

**(ATTACHMENT 1) ACTION ON CHANGES IN THE ACTUARIAL ASSUMPTIONS FOR THE MILWAUKEE BOARD OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS**

*This item initiated by the Administration*

**BACKGROUND**

---

1. The Administration secured an experience study from its actuary, Gabriel, Roeder, Smith and Company (GRS), for the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers ("Teachers Plan") for years July 1, 2006 to July 1, 2011. The purpose of the study is to review the actuarial assumptions used to value the Teachers Plan by comparing actual experience to expected or assumed experience and to review the current methods used to develop the recommended annual contribution to the plan. Experience studies are performed on a periodic basis, typically every 3-5 years, to evaluate and ensure that the funding and the valuation of the actuarial liabilities of the Plan are on track.
2. Included in the experience study is a review of the economic and demographic assumptions used to value the plan. The economic assumptions reviewed include the assumed rate of price inflation, the long-term rate of return on investments, general wage increases and rate of payroll growth. The demographic assumptions reviewed include mortality, retirement, withdrawal rates and disability rates.

**ADMINISTRATION'S ANALYSIS**

---

3. The summary of the Key Findings and Recommendations are noted on pages 3 and 4 of the attached experience study and are also listed below in the order in which they appear in the report.
  - a. **Price Inflation:** Lower the rate of price inflation from 3.00 percent to 2.80 percent.
  - b. **Investment Return:** Lower the 8.0 percent investment return assumption, net of investment expenses, compounded annually, to 7.5 percent and monitor it for continued reasonability in the future. This reflects an underlying inflation assumption of 2.8 percent.
  - c. **Salary Increase:** Modify the assumption to the current salary scales and salary increase assumption. No wage, step or lane increases are assumed for fiscal years ending June 30, 2014 and June 30, 2015. Thereafter a 2.8 percent wage inflation increase, along with other service based increases, are assumed.
  - d. **Normal Retirement Rates:** Modify the current age and service based retirement rate assumption and apply higher retirement rates in Plan years beginning July 1, 2012 and July 1, 2013 to reflect the potential for accelerated retirements due to the reduction of post retirement healthcare benefits for individuals who retire during this period.
  - e. **Turnover Rates:** Modify the age based termination rates.
  - f. **Mortality Rates:** Change from the 1994 Group Annuity Mortality table, sex distinct, to the Wisconsin Projected experience Table - 2005 for women and 90 percent of the Wisconsin Projected Experience Table - 2005 for men for post-retirement death. Also, set the pre-retirement mortality rates to 80 percent of the post-retirement rates. (The Wisconsin Projected experience table is the one used by the Wisconsin Retirement System.)
  - g. **Disability Rates:** Update the disability rates to be the blended rates for males and females from the rates used in the most recent Wisconsin Retirement System valuation.
  - h. **Cost Method:** Maintain the current actuarial cost method which is the Entry Age Normal Cost method.
  - i. **Amortization Method:** Maintain the current amortization method: the loss at July 1, 2006, due to the valuation of deferred vested temporary benefits is

amortized over a 15-year closed period commencing July 1, 2006, on a level dollar basis. Unfunded liabilities not attributable to the loss due to valuation of deferred vested temporarily benefits are amortized using a 25-year closed period, level-dollar amortization commencing July 1, 2007.

- j. **Asset Smoothing Method:** Maintain the current 5-year asset smoothing method.
- k. **Dependent Assumptions:** Maintain the current assumption on marital status and the assumption that males are three years older than their spouses. No dependent assumptions are made for current retirees as actual eligible spouse and dependent data is provided and will continue to be used.
- l. **Decrement Timing:** Change the timing of decreases (i.e. decrement) to occur at the end of the year for retirement and at mid-year for all other decrements. Decrement refers to the rate of termination, disability, retirement or death.

4. The following is a summary and comparison of the fiscal impact of the above recommended changes in actuarial assumptions using as a baseline the Teachers Plan data as measured as of July 1, 2011 and recommended assumption changes effective for the valuation as of July 1, 2012.

	<b>Unfunded Actuarial Accrued Liability</b>	<b>Recommended Annual Contribution</b>
<b>Valuation Results at June 30, 2011</b>	\$126,159,006	\$ 15,797,043
Increase (Decrease) in cost due to the following recommended changes:		
Discount Rate Change	\$ 11,820,464	\$ 1,143,527
Salary Scale Assumption Change	(15,760)	(276,560)
No pay increase for FY14 & FY15	(4,737,021)	(423,156)
Mortality Assumptions	4,501,622	495,109
Other Demographic Assumptions	(5,136,650)	(953,242)
<b>Total Change</b>	<b>\$ 6,432,655</b>	<b>\$ (14,322)</b>
<b>Impact Results at June 30, 2011</b>	\$132,591,661	\$ 15,782,721
<b>Increase (decrease) in cost under High Retirement Assumption</b>	<b>\$ 5,437,925</b>	<b>\$ 485,768</b>
<b>Impact Results at June 30, 2011 under High Retirement Assumption</b>	<b>\$138,029,586</b>	<b>\$ 16,268,489</b>

- 5. The net result of the preceding recommended changes (before considering accelerated retirements under the "High Retirement" assumption) is expected to increase the unfunded actuarial accrued liability by \$6,432,655 and modestly reduce the annual contribution by \$14,322.
- 6. In addition when considering the forecast of accelerated retirements due to the expiration of the labor contract and reductions in postretirement healthcare benefits beginning in FY2014 (the "High Retirement" assumption referenced above), the unfunded actuarial accrued liability is expected to increase by an additional \$5,437,925 and the annual contribution by \$485,768. The recommended changes and the forecast increase in retirements results in the recommended annual contribution as a percent of payroll increases from 4.737% to 4.878%.
- 7. In addition, the Teachers Plan funded status decreases from 46.6% to 45.4%, before considering accelerated retirements under the "High Retirement" assumption. (As an aside and in comparison, the Wisconsin Retirement System and the City of Milwaukee Employees' Retirement System are both considered "fully funded" in the range at or near the 100% range.)

8. It is recommended that the changes summarized in item 3 above be approved with an effective date of July 1, 2012.

**STRATEGIC PLAN COMPATIBILITY STATEMENT**

---

9. The Administration's recommendation supports the MPS *Working Together, Achieving More* (WTAM) Strategic Plan.

Goal 6: The district is accountable for measurable results.

WTAM Strategy: The district allocates resources in a fiscally-responsible manner to improve academic performance.

The recommendation is consistent with the practice of fiscal responsibility and the reporting and disclosure of the district's employee benefit plan costs and liabilities.

**STATUTE, ADMINISTRATIVE POLICY OR BOARD RULES STATEMENT**

---

10. Changes in the Teachers Plan assumptions must be approved by the Board in accordance with the Plan Document.

**FISCAL IMPACT STATEMENT**

---

11. This item authorizes expenditures that are in accordance with the provisions of the Teachers Plan and will be included the District's annual budget commencing FY13.

**IMPLEMENTATION AND ASSESSMENT PLAN**

---

12. This item authorizes expenditures that are in accordance with the provisions of the Teachers Plan and will be included the District's annual budget commencing FY13.

Administration's Recommendation

The Administration recommends that the Board approve the changes in actuarial assumptions for the Teachers Plan as summarized in item 3 above and as further detailed in the attached experience study effective as of July 1, 2012.

\* \* \* \* \*