For immediate release:
Contact: March 3, 2020

Rob Henken, President
414-435-1101 or rhenken@wispolicyforum.org

Bridging the Pension Gap in Milwaukee

Strong State Plan May Show the Way for State's Largest City, County

The well-funded Wisconsin Retirement System could serve as a valuable model for the city and county of Milwaukee pension plans, which together finished 2018 with unfunded liabilities of $2 billion, according to a new report from the independent, nonpartisan Wisconsin Policy Forum.

The pension system for the state (as well as the great majority of local governments in Wisconsin) has won national acclaim for its nearly full level of funding and the policies and practices that have kept it in good fiscal health. WRS had a funded ratio of 96.5% (comparing assets to liabilities) at the end of 2018; the Pew Charitable Trusts found that state employee retirement funds nationally as of a year earlier had funded only 69% of the $4.1 trillion in obligations promised to beneficiaries.

Meanwhile, the city of Milwaukee plan was 78.7% funded at the end of 2018 and the Milwaukee County plan was 70.6% funded. To put it in perspective, if the promised retirement benefits within WRS were funded at the level of those in the city or county plan, the WRS would have closed 2018 with an unfunded liability in the tens of billions of dollars.

The challenges within the Milwaukee plans have put considerable pressure on city and county budgets, contributing to the elimination of city police positions, a huge county infrastructure repair backlog, and a push for a new local sales tax.

Milwaukee County's employer contribution for its plan (including its pension bond payment) grew by almost 50% in the past decade to nearly $98 million in the 2020 budget, which equates to nearly one-third of the county's total property tax levy. Meanwhile, the city of Milwaukee and other employers in its pension plan are projected to see their combined contribution nearly double in just five years, from $83.2 million in 2018 to $158 million by 2023.

"These contrasts raise the question," the report asks. "Why has Wisconsin's system weathered financial challenges so well and could the two public pension plans in Milwaukee benefit from adopting elements from the WRS approach?"

The latest issue of *The Wisconsin Taxpayer* finds several elements help explain the strong WRS performance, including adequate funding, generally conservative assumptions regarding investment returns from pension fund assets and other key factors, and the policy of tying benefit payments to the actual rate of return and other outcomes. WRS employers – and to a degree the city and county in Milwaukee – have also saved money because of the increased employee contributions required by 2011 Wisconsin Act 10, the report found.

If over time the WRS fails to meet a range of assumptions including its annual investment return, the plan's "shared risk" model allows it to automatically forgo increases in payments to beneficiaries and even decrease these payments up to a point. In contrast, the Milwaukee systems in many cases must provide automatic benefit increases in the range of 2% to 3% a year even if the plans' investments have failed to meet their targets.

The WPF report does not advocate for any specific changes to the Milwaukee plans. It also notes that in the short term, many options will not lower city and county pension payments since they are covering benefits already earned by retirees and active workers. In the case of public safety workers such as police and firefighters, pension changes would also be subject to union bargaining. But the report does lay out a number of alternatives, while also exploring the tradeoffs that come with them:

- Reducing the automatic cost-of-living adjustments provided to many city and county retirees or tying them to investment performance. The report stresses that, like all potential changes, policymakers must consider its legality as well as its effect on retirees of modest means. If successfully adopted, this option could produce more immediate savings.
- Issuing pension obligation bonds to stabilize annual contributions and shore up funding levels. Both the state and county have used this potentially risky approach in the past. The city has not.
- Reducing pension benefits or increasing employee contributions. The report notes the contribution rate for newly hired general employees such as office workers or teachers is 6.75% of salary within the WRS compared to 4% for city employees and 6.2% for county employees. The city in particular has much of its costs tied up in police and firefighters, who make up a larger share of its workforce and also retire earlier than other employees.
- Transferring either new city and county hires or both new hires and the future benefits of current workers into the WRS. Under either scenario, however, the city and county would be expected to contribute to WRS as well as pay off the unfunded liabilities in the legacy plans, thus producing a higher combined contribution for the foreseeable future before financial and other benefits might materialize.
- Partnering with the state to make a merger with the WRS feasible. This could include not only the state approval required for such a merger, but also authorization to pursue new revenue streams or other forms of state assistance to offset the higher contributions in the near term or pay down the unfunded liabilities.

In offering these and other options, WPF builds on its past facilitation work done along with staff of the Pew Charitable Trusts on the Milwaukee County Retirement Sustainability Task Force.

“The alarming projected growth in the city’s employer contribution and the county’s huge infrastructure repair backlog should now create a new sense of urgency for leaders of *both* governments to consider their options,” the report concludes.

Go here to read “Bridging the Pension Gap: Strong State Plan May Show Milwaukee the Way.”