

**SPECIAL MEETING OF THE ANNUITY AND PENSION BOARD
EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
789 N. WATER ST. (Employees' Retirement System)
THURSDAY, JUNE 6, 2024 – 11:30 A.M.**

Special Notice: The meeting will be held remotely via video conference. Instructions on how to observe the meeting will be available on ERS's website (www.cmers.com) prior to the meeting.

Please note and observe the following remote attendance etiquette to ensure a smooth and productive meeting:

- In order to cut down on background noise, participants in the meeting should put their phones on mute when they are not participating.
- At the start of the meeting, the Chairman will announce the names of the members of the Board present on the call, as well as anyone else who will be participating.
- Please request to be recognized by the Chairman if you would like to speak.
- Those participating on the call should identify themselves whenever they speak, and should ensure that the other participants on the call can hear them clearly.

SPECIAL MEETING

I. Unfinished Business.

- A. Approval of Funding of 5.8% Employee Pension Contribution Offset Case Judgment – Presentation by Larry Langer of Cavanaugh Macdonald.

MEETING REMINDERS

ADMINISTRATION & OPERATIONS COMMITTEE MEETING

TUESDAY, JUNE 18, 2024 – 9:00 A.M.
789 N. WATER ST.

REGULAR MEETING OF THE ANNUITY AND PENSION BOARD

TUESDAY, JUNE 25, 2024 – 9:00 A.M.
789 N. WATER ST.

From: Larry Langer
Sent: Friday, May 10, 2024 12:26 PM
To: Allen, Jerry <Jerry.Allen@CMERS.com>
Cc: Siddiqui, Terry <Terry.Siddiqui@cmers.com>; CavMac CMERS Team <CavMac_CMERS_Team@cavmacconsulting.com>
Subject: RE: Applicability of Sales Tax Receipts to Pay 2024 City Pension Contribution (Attorney-Client Privileged Information)

Jerry

As shown below, we estimate the amount of City Contribution eligible to be paid from tax proceeds under Act 12 to be \$151,850,000, an increase of about \$20 million from the 2024 figure of \$131,470,000. Most of the increase is due to employer contributions for the settlement of the 5.8% lawsuit – in particular the approximately \$9.0 million in retro payments, which we recommend be paid back in during Plan Year 2025. These numbers are estimated and will change when the January 1, 2024 valuation is presented in late June. The schedule below documents our estimate with important caveats.

| Estimate of Plan Year 2025 City Contribution Eligible to be Paid from Tax Proceeds under Act 12 | |
|--|-----------------------|
| Includes City Portion of General, All Police and All Fire | |
| Amounts payable as of <u>January 1, 2025</u> ; payment after this date results in interest charges at 6.80% per year | |
| 1 Estimated City Contributions for Plan Year 2025 ^a | |
| a Estimated 2025 City Normal Cost for CMERS Fund ^b | \$ 82,900,000 |
| b Estimated 2025 City Members Contributions for CMERS ^b | 23,000,000 |
| c Estimated City's share of UAAL for Plan Year 2025 | <u>135,100,000</u> |
| d Estimated City Contributions for Plan Year 2025 ^a | \$ 195,000,000 |
| 2 Portion of City Normal Cost Eligible to be Paid from Tax Proceeds under Act 12 for Plan Year 2025 | |
| a Estimated 2025 City Normal Cost for Combined Fund ^b | \$ 82,650,000 |
| b 2022 City Normal Cost for Combined Fund ^c | <u>65,900,000</u> |
| c Portion of City Normal Cost Eligible to be Paid from Tax Proceeds under Act 12 for Plan Year 2025: 2a - 2b, not less than zero | \$ 16,750,000 |
| 3 Estimate of Plan Year 2025 City Contribution Eligible to be Paid from Tax Proceeds under Act 12: 1c + 2c | \$ 151,850,000 |
| a Slide 19 of March 26, 2024 presentation to CMERS Board shows an estimate of \$173,374,000. Subsequent to the valuation we suggested a budget number of \$180 million. This figure does not include an estimate of the impact of the "5.8% Lawsuit Settlement" which will be reflected in the final 2025 Plan Year City Contribution to be presented at the June CMERS Board meeting. Our current estimate of the 5.8% Lawsuit Settlement is \$15 million dollars, which is primarily due to our recommendation that the retro payments of about \$9.0 million be paid back during the Plan Year 2025. It also includes an estimated allotment for amortizing the increase in the System's UAAL over ten years. This results in a total budget estimate of \$195 million. Item 1c is calculated to match this estimate. Remember that actual experience may push the City Contribution higher than \$195 million. | |
| b From CavMac workpapers. Includes estimated administrative expenses in the City Normal Cost as discussed on Table 20. | |
| c From Table 20 on page 44 of the Second January 1, 2023 Actuarial Valuation of CMERS dated February 21, 2024. | |

We are available to discuss
CavMac

Larry Langer, ASA, EA, FCA, MAAA
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Naperville, IL 60563
Cell 630.632.8668
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LarryL@CavMacConsulting.com
www.CavMacConsulting.com



Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

May 20, 2024

Mr. Jerry Allen
Executive Director
Employees' Retirement System
City of Milwaukee
789 N. Water Street, Suite 300
Milwaukee, WI 53202

Re: Impact of 5.8% Pension Offset Lawsuit on the January 1, 2024 Actuarial Valuation

Dear Jerry:

As discussed, we have reviewed the potential impact of the 5.8% Pension Contribution Offset Lawsuit (Lawsuit) on the January 1, 2024 Actuarial Valuation, which is used to determine CMERS employer contributions for Plan Year 2025. Our analysis is contained in this letter.

Background

The Milwaukee City Charter entitles police officers and firefighters injured on the job to duty disability retirement (DDR) benefits. DDR benefits provide for monthly wage replacement payments to members who are unable to continue active service due to injuries sustained while on duty. Under collective bargaining agreements certain members were entitled to a 5.8% pension contribution offset payment. This 5.8% pension offset payment was not included in the development of the DDR benefits for these members. The court recently ruled that the pension offset amounts should be included in the calculation of these benefits. This ruling results in increased benefits for both current and potential future recipients of DDR benefits, as well as retroactive lump sum payments for members whose DDR benefit determination did not include the pension offset payment. The following table summarizes the increase in the actuarial accrued liability (AAL) for Policemen and Firemen as of January 1, 2024:

| Group | Number of Retroactive Payments | Estimated Retroactive Payments | AAL Increase Due to Annual Benefit Increase | AAL Increase for Potential Future DDR Recipients | Total Increase in AAL |
|-----------|--------------------------------|--------------------------------|---|--|-----------------------|
| Firemen | 220 | \$ 6,298,257 | \$ 9,075,932 | \$ 356,901 | \$ 15,731,090 |
| Policemen | 115 | 2,789,492 | 4,272,778 | 61,942 | 7,124,212 |
| Total | 335 | \$ 9,087,749 | \$ 13,348,710 | \$ 418,843 | \$ 22,855,302 |



Mr. Jerry Allen
May 20, 2024
Page 2

The increase in annual benefits has already occurred for the affected members. The census information we received for the January 1, 2024 actuarial valuation, which determines employer contributions for Plan Year 2025, includes the increase due to the Lawsuit. It is anticipated that the retroactive payments will be paid during Plan Year 2024.

Impact on the January 1, 2024 Actuarial Valuation and Plan Year 2025 Employer Contributions

We have broken down the issues encountered implementing this change as follows:

- **Attribute Liabilities and Contributions only to Firemen and Policemen:** As a cost sharing plan, typically the experience of the fund – notably returns and demographic experience – are shared by all employers. The assets of CMERS are allocated based on the actuarial accrued liability of each employer. Given this change impacts only Firemen and Policemen, we recommend that the increase be allocated to only those groups. As such, the assets of CMERS will be allocated based on the actuarial accrued liability of each employer *net of the actuarial accrued liability due to the Lawsuit*. For Firemen and Policemen, the actuarial accrued liability due to the Lawsuit will be added to their respective actuarial accrued liabilities. Once Firemen and Policemen contributions are made to fully ameliorate the unfunded actuarial accrued liabilities, the “normal” allocation procedure can be continued.
- **Implement for the January 1, 2024 Actuarial Valuation and Plan Year 2025 Contributions for Fire and Police:** The Plan Year 2025 employer contributions are based on the unfunded actuarial accrued liability as of January 1, 2024, projected to January 1, 2025 due to the one-year contribution lag. While the increase in benefit payments for the affected members is already included in the January 1, 2024 census information submitted for the actuarial valuation by CMERS staff, the retroactive payments will not be reflected in the assets. We will develop the Plan Year 2025 contributions for fire and police assuming retroactive payments will be made during 2024. We do not recommend reflecting these payments in the next actuarial valuation which is the basis of Plan Year 2026 Contributions.
- **Amortization of the Increase in Actuarial Accrued Liabilities due to the Lawsuit:** For typical gains and losses, the increase in unfunded actuarial accrued liability due to the Lawsuit would be 29 years if the total unfunded actuarial accrued liability increase is less than expected (an actuarial gain) or 10 years if the total unfunded actuarial accrued liability increases more than expected (an actuarial loss). For the retroactive payments, we recommend that the amount be paid back in full with interest during Plan Year 2025. The rationale here is simple – the money will likely be paid by the end of Plan Year 2025 and making this contribution after Plan Year 2025 would result in incremental negative cash flows.

For the increase in AAL due to future expected payments for those who are eligible to receive retroactive payments as well as active members who could potentially receive DDR benefits in the future, we considered amortizing the retiree liability increase over a 1-year period and the active liability increase over a 15-year period. However, we recommend amortizing the total increase in AAL due to the Lawsuit over a 10-year period, which is the period to be used for experience which increases liabilities. The contribution under this recommendation is lower than the alternative described above, but the amount of negative incremental cashflow and complexity does not appear to warrant this treatment.



As a result of the recommendations above, the increase in Plan Year 2025 UAAL contribution for Firemen and Policemen due to the Lawsuit will be \$8,057,172 and \$3,590,650, respectively, payable January 1, 2025. These amounts reflect an interest adjustment between the measurement date of January 1, 2024 and the contribution date of January 1, 2025 using 6.80%. Paying later than January 1, 2025 will result in an additional interest adjustment. The Plan Year 2024 employer contributions for Policemen and Firemen will not be impacted by the Lawsuit.

In addition to the adjustment to the UAAL contribution for Plan Year 2025, there will also be a small increase to the Policemen and Firemen normal cost. Due to the Lawsuit, the expected normal cost as of January 1, 2025 has increased by \$33,985 for Policemen and \$54,808 for Firemen. The table below shows a summary of the contribution impact due to the Lawsuit for Plan Year 2025.

| | Fire men | Police men |
|-----------------------------|---------------|---------------|
| Retroactive Payments | \$6,726,538 | \$2,979,177 |
| Future Benefit Increase | 1,330,634 | 611,473 |
| Normal Cost Increase | <u>54,808</u> | <u>33,985</u> |
| Total Contribution Increase | \$8,111,980 | \$3,624,635 |

While the Retroactive Payments amounts in the table above represents a one-time contribution increase for Plan Year 2025, it's important to note that the Future Benefit Increase payments will continue through Plan Year 2034 because the impact is amortized over a 10-year period. The small Normal Cost Increase will continue to impact employer contributions for Policemen and Firemen until all active members impacted by the Lawsuit leave active status, but it is expected to decrease over time.

The costs shown in the table above assume that all assumptions will be met exactly in each future year, including the assumed asset return of 6.8%. Due to the size of the benefit increase, the small likelihood of affected members receiving a duty disability benefit, and the increased funding to cover the increase in liability, we do not believe the Lawsuit will have a significant impact on the System's funding risk.

Basis of Analysis

The analysis contained in this letter is based on the census data to be used for the January 1, 2024 actuarial valuation, as well as supplemental information provided by the System's staff regarding the estimated retroactive payment amounts and interest thereon. The results of the January 1, 2024 actuarial valuation will be presented at the June 25, 2024 Board Meeting. To the extent that any of that data is inaccurate, our analysis may need to be revised. Unless otherwise noted, the actuarial assumptions and methods used in our analysis are the same as those to be used in the January 1, 2024 actuarial valuation, which are unchanged from the Second January 1, 2023 actuarial valuation and can be found in Appendix C of that report.

The comments and analysis contained in this letter are intended to give exact calculations of the increase in Plan Year 2025 Firemen and Policemen employer contributions due to the Lawsuit. The emerging costs will vary from those presented in this letter to the extent that 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. This cost



Mr. Jerry Allen
May 20, 2024
Page 4

analysis has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statement of Actuarial Opinion of the American Academy of Actuaries. We have not explored any legal issues with respect to the proposed plan analysis.

The undersigned are actuaries with Cavanaugh Macdonald Consulting, LLC. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are available to answer any questions or provide additional information as needed.

Sincerely,

A handwritten signature in blue ink, appearing to read 'LL'.

Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary

A handwritten signature in blue ink, appearing to read 'Patrice Beckham'.

Patrice A. Beckham, FSA, EA, FCA, MAAA
Consulting Actuary

A handwritten signature in blue ink, appearing to read 'Aaron Chochon'.

Aaron Chochon, ASA, EA, FCA, MAAA
Senior Actuary



Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

June 3, 2024

Mr. Jerry Allen
Executive Director
Employees' Retirement System
City of Milwaukee
789 N. Water Street, Suite 300
Milwaukee, WI 53202

Re: Impact of 5.8% Pension Offset Lawsuit on the January 1, 2024 Actuarial Valuation

Dear Jerry:

At the May 28, 2024 Annuity and Pension Board meeting, CavMac presented the results of our May 20, 2024 5.8% Pension Contribution Offset Lawsuit (Lawsuit) letter. During our presentation, there was discussion about whether liability increases due to the Lawsuit were a change in plan provisions, which would be amortized over one year, or an actuarial loss which would be amortized over ten years. The nature of the increase in liabilities is ambiguous. There is support for this being a plan provision change or an actuarial loss. This letter is a supplement to our May 20, 2024 letter and provides results on an alternate amortization policy of ten years of the UAAL created by the Lawsuit.

The following is provided for background. At the February 27, 2023 Annuity and Pension Board meeting, our recommendations included an amortization policy for plan provisions which increase liabilities for inactive members to be amortized over one year. Also at that meeting, we increased the amortization for actuarial losses from 15 years to 20 years. Subsequently, the period was changed to 30 years by Act 12 for the Second January 1, 2023 valuation and 10 years thereafter based on CavMac's recommendation.

The Lawsuit will be reflected in the January 1, 2024 Actuarial Valuation, which is used to determine CMERS employer contributions for Plan Year 2024. The January 1, 2024 Actuarial Valuation is scheduled to be presented at the June 25, 2024 Annuity and Pension Board meeting. CavMac will need direction from the Board on the amortization policy to use for the Lawsuit to complete the January 1, 2024 Actuarial Valuation. In our professional opinion, the amortization policies provided in both the May 20, 2024 letter and this letter are both reasonable.

Our analysis follows.



Background

The Milwaukee City Charter entitles police officers and firefighters injured on the job to duty disability retirement (DDR) benefits. DDR benefits provide for monthly wage replacement payments to members who are unable to continue active service due to injuries sustained while on duty. Under collective bargaining agreements certain members were entitled to a 5.8% pension contribution offset payment. This 5.8% pension offset payment was not included in the development of the DDR benefits for these members. The court recently ruled that the pension offset amounts should be included in the calculation of these benefits. This ruling results in increased benefits for both current and potential future recipients of DDR benefits, as well as retroactive lump sum payments for members whose DDR benefit determination did not include the pension offset payment. The following table summarizes the increase in the actuarial accrued liability (AAL) for Policemen and Firemen as of January 1, 2024:

| Group | Number of Retroactive Payments | Estimated Retroactive Payments | AAL Increase Due to Annual Benefit Increase | AAL Increase for Potential Future DDR Recipients | Total Increase in AAL |
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| Firemen | 220 | \$ 6,298,257 | \$ 9,075,932 | \$ 356,901 | \$ 15,731,090 |
| Policemen | 115 | 2,789,492 | 4,272,778 | 61,942 | 7,124,212 |
| Total | 335 | \$ 9,087,749 | \$ 13,348,710 | \$ 418,843 | \$ 22,855,302 |

The increase in annual benefits has already occurred for the affected members. The census information we received for the January 1, 2024 actuarial valuation, which determines employer contributions for Plan Year 2025, includes the increase due to the Lawsuit. It is anticipated that the retroactive payments will be paid during Plan Year 2024.

Impact on the January 1, 2024 Actuarial Valuation and Plan Year 2025 Employer Contributions

We have broken down the issues encountered implementing this change as follows:

- Attribute Liabilities and Contributions only to Firemen and Policemen:** As a cost sharing plan, typically the experience of the fund – notably returns and demographic experience – are shared by all employers. The assets of CMERS are allocated based on the actuarial accrued liability of each employer. Given this change impacts only Firemen and Policemen, we recommend that the increase be allocated to only those groups. As such, the assets of CMERS will be allocated based on the actuarial accrued liability of each employer *net of the actuarial accrued liability due to the Lawsuit*. For Firemen and Policemen, the actuarial accrued liability due to the Lawsuit will be added to their respective actuarial accrued liabilities. Once Firemen and Policemen contributions are made to fully ameliorate the unfunded actuarial accrued liabilities, the “normal” allocation procedure can be continued.
- Implement for the January 1, 2024 Actuarial Valuation and Plan Year 2025 Contributions for Fire and Police:** The Plan Year 2025 employer contributions are based on the unfunded actuarial accrued liability as of January 1, 2024, projected to January 1, 2025 due to the one-year contribution lag. While the increase in benefit payments for the affected members is already included in the January 1, 2024 census information submitted for the actuarial valuation by CMERS staff, the retroactive payments will not be reflected in the assets. We will develop the Plan Year



2025 contributions for fire and police assuming retroactive payments will be made during 2024. We do not recommend reflecting these payments in the next actuarial valuation which is the basis of Plan Year 2026 Contributions.

- **Amortization of the Increase in Actuarial Accrued Liabilities due to the Lawsuit:** For typical gains and losses, the increase in unfunded actuarial accrued liability due to the Lawsuit would be 29 years if the total unfunded actuarial accrued liability increase is less than expected (an actuarial gain) or 10 years if the total unfunded actuarial accrued liability increases more than expected (an actuarial loss). As per the Board’s request, this letter reflects a closed 10-year amortization of the UAAL increase due to the Lawsuit.

As a result, the increase in Plan Year 2025 UAAL contribution for Firemen and Policemen due to the Lawsuit will be \$2,273,900 and \$1,038,955, respectively, payable January 1, 2025. These amounts reflect an interest adjustment between the measurement date of January 1, 2024 and the contribution date of January 1, 2025 using 6.80%. Paying later than January 1, 2025 will result in an additional interest adjustment. The Plan Year 2024 employer contributions for Policemen and Firemen will not be impacted by the Lawsuit.

In addition to the adjustment to the UAAL contribution for Plan Year 2025, there will also be a small increase to the Policemen and Firemen normal cost. Due to the Lawsuit, the expected normal cost as of January 1, 2025 has increased by \$33,985 for Policemen and \$54,808 for Firemen. The table below shows a summary of the contribution impact due to the Lawsuit for Plan Year 2025.

| | Fire men | Police men |
|-----------------------------|---------------|---------------|
| Retroactive Payments | \$888,458 | \$393,497 |
| Future Benefit Increase | 1,330,634 | 611,473 |
| Normal Cost Increase | <u>54,808</u> | <u>33,985</u> |
| Total Contribution Increase | \$2,273,900 | \$1,038,955 |

Note that the contribution increases due to the Retroactive Payments and the Future Benefit Increase payments will continue through Plan Year 2034 because the impact is amortized over a closed 10-year period. The small Normal Cost Increase will continue to impact employer contributions for Policemen and Firemen until all active members impacted by the Lawsuit leave active status, but it is expected to decrease over time.

The costs shown in the table above assume that all assumptions will be met exactly in each future year, including the assumed asset return of 6.8%. Due to the size of the benefit increase, the small likelihood of affected members receiving a duty disability benefit, and the increased funding to cover the increase in liability, we do not believe the Lawsuit will have a significant impact on the System’s funding risk.

Basis of Analysis

The analysis contained in this letter is based on the census data to be used for the January 1, 2024 actuarial valuation, as well as supplemental information provided by the System’s staff regarding the estimated retroactive payment amounts and interest thereon. The results of the January 1, 2024 actuarial valuation will be presented at the June 25, 2024 Board Meeting. To the extent that any of that data is inaccurate, our analysis may need to be revised. Unless otherwise noted, the actuarial assumptions and methods used in



Mr. Jerry Allen
June 3, 2024
Page 4

our analysis are the same as those to be used in the January 1, 2024 actuarial valuation, which are unchanged from the Second January 1, 2023 actuarial valuation and can be found in Appendix C of that report.

The comments and analysis contained in this letter are intended to give exact calculations of the increase in Plan Year 2025 Firemen and Policemen employer contributions due to the Lawsuit. The emerging costs will vary from those presented in this letter to the extent that 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. This cost analysis has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statement of Actuarial Opinion of the American Academy of Actuaries. We have not explored any legal issues with respect to the proposed plan analysis.

The undersigned are actuaries with Cavanaugh Macdonald Consulting, LLC. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are available to answer any questions or provide additional information as needed.

Sincerely,

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Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary

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Patrice A. Beckham, FSA, EA, FCA, MAAA
Consulting Actuary

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Aaron Chochon, ASA, EA, FCA, MAAA
Senior Actuary