

**(ATTACHMENT 1) ACTION ON A RESOLUTION TO ADOPT AN AMENDMENT TO THE MILWAUKEE BOARD OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS**

*This item initiated by the Administration*

**BACKGROUND**

1. As part of the district’s five year financial forecast, the Offices of Accountability and Efficiency, Finance, and Human Resources have analyzed the district’s pension benefit obligations. The conclusion reached is that these obligations continue to increase at an alarming rate and will continue to be directly affected by the increased rates of retirement and downturn in investment performance of pension plan assets that are forecast to occur during the five upcoming years.
2. Pension benefits for district employees are provided primarily by the Wisconsin Retirement System (WRS) for certificated employees and the City of Milwaukee Employees’ Retirement System (ERS) for classified employees. In addition, the district sponsors two supplemental defined benefit pension plans (“second pension plans”) for administrators and teachers. The second pension plan covering administrators was closed to new hires and rehires on July 1, 2003.
3. The Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers (Teachers Plan) was established July 1, 1982 pursuant to a collective bargaining agreement between the Milwaukee Board of School Directors (MBSD) and the Milwaukee Teachers Education Association (MTEA). At its inception, the objectives of the Teachers Plan were to provide an employer-paid supplemental benefit to neutralize the WRS early retirement reduction penalties and to offer an incentive to teachers to take early retirement. At that time the District had a surplus of teachers and was faced with teacher layoffs.
4. The Teachers Plan provides a benefit which is calculated based on how early the member is retiring under the WRS, the member’s average monthly compensation and the member’s years of service. Members who were hired before July 1, 1998 are immediately vested in their Teacher Plan benefit. Members hired or rehired on or after that date must have 15 years of service in order to vest in such service under the Teachers Plan.
5. The initial annual cost of the Teachers Plan was estimated to be about \$1,850,000 or 1.45% of payroll. Past service (pre-1982) was covered and the cost of this liability was amortized over 30 years. All plan contributions have been made by the Board in accordance with the collective bargaining agreement. The following illustrates the growth in costs and unfunded liabilities of the Teachers Plan since 1982.

**History 2<sup>nd</sup> Teachers Pension Plan (“Teachers Plan”)**

Valuation Date	Unfunded Accrued Liability	Annual Recommended Contribution	Annual Recommended Contribution % of pay	Funded Status of Plan
7/1/1982	\$14,250,288	\$1,836,137	1.44%	n/a
7/1/1992	\$14,324,742	\$1,817,045	0.927%	39.10%
7/1/1997	\$35,192,139	\$4,463,617	1.702%	31.80%
7/1/1998*	\$69,226,249	\$8,259,179	3.047%	22.90%
7/1/2005	\$113,762,990	\$13,440,927	4.184%	34.80%
7/1/2011**	\$132,591,661	\$15,782,721	4.733%	45.40%

\*1997 & 1998 Plan Enhancements

\*\* Proposed updated actuarial assumptions for March, 2012 Board action

6. The Teachers Plan was amended effective July 1, 1998 in settlement of the 1996-1998 MBSD/MTEA-Teacher contract as follows:
  - (a) Benefit formulas were enhanced to eliminate a benefit "cliff". Teachers Plan benefits payable to participants with 30 years of service were increased to the same levels as participants who had less than 30 years of service. This change increased Teachers Plan past service liability and the annual recommended contribution by about \$34,600,000 and \$3,700,000 respectively. At that time this change decreased the Teachers Plan funded status from 31.8% to 22.29%.
  - (b) A vesting schedule was added that applied to participants hired or rehired on and after July 1, 1998 and required at least 15 years of vesting service to become eligible for Teachers Plan benefits.
  - (c) A January 1, 1999 amendment included the new July 1, 1998 benefit formulas for plan participants who retired between July 1, 1997 and June 30, 1998. This change increased the past service liability and the annual recommended contribution by \$600,000 and \$52,000 respectively.
7. The WRS benefit also changed since 1982 as shown by the following benefit examples that assume an average annual salary of \$60,000 for each of the three dates of retirement. The WRS benefit differentials illustrated below are solely a function of the improvements in WRS benefit formulas and the reduction in WRS early retirement penalties since 1982.

MPS 2<sup>nd</sup> Teacher Pension ("SERP")  
Monthly Benefits - Assumes \$60,000 final average salary

Age & Service & Salary	Plan	Retirement Date 7/1/1982	Retirement Date 7/1/1998	Retirement Date 7/1/2012	WRS Improvement Since 1982
Age 55 25 yrs. \$60,000	WRS	\$748	\$1,675	\$1,762	135.6%
	SERP - Permanent	292	292	292	
	SERP - Temporary	<u>90</u>	<u>90</u>	<u>90</u>	
	Total	\$1,130	\$2,057	\$2,144	
Age 57 28 yrs. \$60,000	WRS	\$1,012	\$2,175	\$2,299	127.2%
	SERP - Permanent	328	328	328	
	SERP - Temporary	<u>112</u>	<u>112</u>	<u>112</u>	
	Total	\$1,452	\$2,615	\$2,739	
Age 60 30 yrs. \$60,000	WRS	\$1,365	\$2,390	\$2,534	85.7%
	SERP - Permanent	*70	*351	*351	
	SERP - Temporary	<u>180</u>	<u>180</u>	<u>180</u>	
	Total	\$1615	\$2,921	\$3,065	

**\*Illustrates 1998 MPS 2<sup>nd</sup> Teachers Pension (SERP) enhancement.**

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

**ADMINISTRATION'S ANALYSIS**

8. The WRS and the ERS recently announced increased contributions as a function of experience and the downturn in the rate of investment returns on plan assets. The WRS assumes a 7.25% investment return and estimates a +1% performance for calendar year 2011 despite the favorable investment performance reported for the 12 month period ending June 30, 2011. The January 1, 2012 WRS contribution increased .2% (from 11.6% to 11.8%). Another increase by WRS as of January 1, 2013 is anticipated
9. The ERS assumes an 8.5% investment return and estimates a negative 1% investment return in 2011. It was recently announced that the employer contribution holiday will end this year and that the district can expect ongoing annual contributions of \$10

to \$15 million. The end of the ERS employer contribution holiday has a significant negative impact on the district's forecasted budget shortfall despite the ability to apply all of the "tools" (i.e. employee pension contributions) provided to employers as a function of 2011 Wisconsin Acts 10 and 32.

10. The chart below is a summary of the funded status and rates of return for the ERS, WRS and Teachers Plan.

<b>Pension</b>	<b>ERS As of 1/1/2011</b>	<b>WRS As of 1/1/2011</b>	<b>Teachers Plan As of 7/1/2011</b>
Funded Status	104.4%	93.8%	45.4%
Assumed Rate of Investment Return	8.5%	7.25%	8.0%*

\*Note: Current assumption. New assumption recommended for March 2012 Board approval is 7.5%. The recommended change in economic and demographic assumptions decreases the funded ratio from 46.6% to 45.4% as of July 1, 2011.

11. The continued increase in annual costs and the growing unfunded accrued liability (legacy cost) of the Teachers Plan are not sustainable in light of the other financial pressures the district is forecasting that are driven by flat-lined state aid, declining market share (student enrollment) and the increasing cost of health benefits. The WRS, as the primary pension benefit, is one of the best funded public employee retirement systems in the country that offers a competitive and reliable primary pension benefit. As highlighted in item 7 above, the WRS early retirement penalties have been significantly reduced since 1982 and as such, changes the need to offer a second pension plan.
12. The following illustrates the total contributions as a percentage of pay for pension benefits including Social Security for teachers at MPS.

<b>Pension Plan/Benefit</b>	<b><u>BEFORE</u> Employees Start Contributing to WRS On 7/1/2013 % of Pay</b>	<b><u>AFTER</u> Employees Start Contributing to WRS On 7/1/2013 % of Pay</b>
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	2.0%	2.0%
MPS 2 <sup>nd</sup> Teachers Pension	4.9%*	4.9%*
Social Security - Employer	6.2%	6.2%
Social Security - Employee	4.2%**	4.2%**
<b>TOTAL</b>	<b>29.1%</b>	<b>29.1%</b>
<b>Total MPS Contribution</b>	<b>24.9%</b>	<b>19.0%</b>
<b>Total Employee Contribution</b>	<b>4.2%</b>	<b>10.1%</b>

\*Note: Assumes adoption of recommended assumption changes for 2<sup>nd</sup> Teachers Pension and High Retirement assumption.

\*\* Assumes continuation of the payroll tax decrease.

13. As part of its analysis of the district's pension obligations, the Administration requested the district's actuary, Gabriel Roeder Smith, to estimate the cost impact associated with closing participation in the Teachers Plan and freezing the accrual of benefits (i.e. compensation and service) with an assumed effective date of July 1, 2013. Such closure would apply to anyone hired or rehired or transferred or

demoted into the teacher unit on or after July 1, 2013. GRS estimated the cost impact of freezing and closing the Teachers Plan effective July 1, 2013 based on the preliminary actuarial valuation results as of July 1, 2011, after the new assumption changes, with certain adjustments for the expected number of retirement based on a "Low Retirement" and "High Retirement" assumption as detailed in the attached report. The following outlines the annual employer contributions cost impact:

Plan Year Beginning	Annual Contribution Baseline Open Plan	Annual Contribution Low Retirement Close & Freeze	Annual Contribution High Retirement Close & Freeze	Reduction In Annual Contribution Low Retirement Close & Freeze	Reduction In Annual Contribution High Retirement Close & Freeze
7/1/2013	\$16,294,000	\$11,002,000	\$11,395,000	\$5,292,000	\$4,899,000
7/1/2014	\$15,843,000	\$10,588,000	\$10,981,000	\$5,255,000	\$4,862,000
7/1/2015	\$15,614,000	\$10,294,000	\$10,687,000	\$5,320,000	\$4,927,000

14. The following chart illustrates the impact of the proposed Teachers Plan freeze and close on the funded status of the plan and the annual contributions as a percentage of pay.

As Of 7/1/2013	Baseline	Low Retirement	High Retirement
Unfunded Liabilities	\$131,404,000	\$115,365,000	\$119,574,000
Funded Ratio	48%	51%	50%
Contribution as % of Pay	4.84%	3.32%	3.45%

15. It is noted that a freeze and close of the Teachers Plan will not reduce or eliminate any Plan benefit earned by eligible participants as of the proposed effective date of July 1, 2013. Additionally, the proposed application of the freeze to post-1998 participants in the plan as of June 30, 2013 will permit such participants the ability to continue to earn service towards meeting the 15 year vesting requirement in accordance with the vesting provisions of the Plan.

#### **STRATEGIC PLAN COMPATIBILITY STATEMENT**

16. 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**

17. The recommendations have been reviewed by the Office of the City Attorney and are consistent with applicable state and federal law.

#### **FISCAL IMPACT STATEMENT**

18. This item does not authorize expenditures.
19. The projected cost reductions associated with the recommendations as provided by the district's actuary, Gabriel, Roeder Smith, are as listed in Items 13 and 14 above.

## **IMPLEMENTATION AND ASSESSMENT PLAN**

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20. Upon approval by the Board, the Administration in concert with the City Attorney's Office will proceed with implementation which includes preparation of the amendments to the Teachers Plan document.
21. It is imperative that work commence on implementation in order to prepare for the FY13 updated forecast and teacher recruitment materials.

## **ADMINISTRATION'S RECOMMENDATION**

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The Administration recommends that the Board adopt the following resolution authorizing the amendment of the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers:

WHEREAS, the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers is a governmental plan (within the meaning of Section 414(d) of the Internal Revenue Code) and is intended to meet the requirements of Section 401(a) of the Internal Revenue Code of 1986, to the extent such requirements are applicable; and

WHEREAS, the Milwaukee Board of School Directors desires to amend the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers to close eligibility to employees hired or rehired on and after July 1, 2013 or transferred or demoted to the teacher unit on or after July 1, 2013 (the teacher unit", as used in this resolution with respect to employment positions, includes any currently existing position that is, and any new position that would qualify as, a position for which the incumbent would qualify as a participant under the present terms of the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers, without regard to whether or not the MTEA continues to maintain its status as the certified collective bargaining representative for employees in such positions);

Authorize the Superintendent and his designee(s) to proceed with implementation of the following changes to the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers (Plan) which includes development of the corresponding changes to the Plan document in concert with the Office of the City Attorney; and to

- (1) Close enrollment in the Plan to any employee hired or rehired or transferred or demoted to the teacher unit covered under the Plan on or after July 1, 2013;
- (2) Fix the amount of "average monthly compensation" for purposes of calculating benefit amounts at each Participant's average monthly compensation as of July 1, 2013;
- (3) Freeze (cease) the accrual of years of creditable service (defined in the Plan as "years of benefit service") for all Participants in the Plan as of July 1, 2013, for purposes of calculating benefit amounts as of July 1, 2013;
- (4) Freeze (cease) the accrual of vesting service (defined in the Plan as "years of vesting service") for employees hired or re-hired or transferred or demoted to the teacher unit on or after July 1, 2013 for purposes of determining vesting status under the Plan; and
- (5) Permit employees who are Participants in the Plan as of July 1, 2013 and who do not subsequently separate from service prior to eligibility for retirement to continue to accrue vesting service under the Plan.

Direct the Chief Accountability and Efficiency Officer in concert with the Superintendent and the Administration to establish regular annual progress reports against the District's five year forecast with emphasis on the major cost drivers which would specifically include employee benefits and the funded status of its pension plans to ensure that the Board, the Superintendent and the District's stakeholders are regularly informed on MPS' financial condition.

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