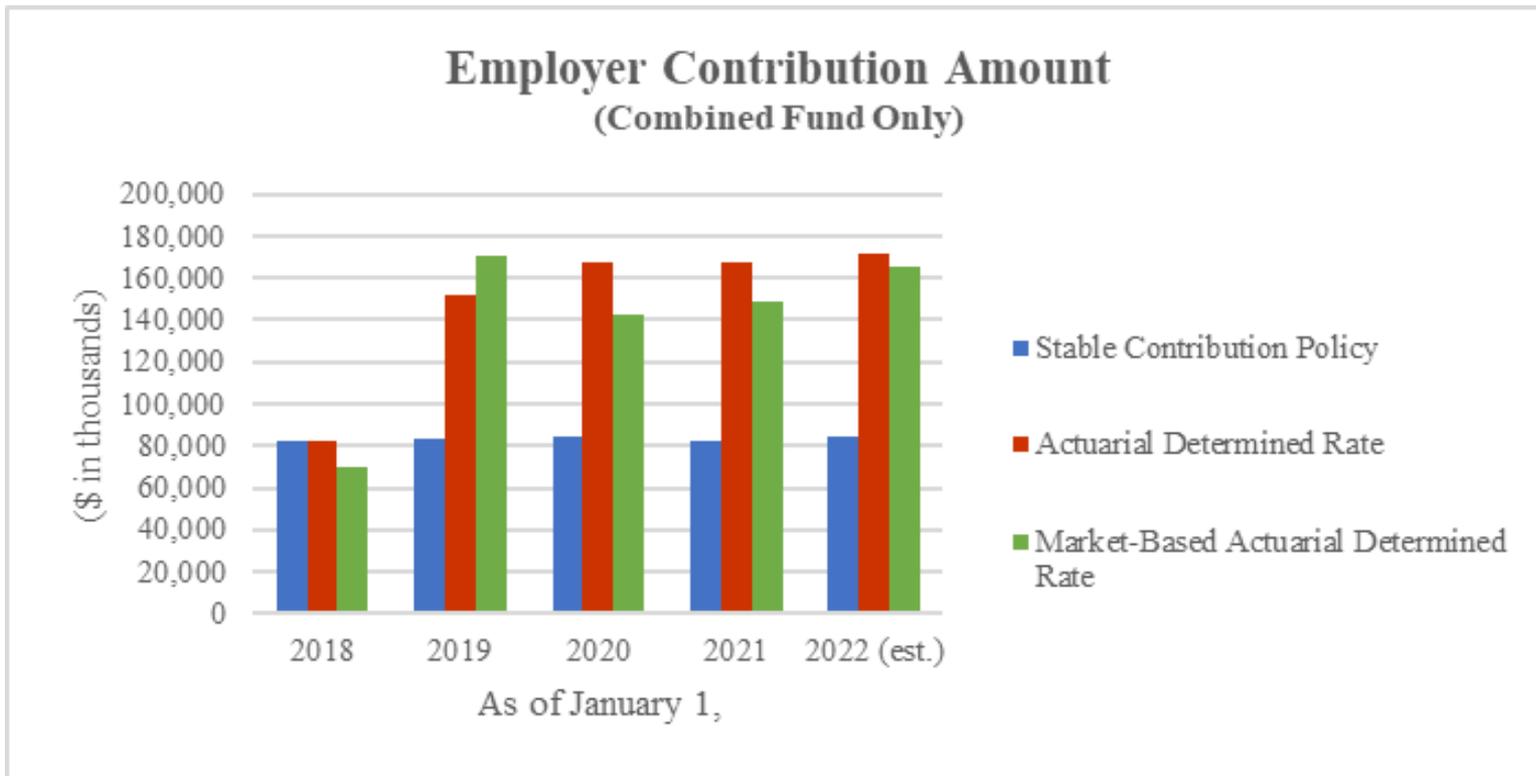
Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions**
- Projections



Given the difference between the actuarially determined employer contributions and the stable contribution policy contributions it would be prudent for participating employers to start preparing now for higher contributions when the Stable Contribution Policy is reset for calendar year 2023.

Projections

(Assuming All Assumptions Are Met)

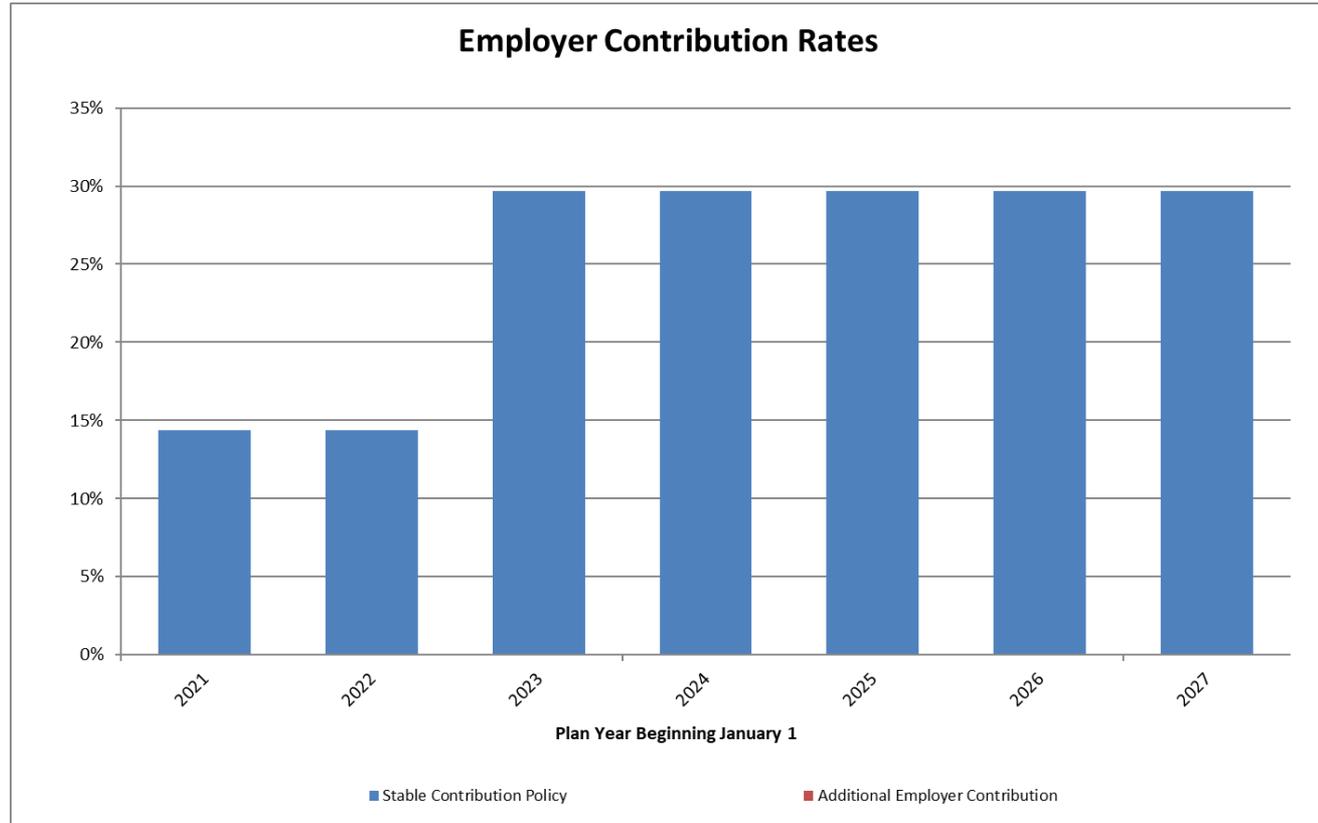
Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions
- Projections**



Given the significant difference between the projected 2023 actuarially determined contribution and the stable contribution policy in this valuation, the City and participating agencies should give serious consideration to increasing contributions and planning for a major increase in the contribution rate when it is reset in 2023.

Projections (Assuming All Assumptions Are Met)

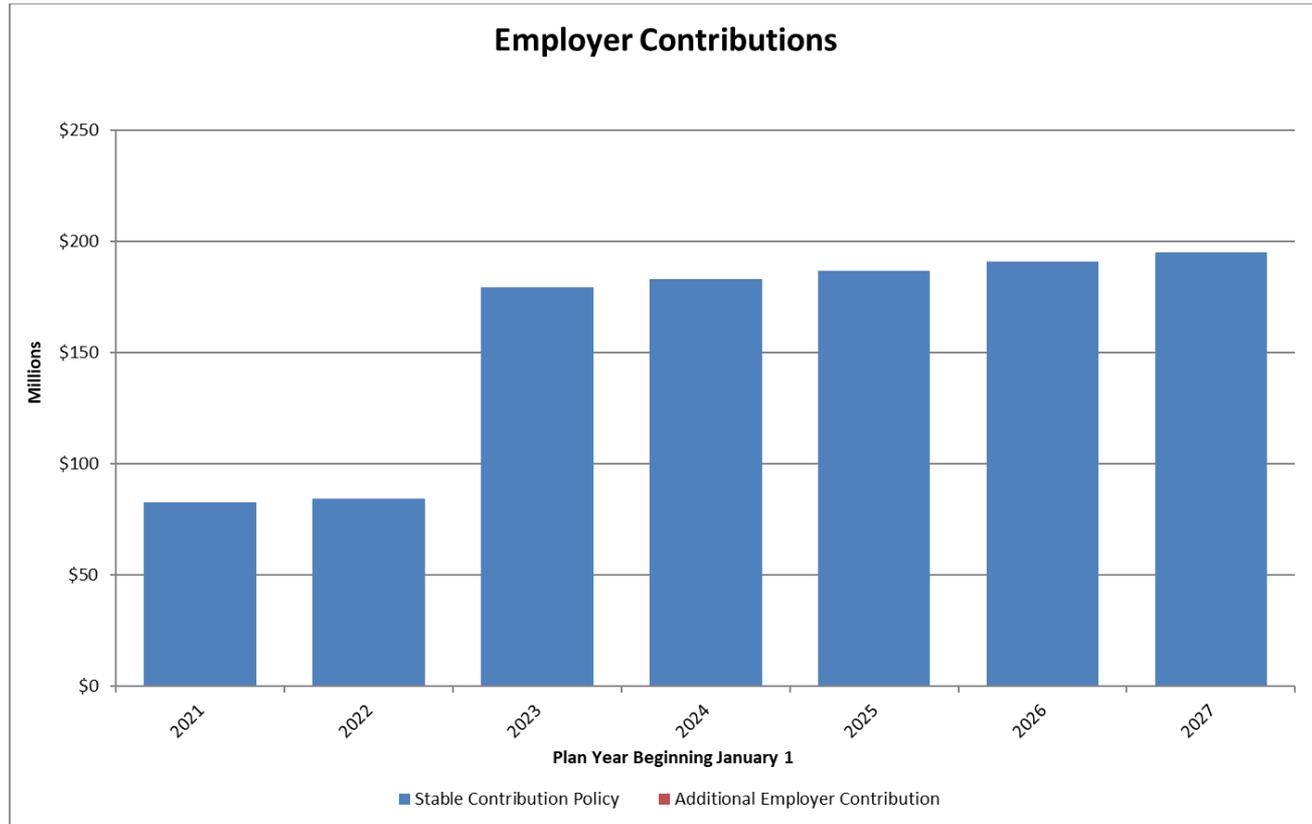
Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions
- Projections**



This graphs shows the projected dollar amount of aggregate employer contributions in the future, if all actuarial assumptions are met.

Sensitivity Analysis (Alternate Investment Returns for 2021)

Inputs

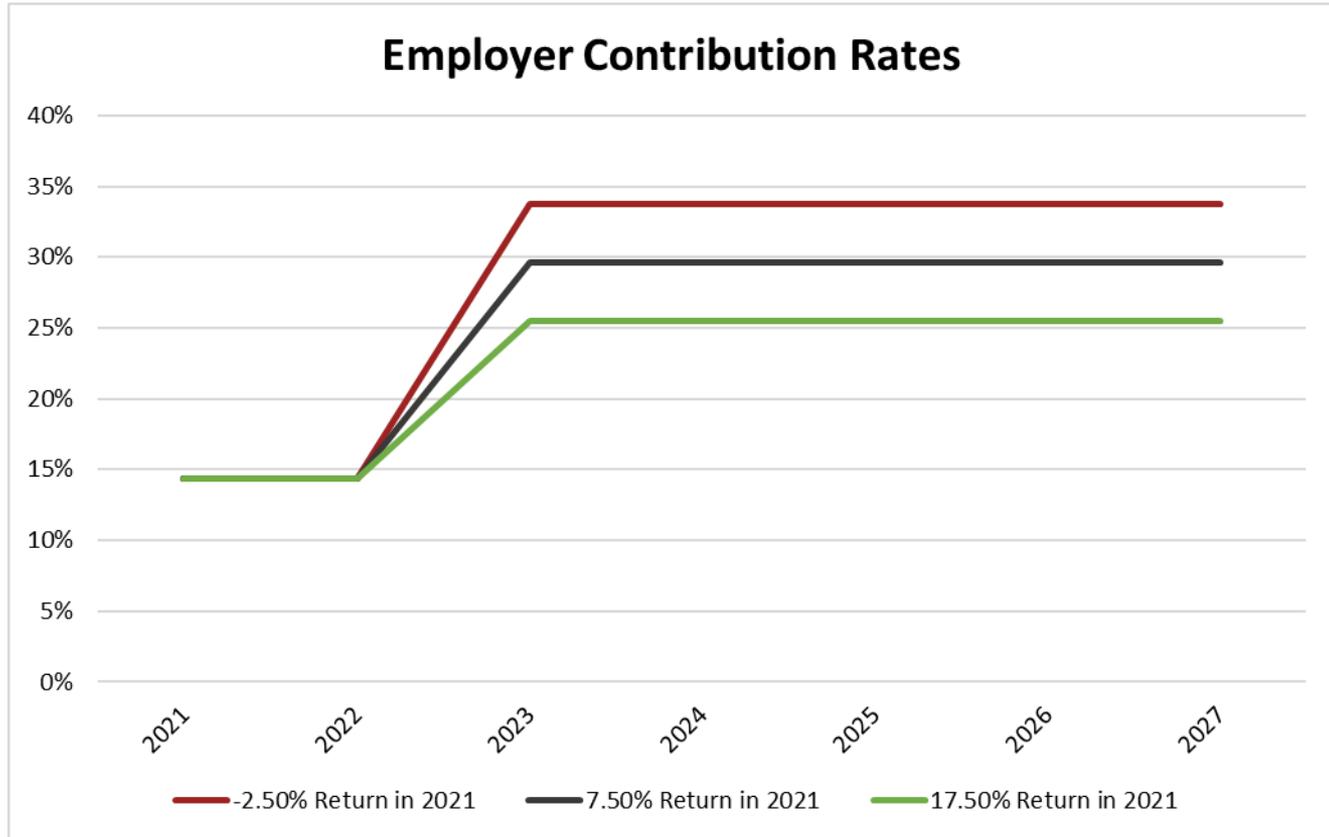
- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions

Projections



This graph shows the projected employer contribution rates under the Stable Contribution Policy, resulting from different investment returns during 2021 (returns for 2022+ are assumed to be 7.50%).

Sensitivity Analysis (Alternate Investment Returns for 2021)

Inputs

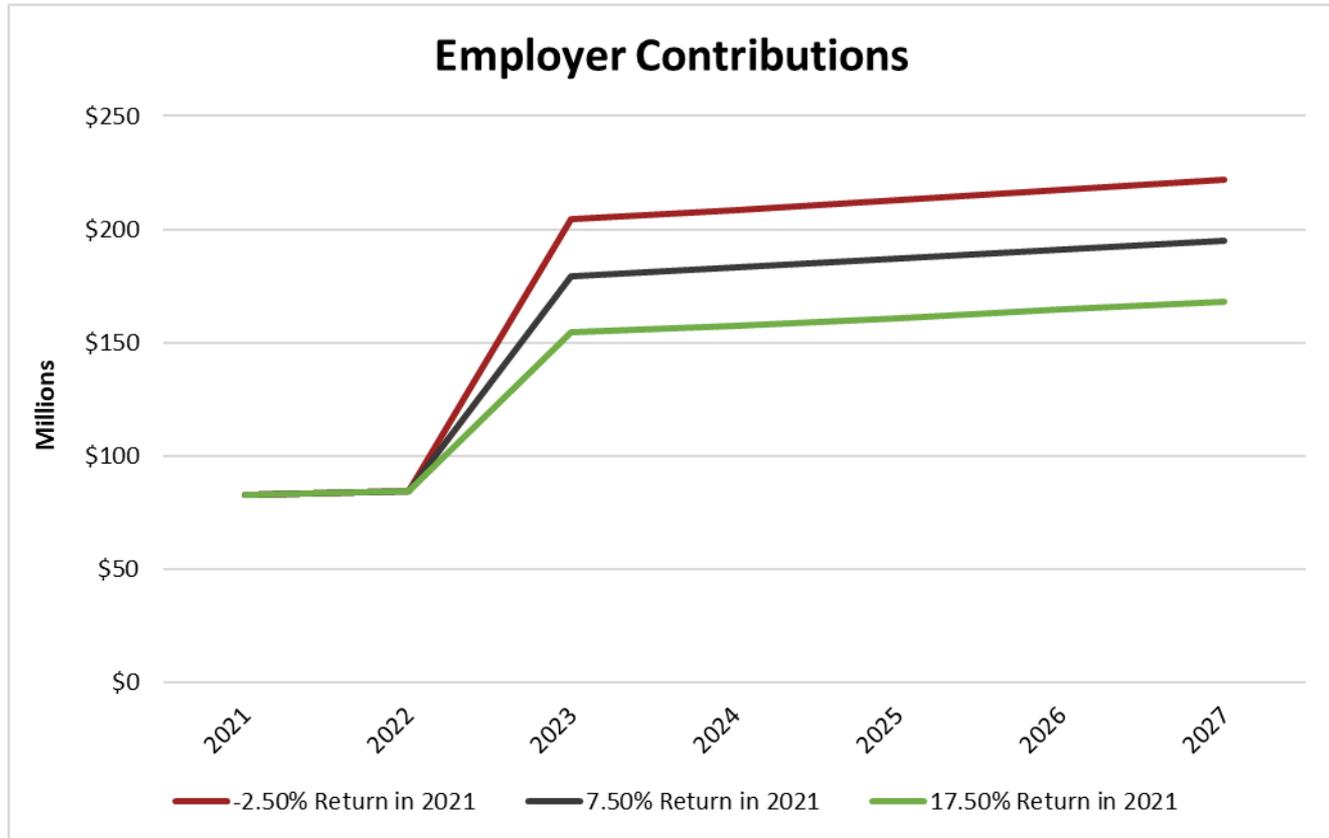
- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology



Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions

Projections



This graph shows the projected dollar amount of aggregate employer contributions in the future under alternate investment return scenarios for 2021. Investment returns for 2022+ are assumed to be 7.50% in all scenarios.

Certification



In order to prepare these results, we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results. Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Because of limited scope, Cavanaugh Macdonald performed no analysis of the potential range of such future differences, except for some limited analysis in financial projections or required disclosure information. Results prior to January 1, 2019 were provided by the prior consulting actuary.

We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions about it.

Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

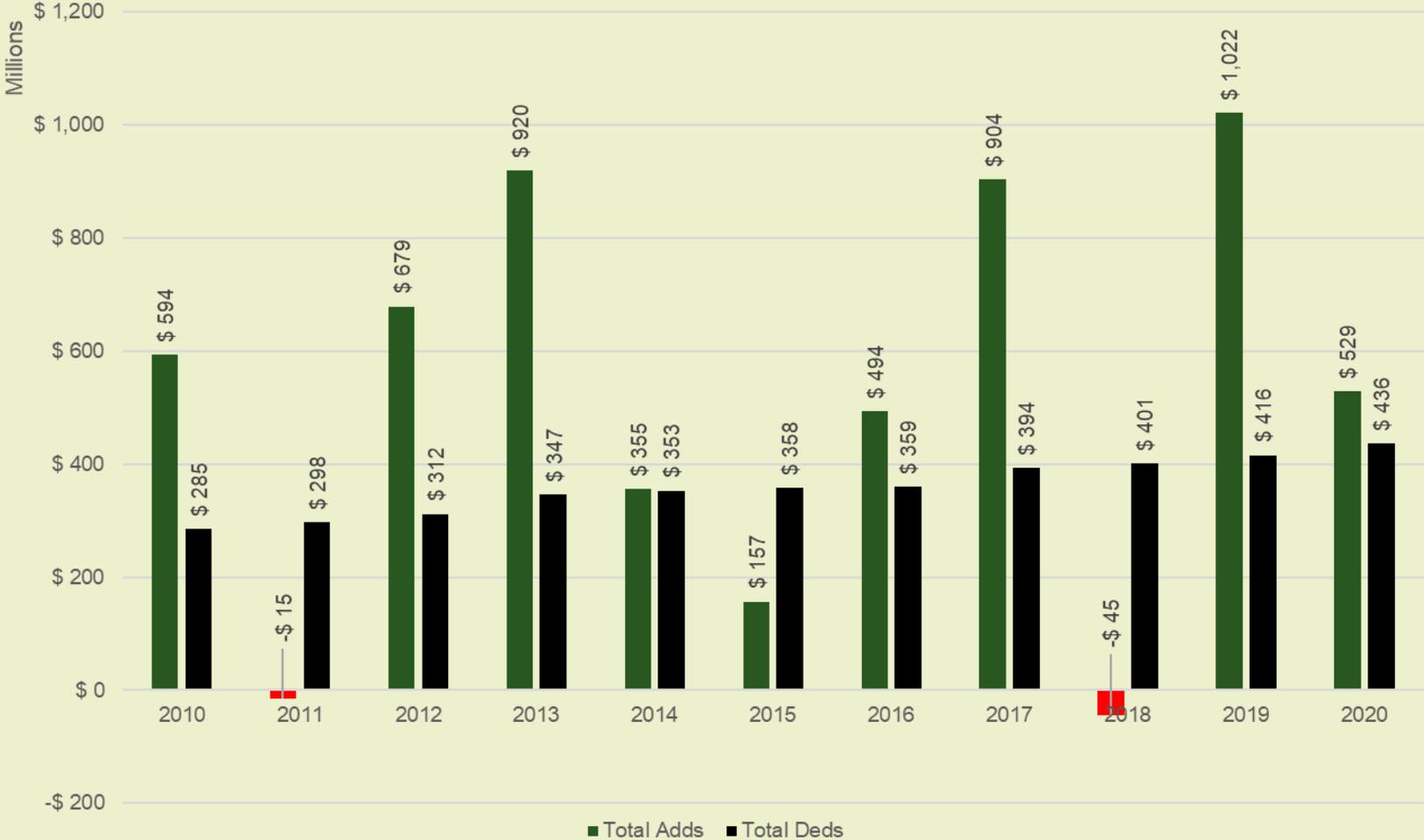
Appendix



Funding Term	GASB Term	Definitions
Normal Cost	Service Cost	The cost of benefits accruing during the year
Actuarial Accrued Liability (AAL)	Total Pension Liability (TPL)	The amount of money you should have in the fund
Actuarial Value of Assets (AVA)	Fiduciary Net Position	The amount of assets you have in the fund for contribution and expense purposes
Unfunded Actuarial Accrued Liability (UAAL)	Net Pension Liability	The amount of pension debt. The AAL less the AVA.
Funded Ratio	Funded Ratio	How many cents you have to cover each dollar of pension debt. The AVA divided by the AAL.
Employer Contribution	Pension Expense	The amount paid into the fund during the year. When done actuarially, it is the normal cost less member contributions plus expenses and a payment to the UAAL.

While these terms are somewhat analogous, GASB results are not appropriate for funding policy purposes. In addition, the terms above are for pension purposes; similar terms do exist for OPEB purposes.

Additions vs. Deductions to ERS Trust 2010-2020





**CITY OF MILWAUKEE
COMPTROLLER**

Introduction to Pension Obligation Bonds

Background



- Pension Obligations Bonds (POBs) are taxable bonds issued to increase funding in a pension plan.
 - Bond proceeds are invested within the pension fund as plan assets.
- Plans use the assumed rate of return on pension plan assets as the discount rate (7.5% for the City of Milwaukee).
- This provides the potential to earn more on the bond proceeds than is paid in bond interest. For example:
 - Borrowing rate of 4.5%
 - Target earnings of 7.5%
- If actual returns exceed the borrowing rate, these savings can potentially become real.
- However, savings are not guaranteed and have not always been achieved by POB issuers.



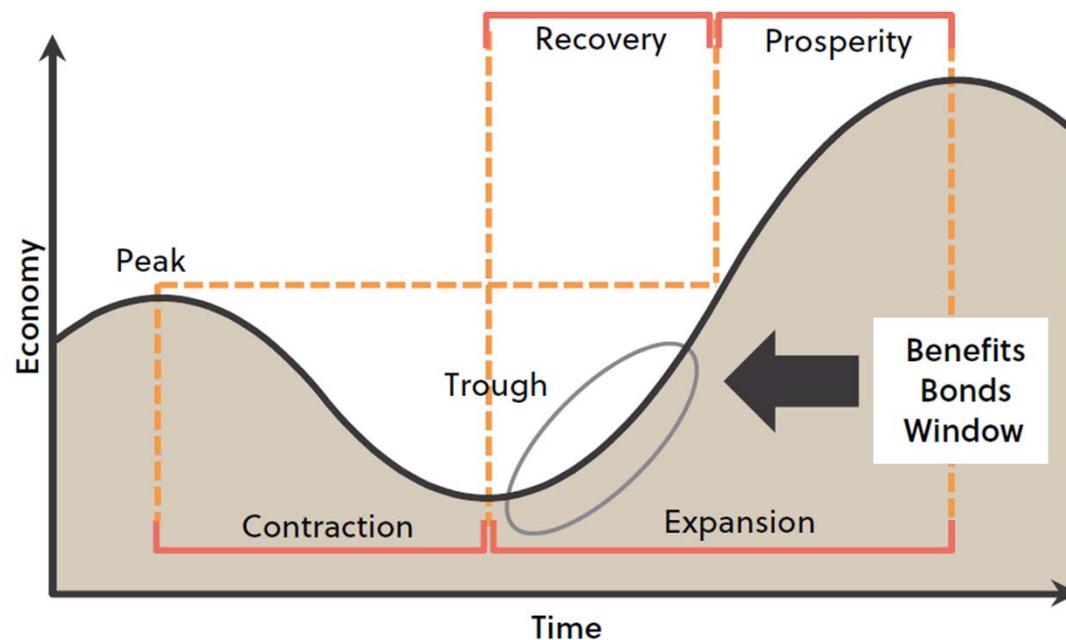
Pension Obligation Bond Math

- POBs are a financing strategy that involves the cost of bond financing and the long-term return on investment.
- Long-term investment rates that are greater than borrowing costs will achieve net benefit to the system. Note - if the rate of return is lower than the discount rate, the originally projected funding target may not be reached. This risk is present regardless of the POB.
 - If the pension fund does not earn 7.5% annually, the fund will not be 100% funded after repayment (assuming the entire unfunded liability was funded with the issuance of POBs).
- The debt service on the POBs is compared to the UAL amortization payment amount of the annual contribution in evaluating POB issuance.
- The City is required to pay the annual normal cost of the pension plan regardless of whether POBs are issued.
 - Approximately \$62 million currently.



Pension Obligation Bond Math

- While low interest rates are part of the equation for a promising benefits bonds issuance, the more important part of the equation has historically been the investment rate.
- Investment of POB proceeds should occur at cyclically low market levels in order to maximize benefits (referred to as the “benefit bonds window”).
- The first few years of returns after issuance have the highest impact on profitability.

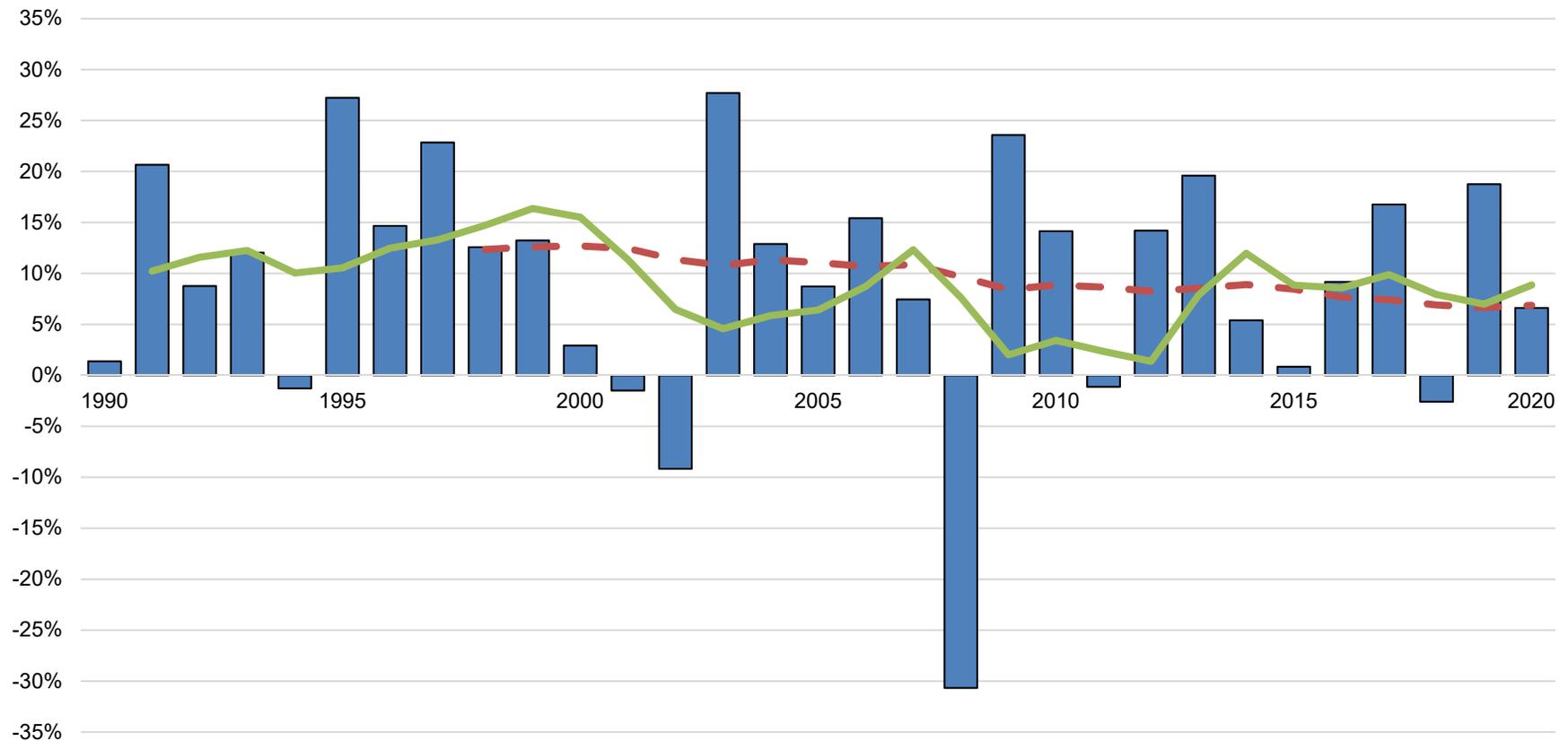




ERS Plan Returns

- The below chart shows the actual returns for the City's pension plan, net of fees.

Milwaukee ERS Annual Returns
with 5 year and 20 year Rolling Averages





Pension Obligation Bond Considerations

- POBs, though an attractive option on the surface, carry many issues that should be properly addressed.
- In order to be most effective, POBs must be part of a long-term, comprehensive strategy.
- Future underfunding of contributions by the issuer will diminish impact of POBs.
- POBs are a long-term strategy and the true results can only be known once the deal has been repaid.
 - Short-term views of the POB strategy can show perceived success or failure based on market conditions at the time of evaluation.
- Even if executed with a thoughtful and well managed issuance and investment strategy, POBs will still have a negative connotation with some audiences.
 - The Government Finance Officers Association (GFOA) recommends that governments should not issue POBs (discussed later in this presentation).



Pension Obligation Bond Risks

- Conversion of a soft liability to a hard liability.
 - Often stated as a risk, however under the City's current pension structure, the required contributions act more as a hard liability because the City is legally obligated to make them in full.
- Issuance timing.
 - If POBs are issued at a market peak, the earnings on the proceeds could be less than the interest paid.
- Debt load and capacity.
- Ratings impact.
- Limits ability to provide benefit enhancements while POB debt is outstanding.



Rating Agencies Views on Pensions

- Numerous rating agency metrics explicitly factor in pension liabilities, and incorporate current and potential future burden of benefits into their process.
- Policies that risk unsustainable future payments or lack a responsible long-term approach to an appropriate funding level will be viewed as credit negatives.
- Moody's and Fitch now apply standardized assumptions to compare pension liabilities and budgetary costs.
- Standard & Poor's hired an in-house actuary to conduct detailed analysis into pension liabilities and assumptions.
- The heightened focus of rating agencies on pension funding and funding levels have created downward pressure on ratings for entities with stressed pension systems.
- Rating agency reports have drawn attention to the current pension funding levels.
- The rating agencies generally view issuance of POBs as credit neutral or credit negative, however, larger structural changes to the pension plan could be viewed in a positive light.

GFOA Stance



- GFOA currently recommends that municipalities do not issue pension obligation bonds for the following reasons.
 - The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the government.
 - POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives, which must be intensively scrutinized as these embedded products can introduce counterparty risk, credit risk and interest rate risk.
 - Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity that could be used for other purposes. In addition, taxable debt is traditionally issued without call options or with "make-whole" calls, which can make it more difficult and costly to refund or restructure than traditional tax-exempt debt.

GFOA Stance - continued



- POBs are frequently structured in a manner that defers the principal payments or extends repayment over a period longer than the actuarial amortization period, thereby increasing the sponsor's overall costs.
- Rating agencies may not view the proposed issuance of POBs as credit positive, particularly if the issuance is not part of a more comprehensive plan to address pension funding shortfalls.
- GFOA's concern seems to relate to the complexity and size of POB borrowings, and whether an infrequent issuer of debt has the expertise to evaluate and manage the risks.

City of Milwaukee Requirements



- The issuance of POBs for the City would require enabling legislation at the State level.
 - Previously approved for MPS and Milwaukee County.
- Issuance would require appropriation bonds because general obligation debt capacity is limited to 5% of equalized value.
 - Subject to annual appropriation.
 - Less attractive to investors than general obligation bonds.
 - Issued through RACM.
 - Would likely require pledge of state aid and the state's moral obligation pledge.
- Timing depends on how quickly authorizing legislation would be approved at the state level.
 - When enabling legislation passed, bond issuance would require an additional 3-4 months.
 - Need all approvals in place in order to monitor for next "benefit bonds window".



Closing Thoughts

- POBs are not a “silver bullet” solution to the pension funding problem.
 - Without a broad approach that seeks to address the multiple facets of an underfunded plan, the City could be in largely the same situation after the debt is repaid.
- Plan design changes (including review and update of actuarial assumptions) should accompany (and preferably precede) POBs in order to comprehensively address the structural imbalance.
- POBs on their own may not provide a great deal of budgetary relief. Normal cost must still be made each year, in addition to the POB debt service payment.
- “Governments should think of benefits bonds as another option in their funding strategy — not the only one.” - from PFM Special Report “Benefit Bonds: Not (Quite) Dead Yet, Considerations for Pension Obligation and OPEB Bonds”, May 2016.

City of Milwaukee Employees' Retirement System
Analysis of Scenario requested August 12, 2021 developed by Cavanaugh Macdonald Consulting

Analysis for CMERS – Projected Balance of the City's Estimated Share of the System's UAAL

This sheet models a funding scenario prescribed to Cavanaugh Macdonald Consulting, LLC. The results assume that all assumptions are met in the future, including the 7.50% assumed investment return. This scenario focuses on the City's estimated share of the System's UAAL. Please note that there is no actual "City UAAL" because the City does not have its own pool of assets separate from non-City employers, and so this amount was estimated using a reasonable methodology. This scenario is known colloquially as the "Do Nothing" scenario. Under this scenario, the City will contribute \$79 million (the amount budgeted for 2021) every year in the future. In addition, the results below reflect non-City employers also freezing the dollar amount of their estimated 2021 contributions. As mentioned earlier, these calculations reflect an assumed investment return of 7.50%. If the investment return assumption was lower, the funded status of the System would deteriorate even more quickly.

January 1,	Employer Normal Cost			UAAL Payment	UAAL ⁽¹⁾	Funded Ratio
	Total City Contribution	+ Admin Expenses				
2021	\$ 79.00	\$ 56.19	\$ 22.81	\$ 1,080.44	80.1%	
2022	79.00	56.90	22.10	1,058.90	81.0%	
2023	79.00	57.75	21.25	1,116.84	80.5%	
2024	79.00	58.63	20.37	1,060.88	81.9%	
2025	79.00	59.58	19.42	1,116.19	81.4%	
2026	79.00	60.62	18.38	1,178.17	80.8%	
2027	79.00	61.64	17.36	1,244.73	80.2%	
2028	79.00	62.65	16.35	1,315.55	79.5%	
2029	79.00	63.71	15.29	1,392.16	78.7%	
2030	79.00	64.91	14.09	1,475.60	77.8%	
2031	79.00	66.17	12.83	1,567.17	76.8%	
2032	79.00	67.44	11.56	1,664.02	75.7%	
2033	79.00	68.50	10.50	1,767.96	74.6%	
2034	79.00	69.49	9.51	1,876.10	73.3%	
2035	79.00	70.71	8.29	1,994.95	71.9%	
2036	79.00	72.09	6.91	2,125.83	70.4%	
2037	79.00	73.59	5.41	2,268.90	68.8%	
2038	79.00	75.30	3.70	2,426.77	67.0%	
2039	79.00	77.13	1.87	2,599.04	65.1%	
2040	79.00	79.00	-	2,785.95	63.1%	
2041	79.00	79.00	-	2,989.72	60.9%	
2042	79.00	79.00	-	3,210.31	58.5%	
2043	79.00	79.00	-	3,448.78	56.0%	
2044	79.00	79.00	-	3,707.43	53.3%	
2045	79.00	79.00	-	3,987.60	50.5%	
2046	79.00	79.00	-	4,291.48	47.4%	
2047	79.00	79.00	-	4,621.32	44.2%	
2048	79.00	79.00	-	4,978.81	40.7%	
2049	79.00	79.00	-	5,365.63	37.1%	
2050	79.00	79.00	-	5,784.42	33.3%	
2051	79.00	79.00	-	6,237.86	29.2%	
Total	\$ 2,449.00	\$ 2,191.00	\$ 258.00			

Note: Dollar amounts are in millions.

(1) Factors outside of the UAAL payment affect the System's expected UAAL. These factors include the natural operation of the asset smoothing method, assumption changes, changing demographics, and others.

City of Milwaukee Employees' Retirement System Analysis of Scenarios requested July 1, 2022 developed by Cavanaugh Macdonald Consulting

This sheet models a funding scenario prescribed to Cavanaugh Macdonald Consulting, LLC. This scenario focuses on the City's total contributions to the System under two scenarios: (i) new employees after January 1, 2022 participate under CMERS and (ii) new employees after January 1, 2022 participate in WRS. Please note that the UAAL contribution is calculated in total and then each group (General, Police, Fire) is allocated a portion of the amount. As a result, the City's portion of the total UAAL contribution shifts over time. Actuarial assumptions and methods remain unchanged from the January 1, 2021 valuation if new employees stay in CMERS. However, the calculations below reflect a 7.00% assumed rate of return and a 10-year level dollar amortization of the UAAL if CMERS becomes closed to new entrants. All actuarial assumptions are assumed to be met in the future, including the assumed rate of return. Dollar amounts are in millions.

WRS Rate 7.00%

January 1,	Projected Contributions, New City Employees Stay in ERS					ERS Closed January 1, 2022, New City Employees Join WRS							Change in Cash Flow
	Normal Cost and Admin Expenses	Member Contribution Rate	Member Contribution	UAAL Payment	Total Employer Contribution	City Normal Cost and Admin Exp	City Member Rate	City Member Cont	UAAL Payment	City Contribution	WRS Contribution	Total City Contribution	
2021	\$ 79.80	6.01%	\$ 23.60	\$ 12.18	\$ 68.38	\$ 79.80	6.01%	\$ 23.60	\$ 12.18	\$ 68.38	\$ -	\$ 68.38	\$ -
2022	80.87	5.98%	23.95	13.07	69.99	90.14	5.98%	23.95	184.15	250.34	-	250.34	180.35
2023	82.11	5.96%	24.35	88.20	145.96	88.51	6.03%	23.36	185.28	250.43	1.48	251.91	105.95
2024	83.39	5.94%	24.75	90.61	149.25	86.92	6.06%	22.74	186.45	250.63	2.90	253.53	104.28
2025	84.75	5.92%	25.17	92.96	152.54	85.31	6.09%	22.16	187.47	250.62	4.29	254.91	102.37
2026	86.23	5.90%	25.61	95.45	156.07	83.90	6.12%	21.66	188.65	250.89	5.61	256.50	100.43
2027	87.69	5.88%	26.04	97.84	159.49	82.30	6.14%	21.11	189.70	250.89	6.93	257.82	98.33
2028	89.11	5.86%	26.44	78.09	140.76	80.46	6.16%	20.51	190.53	250.48	8.28	258.76	118.00
2029	90.59	5.85%	26.89	79.77	143.47	78.51	6.17%	19.84	191.34	250.01	9.67	259.68	116.21
2030	92.24	5.83%	27.33	81.50	146.41	76.65	6.19%	19.23	192.20	249.62	11.06	260.68	114.27
2031	94.00	5.82%	27.84	83.38	149.54	74.84	6.20%	18.62	193.17	249.39	12.47	261.86	112.32
2032	95.75	5.80%	28.30	85.15	152.60	72.84	6.22%	17.98	-	54.86	13.91	68.77	(83.83)
2033	97.27	5.79%	28.77	83.10	151.60	70.31	6.23%	17.23	-	53.08	15.43	68.51	(83.09)
2034	98.63	5.77%	29.13	84.24	153.74	67.11	6.23%	16.29	-	50.82	17.03	67.85	(85.89)
2035	100.30	5.76%	29.60	85.63	156.33	64.30	6.23%	15.45	-	48.85	18.62	67.47	(88.86)
2036	102.22	5.75%	30.15	87.33	159.40	61.80	6.24%	14.71	-	47.09	20.20	67.29	(92.11)
2037	104.26	5.74%	30.69	88.89	162.46	59.22	6.24%	13.91	-	45.31	21.82	67.13	(95.33)
2038	106.61	5.73%	31.31	59.25	134.55	56.98	6.25%	13.21	-	43.77	23.45	67.22	(67.33)
2039	109.11	5.72%	31.97	60.59	137.73	54.86	6.26%	12.54	-	42.32	25.09	67.41	(70.32)
2040	111.65	5.72%	32.67	61.78	140.76	52.54	6.27%	11.81	-	40.73	26.79	67.52	(73.24)
2041	114.36	5.71%	33.36	63.12	144.12	50.35	6.28%	11.13	-	39.22	28.49	67.71	(76.41)
2042	117.03	5.71%	34.10	64.43	147.36	47.92	6.29%	10.39	-	37.53	30.24	67.77	(79.59)
2043	119.76	5.70%	34.79	66.59	151.56	45.34	6.28%	9.59	-	35.75	32.03	67.78	(83.78)
2044	122.59	5.70%	35.56	-	87.03	42.72	6.28%	8.80	-	33.92	33.86	67.78	(19.25)
2045	125.44	5.69%	36.27	-	89.17	39.89	6.27%	7.95	-	31.94	35.74	67.68	(21.49)
2046	128.42	5.69%	37.06	-	91.36	36.98	6.25%	7.08	-	29.90	37.67	67.57	(23.79)
2047	131.55	5.69%	37.90	-	93.65	34.19	6.23%	6.24	-	27.95	39.61	67.56	(26.09)
2048	134.67	5.68%	38.66	-	96.01	31.16	6.21%	5.35	-	25.81	41.62	67.43	(28.58)
2049	137.95	5.68%	39.54	-	98.41	28.46	6.18%	4.54	-	23.92	43.58	67.50	(30.91)
2050	141.30	5.68%	40.43	-	100.87	25.93	6.15%	3.79	-	22.14	45.51	67.65	(33.22)
2051	144.77	5.68%	41.36	-	103.41	23.71	6.13%	3.12	-	20.59	47.41	68.00	(35.41)
												Total:	\$ (45.99)

Pension Background

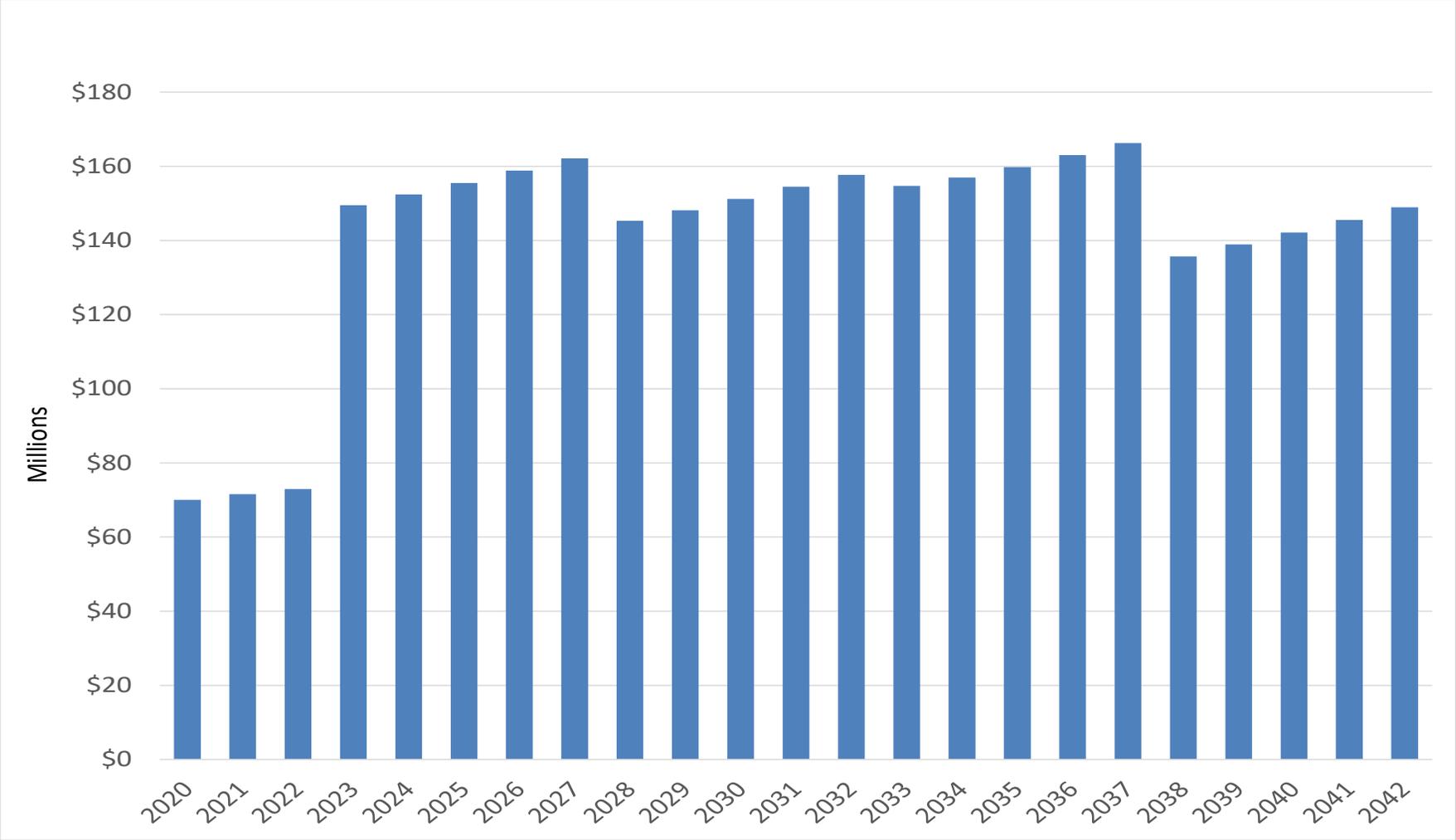
Current Actuarial Estimate

- ▶ 2022 Employer Pension Contribution - \$72.9 million
- ▶ 2023 Employer Pension Contribution - \$149.5 million

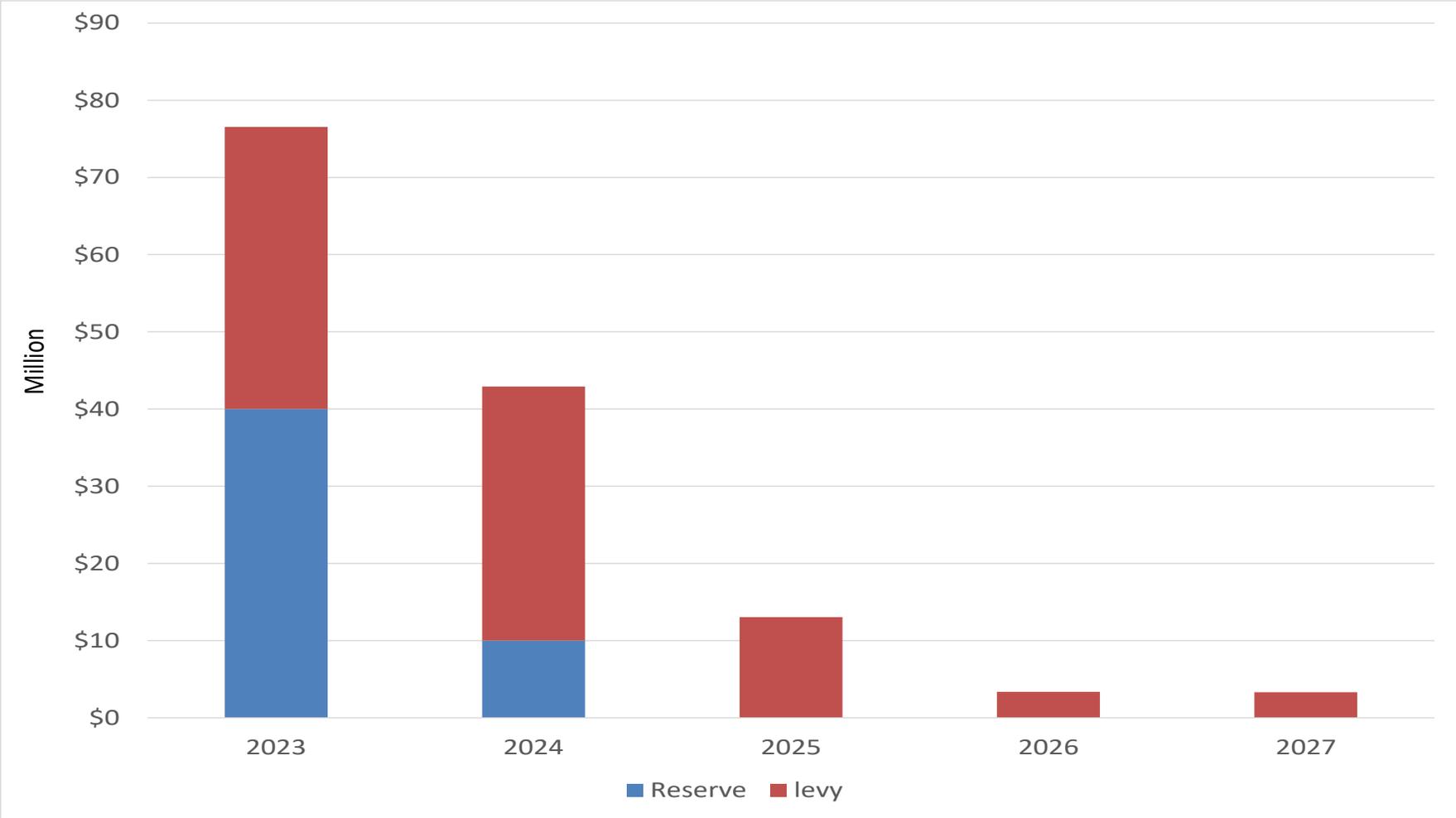
- ▶ 2022-2023 Increase - \$76.6 million

- ▶ UAAL - \$1.1billion (total fund)
- ▶ Funded Ratio 80.1%

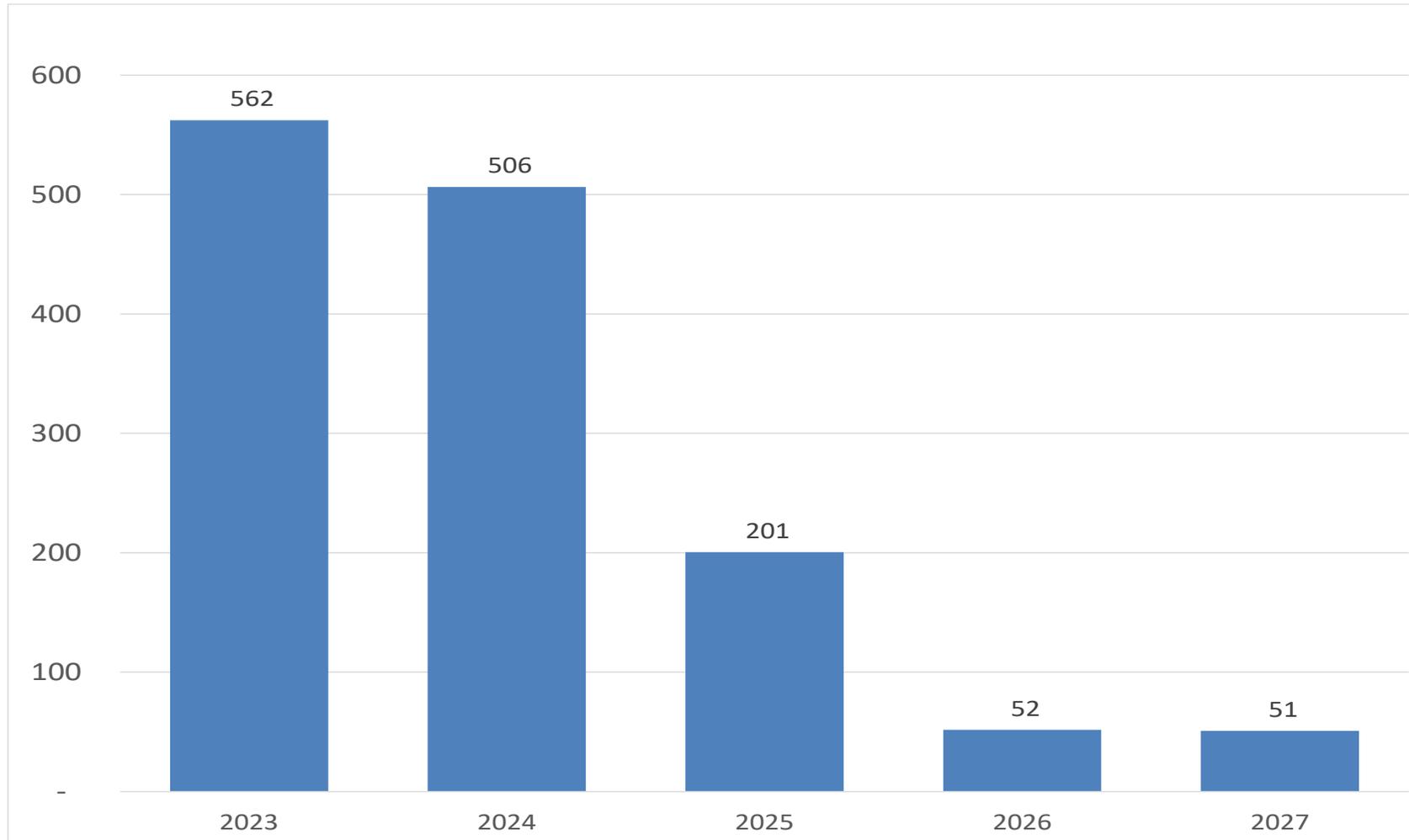
Current Actuarial Estimate



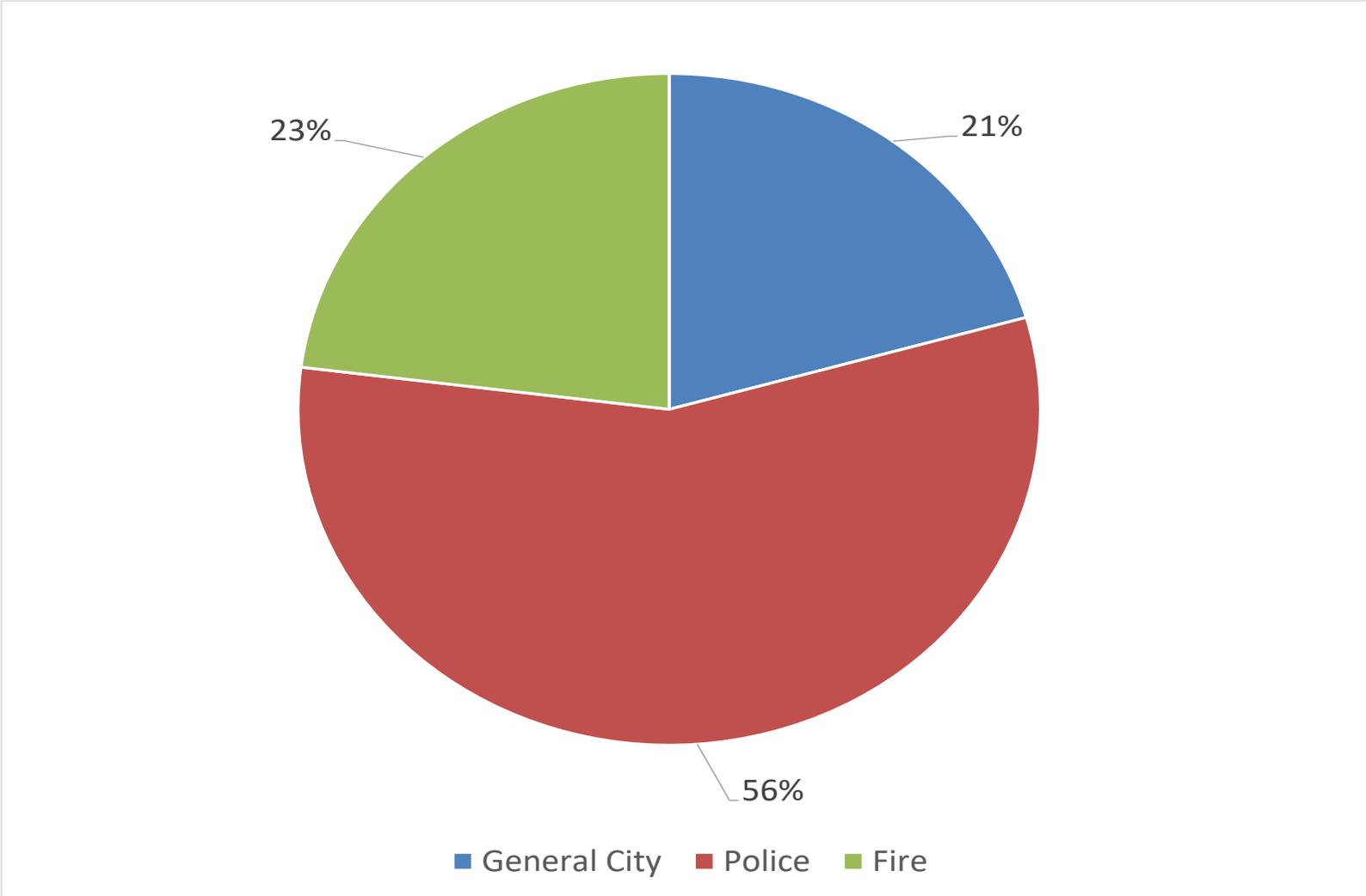
Current Actuarial Estimate - Levy Increase/Reserve Use



Current Actuarial Estimate - Position Eliminations



Distribution of Current Estimate



Distribution of Current Estimate - Increase

	General City	Police	Fire	Total
Estimated 2022 Payment	\$ 14.0	\$ 42.1	\$ 16.8	\$ 72.9
Estimated 2023 Payment	\$ 30.8	\$ 84.4	\$ 34.4	\$ 149.6
Increase	\$ 16.80	\$ 42.30	\$ 17.60	\$ 76.7
Percent of Increase	21.9%	55.1%	22.9%	

Percentage Paid of Normal Cost

	General City	Police	Fire
Member	49.2%	27.0%	24.3%
Employer	50.9%	73.0%	75.7%

Comparison of WRS Core Fund vs ERS Returns



WRS Data Source: <https://etf.wi.gov/wrs-performance/annual-returns-rates-and-adjustments>

Year End	Rates of Return		Growth of \$1 on 1/1/2000		
	ERS	WRS	ERS	WRS	Higher
2000	2.84%	-0.80%	\$ 1.03	\$ 0.99	ERS
2001	-1.68%	-2.30%	\$ 1.01	\$ 0.97	ERS
2002	-9.44%	-8.80%	\$ 0.92	\$ 0.88	ERS
2003	27.34%	24.20%	\$ 1.17	\$ 1.10	ERS
2004	12.61%	12.80%	\$ 1.31	\$ 1.24	ERS
2005	8.46%	8.60%	\$ 1.42	\$ 1.34	ERS
2006	15.13%	15.80%	\$ 1.64	\$ 1.56	ERS
2007	7.21%	8.80%	\$ 1.76	\$ 1.69	ERS
2008	-30.84%	-26.20%	\$ 1.22	\$ 1.25	WRS
2009	23.30%	22.40%	\$ 1.50	\$ 1.53	WRS
2010	13.86%	12.30%	\$ 1.71	\$ 1.72	WRS
2011	-1.43%	1.40%	\$ 1.68	\$ 1.74	WRS
2012	13.88%	13.70%	\$ 1.92	\$ 1.98	WRS
2013	19.29%	13.60%	\$ 2.29	\$ 2.25	ERS
2014	5.09%	5.70%	\$ 2.40	\$ 2.38	ERS
2015	0.54%	-0.40%	\$ 2.41	\$ 2.37	ERS
2016	8.83%	8.60%	\$ 2.63	\$ 2.57	ERS
2017	16.38%	16.20%	\$ 3.06	\$ 2.99	ERS
2018	-2.91%	-3.30%	\$ 2.97	\$ 2.89	ERS
2019	18.44%	19.90%	\$ 3.52	\$ 3.47	ERS
2020	6.62%	15.20%	\$ 3.75	\$ 3.99	WRS

Calendar Year Returns	Net of Fees		Higher		Annualized Returns*	Net of Fees		Higher	
	CMERS	SWIB**	CMERS	SWIB		CMERS	SWIB	CMERS	SWIB
2000	2.84%	-0.80%	x		1-Year Annualized ending in 2000	2.84%	-0.80%	x	
2001	-1.68%	-2.30%	x		2-Year Annualized ending in 2001	0.55%	-1.55%	x	
2002	-9.44%	-8.80%		x	3-Year Annualized ending in 2002	-0.38%	-0.54%	x	
2003	27.34%	24.20%	x		4-Year Annualized ending in 2003	3.91%	2.36%	x	
2004	12.61%	12.80%		x	5-Year Annualized ending in 2004	5.60%	4.37%	x	
2005	8.46%	8.60%		x	6-Year Annualized ending in 2005	6.07%	5.06%	x	
2006	15.13%	15.80%		x	7-Year Annualized ending in 2006	7.32%	6.53%	x	
2007	7.21%	8.80%		x	8-Year Annualized ending in 2007	7.31%	6.81%	x	
2008	-30.84%	-26.20%		x	9-Year Annualized ending in 2008	2.19%	2.51%		x
2009	23.30%	22.40%	x		10-Year Annualized ending in 2009	4.13%	4.35%		x
2010	13.86%	12.30%	x		11-Year Annualized ending in 2010	4.98%	5.05%		x
2011	-1.43%	1.40%		x	12-Year Annualized ending in 2011	4.43%	4.74%		x
2012	13.88%	13.70%	x		13-Year Annualized ending in 2012	5.13%	5.40%		x
2013	19.29%	13.60%	x		14-Year Annualized ending in 2013	6.08%	5.97%	x	
2014	5.09%	5.70%		x	15-Year Annualized ending in 2014	6.02%	5.95%	x	
2015	0.54%	-0.40%	x		16-Year Annualized ending in 2015	5.66%	5.54%	x	
2016	8.83%	8.60%	x		17-Year Annualized ending in 2016	5.85%	5.72%	x	
2017	16.38%	16.20%	x		18-Year Annualized ending in 2017	6.41%	6.28%	x	
2018	-2.91%	-3.30%	x		19-Year Annualized ending in 2018	5.90%	5.75%	x	
2019	18.44%	19.90%		x	20-Year Annualized ending in 2019	6.49%	6.41%	x	
2020	6.62%	15.20%		x	21-Year Annualized ending in 2020	6.50%	6.82%		x

*Annualized Returns data show the compounded annualized returns of CMERS and SWIB, respectively, from 2000 to the "ending in" year time period. For example, CMERS' "5-Year Annualized ending in 2004" of 5.60% means that CMERS generated a 5.60% annualized return per year from January 1, 2000 to December 31, 2004; SWIB's "10-Year Annualized ending in 2009" of 4.35% means that SWIB generated a 4.35% annualized return per year from January 1, 2000 to December 31, 2009, and so on. While it is correct to say that SWIB's 6.82% annualized return per year for the 21-year time period ending in December 31, 2020 is higher than CMERS' 6.50% annualized return, it's important to note that Annualized returns are highly sensitive to the most recent calendar year return experience, which are the returns on the left. This phenomenon is often referred to as end-point sensitivity, and can be particularly pronounced when there is a material difference in returns between numbers being compared in the most recent year. In 2013 for example, CMERS' 19.29% return exceeded SWIB's 13.6% return and this set the stage for CMERS' Annualized returns to be higher than SWIB's for 7 consecutive years (13-Year Annualized ending in 2013 through 20-Year Annualized ending in 2019). In 2020, SWIB's 15.2% return exceeded CMERS' 6.62% return and resulted in SWIB's Annualized returns going higher than CMERS' in the 21-Year Annualized ending in 2020 time period. Ultimately, it's critical to understand end-point sensitivity with regards to the analysis of investment returns, and that the conclusions drawn from comparing investment return data in this manner may be different from year-to-year because the data may be skewed by the results of the most recent time period.

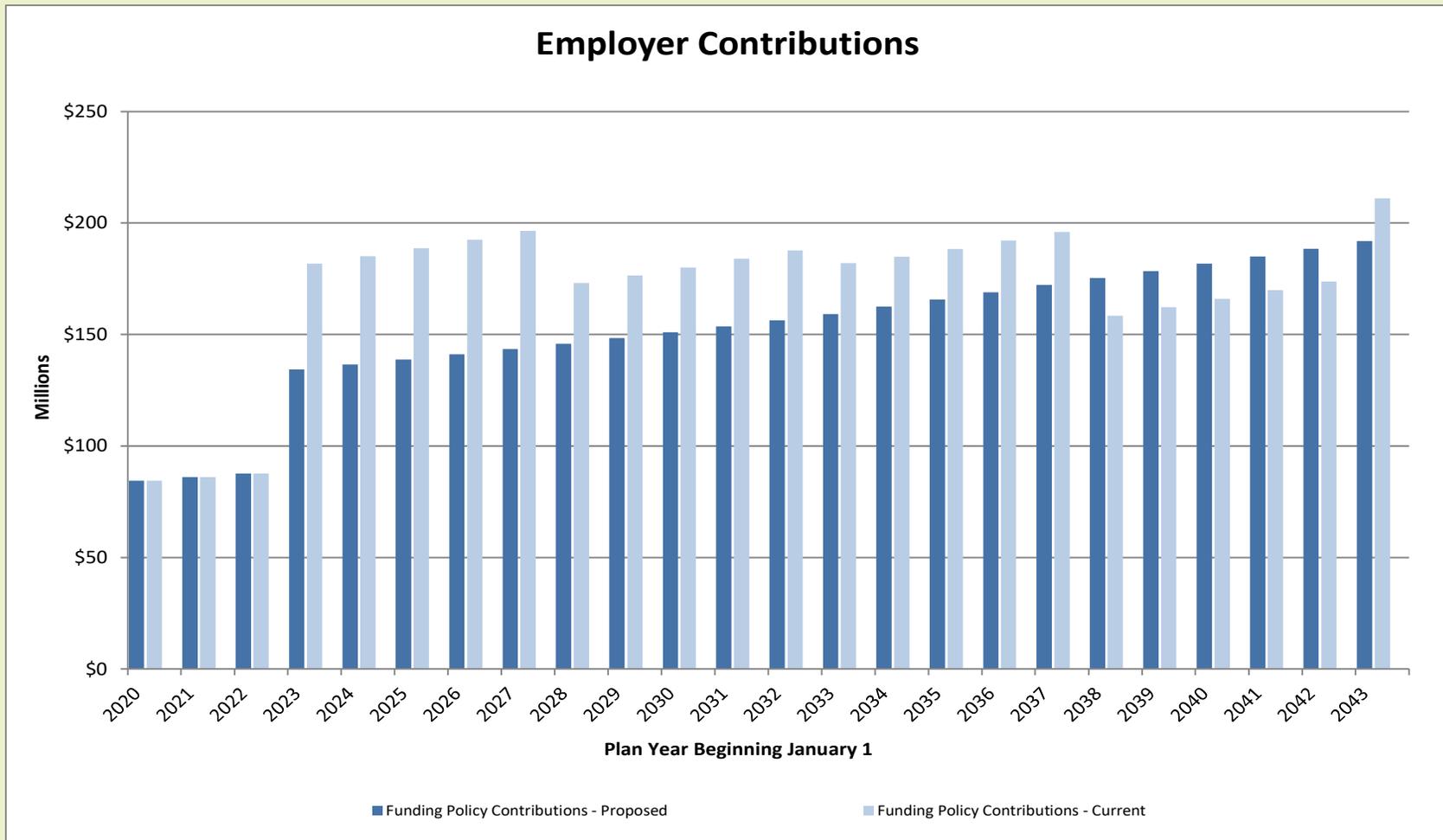
**Source for SWIB Calendar Year Returns: <https://etf.wi.gov/wrs-performance/annual-returns-rates-and-adjustments>

Note: A portion of the return differences shown above very likely include differences between CMERS' and SWIB's respective Strategic Asset Allocation. For example, based on publicly available data, SWIB's benchmark return over the 20-year time period ending on December 31, 2020 was an annualized 0.37% higher than CMERS' benchmark return.

Source for SWIB 20-Year Benchmark Return as of December 31, 2020:

https://7ffb9e60-f2dc-4359-b148-1db6b9d76c71.filesusr.com/ugd/69fc6d_1fb26f3efbdf4aa18c3cba865cac15ee.pdf

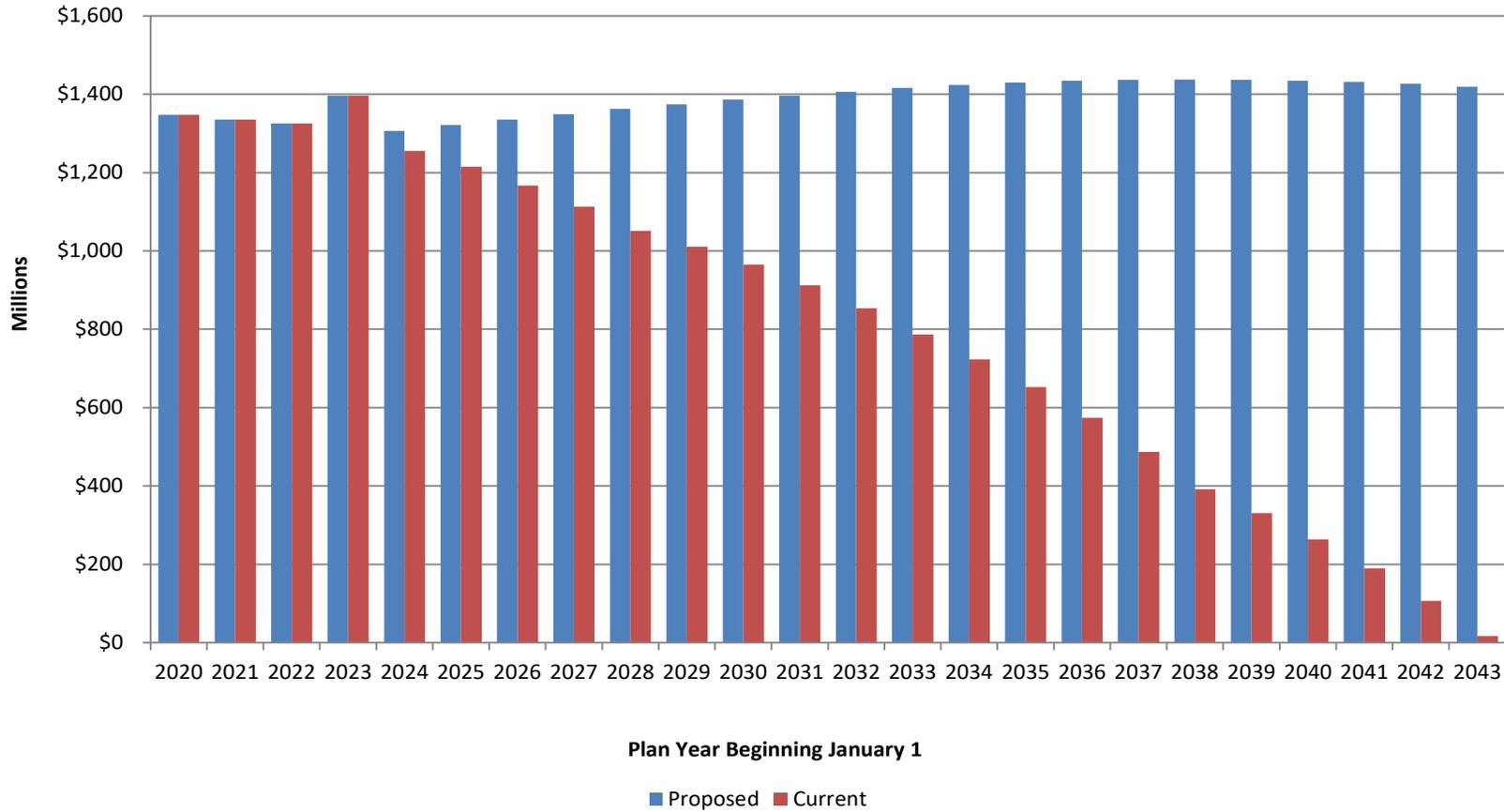
Employer Contributions



Employer contributions shown for the whole system.

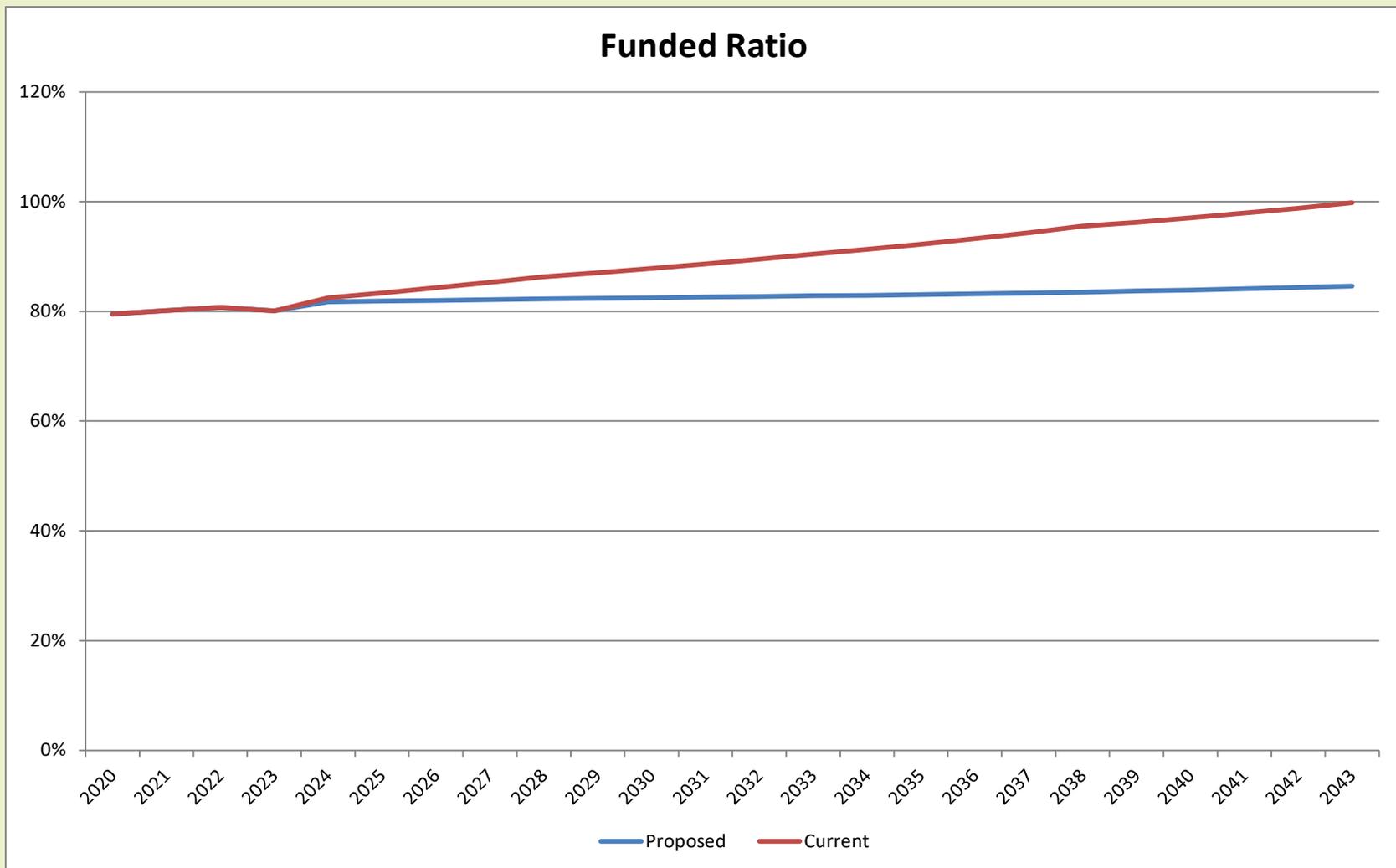
Under the modelled scenario, the contribution for City employers is capped at \$110 million during 2023, increasing each following year by 2.00%.

Unfunded Actuarial Accrued Liability



UAAL shown for the whole System.

Under the modelled scenario, the contribution for City employers is capped at \$110 million during 2023, increasing each following year by 2.00%.



Under the modelled scenario, the contribution for City employers is capped at \$110 million during 2023, increasing each following year by 2.00%.

ERS Summary Information

(1/1/21 Actuarial Valuation)

Active Population	General	Police	Fire	Total
Members	8,135	1,735	697	10,567
Pensionable Payroll Size	\$ 371.86	\$ 154.61	\$ 59.90	\$ 586.37

Retirees	All Groups
Count	13,647
Total Annual Benefits	\$ 417.67

Employer Contribution Rates	General	Police	Fire
Actuarial Determined	17.22%	47.47%	51.44%
Stable Policy	7.48%	25.22%	26.83%

Total Actuarial Accrued Liability **\$ 6,745.30**

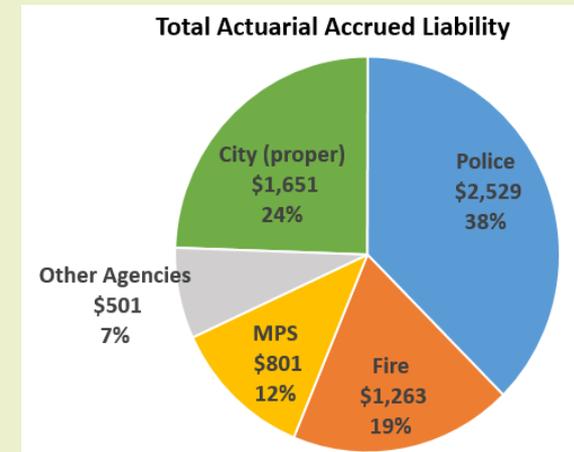
Unfunded Actuarial Accrued Liability

Based on Actuarial Value of Assets	\$ 1,304.43
Based on Market Value of Assets	\$ 1,095.57

Funded Ratio

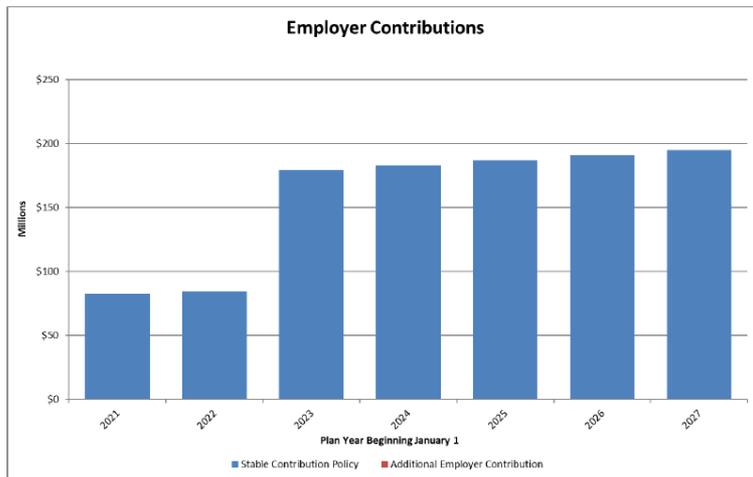
Market Value of Assets	83.8%
Actuarial Value of Assets	80.7%

(all amounts are in \$ millions)



Projected spike in employer contributions to ERS beginning in 2023 presents a challenge for the participating employers

Projections (Assuming All Assumptions Are Met)



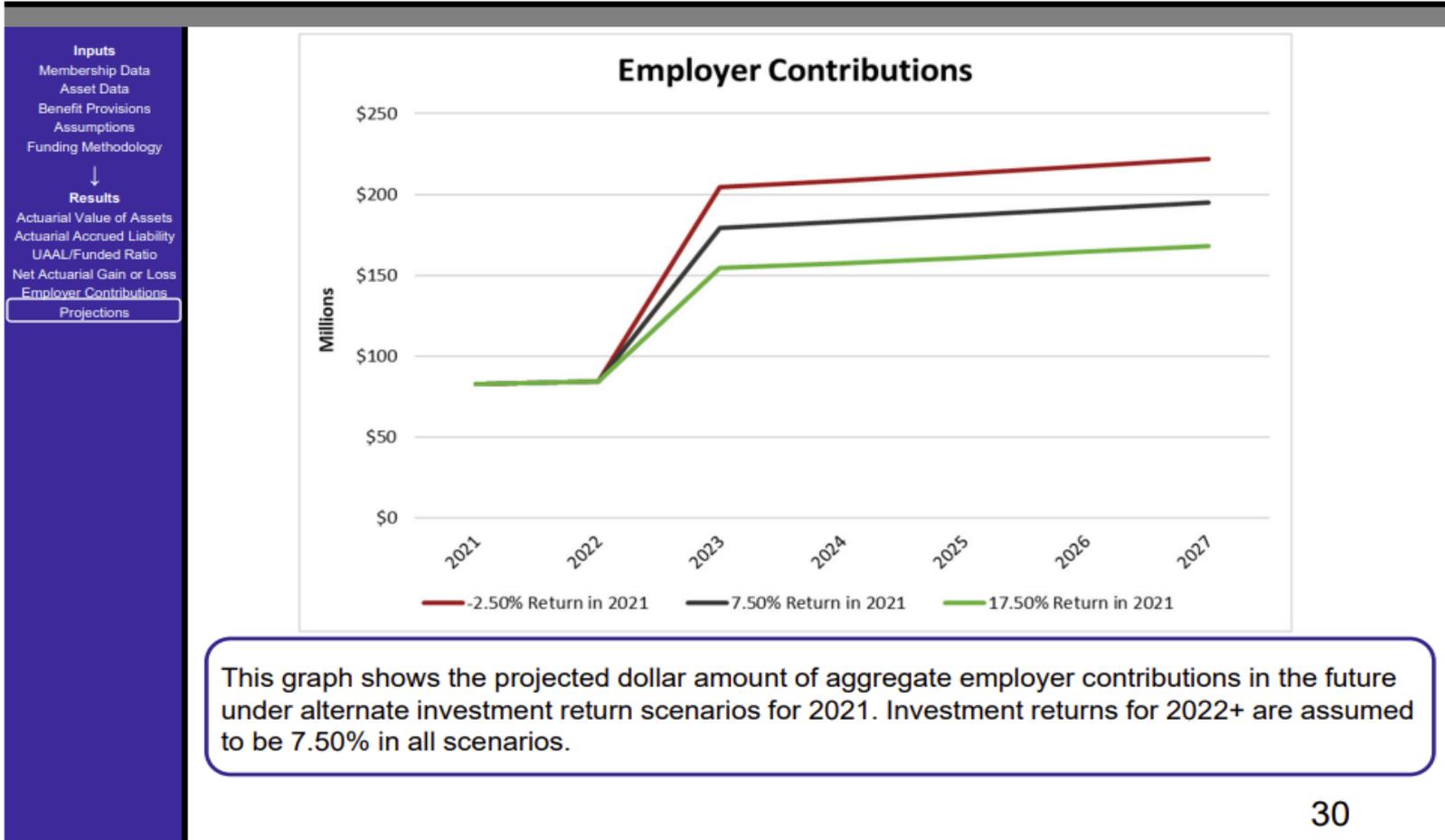
This graph shows the projected dollar amount of aggregate employer contributions in the future, if all actuarial assumptions are met.

All other assumptions held constant, it is projected that under the Stable Contribution Policy the total employer contributions (from all employers) will grow from about 15% of pensionable wages currently (approx. \$80M) to about 30% of pensionable wages due 1/2024 (approx. \$175M).

Summary of Economic Assumptions:

- Investment Return – 7.50% per year
- Price Inflation – 2.50%
- UAAL Payment Increase – 2.00%
- Salary Increase Rate (net of inflation) varies with age

Sensitivity Analysis (Alternate Investment Returns for 2021)



City Charter and State Law Requirements

- Employer contributions are due and payable in full by January 31 of the year following the current year as determined by the independent actuary (MCC 36-08).
- Employer contributions must be certified by the Annuity and Pension Board and calculations must adhere to Actuarial Standards of Practice (MCC 36-08 and 36-15).
- ERS Vested benefits are a contractual obligation of the City under state law and can not be diminished or impaired w/o consent of the Member (WI Laws Chapter 441, Laws of 1947; MCC 36-13).
- Global Pension Settlement provisions are locked in place by court order.
- Pension funding requirements can only be changed by a two-thirds vote of the Common Council, approval by the Mayor and the Annuity & Pension Board (MCC 36-15)
- Changes to funding policy pursuant to MCC-36-08 and 36-15 that cause “tangible harm” to members and beneficiaries may violate their contractual pension rights - Professional Police Association v. Lightbourn, 2001 WI 59, 243 Wis. 2d 512, 627.N.W.2d 807

Securing Payment of Employer Contributions

- MCC 36-08-6-f and g provide authority to levy taxes to fund ERS on real and personal property annually in addition to all other taxes. For agencies not authorized to levy taxes, the amounts are to be included in their budgets.
- In the event that the employer(s) do not contribute the required amount, the Annuity & Pension Board is obligated by state law as a fiduciary to exhaust all avenues to collect such funds, and as authorized under MCC 36-15-1 (“proper operation of the retirement system”) Also, Board Rule VII A.

Further Limitations to Benefits Alteration

Under MCC 36-14 (“Home Rule”), the City is authorized to “amend or alter the provisions of [MCC 36] in the manner prescribed by s. 66.0101, Wis. Stats., provided that no such amendment or alteration shall modify the annuities, benefits, or other rights of persons who are Members of the system prior to the effective date of such amendment or alteration.”

Possible Options for Funding

- Increase revenue
 - Property tax levy authorized under MCC 36-08
 - Lobby State for other options (e.g. sales tax)
- Utilize the employer reserve fund as a temporary stop-gap measure
 - Use all funds in the reserve immediately (for 2023) to “buy” another year to decide next steps
- Borrow (e.g. use proceeds of sale of POBs to reduce or eliminate unfunded pension liability) leaving only the employer normal cost contribution, currently approx. \$59 million and debt service on the POBs at a substantially lower interest rate than the ERS 7.5% assumed rate of return. **Warning:** This approach involves substantial market risk.
- Cut employment, other benefits/services to fund the pension obligation.
 - A state Assembly bill has already passed that would offset state revenue sharing if there are reductions to Fire & Police positions.
- All options are subject to limitations and other difficulties.

Financial Impact of Options Mentioned By Others But That Cannot Be Recommended By ERS

- Move new hires to WRS
 - This would constitute a “soft freeze” of ERS and would result in substantially increased ERS pension liability, employer contributions due to a reduction in the discount rate and accelerated funding required by actuarial standards of practice. (Approx. \$315 Million- \$380 Million annually per actuary for several years)
 - WRS covered pay includes overtime and ERS covered pay does not.
 - Increased ERS unfunded liability would still need to be serviced and is approx. 60% of the current employer contribution as shown on the following slide.
 - Would require bargaining for public safety Members and likely enabling state legislation
 - Actuarial modelling would be necessary to accurately assess the long term financial impact
- Change ERS benefits/employee contributions for new hires
 - Would require bargaining for public safety employees
 - Changes would be prospective with minimal immediate financial impact for several years

Actuarially Determined Employer Contribution

(Combined Fund only as of January 1, 2021)

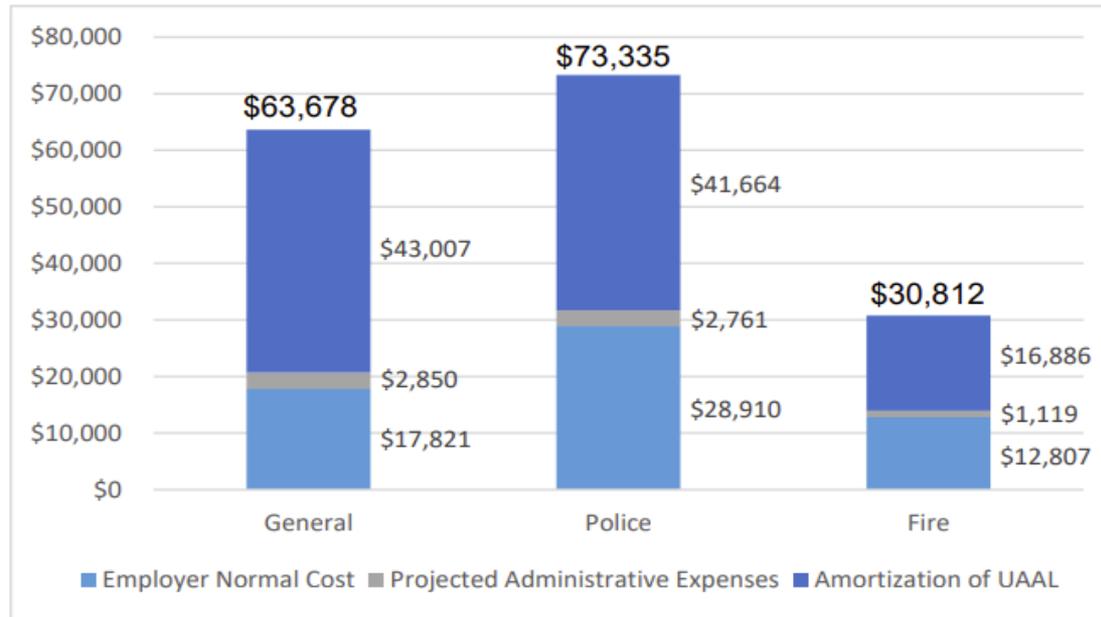
Inputs

- Membership Data
- Asset Data
- Benefit Provisions
- Assumptions
- Funding Methodology

↓

Results

- Actuarial Value of Assets
- Actuarial Accrued Liability
- UAAL/Funded Ratio
- Net Actuarial Gain or Loss
- Employer Contributions**
- Projections



The normal cost is just part of the actuarially determined contribution. The amortization of the unfunded actuarial accrued liability (UAAL) is a major component of the actuarial determined contribution.

References

- MCC 36 – 36-08, 36-13 and 36-15
- Board Rules – VII A.
- WI Stat. 66 – 66.0101
- WI Laws Chapter 441, Laws of 1947
- Legal Opinion – June 21, 2010
- Legal Opinion – February 7, 2011
- Legal Opinion – September 5, 1995
- ERS Actuarial Valuation as of January 1, 2021
- Callan ALM Study dated December 10, 2020
- Memo From Actuary – January 22, 2021 Re: Impact of closing CMERS to new hires

APPENDIX

Normal Cost by Group (1/1/2021 Actuarial Valuation)

	General Employees	Policemen	Firemen	Total
1. Retirement Benefits	\$21,576	\$34,106	\$11,242	\$66,924
2. Withdrawal Benefits	12,269	2,874	1,271	16,414
3. Disability Benefits	1,382	2,542	4,384	8,308
4. Death Benefits	656	232	103	991
5. Total Normal Cost	\$35,883	\$39,754	\$17,000	\$92,637
6. Projected Payroll	\$371,863	\$154,607	\$59,899	\$586,369
7. Normal Cost Rate	9.65%	25.71%	28.38%	15.80%
8. Member Contribution Rate	(4.82%)	(7.00%)	(7.00%)	(5.62%)
9. Employer Normal Cost Rate	4.83%	18.71%	21.38%	10.18%

Comparison of WRS Core Fund vs ERS Returns



WRS Data Source: <https://etf.wi.gov/wrs-performance/annual-returns-rates-and-adjustments>

Year End	Rates of Return		Growth of \$1 on 1/1/2000		
	ERS	WRS	ERS	WRS	Higher
2000	2.84%	-0.80%	\$ 1.03	\$ 0.99	ERS
2001	-1.68%	-2.30%	\$ 1.01	\$ 0.97	ERS
2002	-9.44%	-8.80%	\$ 0.92	\$ 0.88	ERS
2003	27.34%	24.20%	\$ 1.17	\$ 1.10	ERS
2004	12.61%	12.80%	\$ 1.31	\$ 1.24	ERS
2005	8.46%	8.60%	\$ 1.42	\$ 1.34	ERS
2006	15.13%	15.80%	\$ 1.64	\$ 1.56	ERS
2007	7.21%	8.80%	\$ 1.76	\$ 1.69	ERS
2008	-30.84%	-26.20%	\$ 1.22	\$ 1.25	WRS
2009	23.30%	22.40%	\$ 1.50	\$ 1.53	WRS
2010	13.86%	12.30%	\$ 1.71	\$ 1.72	WRS
2011	-1.43%	1.40%	\$ 1.68	\$ 1.74	WRS
2012	13.88%	13.70%	\$ 1.92	\$ 1.98	WRS
2013	19.29%	13.60%	\$ 2.29	\$ 2.25	ERS
2014	5.09%	5.70%	\$ 2.40	\$ 2.38	ERS
2015	0.54%	-0.40%	\$ 2.41	\$ 2.37	ERS
2016	8.83%	8.60%	\$ 2.63	\$ 2.57	ERS
2017	16.38%	16.20%	\$ 3.06	\$ 2.99	ERS
2018	-2.91%	-3.30%	\$ 2.97	\$ 2.89	ERS
2019	18.44%	19.90%	\$ 3.52	\$ 3.47	ERS
2020	6.62%	15.20%	\$ 3.75	\$ 3.99	WRS

Calendar Year Returns	Net of Fees		Higher		Annualized Returns*	Net of Fees		Higher	
	CMERS	SWIB**	CMERS	SWIB		CMERS	SWIB	CMERS	SWIB
2000	2.84%	-0.80%	x		1-Year Annualized ending in 2000	2.84%	-0.80%	x	
2001	-1.68%	-2.30%	x		2-Year Annualized ending in 2001	0.55%	-1.55%	x	
2002	-9.44%	-8.80%		x	3-Year Annualized ending in 2002	-0.38%	-0.54%	x	
2003	27.34%	24.20%	x		4-Year Annualized ending in 2003	3.91%	2.36%	x	
2004	12.61%	12.80%		x	5-Year Annualized ending in 2004	5.60%	4.37%	x	
2005	8.46%	8.60%		x	6-Year Annualized ending in 2005	6.07%	5.06%	x	
2006	15.13%	15.80%		x	7-Year Annualized ending in 2006	7.32%	6.53%	x	
2007	7.21%	8.80%		x	8-Year Annualized ending in 2007	7.31%	6.81%	x	
2008	-30.84%	-26.20%		x	9-Year Annualized ending in 2008	2.19%	2.51%		x
2009	23.30%	22.40%	x		10-Year Annualized ending in 2009	4.13%	4.35%		x
2010	13.86%	12.30%	x		11-Year Annualized ending in 2010	4.98%	5.05%		x
2011	-1.43%	1.40%		x	12-Year Annualized ending in 2011	4.43%	4.74%		x
2012	13.88%	13.70%	x		13-Year Annualized ending in 2012	5.13%	5.40%		x
2013	19.29%	13.60%	x		14-Year Annualized ending in 2013	6.08%	5.97%	x	
2014	5.09%	5.70%		x	15-Year Annualized ending in 2014	6.02%	5.95%	x	
2015	0.54%	-0.40%	x		16-Year Annualized ending in 2015	5.66%	5.54%	x	
2016	8.83%	8.60%	x		17-Year Annualized ending in 2016	5.85%	5.72%	x	
2017	16.38%	16.20%	x		18-Year Annualized ending in 2017	6.41%	6.28%	x	
2018	-2.91%	-3.30%	x		19-Year Annualized ending in 2018	5.90%	5.75%	x	
2019	18.44%	19.90%		x	20-Year Annualized ending in 2019	6.49%	6.41%	x	
2020	6.62%	15.20%		x	21-Year Annualized ending in 2020	6.50%	6.82%		x

*Annualized Returns data show the compounded annualized returns of CMERS and SWIB, respectively, from 2000 to the "ending in" year time period. For example, CMERS' "5-Year Annualized ending in 2004" of 5.60% means that CMERS generated a 5.60% annualized return per year from January 1, 2000 to December 31, 2004; SWIB's "10-Year Annualized ending in 2009" of 4.35% means that SWIB generated a 4.35% annualized return per year from January 1, 2000 to December 31, 2009, and so on. While it is correct to say that SWIB's 6.82% annualized return per year for the 21-year time period ending in December 31, 2020 is higher than CMERS' 6.50% annualized return, it's important to note that Annualized returns are highly sensitive to the most recent calendar year return experience, which are the returns on the left. This phenomenon is often referred to as end-point sensitivity, and can be particularly pronounced when there is a material difference in returns between numbers being compared in the most recent year. In 2013 for example, CMERS' 19.29% return exceeded SWIB's 13.6% return and this set the stage for CMERS' Annualized returns to be higher than SWIB's for 7 consecutive years (13-Year Annualized ending in 2013 through 20-Year Annualized ending in 2019). In 2020, SWIB's 15.2% return exceeded CMERS' 6.62% return and resulted in SWIB's Annualized returns going higher than CMERS' in the 21-Year Annualized ending in 2020 time period. Ultimately, it's critical to understand end-point sensitivity with regards to the analysis of investment returns, and that the conclusions drawn from comparing investment return data in this manner may be different from year-to-year because the data may be skewed by the results of the most recent time period.

**Source for SWIB Calendar Year Returns: <https://etf.wi.gov/wrs-performance/annual-returns-rates-and-adjustments>

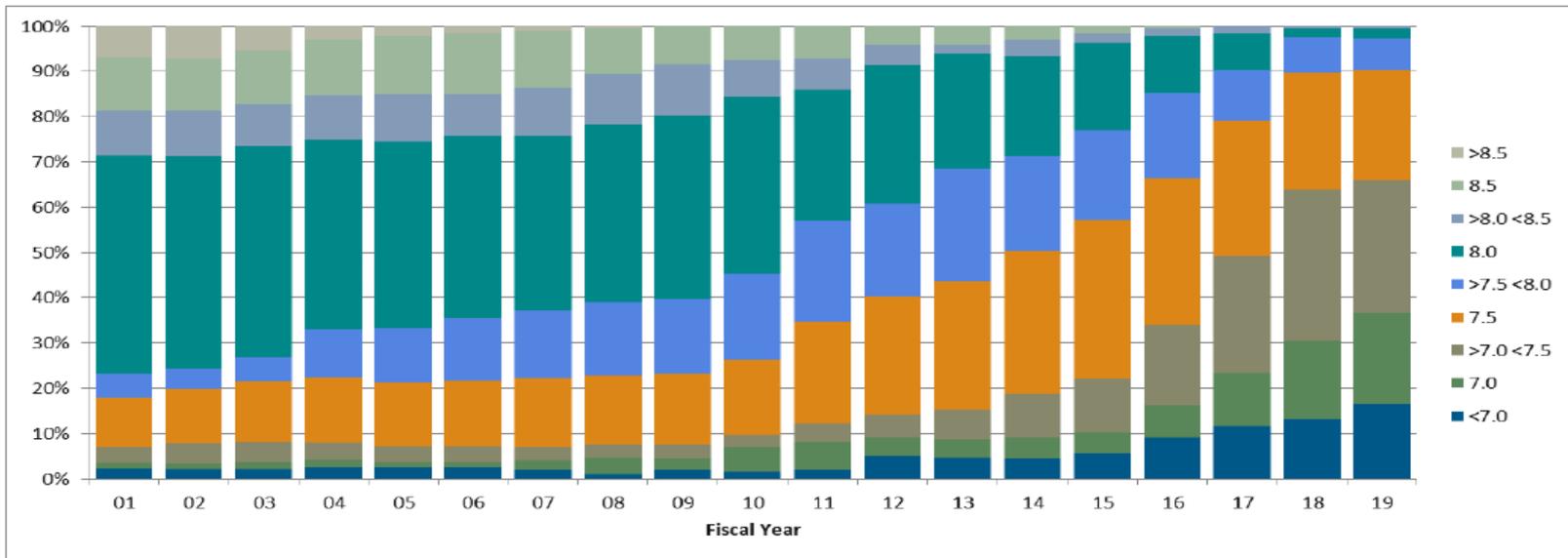
Note: A portion of the return differences shown above very likely include differences between CMERS' and SWIB's respective Strategic Asset Allocation. For example, based on publicly available data, SWIB's benchmark return over the 20-year time period ending on December 31, 2020 was an annualized 0.37% higher than CMERS' benchmark return.

Source for SWIB 20-Year Benchmark Return as of December 31, 2020:

https://7ffb9e60-f2dc-4359-b148-1db6b9d76c71.filesusr.com/ugd/69fc6d_1fb26f3efbdf4aa18c3c3ba865cac15ee.pdf

Discount Rates for Public Funds (Asset Liability Management Study 12/10/2020)

Public Fund Actuarial Discount Rates



- An industry consensus on low return expectations going forward has led to a steady decline in actuarial discount rates over the last decade
- The 2019 median actuarial discount rate is 7.25%

Source: Compiled by NASRA based on Public Fund Survey