EMPLOYES' RETIREMENT SYSTEM
OF THE CITY OF MILWAUKEE

Schedules of Employer Allocations and Pension Amounts by Employer
As of and for the year ended December 31, 2023

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Independent Auditor's Report on the Employer Schedules and Other Reporting Required by *Government Auditing Standards*

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Members of the Annuity and Pension Board and
Mr. Bernard J. Allen, Executive Director
Employes' Retirement System of the City of Milwaukee

Report on the Audit of the Employes' Retirement System of the City of Milwaukee Employer Schedules

Opinions

We have audited the Schedule of Employer Allocations and the related notes of the Employes' Retirement System of the City of Milwaukee (Retirement System) as of and for the year ended December 31, 2023. We have also audited the total for all entities of the columns titled Ending Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total Employer Pension Expense in the Schedule of Pension Amounts by Employer and the related notes of the Retirement System as of and for the year ended December 31, 2023.

In our opinion, the accompanying schedules referred to above present fairly, in all material respects, the employer allocations and the totals for the columns titled Ending Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total Employer Pension Expense for the Retirement System as of and for the year ended December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Employer Schedules section. We are required to be independent of the Retirement System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Employer Schedules

Management is responsible for the preparation and fair presentation of the schedules in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

In preparing these employer schedules, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Retirement System's ability to continue as a going concern for twelve months beyond the employer schedules date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Employer Schedules

Our objectives are to obtain reasonable assurance about whether the Schedule of Employer Allocations and the specified column totals included in the Schedule of Pension Amounts by Employer are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance. Therefore, reasonable assurance is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedules.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we exercised professional judgment and maintained professional skepticism throughout the audit. We also identified and assessed the risks of material misstatement, whether due to fraud or error, of the Schedule of Employer Allocations and the specified column totals included in the Schedule of Pension Amounts by Employer and designed and performed audit procedures responsive to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule of Employer Allocations and the specified column totals included in the Schedule of Pension Amounts by Employer.

In addition, we obtained an understanding of internal control relevant to the audit in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control. Accordingly, no such opinion is expressed. We also evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates and related disclosures made by management, and evaluated the overall presentation of the Schedule of Employer Allocations and the specified column totals included in the Schedule of Pension Amounts by Employer. We also concluded whether, in our judgment, there were conditions or events, considered in the aggregate, that raise substantial doubt about the Retirement System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

We have audited the financial statements of the Retirement System as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. In our report thereon, dated November 11, 2024, we express an unmodified opinion on those financial statements, as detailed in report 24-19. Our report included an emphasis of matter related to the correction of an error in the calculation of the net pension liability required under Governmental

Accounting Standards Board (GASB) Statement Number 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*. Beginning with 2023 reporting, the Retirement System began excluding the net position of the Employer Reserve Fund in calculating the Retirement System's net pension liability.

Restriction on Use

Our report is intended solely for the information and use of the Legislature, the Retirement System's management, the Annuity and Pension Board, and the Retirement System's plan employers and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2024, and published in report 24-20, on our consideration of the Retirement System's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Retirement System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Retirement System's internal control over financial reporting and compliance. Report 24-20 is available on our website at *www.legis.wisconsin.gov/lab*.

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

November 11, 2024

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Schedule of Employer Allocations
As of and for the year ended December 31, 2023

Employer	Current Year Actuarial Employer Contributions	Employer Allocation Percentage	Prior Year Actuarial Employer Contributions	Employer Allocation Percentage
City of Milwaukee - General City	$ 37,924,701	20.8110591%	$ 14,391,252	16.3404774%
City of Milwaukee - Water Department	3,886,442	2.1326727%	1,532,759	1.7403638%
Milwaukee Public Schools	28,339,100	15.5509910%	11,031,493	12.5256554%
Milwaukee Metropolitian Sewerage District	4,595,754	2.5219054%	1,683,570	1.9116014%
Veolia Water Milwakee LLC	145,109	0.0796281%	76,081	0.0863858%
Wisconsin Center District	1,361,168	0.7469366%	446,224	0.5066629%
Housing Authority of the City of Milwaukee	1,386,065	0.7605988%	586,351	0.6657694%
City of Milwaukee - Policemen	73,672,934	40.4277883%	40,565,027	46.0593638%
City of Milwaukee - Firemen	30,922,129	16.9684200%	17,758,427	20.1637201%
Total	$ 182,233,402	100.0000000%	$ 88,071,184	100.0000000%

The accompanying notes are an integral part of the Schedules of Employer Allocations and Pension Amounts by Employer.

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Schedule of Pension Amounts by Employer
As of and for the year ended December 31, 2023
(in thousands)

			Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense		
Employer	Beginning Net Pension Liability	Ending Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Earnings on Pension Plan Investments	Changes in Proportion	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Recognition of Deferred Amounts from Changes in Proportionate Share	Total Employer Pension Expense
City of Milwaukee - General City	$ 261,784	$ 428,283	$ 3,242	$ 50,781	$ 86,511	$ 38,789	$ 179,323	$ 486	$ -	$ 146	$ 632	$ 65,844	$ 17,090	$ 82,934
City of Milwaukee - Water Department	27,882	43,890	332	5,204	8,865	3,585	17,986	50	-	167	217	6,748	1,673	8,421
Milwaukee Public Schools	200,668	320,033	2,423	37,945	64,645	28,239	133,252	363	-	-	363	49,202	14,405	63,607
Milwaukee Metropolitan Sewerage District	30,625	51,900	393	2,833	10,483	5,726	19,435	59	-	-	59	7,979	2,766	10,745
Veolia Water Milwaukee LLC	1,384	1,639	12	509	331	-	852	2	-	243	245	252	(248)	4
Wisconsin Center District	8,117	15,372	116	1,822	3,105	2,661	7,704	17	-	329	346	2,363	1,066	3,429
Housing Authority of the City of Milwaukee	10,666	15,653	118	4,861	3,162	822	8,963	18	-	328	346	2,406	(27)	2,379
City of Milwaukee - Policemen	737,897	831,988	6,299	98,648	168,057	-	273,004	943	-	54,095	55,038	127,910	(26,741)	101,169
City of Milwaukee - Firemen	323,034	349,203	2,644	41,404	70,537	3,222	117,807	396	-	27,736	28,132	53,687	(9,984)	43,703
Total for All Entities	$ 1,602,057	$ 2,057,961	$ 15,579	$ 244,007	$ 415,696	$ 83,044	$ 758,326	$ 2,334	$ -	$ 83,044	$ 85,378	$ 316,391	$ -	$ 316,391

The accompanying notes are an integral part of the Schedules of Employer Allocations and Pension Amounts by Employer.

Plan Description

The following brief description of the more common provisions of the Employes' Retirement System of the City of Milwaukee (the "Retirement System" or "ERS") is provided for financial statement purposes only. The provisions described reflect changes to the Retirement System enacted in 2000 as part of what is known as the Global Pension Settlement ("GPS"). GPS increased benefits to all members who consented to the settlement in exchange for allowing the City to make certain changes in plan administration, including allowing the use of Retirement System assets to pay for all costs to administer the Retirement System.

The 2023 Wisconsin Act 12 authorized the City of Milwaukee to impose a sales tax for limited purposes, subject to certain conditions. Under the Act and the subsequent amendments to the City Charter by the Milwaukee Common Council, the ERS is closed to new members as of January 1, 2024. ERS members as of December 31, 2023 will continue to accrue benefits under ERS. ERS' investment return assumption can be no higher than the assumed rate of investment return used for the Wisconsin Retirement System, which was 6.8% for WRS active employees.

Plan Administration

The Retirement System was established pursuant to the Retirement Act (Chapter 396 of the Laws of Wisconsin of 1937) to provide payment of retirement and other benefits to employees of the City of Milwaukee (City). Chapter 441 of the Laws of Wisconsin of 1947 made the benefits contractual and vested. The ERS is a cost-sharing, multi-employer plan, which provides benefits to employees of the City of Milwaukee (including Fire and Police), Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Veolia Water Milwaukee LLC, Milwaukee Housing Authority, and non-certified staff of Milwaukee Public Schools (Agencies). City employees comprise approximately 54% of the active participants in the Retirement System.

Measurement Focus and Basis of Accounting

The ERS is accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, contributions are recognized in the accounting period in which the underlying earnings on which the contributions are based are due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the ERS. Investment transactions and the related gains and losses are recorded on a trade date basis. Dividend and interest income are accrued as earned. Investments are reported at fair value.

Estimates

The financial statements are presented in conformity with generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(DOLLAR AMOUNTS IN THOUSANDS)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was reviewed as part of the regular experience study, covering the five-year period ending December 31, 2021, which was adopted by the ERS Pension and Annuity Board in February 2023. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations, as developed by the Retirement System's investment consultant, for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. This assumption is intended to be a long-term assumption (30 to 50 years) and is not generally expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Best estimates of arithmetic real rates of return (net of inflation) for each major asset class included in the Retirement System's target asset allocation based upon the experience study completed on December 31, 2021, are listed in the table below:

Asset Class	Asset Allocation	Long-term Expected Real Rate of Return*
Public Equity	44.0%	7.3%
Fixed Income & Cash	23.0%	3.1%
Real Estate	9.7%	5.1%
Real Assets	3.3%	4.6%
Private Equity	10.0%	10.0%
Absolute Return	10.0%	3.6%
	100.0%	

** Rates provided by the System's investment consultant, Callan Associates*

Wisconsin 2023 Act 12 requires that ERS use the WRS' assumed investment rate of return. For 2023, the ERS used 6.8% as its assumed rate of return.

Rate of Return

For the year ended December 31, 2023, the annual money-weighted rate of return, net of investment expense is shown below. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

	2023
Annual money-weighted rate of return, net of investment expense	9.92%

(DOLLAR AMOUNTS IN THOUSANDS)

Actuarial Assumptions

The last actuarial valuation was performed as of January 1, 2023, and the amounts were used to roll-forward the total pension liability to the plan's year-end, December 31, 2023, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation Date	1/1/2023 - Second valuation
Actuarial Cost Method	Entry Age Normal - Level Percentage of Pay
Amortization Method	Level percent of payroll, closed
Asset Valuation Method	5-year smoothing of difference between expected return on actuarial value and actual return on market value
Actuarial Assumptions:	
Long-term Rate of Return, Net of Investment Expense, Including Price Inflation	6.8%
Projected Salary Increases, including wage inflation	General City: 3.0% - 7.5% Police & Fire: 3.0% - 19.0%
Inflation Assumption	2.5%
Cost of Living Adjustments	Varies by employee group and decrement type (see plan provisions)
Mortality Assumption	Pre-retirement mortality rates for General employees were based on the Pub-2010 Below Median General Employee Mortality Table with a one-year age setback for males and a two-year age set forward for females, projected generationally using SOA Scale MP-2021. Pre-retirement mortality rates for Police and Firemen were based on the Pub-2010 Median Public Safety Employee Mortality Table with a one-year age set forward for males and females, projected generationally using SOA Scale MP-2021. Post-retirement mortality rates for General retirees were based on the Pub-2010 Below Median General Retiree Mortality Table with a one-year age setback for males and a two-year age set forward for females, projected generationally using SOA Scale MP-2021. Post-retirement mortality rates for Police and Firemen retirees were based on the Pub-2010 Median Public Safety Retiree Mortality Table with a one-year age set forward for males and females, projected generationally using SOA Scale MP-2021. Mortality rates for survivors of General employees were based on the Pub-2010 Below Median Contingent Survivors Mortality Table with a one-year age setback for males and a two-year age set forward for females, projected generationally using SOA Scale MP-2021. Mortality rates for survivors of Police and Firemen were based on the Pub-2010 Median Contingent Survivors Mortality Table with a one-year age set forward for males and females, projected generationally using SOA Scale MP-2021. Disabled mortality rates for General employees were based on the Pub-2010 Non-Safety Disabled Retiree Mortality Table with a one-year age setback for males and a two-year age set forward for females, projected generationally using SOA Scale MP-2021. Disabled mortality rates for Police and Firemen were based on the Pub-2010 Safety Disabled Retiree Mortality Table with a one-year age set forward for males and females, projected generationally using SOA Scale MP-2021.
Experience Study	The actuarial assumptions used in this valuation, are based on the results of the most recent experience study covering the five-year period ending December 31, 2021, except for the investment return assumption. The investment return assumption was lowered from 7.50% to 6.80% effective with the *Second* January 1, 2023 actuarial valuation.

(DOLLAR AMOUNTS IN THOUSANDS)

Net Pension Liability

The components of the pension liability of the ERS as of December 31, 2023, were as follows:

Total pension liability	$ 7,769,353
Plan fiduciary net position	(5,711,392)
Net pension liability	$ 2,057,961
Plan fiduciary net position as a percentage of total pension liability	73.51%
Covered payroll	$ 599,284
Net pension liability as a percentage of covered payroll	343.40%

Discount Rate

The discount rate used to measure the total pension liability was 6.80 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from ERS agencies will be made at contractually required rates, actuarially determined. Based on those assumptions, the ERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The cross over analysis produces a single rate of 6.80 percent, which reflects the long-term expected rate of return on ERS investments. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the ERS calculated using the discount rate of 6.80 percent, as well as what the ERS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.80 percent) or 1-percentage-point higher (7.80 percent) than the current rate:

	1% Decrease (5.8%)	Current Discount (6.8%)	1% Increase (7.8%)
Net Pension Liability	$ 3,015,198	$ 2,057,961	$ 1,265,021

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2023
(DOLLAR AMOUNTS IN THOUSANDS)

Schedule of Employer Allocations

The Employer Allocation Percentage is based on the employers' required contribution compared to the required contribution for all employers. The Employer Allocation Percentage is rounded to seven decimal places.

Schedule of Pension Amounts

The employer's proportionate share of the Collective Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Total Employer Pension Expense (Income) is based on the Employer Allocation Percentage.

The Total Pension Liability is measured as of December 31, 2023 based on a January 1, 2023 actuarial valuation rolled forward to December 31, 2023 using standard roll-forward techniques as shown below:

		2023
Total pension liability		
Service cost	$	84,638
Interest		517,549
Changes in benefit items		-
Differences between expected and actual experience		21,320
Changes of assumptions		569,618
Benefit payments including refunds of member contributions		(471,048)
Net change in total pension liability		722,077
Total pension liability - beginning		7,047,276
Total pension liability - ending	$	7,769,353
Plan fiduciary net position		
Contributions - employer	$	171,042
Contributions - member		32,688
Net investment income (loss)		541,506
Benefit payments, including refunds of member contributions		(471,048)
Administrative expense		(8,015)
Net change in plan fiduciary net pension		266,173
Plan fiduciary net position - beginning		5,445,219
Plan fiduciary net position - ending	$	5,711,392
Net pension liability - ending	$	2,057,961

(DOLLAR AMOUNTS IN THOUSANDS)

The Fiduciary Net Position is 73.51% of the Total Pension Liability, so the ERS has a Net Pension Liability.

The Collective Deferred Inflows and Outflows of Resources due to liabilities are amortized over the Average Expected Service Lives of all Employees of 3.33 years. The Collective Deferred Inflows and Outflows of Resources due to the net difference between projected and actual earnings on pension plan investments is amortized over five years.

Collective Deferred Inflows and Outflows of Resources to be recognized in the Current Pension Expense are as follows:

	Outflows of Resources	Inflows of Resources	Net Outflows (Inflows) of Resources
Differences between expected and actual experience	$ 18,650	$ (1,609)	$ 17,041
Changes of assumptions	182,872	-	182,872
Differences between projected and actual earnings	-	(62,783)	(62,783)
Changes in proportion	40,286	(40,286)	-
	$ 241,808	$ (104,678)	$ 137,130

Collective Deferred Inflows and Outflows of Resources to be recognized in the Future Pension Expense are as follows:

	Outflows of Resources	Inflows of Resources	Net Outflows (Inflows) of Resources
Differences between expected and actual experience	$ 15,579	$ (2,334)	$ 13,245
Changes of assumptions	415,696	-	415,696
Differences between projected and actual earnings	244,007	-	244,007
Changes in proportion	83,044	(83,044)	-
	$ 758,326	$ (85,378)	$ 672,948

Deferred Outflows and Inflows of Resources to be recognized in the Future Pension Expense are as follows:

(DOLLAR AMOUNTS IN THOUSANDS)

Year Ending December 31,	Net Outflows (Inflows) of Resources
2024	$ 232,052
2025	226,579
2026	242,966
2027	(28,649)

Employers may also need to recognize a Deferred Outflow or Inflow of Resources related to a change in their proportionate share of the Net Pension Liability and for differences between employer contributions and proportionate share of contributions.

The Collective Pension Expense is determined as follows:

Service cost	$ 84,638
Interest cost on total pension liability	517,549
Projected earnings on plan investments	(398,253)
Contributions - Member	(32,688)
Administrative expense	8,015
Recognition of net deferred outflows (inflows)	
Changes in assumptions	171,056
Differences between expected and actual liability experience	6,402
Difference between projected and actual earnings	(28,651)
Recognition of prior years':	
Deferred outflows	237,119
Deferred inflows	(248,796)
Total Pension Expense	$ 316,391

Additional Financial Information for the ERS - For additional information regarding ERS's financial statements and audit report, please visit the ERS web site at: http://www.cmers.com/About-Us/Reports.htm

Other Supplementary Information

Net Pension Liability (NPL) Beginning Balance Adjustment - Employers may need to adjust their beginning NPL as to match the beginning NPL balance reported on page 6. CMERS adjusted the beginning NPL balance by removing the Employers' Reserve Fund from the Plan Net Position, resulting in an increase in the total beginning balance of NPL by approximately $80.8 million. Employers should adjust their beginning balance by crediting the NPL based upon their prior year's proportionate share of the NPL.

Other Changes - ERS also revised how it reports its GASB 67 plan disclosures. Prior to 2023, the Employer Reserve Fund was included as an ERS plan asset for the purposes of calculating its Net Pension Liability under GASB 67. ERS had included the Employer Reserve Fund as part of the Pension Net Position and reduced the Net Pension Liability (NPL). For 2023, ERS determined that the Employers' Reserve Fund should not be considered in calculating the Retirement System's Net Pension Liability under GASB 67 since the assets of Employers' Reserve Funds cannot be used for pension benefits until the authorized by the contributing employer. Management doesn't plan to restate the prior periods containing the Employer Reserve Fund as part of the NPL in the prior year periods presented.