Milwaukee County Pension 101

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I. Basic Terminology

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H. Average Calculation
I. Annuity Options
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A. Defined Benefit

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

B. Vesting Period

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

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

**Multiplier x Creditable Service x Final Average Salary**
E. Multiplier

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

Typically, Creditable Service is the number of eligible years an employee has worked for the employer offering the pension. As will be noted later, this concept gets complicated by reciprocity agreements with other employers.
Final Average Salary is the average salary earned over the Final Average Salary Period set by the plan. For Milwaukee County, the Final Average Salary Period is 3 years.
H. Average Calculation

Recall that the benefits equation for Milwaukee County is:

**Multiplier x Creditable Service x Final Average Salary**

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

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

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

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

1. **Maximum Option.** Benefit payable for the member’s lifetime and ceases upon the member’s death (e.g. $28,800)

2. **Joint & Survivor.** During the member’s life, the pension is reduced based on a table called a mortality table, which takes into consideration the member’s age and other factors (“Actuarially Reduced”) to estimate their likely life span and adjust their pension benefit accordingly. Upon, the member’s death, either 25%, 50%, or 75% is paid over the life of a named beneficiary. As an example, if the Maximum Option was $28,800 and the member chose the 50% Joint and survivor option, then depending on the mortality table, the payment for the member’s life might be $20,000 per year, and then reduced to 50% or $10,000 after the member’s death.

3. **10 Year Certain and Life.** This option is also Actuarially Reduced and is payable over the life of the member. In the event the member should die within 10 years, the benefit continues to the named beneficiary. (e.g. $25,000 for 10 years guaranteed).
J. Employee Contribution

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

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

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

Table 1. Legal Basis for Protection of Public Pension Rights under State Laws

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

Here is another perspective:

“[A]n employee’s right to public pension benefits is considered contractual, and therefore is protected against substantial impairment under both state and federal constitutions.... [I]t is generally unconstitutional for a state to take any action that substantially impairs the employee’s benefits.... [C]ourts typically find any decrease in the amount of retirement benefits to be a substantial impairment.... As a general rule, changes that are purely prospective (changes that affect not what an employee has already earned but solely what he will earn through future service) invite less judicial scrutiny than changes that affect an employee’s already-earned and vested benefits because prospective changes are considered less substantial impairments than changes to accrued benefits.”

Amy Monahan, Understanding the legal limits on Public Pension Reform (American Enterprise Institute, May 2013) available at http://www.nasra.org/Files/Topical%20Reports/Legal/Monahan1305.pdf
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Any questions?
II. Anomalies in Milwaukee County

A. Relevant Documents
B. Governance
C. Enhancements
D. Collective Bargaining
E. Variations

F. Frequent Changes
G. Multiple Status
H. # of Active vs. Inactive
I. Reciprocity
J. Public Safety Officers
A. Relevant Documents

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

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

Benefit levels are set by County Ordinance. County Ordinances are available at [http://county.milwaukee.gov/CountyOrdinances22003.htm](http://county.milwaukee.gov/CountyOrdinances22003.htm)

Ch 201 – County Employees’ Retirement System
Ch 202 – Increased Benefits Payable Under Sheriff’s Annuity and Benefit Fund
Ch 203 – OBRA 1990 Retirement System of the County
2. Pension Board Rules

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

**Appendix B** – Rules of the Employees’ Retirement System  
**Appendix B1** – Rules of the 1990 OBRA
3. Actuarial Valuations

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

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

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

The valuation as of Jan. 1, 2017 was:

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

Each year the County gets an annual report from the Pension Board that includes the audited financial statements of the Pension. These reports are available at:
http://county.milwaukee.gov/Retirement/Reports/Annual.htm

4. Annual Reports

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

Beginning Balance: $1,716,151,763

Additions:
  - County Contribution $50,625,672
  - Employee Contribution $12,143,510
  - Net Investment Income $110,336,000

Deductions:
  - Benefits paid ($211,163,822)
  - Admin. Expense ($4,912,501)
  - Withdrawal ($1,498,291)

Ending Balance $1,671,682,331
5. Investment Reports

Each month the Pension Board gets a report on the performance of the pension investments. These reports are available at: http://county.milwaukee.gov/Retirement/Reports/Investment.htm
6. State Statutes

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

59.85 – Appropriation bonds for payment of employee retirement system liability in populous counties
59.87 – Employee retirement system liability financing in populous counties; additional powers.
59.875 – Payment of contributions in and employment of annuitants under an employee retirement system of populous counties.
59.88 – Employee retirement system of populous counties; duty disability benefits for mental injury
Wis. Stat. 59.875(2) (a):

Beginning on July 1, 2011, in any employee retirement system of a county, except as otherwise provided in a collective bargaining agreement entered into under subch. IV of ch. 111 and except as provided in par. (b), employees shall pay half of all actuarially required contributions for funding benefits under the retirement system. The employer may not pay on behalf of an employee any of the employee’s share of the actuarially required contributions.
All of the County’s work must be consistent with Federal Statutes. The Employee Retirement Income Security Act of 1974 (ERISA), generally only applies to private, not public pension plans. However, the County’s plan must comply with 26 U.S. Code 401(a), which is available here: https://www.law.cornell.edu/uscode/text/26/401
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As mentioned before, the County’s pension plan is established by County Ordinance. “The general administration and responsibility for the proper operation of the retirement system” is vested with the Pension Board (MCO 201.8.1). The Membership of the Pension Board includes:

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

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

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

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

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

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

All other 71 Counties are in the WRS.
## C. Enhancements

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

* For employees starting before 1994.
** For employees starting before 1982.

Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
C. Enhancements

**County backdrops**

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

C. Enhancements

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

\[
\text{Monthly Pension Benefit} \times \text{# of Months worked past retirement eligibility}
\]

(MCO 201.5.16)

In determining Monthly Pension Benefit, Final Average Salary is locked at 2013 date (i.e. if salary increases after 2013, it is not calculated in Monthly Pension Benefit).
Recall that previously offered benefits become a contract right. When there were several collective bargaining units, each had their own negotiated pension benefits. This resulted in a complex chart that looks like this:
### D. Collective Bargaining

#### Milwaukee County ERS

**Benefits Chart - Retirement / Deferred - Updated June 2013**

<table>
<thead>
<tr>
<th>Employee Group Identification</th>
<th>Vesting Years before 05/01/03</th>
<th>Normal Retirement</th>
<th>Early Retirement</th>
<th>Final Average Salary</th>
<th>Before 2010</th>
<th>2010</th>
<th>2011</th>
<th>Change Date</th>
<th>Change Date</th>
<th>Change Date</th>
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<th>County Supervisor Benefits</th>
<th>Permanent Actuarial Benefit</th>
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<td>Elected Officials NI</td>
<td>Pre-11/30/86</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>0%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>1/1/2010</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td></td>
<td>10/1/94-12/31/86</td>
<td>8 Years</td>
<td>Age 55 + 5 yrs</td>
<td>Age 65 + 10 yrs</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>0%</td>
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</table>

This document is a guide only, meant only for an initial review of benefit eligibility. When verifying benefit eligibility, Milwaukee County Ordinance and Rules and Collective Bargaining Agreements must be followed. Use of this document for eligibility determinations made for benefit calculations is subject to peer review.
### Employee Group Identification

<table>
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<th>Name</th>
<th>Union Code</th>
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<td>1/1/01-3/14/02</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3/15/02-12/31/05</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>On or after 1/1/06</td>
<td></td>
</tr>
<tr>
<td>Deputy Sheriffs</td>
<td>SH</td>
<td>Pre-1/1/82</td>
<td></td>
</tr>
<tr>
<td>(Deputy Sheriffs who</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>were Represented</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from Date of Hire</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to Date of Termination)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1/1/82-12/31/90</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1/1/91-12/31/93</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1/1/94-6/30/95</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>On or after 7/1/95</td>
<td></td>
</tr>
</tbody>
</table>
## D. Collective Bargaining

<table>
<thead>
<tr>
<th>Term before 12/31/00</th>
<th>Term after 12/31/00</th>
<th>Condition 1</th>
<th>Condition 2</th>
<th>Rule of 75 (Retirement only)</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 Years</td>
<td>5 Years</td>
<td>Age 60</td>
<td>Age 55 + 30 yos</td>
<td>Yes</td>
<td>Age 55 + 15 yos</td>
</tr>
<tr>
<td>10 Years</td>
<td>5 Years</td>
<td>Age 60</td>
<td>Age 55 + 30 yos</td>
<td>Yes</td>
<td>Age 55 + 15 yos</td>
</tr>
<tr>
<td>10 Years</td>
<td>5 Years</td>
<td>Age 60</td>
<td>Age 55 + 30 yos</td>
<td>Yes</td>
<td>Age 55 + 15 yos</td>
</tr>
<tr>
<td>5 Years</td>
<td>Age 60</td>
<td>Age 55 + 30 yos</td>
<td>Yes</td>
<td>Age 55 + 15 yos</td>
<td></td>
</tr>
<tr>
<td>5 Years</td>
<td>Age 60</td>
<td>Age 55 + 30 yos</td>
<td>Yes</td>
<td>Age 55 + 15 yos</td>
<td></td>
</tr>
<tr>
<td>5 Years</td>
<td>Age 60</td>
<td>Age 55 + 30 yos</td>
<td>No</td>
<td>Age 55 + 15 yos</td>
<td></td>
</tr>
<tr>
<td>6 Years</td>
<td>Age 57</td>
<td>Age 55 + 15 yos</td>
<td>Yes</td>
<td>Age 55 + 15 yos</td>
<td></td>
</tr>
<tr>
<td>10 Years</td>
<td>Age 57</td>
<td>Age 55 + 15 yos</td>
<td>Yes</td>
<td>Age 55 + 15 yos</td>
<td></td>
</tr>
<tr>
<td>10 Years</td>
<td>Age 57</td>
<td>Age 55 + 15 yos</td>
<td>Yes</td>
<td>Age 55 + 15 yos</td>
<td></td>
</tr>
<tr>
<td>10 Years</td>
<td>Age 57</td>
<td>Age 55 + 15 yos</td>
<td>No</td>
<td>Age 55 + 15 yos</td>
<td></td>
</tr>
<tr>
<td>10 Years</td>
<td>Age 57</td>
<td>Age 55 + 15 yos</td>
<td>No</td>
<td>Age 55 + 15 yos</td>
<td></td>
</tr>
</tbody>
</table>

...
# D. Collective Bargaining

<table>
<thead>
<tr>
<th>Final Average Salary</th>
<th>Overtime excluded if:</th>
<th>25% Bonus</th>
<th>Before 2010</th>
<th>2010</th>
<th>Change Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 yr average</td>
<td>9/1/85</td>
<td>Yes</td>
<td>2.50%</td>
<td>2.50%</td>
<td></td>
</tr>
<tr>
<td>Term &lt; 1/1/03 - 5 yrs</td>
<td>9/1/85</td>
<td>No</td>
<td>2%+.5%</td>
<td>2.00%</td>
<td></td>
</tr>
<tr>
<td>Term &lt; 1/1/03 - 5 yrs</td>
<td>9/1/85</td>
<td>No</td>
<td>2%+.5%</td>
<td>2.00%</td>
<td></td>
</tr>
<tr>
<td>Term &lt; 1/1/03 - 5 yrs</td>
<td>9/1/85</td>
<td>No</td>
<td>2.50%</td>
<td>2.50%</td>
<td></td>
</tr>
<tr>
<td>Term &lt; 1/1/03 - 5 yrs</td>
<td>9/1/85</td>
<td>No</td>
<td>2.00%</td>
<td>2.00%</td>
<td></td>
</tr>
<tr>
<td>Hired &gt;= 9/1/85</td>
<td></td>
<td></td>
<td></td>
<td>2.00%</td>
<td>1.60%</td>
</tr>
<tr>
<td>Hired &gt; 11/12/87</td>
<td>No</td>
<td></td>
<td>2.50%</td>
<td>2.50%</td>
<td></td>
</tr>
<tr>
<td>5 years</td>
<td>11/12/87</td>
<td>No</td>
<td>2.50%</td>
<td>2.50%</td>
<td></td>
</tr>
<tr>
<td>5 years</td>
<td>11/12/87</td>
<td>No</td>
<td>2.50%</td>
<td>2.50%</td>
<td></td>
</tr>
<tr>
<td>5 years</td>
<td>11/12/87</td>
<td>No</td>
<td>2.50%</td>
<td>2.50%</td>
<td></td>
</tr>
<tr>
<td>5 years</td>
<td>11/12/87</td>
<td>No</td>
<td>2.00%</td>
<td>2.00%</td>
<td></td>
</tr>
</tbody>
</table>
## Benefit Percent Multiplier

<table>
<thead>
<tr>
<th>Before 2010</th>
<th>2010 Change Date</th>
<th>2011 Change Date</th>
<th>2012 and after Change Date</th>
<th>Above 80% Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2%+.5%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2%+.5%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.00%</td>
<td>1.60% 10/14/2010</td>
<td>1.60%</td>
<td>1.60%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>1.60%</td>
</tr>
<tr>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>1.60%</td>
</tr>
</tbody>
</table>
## D. Collective Bargaining

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Variations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Vesting Variations</td>
<td>2</td>
</tr>
<tr>
<td>Retirement Age Variations</td>
<td>3</td>
</tr>
<tr>
<td>Final Average Salary Variations</td>
<td>3</td>
</tr>
<tr>
<td>Multiplier Variations</td>
<td>8</td>
</tr>
<tr>
<td>Contribution Variations</td>
<td>2</td>
</tr>
<tr>
<td>Backdrop Variations</td>
<td>2</td>
</tr>
<tr>
<td>Medical Variations</td>
<td>2</td>
</tr>
<tr>
<td>Total Variations</td>
<td>2,304</td>
</tr>
</tbody>
</table>

77 separate Collective Bargaining Time Periods
F. Frequent Changes

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

Here is an example:

Comparison of Current to 2015

2.18. Normal retirement age.

(1) Except as provided in subsections (2), (3), (4) and (5), normal retirement age for all members shall be age sixty (60).

(2) Normal retirement age shall be age fifty-seven (57) for a member who is a deputy or sworn law enforcement officer at the time his employment terminates.

(3) Normal retirement age shall be age sixty-four (64) for the following members whose initial membership date in the retirement system began on or after January 1, 2010:

(a) A member who is not covered by a collective bargaining agreement and who is not an elected official at the time his employment terminates;

(b) A member who is represented by the International Association of Machinists and Aerospace Workers at the time his employment terminates;

(c) A member who is represented by the Technicians, Engineers and Architects of Milwaukee County at the time his employment terminates;

(d) A member who is represented by the Association of Milwaukee County Attorneys at the time his employment terminates.

(4) Normal retirement age shall be age sixty-four (64) for a member who is represented by the American Federation of State, County and Municipal Employees District Council 48 at the time his employment terminates and whose initial membership date is on or after August 1, 2011.

(5) Normal retirement age shall be age sixty-four (64) for a member who is represented by the Federation of Nurses and Health Professionals or by the Milwaukee Building and Construction Trades Council at the time his employment terminates and whose initial membership date is on or after January 1, 2012.

Comparison of Current to 2010

2.18. Normal retirement age.

1. Except as provided in subsections (2), (3), (4) and (5), normal retirement age for all members shall be age sixty (60).

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(b) A member who is represented by the International Association of Machinists and Aerospace Workers at the time his employment terminates;

(c) A member who is represented by the Technicians, Engineers and Architects of Milwaukee County at the time his employment terminates;

(d) A member who is represented by the Association of Milwaukee County Attorneys at the time his employment terminates.

4. Normal retirement age shall be age sixty-four (64) for a member who is represented by the American Federation of State, County and Municipal Employees District Council 48 at the time his employment terminates and whose initial membership date is on or after August 1, 2011.

5. Normal retirement age shall be age sixty-four (64) for a member who is represented by the Federation of Nurses and Health Professionals or by the Milwaukee Building and Construction Trades Council at the time his employment terminates and whose initial membership date is on or after January 1, 2012.
G. Multiple Status

Recall again, that previously offered benefits are considered a contract or property right, so if a person had switched positions within the County, they could have multiple statuses. For example if someone was at the County for 30 years and moved from a correction officer, to Sheriff Deputy, and then to administration, they would cross over several multipliers and other variations.
Active Plan Members refers to current employees. Inactive Plan Members refers to members of the plan that are no longer current employees and are either receiving benefits (i.e. retirees), or are not yet eligible for retirement and are working somewhere else. The balance of Active vs. Inactive is important for overall plan health. The County is currently out of balance.

<table>
<thead>
<tr>
<th>Members</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>Inactive plan members currently receiving benefits</td>
<td>7,991</td>
</tr>
<tr>
<td>Inactive plan members entitled to but not receiving</td>
<td>1,387</td>
</tr>
<tr>
<td>benefits</td>
<td>3,619</td>
</tr>
<tr>
<td>Current employees</td>
<td></td>
</tr>
<tr>
<td>Total participants</td>
<td>12,997</td>
</tr>
</tbody>
</table>

Source: ERS 2016 Annual Report
H. Reciprocity

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

Public Safety Officers have a different status under state statutes related to collective bargaining (Wis. Stat. 111.70 et. al.). Public Safety Officers also represent a separate risk pool. Consequently, the status, retirement age, and contribution rate for Public Safety Officers is different from a general county employee.
II. Anomalies in Milwaukee County

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

Any questions?
III. How Pension Funding Works

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

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

The basic retirement funding equation is:

\[ C + I = B + E \]

- C: Contributions
- I: Investment Earnings
- B: Benefits
- E: Expenses

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

The basic retirement funding equation is:

\[ C + I = B + E \]

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

\[
(\text{Employee + County Contribution}) + I < (\text{Benefits + Withdrawals}) + E
\]

\[
$62,769,182 + $110,336,000 < $212,662,113 + $4,912,501
\]

\[
$173,105,182 < $217,574,614
\]

\[
($44,469,432)
\]

This means that the County’s Unfunded Liability went up by $44,469,432.
B. Normal Cost

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

The Actuarial Valuation shows the annual contribution required to finance a public pension plan. This annual contribution includes two components: **Normal Cost** and **Amortization Payment**.
The Normal Cost is the cost of benefits accrued in the current year for active employees.

For 2017, the Normal Cost for the County was: $16,405,955
The Amortization Payment is the cost to amortize any unfunded pension liability. The Amortization Payment is determined by the Unfunded Liability and an Amortization Term. For the County, the unfunded liability is approximately $500 Million, and the amortization term is 20 years.

For 2017, the Amortization Payment for the County was: $47,838,754
D. Unfunded Liability

If the full payment (Normal Cost + Amortization Payment) is not made each year, the Unfunded Liability grows. The amount underfunded in any given year is referred to as the Unfunded Liability. The cumulative Unfunded Liability is referred to as the Unfunded Actuarial Accrued Liability (UAAL). Here is what the County’s UAAL has looked like over time:
Note that County had a negative UAAL prior to Pension Enhancements. This means there was a surplus.

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

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

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

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

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

If an Assumed Rate of Return turns out to be significantly higher than actual results, then the UAAL will increase over time.
Pension Obligation Bonds (POBs) are when a plan sponsor borrows money to put into the pension fund to pay down the UAAL. In 2009 the County borrowed approximately $400 million to put in the pension fund, and consequently now has a pension bond payment of approximately $30 Million each year. This bond payment does not get captured in the Actuarial Valuations or Annual Reports.

The full annual county contribution would be determined as follows:

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

Plus 2017 Bond Payment: $33,182,634
Total Adjusted Contribution: $98,982,085
H. OPEB

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

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

- Total Adjusted Contribution for Pension: $98,982,085
- Total OPEB Contribution: $65,979,497
- Total Retirement Benefits Cost: $164,961,582
III. How Pension Funding Works

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

Any questions?
IIIV. History and Projections

A. Unfunded Liability
B. Contributions
C. Projected Contributions Compared to Tax Levy
D. Trends in State Revenue
E. Successful Financial Reforms
Note that County had a negative UAAL prior to Pension Enhancements. This means there was a surplus.

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

Note that UAAL went up because of changes in Amortization Term and Assumed Rate of Return.
C. Projections compared to Levy

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

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

Note: this spike represents the contribution of pension bond proceeds.
C. Projections compared to Levy

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

If we do not continue to see an increase in levy due to new development, the retiree obligation will be 97% of the Operating Tax Levy by 2028.
Note: These are raw numbers and do not reflect departments that have moved to the state. For example in 2011 Income Maintenance Moved to the State which represented a $25 Million Cost moving to the State.
D. Trends in State Revenue

Revenue Trends

During the same time period contributions from taxpayers living in the County increased from $2.25 Billion, to $2.52 Billion

Revenue from State to County
Revenue To State from County

Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
E. Successful Financial Reforms

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Budget Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$44,347,792</td>
</tr>
<tr>
<td>2015</td>
<td>$52,056,089</td>
</tr>
<tr>
<td>2016</td>
<td>$58,663,610</td>
</tr>
<tr>
<td>2017</td>
<td>$56,152,204</td>
</tr>
<tr>
<td>2018</td>
<td>$54,700,000</td>
</tr>
<tr>
<td>2019</td>
<td>$62,026,555</td>
</tr>
<tr>
<td>2020</td>
<td>$77,886,774</td>
</tr>
<tr>
<td>2021</td>
<td>$102,483,519</td>
</tr>
</tbody>
</table>

Actual Gap after initiatives of the County

Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
IV. History and Projections

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

Any questions?
Disclaimer

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