

(Attachment 3)

ACTION ON A RESOLUTION TO ADOPT AN AMENDMENT TO THE MILWAUKEE BOARD
OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS



MILWAUKEE
PUBLIC SCHOOLS

MPS 2nd Teachers Pension Plan

March, 2012

History of the MPS 2nd Teachers Pension Plan

History of the MPS Teacher Supplemental Pension

- Established July 1, 1982
- Original objective of the Plan was to offset (neutralize) the WRS early retirement penalties to incent retirements at a time when there was a surplus of teachers to avoid teacher layoffs
- Now that WRS has eliminated/reduced penalties is 2nd pension feasible

Original Costs

- Original estimated cost was \$1,850,000/year
- Original estimated cost as a % of payroll was 1.45%

Original purpose was to make employees “whole” to support District’s needs
with no intent to establish a second pension

History of the MPS 2nd Teachers Pension Plan

Yearly cost of ~ \$1MM per year has ballooned to \$16MM per year.

Valuation Date	Unfunded Accrued Liability	Annual Recommended Contribution	Contribution as a % of Pay
7/1/1992	\$14,324,742	\$1,817,045	0.9%
7/1/2000	\$70,171,420	\$8,673,730	2.9%
7/1/2011*	\$132,591,661	\$15,782,721	4.7%

*Assumes new actuarial assumptions proposed in March 2012

**MPS faced with a rising unfunded legacy cost of \$133MM
Just on one supplemental pension.**

**Unfunded liabilities and yearly contributions are growing exponentially.
MPS can not afford expanding obligations.**

History of the MPS 2nd Teachers Pension Plan

	<i>Before</i>	<i>After</i>
	Employees Start Contributing To WRS on 7/1/2013 % of Pay	Employees Start Contributing To WRS on 7/1/2013 % of Pay
WRS - Employer	5.9%	5.9%
WRS - Employee Paid by MPS	5.9%	0.0%
WRS - Employee Paid by Employee	0.0%	5.9%
WRS - POB for past service liabilities *	2.0%	2.0%
MPS 2nd Teacher Pension	4.9%	4.9%
Social Security - Employer	6.2%	6.2%
Social Security - Employee **	4.2%	4.2%
Total	29.1%	29.1%
Total MPS Contribution	24.9%	19.0%
Total Employee Contribution	4.2%	10.1%

*POB is debt service for MPS Pension Obligation for \$168MM in bonds issued in 2004 to cover past service liability with the WRS state pension.

** Assumes continuation of payroll tax reduction

Assumes new actuarial assumptions proposed in March 2012

Yearly cost of 25% and even 19% per salary dollar places huge burden on yearly budget

History of the MPS 2nd Teachers Pension Plan

MPS 2nd TEACHER PENSION ("SERP")

Monthly Benefits - Assumes \$60,000 final average salary

Age & Service & Salary	Plan	Date of Retirement		WRS Benefit Improvement Since 1982
		7/1/1982	7/1/1998	
Age 55 / 25 Years \$60,000	WRS	\$748	\$1,675	\$1,762
	SERP-Permanent	292	292	292
	SERP-Temporary	90	90	90
	TOTAL	\$1,130	\$2,057	\$2,144
Age 57 / 28 Years \$60,000	WRS	\$1,012	\$2,175	\$2,299
	SERP-Permanent	328	328	328
	SERP-Temporary	112	112	112
	TOTAL	\$1,452	\$2,615	\$2,739
Age 60 / 30 Years \$60,000	WRS	\$1,365	\$2,390	\$2,534
	SERP-Permanent	70	351	351
	SERP-Temporary	180	180	180
	TOTAL	\$1,615	\$2,921	\$3,065

*Illustrates 1998 MPS 2nd Teacher Pension Plan (SERP) enhancement.

Note that WRS and MPS SERP Permanent benefits are based on Option 2 - For Annuitants Life with 60 payment guaranteed.
SERP-Temporary benefit is payable from retirement date to age 65.

Proposed Changes to 2nd Teachers Pension Plan

Effective July 1, 2013

Freeze compensation and service

- No future service or increased compensation can be earned on or after July 1, 2013.
- Pension benefits for dates of retirement on or after July 1, 2013 will be based on compensation and service earned as of July 1, 2013 when the Plan is proposed to be frozen and the actual date of retirement.

No new entrants or re-entrants to the Plan

- Any participant in the Plan as of the freeze date of July 1, 2013 who was hired on or after July 1, 1998, will be eligible to earn the required 15 years vesting service for service post July 1, 2013.
- Service and compensation used to calculate benefits will be as of the freeze date of July 1, 2013. Post-7/1/98 participants can continue to retire from active service in accordance with Plan provisions (i.e. between ages of 55 or under 65.)

➤ **Does NOT takeaway earned benefits from current employees**

➤ **No impact to current retirees**

Goal: Stabilize the growth and strengthen District's ability to fund plan and pay future benefits.

Proposed Changes to 2nd Teachers Pension Plan

What will Proposed changes mean?

Past obligations earned are set, but...

- Reduces \$133MM unfunded past service liability
 - By an estimated \$20MM
- Reduces Yearly Contribution
 - By an estimated \$5MM in annual contributions starting in FY14

Proposed does not have material effect on past obligations as these amounts are earned and must be paid

Helps District achieve the fiscal stability to pay earned benefits and keep unfunded obligations from growing.

Future 5 year forecasts attempt to plan how to meet this and all past obligations, but resources are tight and demands are high